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Resistance to crowdfunding among entrepreneurs: An impression management perspective

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A R T I C L E I N F O

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A B S T R A C T

Crowdfunding has been a topic of much excitement for scholars of entrepreneurialism. Onlookers and early adopters have noted the new strategies afforded when funding bottlenecks can be bypassed and members of the public can be engaged early in development. Yet if crowdfunding is to prove truly disruptive for entrepreneurs then greater efforts must be made to understand non-adopters. This study models entrepreneurs' resistance to crowdfunding using an impression management perspective. A case study of 20 entrepreneurs suggests that resistance is influenced by entrepreneurs' fear of disclosure, fear of visible failure, and fear of projecting desperation.

Introduction

Crowdfunding technologies have emerged in the last decade as part of the broader paradigm of crowdsourcing (Howe, 2008). Rather than leveraging crowdsourcing for creative purposes (e.g. Threadless, Innocentive), crowdfunding offers businesses the opportunity to obtain funding directly from the public. This opportunity has particular significance for entrepreneurs, i.e. those individuals who seek to create new organisations (c.f. Gartner, 1988). Obtaining finance is one of the foremost challenges for such individuals and the strategies they adopt in doing so may ultimately determine their success (King and Levine, 1993; Shane and Cable, 2002). The new strategic capabilities for entrepreneurs offered by crowdfunding have significant disruptive potential for existing models of entrepreneurial financing (Lasrado and Lugmayr, 2013). This has been recognised by high-profile legislative changes around fundraising, most notably in the US with the 'Jumpstart Our Businesses' or 'JOBS' Act (Kitchens and Torrence, 2012; Stemler, 2013). Yet despite this disruptive potential, little is known about those entrepreneurs who are choosing to avoid these new technologies. This is a significant oversight from a strategic information systems perspective, as previous research suggests the value of crowdsourcing technologies may be limited when diverging groups of individuals and organisations are not considered (e.g. Majchrzak and Malhotra, 2013; Stol and Fitzgerald, 2014). Thus, if crowdfunding is to fulfil its disruptive potential, theorising must extend beyond the strategic perceptions of early-adopters.

This study investigates non-users by employing an Impression Management (IM) perspective that posits entrepreneurs' resistance to crowdfunding is impacted by their desire to manage external perceptions of their companies. The next section reviews existing research on the strategic use of crowdfunding by entrepreneurs. This includes a discussion of the public nature of crowdfunding and analysis of existing literature documenting the importance of IM for entrepreneurs. That

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discussion is used to create a preliminary model which is investigated vis-à-vis a case study of entrepreneurs in Ireland. This case study looks at 20 entrepreneurs who have thus far avoided crowdfunding and investigates their key motivations for doing so. Finally, a refined model is presented and the implications for both practice and research are discussed.

Literature review and development of a preliminary model

Crowdfunding as an entrepreneurial financing mechanism

Crowdfunding has been employed to allow businesses to receive investment in a variety of ways (Haas et al., 2014; Beaulieu et al., 2015). Some models reward investment with material goods or pre-purchased products (e.g. Kickstarter, IndieGoGo), while others encourage investment purely for philanthropic or social reasons (e.g. Razoo, Fundrazr). Others reward investment with delayed financial returns, either in the form of unsecured interest-based loans (e.g. LendingClub, LinkedFinance) or by allowing businesses to sell equity (e.g. Crowdcube, Seedrs). More recently, businesses have begun to embed crowdfunding technologies directly into their personal websites, rather than relying on third party crowdfunding platforms (e.g. Robert Space Industries). In each case, crowdfunding allows individuals or businesses to make an open call for donations via the web in exchange for some commitment by those individuals or businesses.

The strategic benefits of crowdfunding for entrepreneurs are both direct and indirect. Directly, the smaller amount required by individual investors presents opportunities for start-ups who would be too high-risk in conventional settings, as new investors may be more likely to invest small amounts speculatively (Higgins, 2012; Stemler, 2013), to support portfolio development (Ley and Weaven, 2011), or for ideological or personal reasons (Gambardella, 2012; Kuppuswamy and Bayus, 2013). Indirectly, financial donations from potential customers encourage a long-term personal and emotional investment in the company (Ordanini et al., 2011) and may foster collaboration and market research as part of open innovation (Burtch et al., 2014). Further, hype around new products developed through crowdfunding can serve to boost sales, as seen in several high-profile projects, such as the Pebble smart watch and the Oculus Rift virtual reality headset.

Yet the public domain in which crowdfunding technologies operate also presents complexities for new businesses. Social capital is seen as an important asset for entrepreneurs (Davidsson and Honig, 2003), meaning how they manage their public image is crucial to their success (Baron and Markman, 2003; Nagy et al., 2012). This suggests the level of public dialogue and information sharing required by crowdfunding may present a meaningful concern for entrepreneurs. Thus, the objective of this study is to *investigate how concerns around impression management may impact upon entrepreneurs' resistance to crowdfunding*.

Crowdfunding and impression management

The theory of Impression Management (IM) originated in the late 1950s (c.f. Goffman, 1959) and describes human behaviour as performances by individuals taking place before real or imagined audiences. IM is used to explain how individuals use their personal appearance and the tone of their interactions to control others' perceptions towards them, and illicit desired attributions (Dillard et al., 2000). Put differently, IM suggests the manner in which individuals present themselves is ultimately goal-oriented, directed towards encouraging esteem-enhancing external impressions (Leary and Kowalski, 1990). IM has been applied to a range of domains, including health (Leary et al., 1994), sports psychology (Halbert, 1997), social media (Krämer and Winter, 2008) management (Elsbach and Sutton, 1992), and ecommerce (Winter et al., 2003).

A review of research on IM in the field of psychology (Leary and Kowalski, 1990) suggests the process of impression management has two components. The first of these is 'impression motivation', which is heightened in situations that are explicitly judgmental and/or goal-oriented in nature (e.g. job interviews, first dates, public speaking). This implies impression motivation will be high during entrepreneurial fundseeking, which by its nature requires such explicit judgements from potential customers and investors (Cardon et al., 2011; Baron and Markman, 2003).

The second component of IM is 'impression construction', which describes the mindful and goal-oriented management of external perceptions. Impression construction for an organisation is typically performed through the interaction of upper management with potential customers or investors, whereby symbolic groups are formed and relationships are negotiated (Dutton and Dukerich, 1991; Dutton et al., 1994). This is especially vital for entrepreneurs, for whom external perceptions of characteristics such as personal credibility, organisational achievement, and interpersonal relationships can determine firm-level resource acquisition and business growth (c.f. Zott and Huy, 2007). However, crowdfunding typically demands fundraising takes place earlier and with a broader range of stakeholders than conventional funding (Burtch et al., 2014). This not only reduces an entrepreneur's ability to limit interpersonal relationships but also offers onlookers a publically visible quantification of their perceived potential from external parties. Such information may have significant future implications for that entrepreneur that supersede crowdfunding activities. This is because crowdfunding, like many other web-based technologies, operates within what may be described as a 'layered modular architecture' (c.f. Yoo et al., 2010; Yoo, 2012), in which the device and network layers of the Internet give rise to various services and content distributed among heterogeneous disciplines and communities. Thus, the impression constructed by entrepreneurs during crowdfunding is likely to become a part of their ongoing broader digital identity, and so may influence their dealings with a variety of stakeholders in the long term.