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A cross-cultural comparative analysis of crowdfunding projects in the United States and South Korea

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ABSTRACT

Despite the popularity of crowdfunding in academy and practice, there is a lack of cross-cultural study. To fill the research gap, this research explored similarities and differences of successful crowdfunding. In addition, by applying Hofstede's cultural dimensions, this research compared crowdfunding projects of U.S. and South Korea. By employing the content analysis method, the study addresses how culture influences the success of crowdfunding and message strategies. This research contributes to the knowledge building of crowdfunding and cultural significance, as well as providing guidelines for practitioners.

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1. Introduction

Crowdfunding originated from the concept of crowdsourcing, where individuals or organizations outsource special tasks, such as recruiting investors or donors who will support creative ideas for the benefits of personal or organizational activities. Crowdfunding appeals to a large number of people with the intention to gather funds, ideas, and feedback that would be profitable to them through an open call on the Internet (Belleflamme, Lambert, & Schwienbacher, 2014). Compared to traditional fundraising techniques, crowdfunding allows project founders to recruit funders directly (Gerber & Hui, 2013). In recent years, the popularity of crowdfunding has continued to grow as various types of organizations including small businesses, entrepreneurs, and nonprofit organizations have begun to utilize it (Crowdsourcing.org, 2012a). The number of crowdfunding platforms (CFP) that provide fundraisers with a virtual place to meet potential donors has increased with the popularity of crowdfunding, and it is expected to grow to more than 2000 CFP in 2016 (Drake, 2015). As a result, the total amount of funds raised from crowdfunding platforms worldwide is increasing sharply. The value of these funds grew from \$2.7 billion in 2012 to \$16.2 billion in 2014 (Massolution, 2015).

However, despite the fact that the active adoption and use of crowdfunding has become a global trend, there have been few efforts at cross-cultural research in the existing literature. Since every country has a different culture, set of values, and environment that may influence the management of crowdfunding, attempts of cross-cultural comparative research are necessary to enrich crowdfunding literature. Yet, the previous literature on crowdfunding is often limited to a single country (e.g., Alfiero, Casalegno, Indelicato, & Rainero, 2014; Althoff & Leskovec, 2015; Gerber & Hui, 2013; Meer, 2014). In addition, there is a dearth of cross-cultural research on crowdfunding (Zheng, Li, Wu, & Xu, 2014). Thus, to fill the research gap, this study will take a cross-cultural comparative approach to examine crowdfunding projects.

In this study, the United States and South Korea were chosen for cross-cultural comparison for several reasons. The United States is one of the countries with an outstanding number of crowdfunding platforms. In 2012, the U.S. had 191 crowdfunding platforms, followed by the U.K., which was ranked second with 44 platforms (Crowdsourcing.org, 2012b). Supporters from the United States donated \$663 million to Kickstarter, one of the leading CFP, since its inception in 1999, accounting for 85% of total pledges on the site (Richter, 2014). The number of platforms and the amount raised from them makes it inarguable that U.S. is a leader in the crowdfunding trend. Also, given that many studies on crowdfunding are based on United States' cases, the United States was chosen as one of the two comparison countries.

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South Korea, on the other hand, was selected because South Korea is a country with a lot of potential for crowdfunding growth. The South Korean crowdfunding industry was speculated to be \$46 million, and with the new crowdfunding act, the South Korea Institute of Science and Technology Evaluation and Planning predicts revenues will increase up to \$88 million in the near future (Ramirez & Sang, 2015). Additionally, as Internet penetration in South Korea is 92.3% of the population, it offers a great environment for the Internet based crowdfunding platform to grow (Internet World Stats, 2014). Since a substantial body of research has reported that Korea is culturally distinct from the U.S. (e.g., Hofstede, 1980; Ki & Shin, 2015; Kim & Zizi, 2003; Paek, 2005), South Korea was chosen as the comparative culture to the U.S. in comparing crowdfunding sites.

Therefore, the primary purpose of this study is to compare and contrast the two crowdfunding sites used in the U.S. and South Korea. In adopting Hofstede's (1980) cultural dimensions, this research examines similarities and differences in crowdfunding projects in both countries. Additionally, since crowdfunding performance is influenced by culture (Zheng et al., 2014), this research compares factors that lead to successful crowdfunding projects from both culturally distinct countries.

2. Literature review

2.1. Definition of crowdfunding

Crowdfunding is a recently emergent concept that invites individuals to invest in various sectors (Agrawal, Catalini, & Goldfarb, 2013; Blohm, Leimeister, Wenzlaff, & Gebert, 2013; Kleeman, Voss, & Rieder, 2008). As stated earlier, crowdfunding has become phenomenal in terms of its growth and the popularity of platforms, projects, and amounts raised from this mechanism. Crowdsourcing and the World Bank expect that crowdfunding revenues will be more than \$300 billion by 2025 (Heussner, 2012).

As crowdfunding platforms continue to grow and bear more significance, many scholars have tried to define crowdfunding in the past few years (e.g., Belleflamme et al., 2014; Tomczak & Brem, 2013; Voorbraak, 2011). Crowdfunding is a subordinate concept of crowdsourcing, which originated from the idea of the 'wisdom of a crowd' (Leimeister, 2012). Howe (2006) explained the term crowdsourcing as the outsourcing of work to a large number of unknown crowds instead of a traditionally-designated employee. Crowdfunding focuses on the financial perspective of crowdsourcing, which makes it similar to micro lending that involves the funding of individuals (Armendáriz & Morduch, 2010; Vitale, 2013). Belleflamme et al. (2014) stated, "Crowdfunding involves an open call, mostly through the Internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward to support initiatives for specific purposes" (p. 588). Voorbraak (2011) referred to it as the "process of one party requesting and receiving money and other resources from many individuals for financing a project, in exchange for monetary or non-monetary return on investment" (p.1). Although there is no clear consensus on a definition for crowdfunding yet, many scholars agree that the purpose of crowdfunding is to raise funds among undefined individuals by using an open call on the Internet (Bouncken, Komorek, & Kraus, 2015; Ribiere & Tuggle, 2010; Tomczak & Brem, 2013).

2.2. How crowdfunding works

There are, in general, three actors involved in crowdfunding: intermediaries, fundraisers, and investors or donors (Tomczak & Brem, 2013). Intermediaries are the Internet platforms or CFP that

provide the service of matching investors with fundraisers, such as Kickstarter, GoFundMe, and Indiegogo, and each platform provides a different investment style, either all-or-nothing or keep-what-you-get (Barnett, 2013; Zvilichovsky, Inbar, & Barzilay, 2015). Fundraisers refer to individuals who are looking for investors for their projects in the market. They have different motivations and reasons for funding, and they provide information and feedback to their investors. Investors or donors are the crowd that provides financial support. Supporters' motivations to help a certain project can be affected by their personal interests, social reputations, and the return on investment (Lambert & Schwiendbacher, 2010). While the initial crowdfunding model was developed from the business context to recruit investors, the crowdfunding mechanism is now popular for nonprofit organizations and their supporters, who do not expect returns on investment but support crowdfunding projects with altruistic motives.

While recognizing the heterogeneity of crowdfunding projects, Mollick (2014) proposed four models of crowdfunding operation: patronage, lending, reward-based, and equity model. A patronage model is based on a traditional philanthropic effort to recruit philanthropists who are willing to donate to social causes without expecting direct rewards. Most humanitarian crowdfunding projects fall into this model. The lending model views funders as a lender or venture capitalist who expects rewards on their return on financial investment. The third model, reward-based crowdfunding, is based on pre-selling of products. Although a certain level of rewards is expected in this model, funders who back a project are treated as early customers. This model is the most predominant crowdfunding worldwide (Alfiero et al., 2014; Mollick, 2014). The final model is equity crowdfunding, which highlights funders' role as an investor who obtains equity stakes or similar benefits by participating in crowdfunding projects. Of the four types of crowdfunding models, equity crowding is the least popular in the United States, accounting for less than 5% of crowdfunding projects, due to the high level of regulation (Heminway & Hoffman, 2010; Mollick, 2014).

Given that reward-based model is the most popular model and some models (e.g., equity model) involve strict regulations and policies of operation (Cohn, 2012; Heminway & Hoffman, 2010), this study delimitates its scope of research to reward-based crowdfunding projects.

2.3. Factors influencing crowdfunding success

Crowdfunding is often considered successful when it reaches a monetary goal in specified timeframe, but it can also be evaluated in terms of the number of investors, funding, and funding speed (Ahlers, Cumming, Günther, & Schweizer, 2015). Some researchers explored which factors most influence the success of a crowdfunding project. The most important factors identified by previous literature are the period of funding and goal amount, given that these factors are directly related to the practicality of a project (Belleflamme, Lambert, & Schwiendbacher, 2013; Bouncken et al., 2015; Kwon, Lee, & Na, 2014; Park, 2013). People put money on more viable projects because it motivates them to see a positive result (Mollick, 2014). Many studies revealed that an appropriate length of funding period, which is generally about 30 days, along with an appropriate fundraising goal yield successful results (Belleflamme et al., 2013; Bouncken et al., 2015; Kwon et al., 2014; Park, 2013). Based on motivation theory, Lee, Lee, and Shin (2015) conducted a panel survey among crowdfunding supporters in Korea, and found that enjoyment, familiarity, credibility and expectations for rewards are positive factors that might influence constant participation.

Some researchers suggested that a geographical location of

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