When to use Rewards in Charitable Crowdfunding

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Abstract

Charitable crowdfunding is an important source of funds for charitable organizations. The offer of tokens or rewards is often used to entice potential donors to donate to a cause. This study investigates when it is beneficial to offer rewards in a charitable crowdfunding campaign. Three design principles are developed from the current literature which aim to help in the creation of a successful crowdfunding campaign. Important factors identified were types of donations a charitable organization usually receives, the groups of donors associated with that organization and the need for one time considerably large donations.

Author Keywords

Tokenism; Crowdfunding; Rewards

Introduction

The crowdfunding phenomenon has proven lucrative for many individuals as well as organizations. It can be described as an open call to financially support specific parts of a project or idea [16]. Companies have used crowdfunding platforms to fund new ideas and even start completely new businesses using the donations of individuals. Not only has this led to success of for-profit organizations but individuals and organizations have had great success with raising money not for profit. Multiple formats are used to attempt to crowdfund for

charity with the most notable being rewards-based and pure charity, examples of which are Indiegogo and GoFundMe respectively. The objective of this research is to understand the impact of offering rewards for charitable crowdfunding causes. To achieve the desired contributions, the remainder of the paper is structured as follows. First, tokens in relation to charitable giving are examined and the literature that relates to this is investigated. Following on from this, charitable groups with respect to donors are investigated. When to use tokens with certain groups is looked at. Tokenism with respect to abnormally large donations is looked at and the literature explaining this is explored. This leads to three design principles which can be applied to charitable crowdfunding campaigns to better understand the benefits and drawbacks of using rewards in the campaign.

THEORY BUILDING

Tokenism and charitable giving

Tokens are items which are given in exchange for charitable donations. They are used by many charitable organizations as a means of encouraging donations. Varying opinions exist in relation to the effectiveness of tokens with some suggesting that donations decrease with tokens [10]. Potential donors are often hesitant to donate due to the social pressure involved and not being certain as to an appropriate amount of money to give [6]. Tokens can be seen to create a commercial transaction as opposed to a traditional donation. This aids with the uncertainty surrounding the amount to give and thus encourages more donations [5]. The idea that tokens suggest a lack of commitment to the transaction can also affect potential contributions. Social influence psychology can also play a part in the success of tokens as a physical item can encourage

peers of a donor to do the same. Often a pin or badge will be worn by a donor and this applies pressure on their social group to do the same [8]. When using tokens organisations need to be careful as benefactors should always end up with a lower pecuniary benefit at least in an altruistic sense [12]. Another important factor affecting the use of tokens is the relationship they have with amount suggestions. Some studies suggest that a pay what you want system leads to increased profits [10]. Asking for low amounts can increase the pressure on donors to be charitable as the social pressure increases when it's an amount everyone can do without. Charitable organisations use phrases such as "Even a penny can help" to encourage donations of any size [15]. Donors often feel less pressure when a high amount is suggested as it is more understandable that a person could not afford a large donation. Some studies have seen higher average donations but lower response rates when a high amount is suggested [1]. Finding the right amount suggestion or whether to have one at all is an important decision for charitable organisations. Whether to offer rewards and the effect that decision will have on fundraising is key to a successful charitable crowdfunding campaign. Some organisations are successful due to their ability to accumulate lots of small donations which add up to large amounts. Other organisations have more success from few one time large donations or subscriptions which are renewed monthly or annually. *Design Principle 1:* Charitable crowdfunding campaigns should offer rewards if small donations and one-off donors are important characteristics of that charity.

Tokenism and charitable groups

The use of tokens should not only depend on the types of donations associated with a charitable organization but also on the type of groups who the campaign is being aimed at. Less well-off donors often contribute lower sums but the percentage of income is similar across a wide range of incomes [13]. The desire to donate steadily to a charitable cause decreases as income increases [3]. Warm glow is a factor in why people donate a portion of their income to charity and this is also said to decrease as income rises. Paradoxically, wealthier donors often incur more warm glow from donating to those less in need, i.e. Educational institutes [13]. Attribution theory is also relevant when looking at differences in donations between the wealthy and poor. A self-serving attribution bias will cause higher income households to discount their own good luck, thus leading to a better chance of donation. A fundamental attribution bias leads to higher income households discounting the bad luck of those in need, this time leading to less chance of donation [13]. Another important characteristic to separate groups of potential donors is in-groups versus out-groups. In-groups are those personally affected in some way by the issue the charitable organization is trying to raise funds for. Groups are also more charitable towards individual stories than to general catastrophe. Furthermore, saving 80% of 100 lives at risk is often considered more important than saving 20% of 1000 lives at risk, even though the second alternative saves a higher number of lives [9]. When a recipient is identified on a personal level as opposed to as a statistic, donations have been seen to increase [18]. The reasoning behind this is similar to the increased donations, in general, from in-groups. The personal connection felt by donors is the key factor in

their propensity to donate [11]. Increased donations can be seen when the social distance between donor and beneficiary and when communication between the two groups is possible [2]. *Design Principle 2:* Charitable crowdfunding campaigns should offer rewards if out-groups are likely to be important and social distance between donor and recipient is large.

Tokenism and especially large charitable deviations

There is a strong correlation between the number of previous donations and future donation levels [17]. Anchor values are important in giving cues to potential donors, without which donors may be discouraged. When donors have no previous knowledge of the topic and an anchor is provided for them, an assumption is made that the anchor provided must be a hint to the correct answer [7]. Donors search for information consistent with the anchor [14], and they stop adjusting once they think that they have found a value which seems reasonable [7]. Charitable organizations, especially those who are well established often receive one time extra-large donations from different groups of donors. Some wealthier donors may give large donations if they are also part of the in-group. A solution to this problem is the introduction of tokens. The transaction which is created when tokens are used reduces the social pressure associated with over donating. *Design Principle 3:* Charitable crowdfunding campaigns should offer exclusive and luxury types of rewards to attract especially large donations

DISCUSSION

This aim of this study is to better understand the factors which affect the success of charitable crowdfunding campaigns based on the use of tokens. Three design principles are the outcome of the study

which have been designed to aid in the decision of when it is appropriate to use tokens in charitable crowdfunding campaigns. Some of the key factors in the use of tokens were the groups of donors usually associated with the charitable organization, the varying value of donations received by the charity and the need for large one off donations. To test out the effectiveness of these principles we will take on board charitable crowdfunding campaigns and apply the principles to them and measure the results.

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