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CROWDFUNDING — PSYCHOLOGICAL CONDITIONING

Abstract

Crowdfunding is a relatively new term; it's a neologism that has been brought to live in 2006. The word itself is a blend of two terms: 'crowd' and 'funding' and the background for that term is connected with 'crowdsourcing'. Crowdfunding use special platforms, web and online payments. The aim of the paper is mainly related to defining crowdfunding, describing models of crowdfunding and indicating some of psychological motivations and conditions to operate in crowdfunding realm. The analysis provides a clear picture of crowdfunding models and psychological motivations to crowdfunding. What is more, some of the recent researches and case studies will be presented to show some of the particular crowdfunding activities.

Keywords: crowdfunding, Internet, motivation, psychology

Streszczenie

Crowdfunding — uwarunkowania psychologiczne

„Crowdfunding" jest stosunkowo nowym pojęciem; to neologizm, który powstał w 2006 roku. Słowo składa się z dwóch terminów: *crowd* („tłum") oraz *funding* („finansowanie"). Crowdfunding funkcjonuje za pośrednictwem specjalnych platform i internetu, wykorzystuje płatności online. Celem niniejszego artykułu jest zdefiniowanie crowdfundingu, a także opisanie jego modeli i wskazanie na motywacje psychologiczne związane z dziedziną crowdfundingu. Ponadto przedstawione zostały niektóre z ostatnich badań na jego temat, które wskazują na psychologiczne i socjologiczne determinanty zachowań w sieci.

Słowa kluczowe: crowdfunding, internet, motywacja, psychologia

Introduction

Crowdfunding is the new phenomenon which became very popular nowadays and it is an elusive concept for defining. Crowdfunding can be defined as a form of donating people's projects on the Internet platforms. When it

comes to official definition, crowdfunding is defined as "open call over the Internet for financial resources in the form of a monetary donation, sometimes in exchange for a future product, service, or reward" [Gerber *et al.*, 2012: 1]. Crowdfunding involves two parties: individual or organization and crowd (community or publicity) that want to donate a special project. Many concepts as crowdfunding have become true when the Internet and Web 2.0 have developed. The place of communication here is the Internet side. Crowdfunding makes the impossible possible because everyone can derive from crowdfunding platforms and find a financial funds for his or her ideas. What is more, crowdfunding involves small investments of funds, time and other resources for creators of the products.

The word 'crowdfunding' itself is the combination of two words: 'crowd' and 'funding' and this combination shows the core of this phenomenon. The word has been proposed by Michael Sullivan in 2006 fundavlog. He has wrote that crowdfunding can be treated as a base, as a core or background for everything that happens on the blog. Of course, crowdfunding has a longer story that its name because it has been realized in 1997 by Marillion (a music group) that gained funds from their fans for tour [Dziuba, 2012]. Mozart and Beethoven can be also called 'investors' because they have subsidized other artists' concerts [Kuppuswamy, Bayus, 2015]. In Poland, the first example of crowdfunding has been connected with case of Julia Marcell who has raised $50,000 in one of offshore countries for her music production. The proper development of crowdfunding is dated for 2005–2008 when platforms like Kickstarter, Indiegogo or Kiva have been implanted and became popular. In USA we can find more than 50 platforms that provide crowdfunding. Crowdfunding has been defined as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support inititives for specific purposes" [Schwienbacher, Larralde, 2010: 4].

Before online crowdfunding, the concept has been engaging personal communication and face to face meetings. For example, some artists, musicians or designers may ask the crowd about funding the new music album or new fashion show. Now, when people can register on many different platforms and try to sell their projects, people are looking for something that is creative, innovative and unique.

Crowdfunders have some goals for their projects: it can be for example gaining $1000 to initiate the project and thinking about the product and the process of development [Mollick, 2014]. Of course, not every project can be realized. There are many factors of success: for example equity share, human and intellectual capital [Baum, Silverman, 2004], innovativeness of the project, visibility on the online platform and presence in the social media.

History of crowdfunding

Crowdfunding has been defined in 2006 and both start with registration of the project which is directed to millions of people via Internet site. In case of crowdfunding participants donate projects (not unlike in case of crowdsourcing they execute some work types like transferring knowledge, information or talent like in Wikipedia case). The whole idea of crowdfunding is connected with the idea that people are looking for some interesting products or new talents on the market.

The first examples of crowdfunding which are related to web and crowd can be found in late '90s. In mid '90s SixDegrees was launched – and this has been related to special communication between people more like Facebook than like emails. Many artists and musician beginners asked crowd about opinions about their music or they asked about some donations (like Marillion in 1997). In 2000 JustGiving, the foundation's Internet site with the possibility of donations, has been established and they have saw the potential of the crowd and their generosity.

The first platform that allowed for lending money has been established in 2005 and it's been Kiva and now it is very successful and well-known all around the world. It is like peer-to-peer lending but it is more personalised and safer. Then, the popularity of that kind of platforms grew and new companies were mushrooming the market like UK- based Zopa, and US-based Prosper.

The consolidation of crowdfunding may be said to be in 2008 when Indiegogo has been created and then in 2009 Kickstarter has been established. Both services have the same idea: people can donate and financially support projects, ideas, products. Also, 2008 and 2009 are the years when micro lending has become very popular: lenders and borrowers started to communicate via Internet. Of course this is also the period of time when Facebook became very popular (and it has ousted MySpace). One of the biggest platforms is Kickstarter which is said to raise the highest number of money (44% of crowdfunding projects) [Wortham, 2012].

Popularity of crowdfunding

There are many factors that created the rise and popularity of crowdfunding. First of all, it's the Banking Crisis of 2007–2008 which has a huge impact on financial and economic sector in United States, Germany, United Kingdom etc. Of course crisis derived from may events like housing bubble from 2006 in USA and loans problem. Then, in 2008 there was a Great Recession which started in the USA but the escalated as a domino for the western world.

The next factor is connected with micro lending in USA – the process involves lending small amounts of money but in the end it's been related to Great Recession. When micro lending has become popular, then Kiva has been created – the

platform allows for global micro lending but the repayments are said to be rated for 98.93%. This online lending became much safer solution for everyone.

The next factor is globalisation that can be defined as the action or procedure of international integration arising from the interchange of world views, products, ideas, and other aspects of culture [Albrow, 1990]. It means that the whole world can have the same products, fashion and can work in a remote way for other countries. Without the globalization, crowdfunding would be impossible.

E-commerce, payments via Internet sites and purchasing online are also very important for the development of the crowdfunding. People are able to buy a product or donate a campaign from all around the world. The platforms like Indiegogo and Kickstarter rely on systems like Amazon Payments, so e-commerce here is very important [Gerber, Hui, 2013].

Then, the popularity of social media like Facebook, Twitter, LinkedIn etc. has been crucial for crowdfunding. Social media have changed the world and made people interested in other people's life. It's so easy to find a project to donate and then check the person in the Internet, communicate with the individual and then decision about donating may be easier.

Models of crowdfunding

First models of crowdsourcing has been described by Jeff Howe [2006] in *Wired Magazine*. He differentiated crowd creation, crowd voting, crowd wisdom and crowdfunding [Kozioł-Nadolna, 2015]. So, crowdfunding has been differentiated as one of types of crowdsourcing.

Crowd creation is the form of engagement of community which may be seen in Wikipedia or iStockphoto.

Crowd voting means that the community vote for something via Internet site for example for the name of the juice.

Crowd wisdom is about some attempts to find the solution for a problem or to prepare strategy for the company.

Crowdfunding here has been understood as a variation of crowdsourcing and now it is freestanding phenomenon.

The source literature describe four models of crowdfunding: donations model, lending model, investment model and mixed solution [Dziuba, 2012].

Donations model is the most common model where a person or a group of people create a platform or the Internet site. They are looking for donators who will support their product or mission or any aim. Donators are not going to be granted, they don't receive any payments, awards or rewards. For example platforms like Justgiving and Spot.us rely only on non-granting and altruistic motivations of people. Sometimes, donators can receive some small gifts like DVD, T-shirt or tickets for cinema – that's the way that Kistarter operates.

Lending model is also very popular because it enables to lend money with omitting banks or any financial institutions. Lends can be small (like in case of

Kiva) or bigger (like on Kokos.pl). Here two parts are granted: the person who lends the money (because of the profit) and the person who receive money (the interest is lower than in bank).

Investment models are the one that can be connected with business angels: they invest in the company and they receive royalty payments or shares in profit instead. The most notable place where business angel investments come to life is the Silicon Valley, where over 39% (approximately 3 out of $7.5 bln invested that method in US total in Q2 2011) of Business Angel Investments and their funds are stored, with many technology companies finding it an attractive place to settle in. Famous companies and websites such as Google, Twitter and Facebook were funded mainly via this method.

Sometimes, mixed models can be met as in FinanceUtile in France where the lending model is combined with the investment model. One of the unique mixed model platform is Rockthepost from the USA where donations model is mixed with rewards for the donators and with the investment model. The studies show that donations model is the most common one and it has 68% shares of the market [Dziuba, 2012].

What is more, there are three models [Dziuba, 2012] distinguished by strategies of rewarding donators. The first model can be called 'All or nothing' – if the project is not realized, then the resources come back to donator. This is the way that Kickstarter or PolakPotrafi.pl function. The second solution is called 'Keep It All' which has been applied on Indiegogo where the person takes all of the resources even if the project cannot be realized but this person also needs to pay the interest. The interject solution is 'All&More' where bidder can keep all of the resources but sponsors lose everything they have invested.

Applications of crowdfunding

Crowdfunding can be applied in many segments of business and in many areas of life. It can be used by an individual person, a group of people, a company or an organization. It can be used in music, films, movies, blogs, videoblogs, games, application, software, new technologies and many more.

The main issue that stems from crowdfunding projects is that intellectual property and patents are not enforced by the websites. What this means is that the websites take no responsibility if someone takes one's posted idea and sells it as his own unless he or she already took patent countermeasures.

On the other hand, most websites, including Kickstarter do not guarantee that successful projects will deliver on their projects, use the money to implement their projects or that the product will meet the funding's expectations. As such, the website itself is not at fault for any issue in that regard and cannot be sued for its users.

When it comes to researches of crowdfunding, this domain is not really well-researched even the popularity of crowdfunding is still growing [Gerber, Hui, 2014].

Motivations for giving — psychological analysis

Psychologists are very interested in people's motivations for giving, donating, fundraising and crowdfunding actions.

First of all, it's worth seeing that there were many researches about giving which were not connected with crowdfunding itself but these researches are very valuable. One of the researches showed that people are likely to give more if they are asked about how much time they would like to donate (and not how much money they would like to give and spend) [Liu Aaker, 2008]. There are many factors for giving like: sympathy, identity or happiness [Gerber *et al.*, 2012].

What is also important is the distinction between intrinsic and extrinsic motivation [Bretschneider *et al.*, 2014]. Intrinsic motivation results from the factors that are inside of the individual like empathy, interest of the person, enjoyment etc. Extrinsic motivation refers to the external factors like recognition, rewards or financial awards [Deci, Ryan, 2000]. When it comes to donating model there are no awards mainly, so the motivation is intrinsic but in other models people can be motived both with intrinsic and extrinsic motivations. According to Falko Rheinberg "the action tendency of a person is stronger, the more likely the action result has an impact with high incentive value terms (RC-Expectation), the more likely this result depends from their own actions (A-R-Expectation) and not already by its owns yields (S-R-Expectation)" [Bretschneider *et al.*, 2014: 4]. Intrinsic motivation appears when the task is repetitive (e.g. at work) and extrinsic motivation appears in case of creative thinking [Pink, 2011]. Daniel H. Pink [2011] proved that creative thinking is rather related to small awards and that is why big companies are going to fail in the future. Creative thinking is not really developed in corporations and the awards for work are relatively huge.

Nicolas Kaufamann, Thimo Schulze and Daniel Veit [2011] have published the outcomes of the research which show what are the main motives to take a part in crowdfunding. Pay, compensation, social motivation, entertainment, independence and affiliation to the group are the motives in this theory.

Many projects like McDonald's project for the best face photo or Lego's project for the best new set of building blocks are very popular due to similar motivations: fun, small awards (like one of the Lego's sets) and the possibility of receiving experts' opinions [Krawiec, 2014].

Motives can be also connected with fun: people want to have fun by donating projects and they are interested in the product itself or in the product owner/owners [Hars, Ou, 2002]. Individuals want to participate in development and rise of the project. It is said that the main motivation for business angels is just fun and joy [Brettel, 2003]. Women have significantly higher feel of enjoyment than men [Harms, 2007].

Altruism can be the next motive for crowdfunding and it has been defined "as doing something for another at some cost to oneself" [Ozinga, 1999: 5]. Similarity and regional identification may be also important but since now the research outcomes show that the geographical region can have the influence on people's motivation

but not always [Agrawal *et al.*, 2011]. Recognition is the next motive that is very important for people to donate projects because it is one of the people's basic needs.

It is also said that people's motivations for crowdfunding can be dived into three sections: social return, material return and financial return. Social return is related to the intrinsic motivation – people are satisfied when they see that the project has been realized and they don't want to receive anything as a return – so this is selfless and disinterested motivation. Material return is the one when donators receive something in return for funding: it can be a product or the reward which is not financial. The last, but not least, financial return is connected with financial return like loans or micro loans.

Michel Harms identified many motivations that are related to crowdfunding: personal identification with the goal, satisfaction from being a part of the project and from observing how the project is realized, enjoyment and rewards in return [Harms, 2007].

Crowdfounders also want to support the project and help the others and feel as the part of the whole community. People don't want to be passive consumers, they want to participate in the process of the development of the project or product and that is why they can be called 'prosuments'. The self-assessment of the individual can be higher when people help each other. Information about projects are mainly taken from social media.

Recent researches about people's motivations to take a part in crowdfunding

One of the researches [Gerber *et al.*, 2012] has been conducted on the group of 11 participants, it has been a qualitative study with the interview. Participants have funded crowfudning projects. The findings suggested that the motivations were related to raising funds for others and for the future, to establish relationships ("[The funding process] creates a longer-term connection" [Gerber *et al.*, 2012: 5]), to seek rewards (funders found the donating process as the transaction, as the process of buying something), to be a part of the community ("From an emotional standpoint, my goal is to be a part of this community of creatives" [Gerber *et al.*, 2012: 5]) and to support creators (because their products may be valuable).

Elisabeth Gerber and Julie Hui [2014] have designed the study about the motivations that interest and deter people from taking part in crowdfunding. The study has been conducted on the group of 83 US-based participants and it has been a qualitative research. The results have shown that motivations that encourage people to crowdfunding are related to four factors: collecting rewards, helping others, being part of a community and supporting a cause [Gerber, Hui, 2014] and the detterent factor has been only one: distrust of creators' use of funds [Gerber, Hui, 2014]. What has been also found is the fact that supporters want to donate a project due to gaining experience, collecting acknowledgment (via phone, email or face to face) or some gadgets (like CD, sample of product).

   Paul Belleflamme *et al.* [2014] designed a questionnaire for only four partici-
pants – creators of products and has asked them about their motivations. Their
motivations were connected not only with gaining funds but also with getting
feedback about their projects and products and with getting public attention. The
same results have been obtained in the study designed by Armin Schwienbacher
and Benjamin Larralde [2010].

   Helen Klaebe and Rebecca Laycock [2012] conducted a research about barri-
ers ad motivations to crowdfunding and they have found that one of the barriers
is related to personal connection, so being acquainted with the creator. What is
more, some people are not sure if pledging money through the Internet is safe and
secure. If the donor know the person and has the emotional connection with the
creator, then the motivation for giving is higher. The research show also that perks,
benefits and awards are not the most important for the donators. What is more "do-
nors may pledge because they believe their friends will think they are cool if they
have identified, or are connected to, the 'new hot'" [Klaebe, Laycock, 2012: 6].
This relates to a kind of fashion, being a part of a new style which is very impor-
tant for adolescents.

   Ajay K. Agrawal, Christian Catalani and Avi Goldfarb [2011] conducted
a research on the online platform Sellaband (Amsterdam platform) where music
beginners can set up a profile and include there songs (up to three), photos, vid-
eos etc. Investors after donating receive revenue form the album sales and CD.
The data, gained by Agrawal, Catalani and Goldfarb [2011] contain the invest-
ments from 2006 to 2009: "over this period, there were 4,712 artist-entrepreneurs
on Sellaband who received at least one $10 investment. Of these, 34 raised the
$50,000 required to access their capital to finance the making of their album.
The distribution of investments in these entrepreneurs is highly skewed: these
34 raised 73% of the $2,322,750 invested on the website" [Agrawal *et al.*, 2011].
They have found out that the decision about donating a music project depended
on the geographical position and the distance between the investor and entrepre-
neur (musicians). The conclusion shows that the bigger distance was connected
with the higher investment.

   In the author's opinion these researches show that people's main motivations
are external but there should be more researches with bigger groups of people to
present more results. What is more, the new platforms may emerge suddenly in
the future so there is a need of researching all the time.

Conclusion

Crowdfunding is changing the way that people create and support projects and
it's an innovative way for people to raise the capital. Banking Crisis of 2007–
2008, Great Recession, Internet, Web 2.0, e-payments, outsourcing and global-
ization have resulted in increase of interest in crowdfunding and in the expan-
sion of crowdfunding platforms all around the world. People's motivations as

donors are still not recognized very well but recent researches have shown that the most important factors are connected with intrinsic and extrinsic motivations, rewards, personal connection of the creator, fun, entertainment, recognition and many others.

It's worth to remember about models of crowdfunding that has been described by Howe [2006] and by Dariusz Dziuba [2012]. These models can show the way to conduct more researches about donors' motivations. This paper represents recent studies about crowdfunding models and motivations to crowdfunding from a psychological point of view. What is important, is the fact that crowdfunding has become a new and valuable alternative source of funding for entrepreneurs and people with many impressive ideas. That's why crowdfunding will probably develop in the future.

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