



Determinants of backers' funding intention in crowdfunding: Social exchange theory and regulatory focus



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ARTICLE INFO

Article history:

Received 31 January 2016

Received in revised form 10 June 2016

Accepted 10 June 2016

Available online 11 June 2016

Keywords:

Crowdfunding

Funding intention

Commitment

Social exchange theory

Regulatory focus

ABSTRACT

Crowdfunding has become a novel and popular financing channel worldwide; however, the success rate of crowdfunding projects on most platforms is less than 50%. Thus, project proponents should not only try to attract more visitors but also understand their funding intention, which is particularly important in increasing the success of fundraising projects. Based on social exchange theory, this study examines the key factors influencing backers' funding intention. More than 204 experienced backers in Taiwan participated in this study, and structural equation modeling was applied for data analysis. Results show that commitment has a remarkable and positive effect on funding intention. Interestingly, perceived risk was found to be positively associated with funding intention, which challenges the conventional view of perceived risk having a negative effect on usage intention. The moderating effects of regulatory focus and funding amount are also discussed. This study not only indicates the key determinates of backers' funding intention for management but also explains the potential significance of positive perceived risk in funding intention to the literature.

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1. Introduction

Crowdfunding marks a new trend for small, micro businesses and individual entrepreneurs to find financial resources in an Internet-dominated era. Once such entrepreneurs have an idea, there is no need to prepare complex materials to apply for bank loans or government subsidies through complicated procedures. They only need to log on to crowdfunding platforms (e.g., *Kickstarter*, *Indiegogo*), post their plans (e.g., amount of requested capital, types of rewards) and use texts or videos to present the projects. The required funds are then gathered from a large pool of individual investors rather than a very small group of sophisticated ones (e.g., banks, angel investors, venture capital funds) (Zheng et al., 2014). Hence, crowdfunding is an online aggregation of funds that helps organizations or individuals to bring their ideas to reality (Belleflamme et al., 2014).

Thanks to the evolution of web 2.0 technology, crowdfunding has developed rapidly, and over 450 platforms have emerged worldwide (Cordova et al., 2015). For example, since its launch in 2009, *Kickstarter* has grown rapidly and raised millions of dollars for successful projects (Mollick, 2014), thereby becoming the world's largest crowdfunding platform

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for creative projects. According to Massolution.com, the total global fundraising doubled to US\$34.4 billion in 2015 from US\$16.2 billion in 2014. The report also emphasized that the strong growth in 2014 was due in part to the rise of Asia as a major crowdfunding region. The growth of Asian platforms is striking, with a growth rate of 320% and a total amount of raised funds reaching US\$3.4 billion, making Asia the world's second largest crowdfunding market (Massolution, 2015).

However, the success rate of crowdfunding projects on most platforms is less than 50% (Massolution, 2015). For example, about 43% of all funded projects raised money successfully on *Kickstarter* in 2014, but this figure dropped to 36% in 2015. Even worse, the success rate of *Indiegogo* was less than 10% (Massolution, 2015). These figures allow us to assume that backers' funding intention for crowdfunding projects is low and decreasing. Hence, understanding what affects backers' funding intention becomes crucial and compelling.

Furthermore, crowdfunding, as an Internet-based funding approach, may encounter barriers (e.g., information asymmetry, potential risks) similar to those faced by other online-based applications. For instance, backers may be concerned about whether product performance and quality match the online descriptions or whether products will be delivered on time. Other hidden risks such as patent infringement and malicious fraud may also influence backers' trust in crowdfunding. Consider the example of the smart projection watch *Ritot*, a creative product that projects information displayed on conventional watch screens onto the wearer's wrist or arm. This project exceeded its funding target of US\$50,000 in only one week after being posted on *Indiegogo* and eventually achieved funds of about US\$1.4 million. The watch was originally expected to be delivered in June 2015; however, the product prototype was still infeasible at that point (Techcrunch, 2014). Although most project proponents strive to honor their promises, more than 75% of funded projects delay product delivery or do not ultimately deliver the promised products (Mollick, 2014). Therefore, it is urgent for crowdfunding managers to establish certain mechanisms to decrease backers' perceived risks and increase their confidence in crowdfunding.

MacMillan et al. (2005) found trust to be a key factor associated with backers' intention to continue donating to nonprofit organizations (NPOs). Commitment is an important outcome of trust. Morgan and Hunt (1994) showed that trust and commitment are at the heart of any successful customer relationship. Therefore, our study argues that establishing backers' trust and commitment is one solution to increase backers' funding intention in crowdfunding. Following this logic, social exchange theory (SET) is used in our study as a theoretical base for three reasons. First, as suggested by SET, trust and commitment are the foundation of exchange behavior between individuals. Based on this theory, the antecedents and outcomes of trust and commitment are examined. Second, SET can be used to explain the cognitive process through which backers engage in crowdfunding. The theory suggests that relationships are formed by conducting a subjective cost/benefit analysis (KanKanhalli et al., 2005). Individuals engage in a relationship when they consider the perceived benefit of social action to be higher than the potential cost. In crowdfunding, we maintain that backers not only consider various rewards (e.g., product, service, equity, free access, and an opportunity to have their names associated with proponents) (Lambert and Schwiensbacher, 2010), but also take potential risks (e.g., information asymmetry, malicious fraud) into account when funding a project.

Third, SET views exchange as a social behavior that may result in both tangible (e.g., innovative products) and intangible outcomes (e.g., sense of belongings) (Liu et al., 2016). In the crowdfunding context, people exchange not only money and products, but also feelings, sympathy and encouragement. According to Lambert and Schwiensbacher (2010), about 22% of backers do not receive any form of reward in return for their capital (i.e., it is only a donation). Zheng et al. (2014) indicated that receiving social benefits (e.g., sharing ideas, making friends) is an important motivation behind backers' interaction with project proponents on crowdfunding platforms. Liu et al. (2016) applied SET in social media and found that intangible benefits play a larger role in affecting one's behavior than monetary benefits. This study focuses on reward-based crowdfunding, which differs from other types of crowdfunding (e.g., equity or debt crowdfunding). For instance, backers may not receive a monetary reward for their investment; instead, they receive a non-financial return such as products, services, gifts or even a thank-you letter (Cordova et al., 2015; Xu et al., 2016). Thus, SET is a suitable theoretical base to help understand backers' perceptions, attitudes and behaviors in crowdfunding, which determine the success of raising money online.

Previous studies related to the success of crowdfunding projects are revealed in the following three areas. First, some scholars have investigated the determinants of crowdfunding performance (e.g., Cordova et al., 2015). For instance, Zheng et al. (2014) noted that entrepreneurs' social network ties, obligations and shared meanings affect crowdfunding performance. Second, researchers have discussed the characteristics of successful crowdfunding projects (Mollick, 2014; Zheng et al., 2014). Schwiensbacher and Larralde (2010) concluded that successful projects are usually attractive and require relatively less capital, with nonprofit projects tending to be more successful. Third, studies have explored the motivation behind backers' participation in crowdfunding (Cordova et al., 2015). Zheng et al. (2014) indicated that backers who have similar interest as entrepreneurs and expertise in fundraising projects are more likely to participate. Nevertheless, few studies have analyzed the factors influencing the success of crowdfunding projects from backers' perspectives (Harms, 2007). Based on SET, our study aims to examine the determinants of backers' funding intention. The antecedents and outcomes of trust, commitment and perceived risks are discussed in this study.

This study contributes to theory and practice in four aspects. First, we intend to extend SET to the crowdfunding context. Prior studies applied SET in the context of e-commerce, mobile services, direct marketing or micro-blogging (Liu et al., 2016), but few studies have applied SET to crowdfunding. This study is one of the first studies to utilize SET to examine the factors of backers' funding intention. Second, crowdfunding is an emerging issue, but most analyses have been performed from the perspective of proponents or crowdfunding platforms, and studies have rarely discussed backers' funding intention. Third, attention has mostly been given to Western crowdfunding platforms (e.g., *Kickstarter*, *Indiegogo*), but few studies have

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