

# Breaking new ground:

## Combining crowdfunding with foundation grants

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### **Abstract**

New projects by non-profit organisations and civil society initiatives face the challenge of obtaining financial support in the start-up phase. In recent years, crowdfunding has been cited as one of the solutions to this problem. However, this type of funding is associated with trust issues on the part of donors and a high level of effort and expertise that many projects cannot afford. Foundations can remedy this by organising a crowdfunding competition and, in addition to the financial benefits, using their reputation to build trust, create public visibility and provide intangible support to projects in terms of capacity building, networking and professionalisation. Based on a companion study to a model introduced by a German foundation, this paper explores the benefits that non-profit projects derive from an approach combining crowdfunding and foundation grants. We find that the perceived relevance of non-monetary support increases at the expense of financial benefits during a competition. However, there is evidence that this change in perception occurs regardless of whether the foundation provides a lot or only moderate non-monetary support.

### **Keywords**

Crowdfunding, foundation grants, donations, perceived benefits, non-monetary support

## 1. Introduction

Between 2015 and 2016, more than 2.5 million refugees arrived in the European Union. Almost half of the asylum applications were filed in Germany (EUROSTAT 2022). The integration of these refugees was and still is a major challenge. To help with integration, a variety of civil society projects – new initiatives created in response to migrant needs and projects within non-profit organisations (NPOs) – emerged (hereafter referred to as “(non-profit) projects” for simplicity). A new quality of philanthropic behaviour was observed (Simsa, 2017).

To support innovative projects by NPOs and civil society initiatives for (and by) refugees, the German Hertie Foundation (GHF) launched the German Integration Award (GIA) (GHF, 2019a). It tested a combination of crowdfunding and non-repayable foundation grants. The GIA was first launched in 2017 and, after some adjustments, funded a second time in 2018. The approach was unusual for the foundation landscape, as combining online crowdfunding with foundation grants represented a new way of fundraising and philanthropy. After an initial selection of the most promising projects by the foundation, they went through a qualification programme and participated in a crowdfunding competition for two months, before qualifying for the second phase and a foundation grant. The GIA thus sought to find, promote, and fund compelling non-profit projects and support them through skills development, networking, and consulting – and of course money.

The goal of the GIA was to advance the field of non-profit funding and identify success factors of crowdfunding programmes (Gleasure and Feller, 2016). However, the approach was also a learning field for the foundation, which after the first award in 2017 felt that the development of participating projects could be enhanced by more non-monetary support. In 2018, the foundation therefore:

- significantly intensified its services for participating projects in terms of skills

development, networking and consulting;

- introduced regional project meetings and improved guidance on technical aspects as well as professionalisation of project work;
- established an “integration bus” with stops in major German cities with the aim of having politicians, media and citizens discuss the challenges of integration and to get to know the contest projects better.

With the award and its further development, the GHF has not only responded to a pressing social problem, but also addressed a fundamental challenge of new projects in the non-profit sector (and beyond): such projects often have a significant problem of funding, especially in the initial start-up phase. How do you get money to achieve your goals?

Online crowdfunding has established itself in this context to reach new donors via the “Crowd”. This is because crowdfunding seems to be readily accessible to any project at first glance. All that is needed is internet access and a few simple steps to describe the project. The platforms regulate access only through their terms and conditions and codes of conduct. But crowdfunding brings two essential problems: first, there is the problem of building trust. Many donors feel insecurity with impersonal crowdfunding because they do not know what effectively happens with their donation due to lack of transparency of projects on the online platform. Secondly, there is the problem that crowdfunding campaigns involve a lot of effort and require know-how that is not available in many projects (Castillo et al., 2014; Saxton and Wang, 2014; Gleasure and Feller, 2016). In a contest like the GIA, these two problems are supposedly solved. The reputation of a foundation enables projects to build trust and create more visibility at the same time, as cooperation with a recognised foundation can be understood as a kind of certification per se, and foundations are known for applying high transparency and quality standards to their partners. (Frumkin and Kim, 2001; Ozdemir et al., 2010; Faulk et al., 2017; Then et al., 2018). This leads to a broader donor base and more financial resources (and

more recommendations, which again increases visibility and trust, as will be shown later). Through additional, non-monetary support, such as qualification and coaching in technical issues or professionalisation efforts, they can build up competencies that help to improve not only the online presence, but the public image in general and thus expand the donor base even more.

Both crowdfunding and the search for foundation funding imply a high level of effort on the part of non-profit projects. Conversely, it can be assumed that – in addition to the crowdfunding proceeds, the (possible) additional foundation grant as well as the reputation effects of the foundation – they gradually benefit over time from supplementary non-monetary support of the foundation as with the GIA. It is unclear whether this assumption is correct and how non-monetary support makes a difference. We therefore asked the projects in the award which perceived benefits were most important for their project success. For both implementations (2017, 2018), we asked them at two points in time; at the beginning (T1) and at the end (T2) of the GIA. This allows us to report changes within one implementation and between the two years. The comparison between the two years is revealing because the foundation substantially increased its non-monetary support for the projects after 2017. A significantly higher assessment of intangible benefits in 2018 would indicate that non-monetary services and perceived non-monetary benefits are positively related, i.e., in addition to mere existence, the strength of non-monetary support also plays a role.

The foundation invited all projects that were part of the GIA to take part in an online survey at all four points in time. Since most of the projects did not have professional structures and reported resource constraints, participation in the survey should be as low-threshold as possible to maximise response rates. The survey was therefore voluntary and strictly anonymous, with a short questionnaire and no specification of who from the project teams would complete it. This results in methodological limitations; in particular, that the projects cannot be precisely

assigned to the different data sets in the sense of a repeated-measures design. Moreover, we were unable to recruit a control group (see Methodology section). As a result, no statements can be made about causality (whereby the number of cases between N=22 and N=41 would have set limits to such an approach anyway). However, it is possible to compare whether the overall perception of benefits differs between projects within one implementation (T1, T2) and in the year with less and in the year with more non-monetary support (2017, 2018). It thus becomes clear which types of support are considered beneficial. This also provides foundations with initial indications of how they can support non-profit projects in a combination of financial and intangible resources.

Therefore, the study aims to answer three research questions (which we later assign to three hypotheses):

*Research Question 1:* What are the motives for non-profit projects to participate in a competition like the GIA, which combines crowdfunding and foundation funding?

*Research Question 2:* What specific benefits for their project success (e.g., greater attention through joint communication work, better access to further funding, team building effects) do non-profit projects perceive by participating in a competition such as the GIA, and how does the perception of benefits differ between projects who participated in the study at T1 and T2?

*Research Question 3:* How does the perception of benefits for their project success change among the participating projects when comparing an implementation that primarily provides money and reputation with one that offers additional, non-monetary support such as qualification, networking and consulting services?

First, we describe the theoretical background of crowdfunding and how foundations can contribute to the success of crowdfunding campaigns through money, reputation, and capacity building in the context of an award such as the GIA. We then describe the study context, design, and analysis used, before answering the research questions. A discussion of the results is

followed by a section in which we highlight the limitations of our work and provide directions for further research.

## **2. Theoretical Background**

With the GIA, the GHF responded to the problem that non-profit projects on the subject of refugees – like many other projects – have had to and still must find reliable sources of funding in a competitive environment. This is especially true for new projects (Murphy, 2000). Since they are not yet established, they rely heavily on the existing donor network of the initiating NPO or initiators (Zhou and Ye, 2019). Asking existing donors, who may have already donated to another cause, for money and encouraging them to donate again or spreading the idea of giving in their network proves to be a major challenge. Only by tapping into financial resources do non-profit projects gain viability and attract new donors (Murphy, 2000).

Using a combination of crowdfunding as a tool to reach the online “Crowd” and the credibility and legitimacy effects of foundation grants could be key, especially for new non-profit projects, to attract a larger online donor base at the very beginning of a crowdfunding campaign (Bekkers, 2003). Foundation grants are one of the most hierarchical forms of philanthropic funding, but they are also associated with high prestige. Because foundations are independent of market forces and political agendas and limited only by the binding forces of a charter, many scholars attest that they are drivers of social change and enjoy high public esteem (Murphy, 2000; Anheier and Daly, 2004; Adam, 2016; Reich, 2018). Crowdfunding, on the other hand, is one of the most participatory forms of funding. It allows projects to raise funding from a larger audience by using online platforms (Argo et al., 2020). By leveraging the “Crowd”, each donor only needs to contribute a small amount of money to support a project. It opens up new opportunities to communicate with people and mobilise resources. It has recently complemented the ways NPOs receive support, as donors can also proactively search for

meaningful investment opportunities and donate (often anonymously) without having a personal connection to the organisation (Gleasure and Feller, 2016; Zhou and Ye, 2019). The “internet factor” comes together with different fundraising contexts that challenge standard explanations of altruistic giving (Gleasure and Feller, 2016), but also with the challenge of building a reliable donor base.

The process of crowdfunding is simple to understand, and crowdfunding platforms are accessible to for-profit and non-profit projects without much restriction. The platforms only regulate access through their terms and conditions and codes of conduct. Once a crowdfunding campaign is launched, donations are collected through the platform, which also offers the opportunity to expand the network of an organisation, initiative, or company, and thus collect even larger donations. Crowdfunding thus helps at first glance to realise projects with seemingly little effort (Argo et al., 2020).

However, crowdfunding also means continuous work and commitment to keep awareness high and generate donations. The “crowd” must be convinced to donate to that particular project and not to another available project online. A professional and credible appearance can make the difference between success and failure, as crowdfunding stirs up concerns such as fraud or misleading campaigns (Saxton and Wang, 2014). Research shows that the reason many people do not donate (anymore) is due to the fear that the donation will not be used adequately. This happens because of the uncertainty of the donors, who do not know what will happen concretely with the money in the end (Bekkers, 2003). Non-profit projects need to increase their transparency during a crowdfunding campaign to inform and provide credible signals (Gleasure and Feller, 2016; Saxton and Wang, 2014). Studies have shown that in addition to networking, which is also a quality signal (Castillo et al., 2014), successful campaigns increase donor engagement by continuously adding new information or posting videos (Yeh, 2015). Perceived credibility and trust is an important determinant for potential donors to donate (Liu et al., 2018).

Donations in the early crowdfunding stages increase visibility on the platforms and new donors are more likely to donate to a recommended project (Castillo et al., 2014, Saxton and Wang, 2014; Sundermann, 2018). The more donors support a non-profit project, the more visible and trustworthy it becomes and the more potential donors it reaches (Gleasure and Feller, 2016; Saxton and Wang, 2014, Yeh, 2015). Accordingly, effort at the beginning of a crowdfunding campaign seems to be the key to success.

But resources are often limited, especially for new non-profit projects. NPOs and civil society initiatives have to be very targeted with their limited resources. That is why they think twice about whether the investment or extra effort is worth it. They weigh up different methods of generating donations. It takes a certain amount of expertise to produce compelling videos and generally generate good content, which in turn consumes resources.

Foundation grants also require some effort, but they are perceived by the public as a form of funding that is tied to high quality standards set by the granting foundation. Foundation guidelines and the standardised review process, which is often conducted by (academic) experts in the respective field, seem to set high hurdles in order to bring about a positive funding decision (Murphy, 2000; Then et al., 2018). The most important factors are clarity of purpose, a demonstration of intended social impact, and the ability to execute a plan to be funded. However, when a non-profit project receives foundation funding, it also gains credibility and legitimacy (Murphy, 2000). In addition, because foundations require information about the project, disclosure may have a profitable effect on fundraising.

In this context, what are the reasons for projects to launch a crowdfunding campaign, especially in the context of a competition that might increase the effort? Besides money, the main issue seems to be third-party certification, which is helpful because without it, non-profit projects have difficulty attracting donors online (Ozdemir et al., 2010). Since in principle anyone can launch a crowdfunding campaign on the respective platforms it is important to build

trust through third-party certification, which could be a foundation grant. Thus, the strategic blending of foundation grants and crowdfunding can have a positive impact on fundraising (Frumkin and Kim, 2001). Not only does the combination demonstrate the ability to generate money and donors. It increases public awareness, and the perceived quality of a crowdfunding project may be higher if it is associated with a high-status actor – such as a prominent foundation being well established in the field (Faulk et al., 2017) – that already guarantees transparency and quality.

We argue that non-profit projects should participate in an award such as the GIA to gain access to financial support (crowdfunding and possibly foundation grants) and to benefit from the reputation of a well-known foundation. However, we assume that for non-profit projects, due to the high effort of a crowdfunding campaign and in many cases non-existing know-how, another driver could be to get additional (non-monetary) support to close knowledge gaps and gain expertise to effectively launch crowdfunding campaigns. A foundation can step by step transfer skills to non-profit projects by pooling resources in the form of qualification programmes, coaching, networking, consulting, and direct close mentoring, which helps them achieve their goals and build a valuable fundraising base (Gierczak et al., 2015; Gleasure and Feller, 2016). It is reasonable to assume that increased investment in non-monetary services (as experienced in the transition from GIA 2017 to 2018) will increase the perceived relevance of non-monetary support to project success from the projects' perspective.

In summary, we assume that non-profit projects participate in a competition like the GIA for a combination of motives: access to funding, access to expertise and higher visibility through cooperation with a prestigious foundation (where we understand visibility and trustworthiness as two foundation reputation effects that are related to each other). Accordingly, the projects perceive a variety of benefits, such as greater public attention, better access to funding or improved team building. As non-profit organisations and initiatives, they may reach the limits

of their capacity and see intangible support as increasingly relevant to their project success during competition. The same could be the case if the foundation intensifies its non-monetary services, making services available for more challenging situations.

The previously outlined leads us to three hypotheses:

*Hypothesis 1:* Non-profit projects enter a competition such as the GIA primarily to gain access to funding and expertise and generate visibility in the wake of the foundation's reputation (T1).

*Hypothesis 2:* Non-profit projects assess the relevance of non-monetary benefits for their project success in a competition such as the GIA higher at the end than at the beginning of the competition ( $T1 < T2$ ).

*Hypothesis 3:* Non-profit projects assess the relevance of non-monetary benefits for their project success in a competition such as the GIA higher if the implementing foundation offers a variety of non-monetary support than if it primarily provides money and reputation (2017 < 2018).

### **3. Methodology**

#### ***Study Design, Sample Characteristics and Measurement***

We were responsible for the development and implementation of the GIA companion survey as well as for the processing of the data and the analysis. The aim of the study was to understand the motivations and benefits for participating organisations and to assess the suitability of crowdfunding as a selection mechanism for distributing foundation grants to non-profit projects. To optimise project management, there were questions about the application process and project procedures. We did not recruit a control group because we could not find a sufficiently large number of comparable integration projects not participating in the GIA and there were doubts about strategic response behaviour with regard to the projects that applied

but were not admitted.

In both years, 400 non-profit projects from all over Germany applied for the GIA. First, the foundation selected the most promising projects based on the degree of innovation and the sustainability of their integration approach. Afterwards, those chosen had to go through a qualification programme. It included a crowdfunding competition on the online platform *Startnext* over two months. The goal was to reach 10,000 euros as a funding target. By reaching this goal, the most successful projects received additional funding from the foundation. After a subsequent six-month implementation phase, a jury of experts selected the finalists and chose the winners. The three best projects were awarded a total of an additional 100,000 euros (GHF, 2019b).

In 2017, 250 projects applied for the GIA. Of a pre-selection of 40 projects, 34 reached the funding target. In total, more than 16,000 donors supported the projects with around 575,000 euros during the crowdfunding phase. Eight successfully funded projects qualified for the jury phase. In addition, the projects with the most supporters received a cash reward of up to 15,000 euros (GHF, 2019a). All 40 projects that qualified for the crowdfunding competition were asked to participate in an online survey at two points during the GIA – at the beginning (T1) and at the end (T2) of the two-month crowdfunding competition. At T1, a selection of non-qualifying projects (23 projects) was also invited to participate which in the foundation's estimation well represented the diversity of applicants, e.g., in terms of regional origin and maturity of the projects. The reason for this was the foundation's initial interest in also receiving feedback and guidance from non-qualified projects on how to optimise the award process. Of the 63 projects invited at T1 (T2=40), 41 or 65.1 percent (T2=33 projects (82.5 percent)) participated. It is not possible to precisely identify the projects that participated at both time points of the study (T1, T2). However, since the sample is small, an intersection can be assumed, and since the non-qualified projects were additionally invited, we know that there are most likely to be three cases

at T1 (7.3 percent). This means that of the 40 qualified projects invited to the survey at T1, 38 should have participated. At T2, when only qualified projects were invited to participate in the study, 33 out of 40 projects participated. This is worth mentioning because it is possible that the three non-qualified projects at T1 slightly distort the picture, and that the two qualified projects that did not participate in the survey at T1 completed the questionnaire at T2.

In 2018, 150 projects applied for the GIA. From a shortlist of 32 projects, 27 projects met the funding target and applied for financial support. More than 10,000 people donated around 380,000 euros during the crowdfunding phase. The foundation supported the most successful projects with a total of 140,000 euros. In the final, six projects were able to convince the jury and were rewarded with an additional 100,000 euros (GHF, 2019a). However, only the 32 qualified projects were surveyed at the beginning and end of the crowdfunding competition, as the response rate and especially the quality of the answers among the non-qualified projects was low in 2017 (T1). Of the 32 qualified projects, 31 (96.9 percent) responded to the questionnaire in T1 (T2=22 out of 32 projects (68.8 percent)). Once again, we cannot assign the cases of T1 and T2 exactly, as it is possible that the one project that did not participate at T1 participated at T2.

Because the samples in both studies were small, we used all completed questionnaires for analysis. As mentioned earlier, both formal organisations (NPOs) and informal civil society initiatives were eligible to apply. No distinction was made between them in the awarding process. In both years, most NPO projects indicated that they had the legal form of a registered association or did not (yet) have a legal form. This is due to the fact that most projects were established just before the GIA, especially in 2016 or later in cities where NPO density is highest (Priemer and Schmidt, 2018) and urban values and lifestyles might favour refugee assistance. Table 1 shows the sample characteristics for both surveys.

Table 1: General project information

	T1 <sub>2017</sub> N=41 (%)	T2 <sub>2017</sub> N=33 (%)	T1 <sub>2018</sub> N=31 (%)	T2 <sub>2018</sub> N=22 (%)
Legal form - multiple answers possible				
registered association	14 (41.2)	14 (63.6)	20 (64.5)	14 (66.7)
nonprofit business association	5 (14.7)	4 (18.2)	3 (9.7)	0 (0.0)
nonprofit GmbH	6 (17.6)	4 (18.2)	0 (0.0)	1 (4.8)
foundation	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
public corporation	1 (2.9)	1 (4.5)	1 (3.2)	3 (14.3)
(still) no legal form	8 (23.5)	2 (9.1)	4 (12.9)	2 (9.5)
n.a.	7	11	3	2
Founding year				
2016 or later	23 (69.7)	16 (72.7)	21 (67.7)	13 (65.0)
2011-2015	9 (27.3)	6 (27.3)	10 (32.3)	7 (35.0)
2006-2010	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
2001-2005	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
1996-2000	1 (3.0)	0 (0.0)	0 (0.0)	0 (0.0)
1991-1995	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
1990 or earlier	0 (0.0)	0 (0.0)	0 (0.0)	0 (0.0)
n.a.	8	11	0	2
Size of place of residence or city size (inhabitants of the city)				
more than 500,000	4 (12.5)	5 (22.7)	5 (17.2)	4 (20.0)
100,000 to 500,000	3 (9.4)	1 (4.5)	4 (13.8)	3 (15.0)
50,000 to 100,000	3 (9.4)	0 (0.0)	2 (6.9)	2 (10.0)
20,000 to 50,000	1 (3.1)	1 (4.5)	0 (0.0)	1 (5.0)
10,000 to 20,000	2 (6.3)	2 (9.1)	1 (3.4)	1 (5.0)
Up to 10,000	9	11	2	2
n.a.				

The questionnaire was intended to reflect the projects' view of the GIA and provide guidance for its further development. It was developed based on the insights gained by the GHF during the development of the award. Whenever possible, questions were derived along relevant research. To increase validity, the questionnaire was intensively discussed and adapted according to feedback received from GHF experts in workshops. The questionnaire used partly different or differently worded and arranged questions at the beginning (T1) and at the end (T2) of the crowdfunding competition. This is because we needed to align our research questions with the foundation's practice interests and wanted to answer them with a manageable survey (thus minimising dropout). However, we used the same questions at the different survey times in 2017 and 2018. Therefore, we cannot directly compare T1 and T2 in terms of all variables, which would have been the best way to investigate how the assessment of the benefits for

project success changes over time during one implementation. A comparison of the different survey times is only possible based on the intersection in the samples. However, the two surveys from 2017 and 2018 are easily comparable (see Table 2).

### *Variables*

We started the survey with a short introduction and then used two sets of questions that are relevant for our analysis: Firstly, we wanted to get a general impression of the crowdfunding instrument and the combination of crowdfunding and foundation funding (general questions). For this purpose, we asked whether the projects could imagine crowdfunding campaigns as a source of funding in the future (yes or no) and how they rate crowdfunding, foundation grants and the combination of both (scale from 1 to 6 according to German school grades where 1 is very good and 6 is very bad). In this context, we also wanted to find out how the projects assess their goal achievement today and in one year (agreement on a scale from 1 = completely achieved to 4 = not achieved at all). Secondly, we focused on topics that are relevant to our research in a narrower sense (research questions). We asked (in T1) about the motivation for participation (e.g., access to funding, access to expertise, exchange with other projects), where multiple answers were allowed. Then we asked (in T1 and T2) about the perceived benefits of the GIA for the projects, whereby answer options were to be ranked from 1 to 9 by drag-and-drop (e.g., greater attention, professionalisation, better access to further funding). Finally, we wanted to know (in T1) what the projects believed the consequences of conducting a crowdfunding campaign would be for them, given their first experiences (agreement with statements on a scale from 1 to 4 where 1 means complete agreement and 4 complete disagreement, to remain in the logic of school grades), and how they perceive the cost-benefit ratio of participating in the GIA (school grades from 1 to 6, see above). General project information (legal form, founding year, size of residence; see Table 1) was placed at the end. Although the questionnaire contained additional items, only those related to our research are

analysed. Detailed information on the answer categories and wording of the questions is available in Table 2.

*Research Question 1:* To answer the first research question, we used the variables related to motivation (T1) to test *Hypothesis 1* (“Non-profit projects enter a competition such as the GIA to gain access to funding and expertise and generate visibility in the wake of the foundation’s reputation”) comparing 2017 and 2018. The differences in the values of the variables “Access to funding”, “Access to expertise” and “Higher visibility for the own project through cooperation with a foundation” are of particular interest here.

*Research Question 2:* To answer the second research question, we used the variables related to perceived benefits for project success to test *Hypothesis 2* (“Non-profit projects assess the relevance of non-monetary benefits for their project success in a competition such as the GIA higher at the end than at the beginning of the competition”) comparing T1 and T2. We examined whether there were significant differences in the perceived benefits of the GIA for project success on the part of the projects and compared the variable “Better access to further funding” (monetary benefit) with all other variables such as “Greater attention through joint communication work” or “Competence increase in methods through workshops” (non-monetary benefits). We also add information on expected consequences (T1) and the perceived cost-benefit ratio (T2).

*Research question 3:* The third research question was analysed by comparing the variables on perceived benefits for project success between 2017 and 2018, again by a comparison of the variable “Better access to further funding” (monetary benefit) and all other variables (non-monetary benefits). This allows us to examine whether there are significant differences in the perceived benefits for project success comparing the 2017 competition with only moderate to the 2018 competition with significantly intensified non-monetary support , i.e. to test *Hypothesis 3* (“Non-profit projects assess the relevance of non-monetary benefits for their

project success in a competition such as the GIA higher if the implementing foundation offers a variety of non-monetary support than if it primarily provides money and reputation”).

Table 2: Survey questions

	T1 <sub>2017</sub>	T2 <sub>2017</sub>	T1 <sub>2018</sub>	T2 <sub>2018</sub>
<b>General questions</b>				
Possibility of future crowdfunding campaigns				
1. Yes	22 (64.7)	20	23	14
2. No	12 (35.3)	(87.0)	(74.2)	(66.7)
		3	8	7
		(13.0)	(25.8)	(33.3)
Rating of funding instrument (Scale 1-6 school grades where 1 is the highest and 6 is the lowest)				
	3.31 (1.431)	2.78	3.00	2.76
1. Crowdfunding	2.44 (1.229)	(1.413)	(1.612)	(1.480)
2. Foundation grant	3.26 (1.521)	2.45	1.71	2.05
3. Combination of crowdfunding with foundation grant		(1.625)	(1.131)	(1.431)
		2.82	2.61	2.18
		(1.563)	(1.407)	(1.537)
Expected achieving of project goals (effect on target group) (Scale 1= completely achieved to 4= not achieved at all)				
1. Now	1.97 (0.822)	1.86	2.07	2.05
2. In one year	1.66 (0.639)	(0.468)	(0.640)	(0.394)
		1.55	1.87	1.75
		(0.510)	(0.629)	(0.444)
<b>Research questions</b>				
Motivation for participation (multiple answers)				
1. Access to funding	34 (85.0)		27	
2. Access to expertise	7 (17.5)		(87.1)	
3. Exchange with other projects	18 (45.0)		11	
4. Higher visibility for the own project through cooperation with a foundation	31 (77.5)		(35.5)	
	7 (17.5)		12	
5. Personal recognition for the own work	4 (10.0)		(38.7)	
6. Other			26	
			(83.9)	
			2 (6.5)	
			18	
			(58.1)	
Benefits of GIA (Drag-and-drop, scale 1-9)				
1. Greater attention through joint communication work	3.50 (2.090)	2.28	4.73	3.11
2. Networking opportunities	3.24 (2.078)	(2.492)	(2.567)	(2.601)
3. Competence increase in methods through workshops (social media, project management etc.)	3.20 (1.412)	2.84	3.13	3.35
	2.61 (1.699)	(1.608)	(2.380)	(2.317)
4. Advice on designing the crowdfunding page by Startnext	4.67 (1.782)	5.22	3.86	5.50
5. Exchange & communication via Facebook group	-	(1.517)	(2.351)	(2.280)
6. Mastering the challenge together (team building)	-	-	6.11	-
7. Perspective change or extension on our work and problems	-	-	(2.183)	-
8. Professionalising our work	-	4.17	5.48	4.24
9. Better access to further funding	3.17 (2.036)	(1.917)	(2.421)	(2.359)
10. Other		6.47	-	5.93
		(1.807)	-	(2.999)
		5.60	-	3.56
		(1.920)	-	(2.032)
		6.53	4.34	5.73
		(2.924)	(1.477)	(1.870)
		4.47		5.34
		(2.774)		(1.620)

Table 2 – continued.

Consequences of implementing a crowdfunding campaign (Scale 1=completely agree to 4=completely disagree)		
1. More transparent communication	2.31 (0.859)	2.50
2. Feeling of being more controlled	3.13 (0.793)	(0.974)
3. Pressure to scale project faster	2.69 (0.821)	3.07
4. Working got more professional	2.75 (0.842)	(0.980)
5. Better understanding as a team	2.41 (1.043)	2.55
6. Increased funding	2.03 (1.048)	(0.985)
7. Less time for other projects	1.50 (0.622)	2.30
8. Competition with friendly projects	2.44 (1.134)	(0.750)
9. Other	2.49 (0.921)	2.23
		(0.858)
		1.97
		(0.999)
		1.53
		(0.776)
		3.00
		(0.910)
		1.00
		(0.000)
Rating of overall cost-benefit-ratio (Scale 1-6 school grades where 1 is the highest and 6 is the lowest)	2.14 (1.037)	2.90 (1.411)

Metric variables in normal formatting: mean (M) and (standard deviation (SD))

Numeric variables in italic: number (N) and (percentage (%))

### ***Statistical Analysis***

First, the descriptive statistics (number and percentage or mean and standard deviation) of all questions were considered (see Table 2), which we also use to test the projects' motivation to participate (*Hypothesis 1*). Second, we tested for normal distribution and variance homogeneity, which is necessary to compare the different survey time points with parametric tests, such as a t-test for independent samples. The data showed only approximately normal distributions (skewness and kurtosis values  $\leq |3|$  and z values  $\leq |2.58|$ ) and variance heterogeneity (significant Levene test) for some of the metric variables compared. Consequently, in a third step only a nonparametric Mann-Whitney U test for independent samples is appropriate to analyse differences between survey times (Hair et al., 2019), i.e., between T1 and T2 in 2017 and 2018 (*Hypothesis 2*) and between T1 in 2017 and 2018, and T2 in 2017 and 2018, to show adjustment effects of the GIA after one year on the perceived benefits (*Hypothesis 3*). To answer our research questions and test our hypotheses, we present some general results and the findings from the nonparametric Mann-Whitney U test. Table 3 presents the results of this test (p-values and effect sizes) comparing the different survey time points. This calculation was only appropriate for metric variables.

## **4. Results**

### ***General Assessment of the Funding Instruments***

Looking at the descriptive results in 2017 (2018), many projects want to run another crowdfunding campaign in the future. Interestingly, in 2017, from the beginning of the crowdfunding competition (T1) to its end (T2), the percentage increases from 64.7 (22) to 87.0 (20), while in 2018 the percentage decreases from 74.2 (23) to 66.7 (14). The general evaluation of crowdfunding as a financing tool compared to foundation grants and the combination of both is predominantly the weakest. In 2017 (2018), the mean score changes slightly from  $M=3.31$  to  $M=2.78$  ( $M=3.00$  to  $M=2.76$ ) which is an increase according to German school grades.

Traditional foundation funding achieves a lead in scores with values at M=2.44 and M=2.45 (M=1.71; M=2.05). Combining crowdfunding with foundation grants shows increasing mean scores of M=3.26 and M=2.82 (M=2.61; M=2.18), i.e. the combination improved during the GIA. This is not surprising as the 2017 (2018) non-profit projects expect to achieve their goals during the GIA with increasing mean scores from M=1.97 to M=1.86 (M=2.07, M=2.05). Moreover, projects in 2017 (2018) are even more optimistic about achieving these goals within one year, with non-significant but increasing mean values from M=1.66 to M=1.55 (M=1.87, M=1.75). Thus, the results could signal a learning effect, even though they are not significantly different.

Table 3: Comparison of different survey times

	Hypothesis 1				Hypothesis 2			
	T1 <sub>2017</sub> & T2 <sub>2017</sub>		T1 <sub>2018</sub> & T2 <sub>2018</sub>		T1 <sub>2017</sub> & T1 <sub>2018</sub>		T2 <sub>2017</sub> & T2 <sub>2018</sub>	
	p (2-tailed)	r						
<b>General questions</b>								
Rating of funding instrument (Scale 1-6 school grades where 1 is the highest and 6 is the lowest)	0.143	0.191	0.637	0.065	0.351	0.114	0.733	0.054
1. Crowdfunding	0.431	0.104	0.394	0.118	<b>0.003**</b>	<b>0.369</b>	0.296	0.159
2. Foundation grant	0.242	0.155	0.591	0.075	0.079	0.216	0.392	0.131
3. Combination of crowdfunding with foundation grant								
Expected achieving of project goals (effect on target group) (Scale 1= completely achieved to 4= not achieved at all)	0.929	0.012	0.947	0.009	0.353	0.115	0.167	0.213
1. Now	0.609	0.068	0.613	0.072	0.133	0.186	0.172	0.211
2. In one year								
<b>Research questions</b>								
Benefits of GIA (Drag-and-drop)	<b>0.019*</b>	<b>0.379</b>	<b>0.033*</b>	<b>0.333</b>	0.130	0.234	0.143	0.241
1. Greater attention through joint communication work	0.710	0.062	0.584	0.085	0.832	0.034	0.757	0.052
2. Networking opportunities	<b>0.000***</b>	<b>0.590</b>	<b>0.019*</b>	<b>0.385</b>	0.803	0.038	0.591	0.092
3. Competence increase in methods through workshops (social media, project management etc.)	-	-	-	-	<b>0.000***</b>	<b>0.666</b>	-	-
	-	-	-	-	0.318	0.160	-	-
	-	-	-	-	-	-	0.906	0.020
	-	-	-	-	-	-	0.929	0.017
4. Advice on designing the crowdfunding page by Startnext	-	-	-	-	-	-	<b>0.007**</b>	<b>0.488</b>
	-	-	-	-	-	-	0.179	0.245
	0.107	0.258	0.072	0.296	<b>0.013*</b>	<b>0.372</b>	0.341	0.172

5. Exchange & communication via Facebook group
6. Mastering the challenge together (team building)
7. Perspective change or extension on our work and problems
8. Professionalising our work
9. Better access to further funding
10. Other

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Please note: The Mann-Whitney-U-test results of the different survey times illustrate some significant differences. Due to the small sample size, these differences prompting cautious interpretation. Significant differences in **bold**: \*\*\* $p < 0.001$ ; \*\* $p < 0.01$ ; \* $p < 0.05$ . Effect sizes:  $r = \left| \frac{z}{\sqrt{n}} \right|$  with  $r < 0.1$  – weak;  $0.1 \leq r < 0.3$  – average;  $r > 0.5$  – strong.

### ***Motives for Participation***

The question about motivation for participation was asked only in T1 2017 (2018) and found that access to funding at 85.0 (87.1) percent and higher visibility for the own project through the cooperation with a foundation at 77.5 (83.9) percent were the main reasons for participation in 2017 (2018). Access to expertise increases noticeably from 17.5 percent in 2017 to 35.5 percent in 2018, but even then, it is still far overshadowed by financial motivation and the hope of greater visibility through the cooperation with a renowned foundation. *Hypothesis 1* can therefore only be partially confirmed. Money and reputation effects are in the foreground as motivations for initial participation in a competition such as the GIA, whereas non-monetary expectations such as additional expertise, exchange with other projects or personal recognition for one's own work are clearly less important motivations.

### ***Perceived Benefits***

When asked about perceived benefits that the non-profit projects received from participating in the GIA, for which items were to be ranked from 1 to 9 by drag-and-drop, the greatest benefit cited in T1 2017 was advice on designing the crowdfunding page ( $M=2.61$ ), while in T2 2017, greater attention through joint communication work was cited as the greatest benefit ( $M=2.28$ ). In T1 2018, networking opportunities ( $M=3.13$ ), and in T2, greater attention through joint

communication work ( $M=3.11$ ) were cited as the greatest benefits. The benefits differ between the first and second survey time points in 2017 (2018). The perception of greater attention through joint communication work increased significantly in 2017 (2018) from  $M=3.50$  to  $M=2.28$  with  $p=0.019$  and an effect size of  $r=0.379$  (from  $M=4.73$  to  $M=3.11$ ;  $p=0.033$ ;  $r=0.333$ ). In turn, the results show a decrease in the perception that there has been increased competence building in methods, with  $M=3.20$  to  $M=5.22$  ( $M=3.86$  to  $M=5.50$ ). This decrease was significant with  $p=0.000$  and an effect size of  $r=0.590$  ( $p=0.019$ ;  $r=0.385$ ). Networking opportunities showed only non-significant differences, with mean scores increasing from  $M=3.24$  to  $M=2.84$  ( $M=3.13$  to  $M=3.35$ ) in 2017 (2018). In this context, it is important to note again that access to funding was a strong motivation for participation at the beginning of the award in both years (see above) and increased funding as an expected consequence of a crowdfunding campaign was seen in T1 2017 (2018) with  $M=2.03$  ( $M=1, 97$ ) on a scale of 1 (strongly agree) to 4 (strongly disagree), i.e. after the first experiences with the GIA, this statement received much higher approval than the expectation of professionalisation or being subject to stronger control. However, “Better access to further funding” scored rather poorly when asked about perceived benefits at the end of the competition in T2 2017 (2018) with  $M=6.53$  ( $M=5.73$ ). While the questions are not directly comparable, this can be interpreted as an indication that during the award and the crowdfunding competition in particular, the relevance of monetary support to the project success tended to decrease. At the same time, the results show that the overall cost-benefit ratio for the projects through participation in the GIA was high to medium with  $M=2.14$  ( $M=2.90$ ), which can be cautiously interpreted as meaning that the mix of monetary and non-monetary benefits (with increasing relevance of the latter over time) was at least not detrimental to project success.

Accordingly, non-profit projects assess the relevance of non-monetary benefits for their project success in a competition such as the GIA higher at the end than at the beginning, whereas

the relevance of financial benefits has decreased.

Thus, *Hypothesis 2* is confirmed.

### ***Money and reputation vs. non-monetary support***

As already described, following the experience of the first award in 2017, the GHF intensified its efforts in 2018 to provide qualification, build networks and competencies as well as help the non-profit projects to professionalise. To clarify whether further (non-monetary) support from the foundation, e.g. qualification programmes, coaching, networking and consulting, led the non-profit projects to rate the relevance of nonmonetary benefits for their project success higher than money and reputation of the foundation, a comparison of the perceived benefits of 2017 and 2018 was conducted.

Between T1 in 2017 and 2018, the benefit ratings for participation in the GIA differ significantly ( $p=0.000$ ;  $r=0.666$ ) only with regard to the item “Advice on designing the crowdfunding page by *Startnext*” (2017:  $M=2.61$ ; 2018:  $M=6.11$ ). Interestingly, however, not in a positive direction, as would have been expected given *Hypothesis 3*, but in the opposite direction. All other benefits do not differ significantly. This is essentially also true for the benefits of the GIA comparing T2 in 2017 and 2018. Only regarding the professionalisation of the project work can a significant difference be seen with mean values of  $M=5.60$  in 2017 and  $M=3.56$  in 2018 ( $p=0.007$ ;  $r=0.488$ ). For all other benefits, there are no major differences between the two years. Accordingly, in the perception of the non-profit projects the foundation’s additional support services did not significantly increase attention or networking opportunities. Also, there does not appear to have been a greater build-up of skills or a change in perspective. At least the participating projects did not rate these aspects higher in the year with intensified non-monetary support than in the year before.

The same applies concerning the consequences of implementing a crowdfunding campaign, which was queried at time T1 in each case. It is true that the projects were more likely in 2018

with  $M=2.30$  than in 2017 with  $M=2.75$  to agree that their work had already become more professional through mere participation in the crowdfunding competition, and with  $M=2.23$  in 2018 rather than with  $M=2.41$  in 2017 that they understood themselves better as a team. However, these effects were not significant, and in general the cost-benefit ratio of participation was rated better in 2017 with  $M=2.14$  (GIA with less non-monetary support) than in 2018 with  $M=2.90$ . Thus, *Hypothesis 3* is not confirmed.

## **5. Discussion and Conclusion**

Based on the GIA results, we can state that the majority of the participating non-profit projects had a good opinion regarding the combination of crowdfunding and foundation grants and even increased the rating regarding the novel approach during the award. This is supported by the fact that most projects could imagine conducting another crowdfunding campaign. In particular, the comparison of the first with the second survey time point in both years shows that the GIA seems to have contributed to the acceptance of crowdfunding and its combination with foundation funding. However, crowdfunding and the combination are less convincing compared to traditional foundation grants, although the rating of the combination increased from T1 to T2 in both years. This result could be due to participants' perceptions at the beginning of the campaign phase, which was characterised by high effort and concerns about the competitive spirit, complexity and technical novelty of the *Startnext* platform. With some distance, these technical aspects seem to have receded into the background.

Overall, the projects have benefited from the GIA in many ways. In the beginning, the motivation for participating in the GIA was strongly related to funding and was described in terms of an "attention booster" for the projects. However, in a comparison of T1 at the beginning and T2 at the end of the crowdfunding campaigns, competence building, and networking opportunities were also increasingly perceived as benefits. So pure funding was

obviously not the most important factor, and especially not the only one. We were not able to identify any significant professionalisation effects during one contest implementation, and the participants complained about the effort (e.g., specifically about the fact that they had less time for other projects as a result of participating in the GIA). It appears that the reputation effect, i.e., the visibility and attention gained through cooperation with a recognised foundation was not only an important motivation for participation but subjectively the greatest benefit. Furthermore, the cost-benefit ratio of participation was perceived as predominantly good (2017) or above average (2018).

Comparing the two years, it is evident that more additional (non-monetary) support by the foundation in the form of qualification, coaching, networking and consulting has not led the projects assess the relevance of non-monetary benefits for their project success higher. This only applies with regard to the perceived professionalisation of the work, where the mean values improved significantly from 2017 to 2018. For all other perceived benefits of the GIA (and expected consequences of implementing a crowdfunding campaign), we could not find any significant differences. The cost-benefit ratio of participating in the award was even rated slightly better in 2017 than in 2018. The intensity of the foundation's additional intangible support consequently did not make much difference to the overall perceived benefits of the GIA.

According to our findings, it is therefore the “right mix” that makes the novel combination of crowdfunding and foundation funding successful and optimally supports the participating projects in their development. In principle, it seems sensible for non-profit projects to use crowdfunding as an instrument to counter financing bottlenecks, especially in the start-up phase. A popular foundation can provide additional resources through financial contributions, can counteract the problem of trust-building in crowdfunding and create public visibility through its reputation, and help the projects to cope with additional efforts and build up the

required know-how. However, the receptiveness of the projects to external advice, competence building, and networking seems to be limited and a certain degree of “saturation” can be reached, above which additional offers do not have a significant added effect. For all the relevance that such services have, especially for young and informal initiatives, the importance of reputation gains and financial support should not be underestimated. In addition, it is important to note that the projects can be overburdened with too great expectations of qualification, networking and professionalisation. This seems to have been the case for at least some of the organisations participating in the GIA, because as a consequence of participation it was often said that they had less time for other projects and felt pressure to scale the project faster.

For future crowdfunding competitions, it is nevertheless important to continuously offer advice and guidance on how to manage the demanding process of the competition. For example, providing a realistic overview of the time needed or support in creating a crowdfunding campaign with minimal technical and administrative effort could be suitable. In addition, training in interviewing, professional photography or video editing could be offered to make the campaign even more attractive to unknown donors. Another concern could be to level out inequalities in starting conditions. Especially small projects with few resources seem to have a disadvantage in terms of network and resources in the described award structure. Even though the networking aspect was rated somewhat lower by the non-profit projects at the end of the contest than at the beginning, despite considerably intensified efforts in 2018, it was roughly equally important at the beginning in 2017 and 2018. One could therefore assume that networking is a central benefit that the projects appreciate especially in the initial project phase. Yet we know from theory (Gleasure and Feller 2016) that crowdfunding generates a certain “Matthew effect”, i.e., that organisations with strong networks initially have a high probability of being strengthened by crowdfunding.

## 6. Limitations

To our knowledge, this study is the first research on a combination of crowdfunding with foundation grants. As with any study, some limitations should be noted to point to opportunities for further research. These remarks complement the limitations already described in the Introduction and the Methodology section (repeated-measures design, control group, causality, to name only the most important keywords).

First, this is a first overview of the novel combination of crowdfunding with foundation grants. Four surveys were conducted, at two time points in 2017 and 2018, but due to the small number of projects, the results should be interpreted cautiously. The small sample size reduces the power of the results and increases the margin of error, which can affect the validity of the study. It is not possible to determine exactly which projects participated in the study at T1 and T2, although it can be concluded from the sample size and the population that a high proportion of the same projects participated in the study at both points in time. Thus, there is uncertainty as to whether the differences in the results are due to the timing of the study or to the projects. Future studies should consider a larger group of projects to draw stronger conclusions. Due to the small sample size, it was also not possible to substantiate further thoughts – e.g., regarding the network and resource disadvantages on the part of smaller or younger, informal projects – with the available empirical material. These would be interesting questions for future research.

Secondly, due to the survey design, we were largely only able to consider the opinion of the participating projects and did not use other groups for systematic comparison. Future research could continuously invite projects that applied for similar competitions and did not qualify for further participation. This would give a comprehensive picture of the tools and benefits of crowdfunding, the combination as well as the competition. Thirdly, the GIA was only conducted in Germany and in a specific situation, namely the unique refugee crisis after 2015. International studies show that crowdfunding works differently in different countries (Yeh,

2015; Argo et al, 2020; Weinstein, 2013). This component is not considered in our study. In general, it would be interesting to conduct and evaluate such a competition in different countries. Fourth, the study looked at the effect from a practical perspective on behalf of the implementing foundation, which limits the findings regarding crowdfunding theory. Further research should evaluate competitions like the GIA from a more theoretical perspective.

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