



Does my contribution to your crowdfunding project matter?



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ABSTRACT

In this study, we consider the dynamics of crowdfunding project support over time. We propose that people support crowdfunding projects financially when they believe that their contribution will make an impact. Because perceptions of impact are positively related to goal proximity, we predict that support for a crowdfunding project will increase as the project funding approaches its target goal. In addition, because motivation decreases after a goal is attained, we further predict that crowdfunding contributions will significantly decrease after the target goal is reached. We find strong support for these hypotheses from a large-scale field study involving Kickstarter. Furthermore, we show that several factors related to the expected impact moderate the effects of goal proximity; that is, the positive effect of goal proximity on project support is accentuated if the project is nearing its funding deadline, if the target goal is relatively small, or if the project has limited early support.

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Executive Summary

Crowdfunding is becoming a popular means by which new ventures obtain funding for their innovative ideas. Given failure rates around 60%, there is growing interest in better understanding the factors related to a campaign's success. We add to this emerging literature by empirically studying the dynamics of reward-based crowdfunding project support over time. In particular, we propose that people financially support projects when they believe that their contribution matters. Several studies of backers in prominent crowdfunding communities like Kickstarter confirm the importance of prosocial motivation—while tangible rewards are appreciated, people really want to help others bring their ideas to life. Research across several academic domains indicates that people engage in prosocial behavior when they believe that their actions make a positive impact.

Rooted in early psychology experiments, the goal pursuit literature documents that perceptions of impact vary over time. As applied to crowdfunding, this goal gradient effect predicts that people believe their financial support has greater impact as the project's target end goal is approached. Further, backer support is predicted to significantly drop after the target goal is reached (any further contributions to a project that has achieved its funding goal have little impact on project success). We also consider three moderators of the goal gradient effect: an impending deadline associated with the funding cycle, target goal size, and early project support.

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These effects are studied using panel data on 10,000 funded and unfunded Kickstarter projects posted between March 2012 and April 2014. A fixed-effects econometric approach allows us to control for possible confounding factors such as time invariant differences in project quality, project creator characteristics, as well as other sources of unobserved heterogeneity. Our analyses strongly support the existence of a goal gradient effect—as Kickstarter projects approach their target goal they receive more backer support, but after the goal is reached support drops sharply. Additionally, we find that the goal gradient effect is strongest when backer support is likely to have the greatest impact, that is, if the project is nearing its funding deadline, if the project is small, or if the project has limited early support.

Our results offer new insights into observed crowdfunding behaviors. For example the “Kickstarter Effect” is well-known—more than 90% of the projects that reached at least 30% of their goal eventually achieve their target goal (projects that reached their funding goal did so by a small margin whereas projects that missed their target goal did so by a large margin). The impact theory we propose can explain this observed pattern, i.e., people want to make an impact with their contributions, so project close to, but not over, their target goal are most likely to receive backer support. Importantly, other crowdfunding motives involving rewards or herding cannot by themselves account for this observed behavior. If backers are only motivated by rewards then support should increase (not decrease as we find) after the target is reached since proposed products are more certain. Because there is no theoretical reason to expect any non-linearities in project support due to social network effects, if backers are strongly influenced by other backers' contributions we would think that project support should increase over the entire funding cycle (not decrease after the target goal is reached as we find)—backers want to support high quality projects and projects that have achieved their goal are high quality.

While the literature on lending and equity-based crowdfunding emphasize rational determinants of project success (like project and entrepreneur quality), our findings suggest a broader role for perceived impact in motivating crowdfunding contributions.

1. Introduction

Given the difficulties new ventures face in attracting financing from angel investors, banks, and venture capital funds, some entrepreneurs are using crowdfunding to directly appeal to the general public for financial help in getting their innovative ideas off the ground (Belleflamme et al., 2014; Mollick, 2014; Agrawal et al., 2015). Kickstarter, which is the leading reward-based crowdfunding platform in the United States, has raised \$2.14B in pledges to fund >108,000 creative ideas (Kickstarter, 2016). By itself, Kickstarter has provided more funding for artists than the National Endowment for the Arts (Mollick and Nanda, 2016).

An emerging literature on reward-based crowdfunding investigates the factors driving a campaign's success (see Kuppuswamy and Bayus, 2016a for a review). Such factors include both project-level quality signals, such as preparedness (Mollick, 2014), narrative (Marom and Sade, 2013), the use of social media (Thies et al., 2014; Hong et al., 2015), and stretch goals (Li and Jarvenpaa, 2015), and individual-level quality signals, such as gender (Mollick, 2014) and project creator social capital (Colombo et al., 2015). We aim to add to this literature by analyzing the dynamics of reward-based crowdfunding project support over time. To do this, we propose that people support crowdfunding projects financially when they believe that their contribution will make an impact. This idea from the management, economics, and psychology literature streams is important because it offers a new perspective on observed crowdfunding behaviors and leads to several managerial implications about goal setting in these communities.

While contributions to donation-based microlending projects clearly involve prosocial behavior (Ordanini et al., 2011; Galak et al., 2011; Allison et al., 2015), research also indicates that prosocial motivation—the desire to help others—is important to supporters of reward and financial-based crowdfunding projects. In-depth interviews with backers in prominent reward-based crowdfunding communities such as Kickstarter confirm that people appreciate the perks¹ but also show that a more important motive for supporting projects is the desire to help others bring their ideas and dreams to life (Gerber and Hui, 2013; Lin et al., 2014). The importance of prosocial behavior is also evident in financial-based crowdfunding in which backers want to earn a financial return while helping make an entrepreneur's idea a reality (Ordanini et al., 2011; Galuszka and Bystrov, 2014).

Recent research in several domains suggests that prosocial impact—believing that one has made a positive impact on others—can explain why people engage in prosocial behavior (Duncan, 2004; Grant and Berg, 2011; Aknin et al., 2013; Cryder et al., 2013b). We use the results from psychology experiments in the goal pursuit literature that show that perceptions of impact vary over time (O'Leary-Kelly et al., 1994; Locke and Latham, 2002; Toure-Tillery and Fishbach, 2011). Known as the goal gradient effect, people believe their actions have greater impact as they approach a target end goal (Kivetz et al., 2006; Toure-Tillery and Fishbach, 2011). Because perceptions of impact are positively related to goal proximity, we predict and find that support for a crowdfunding project is higher as the project approaches its target goal. In addition, because motivation decreases after a goal is attained (Zeigarnik, 1927; Marsh et al., 1998, 1999; Forster et al., 2005), we further predict and find that crowdfunding contributions significantly drop after the target goal is reached.

¹ Some research indicates that rewards are a distant third to the desire to support the creator or project vision (James, 2016).

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