



Exploring the multi-sided nature of crowdfunding campaign success

Corrado Lagazio, Francesca Querci*

Department of Economics and Business Studies, University of Genova, via Vivaldi 5, 16126 Genova, Italy



ARTICLE INFO

Keywords:

Crowdfunding
Investor decisions
Investment criteria
Probability of success

ABSTRACT

Successful crowdfunding campaigns are multifaceted in nature and depend on marketing and organizational features. This study identifies the most appealing factors and analyzes the results through a multi-theory approach as follows. First, contrary to altruism and warm-glow giving theories, crowdfunding to support social impact projects does not perform well. Second, fixed campaigns, small-sized projects, and prolonged campaigns are more likely to be funded, in line with goal-setting theory. Additionally, the resource-based view of firms clarifies the importance of having large entrepreneurial teams. Further, narrative theories about persuasion and information processing provide insights into why detailed text descriptions are more persuasive than pitch videos. Finally, this study relies on social identity and signaling theories to illustrate the impressive role of social networks and discussion forums between fundraisers and backers for developing effective word-of-mouth. This paper also provides fundraisers with recommendations to building appealing campaigns.

1. Introduction

Crowdfunding is a nascent and rapidly evolving industry that has been attracting increased academic interest (Ma & Liu, 2017), involving the financing of projects that may or may not be business-oriented by a large number of individuals or *crowd-funders*, who provide relatively small contributions through the Internet.

The objective of this study is twofold. First, the analysis identifies the success factors of crowdfunding campaigns. Second, this paper explains the multifaceted nature of campaign success using a multi-theory approach. As such, a cross-disciplinary viewpoint may be appropriate to understand this multifaceted phenomenon. Particularly, the results can be interpreted through the literature on altruism, theory of warm-glow giving (Andreoni, 1990), industrial-organizational psychology (Locke, 1968), resource-based view of firms (Grant, 1991), narrative theories on persuasion and information processing (Stern, 1991), social identity theory (Tajfel & Turner, 1979), and signaling theory (Ross, 1977; Spence, 1973).

The sample comprises data from 1507 reward-based campaigns (i.e., campaigns that do not pay a monetary compensation) launched by Italian project-owners on the international platform *Indiegogo*. To date, academic research paid limited attention to how campaigners from a relatively small market behave in the global crowdfunding context.

This study focuses on Italy due to its specificities. For instance, the Italian production system is characterized by greater fragmentation than other advanced economies. In terms of added value and employment, companies with < 250 employees account for around 70% and

80% of all companies, respectively. Additionally, few small Italian companies have been able to undertake expansion (The World Bank, 2017). Italian SMEs show a high level of debt relative to risk capital and poor diversification of funding sources, which are mainly short-term or easily revocable bank loans. These characteristics reduce the ability of Italian SMEs to finance projects with uncertain outcomes or long-term returns, such as those aimed at innovating or internationalizing.

In Italy, crowdfunding is still a small, emerging market, but shows great dynamism as the first European country to adopt legislation on equity crowdfunding for SMEs. However, other crowdfunding activities (i.e., reward, donation, and lending campaigns) are not yet regulated. On the Italian crowdfunding market there is no leading generalist platform, whereas sector-focused operators are preponderant. This characteristic probably explains why many Italian fund seekers prefer international platforms to present their projects.

This paper also explores whether campaigners from a relatively small market (i.e., Italy) are successful in raising contributions on international markets.

The analysis is interesting from different viewpoints. First, discovering connections between empirical evidence on crowdfunding and different disciplines contributes to theory building with respect to the decision-making criteria used by crowd funders. Furthermore, understanding a crowd investor's motives could help platform managers in the deal origination process, allowing them to attract worthy projects and providing crowd-funders with high-quality deal-flow. Further, understanding a backer's investment criteria is vital for campaigners preparing their projects for the funding process.

* Corresponding author.

E-mail addresses: corrado.lagazio@unige.it (C. Lagazio), querci@economia.unige.it (F. Querci).

The remainder of the paper is organized as follows. Section 2 presents the hypotheses in the light of the literature review, Section 3 describes the database and research method, and Section 4 presents the results and discussion, followed by a conclusion that provides fundraisers with suggestions to improve their offers.

2. Theoretical background and hypotheses development

As per Section 1, the success of crowdfunding campaigns is multifaceted, depending on either organizational aspects that involve the campaign's overall design or on the fundraiser's marketing approach toward potential backers. This paper identifies the features that attract backers most and interprets the results using a cross-disciplinary approach. The discussion below relates to the development of the research hypotheses.

The literature on altruism and the theory of warm-glow giving (Andreoni, 1990) note some individuals feel positive when helping others. This theory could explain a backer's decision to participate in a crowdfunding campaign for a social impact project. The theory also leads to funders perceiving they are part of a civic project. In the context of prosocial lending, Allison, Davis, Short, and Webb (2015) find lenders respond positively to narratives that highlight the venture as an opportunity to help others and less positively when the narrative is framed as a business opportunity.

This study verifies whether altruism and warm-glow giving predominate in the decision-making criteria of crowd-investors. Thus, the following hypothesis is posited:

H₁. Social impact campaigns have a higher probability of success.

Another interesting insight into crowdfunding originates from industrial–organizational psychology studies. In his pioneering research into goal setting and motivation, Locke (1968) elaborates a theory to explain human actions in specific work situations. Particularly, he shows that working toward a goal is a source of motivation that improves performance. Later works outline the characteristics of successful goal-setting (Locke & Latham, 1990; Lunenburg, 2011). Among them, goals need to be specific—organization members perform at higher levels when asked to meet clear goals.

In crowdfunding, *fixed* campaigns differ from *flexible* ones. Projects based on fixed campaigns set clear goals, since the promoters identify a precise target that must be achieved within a pre-set period of time. Otherwise, the campaign fails, and investors retrieve their money (all-or-nothing model). Conversely, goals under flexible campaigns are less specific, since the campaigner receives the collected funds irrespective of whether the project target is reached by the deadline (take-it-all model). Cumming, Leboeuf, and Schwiendbacher (2015) find that fixed campaigns are more likely to be successful because they offer a guarantee to the crowd that the entrepreneur does not start a project with low funding. Drawing on the goal-setting theory, this paper verifies the following assumption:

H₂. Fixed campaigns are more likely to be funded than flexible ones.

Another characteristic for successful goal setting is that objectives must be difficult, but attainable. Organization members will work hard to reach challenging targets but will reject goals they perceive as unreasonable and unattainable (Lunenburg, 2011). In applying this logic to crowdfunding, big-sized projects appear unreasonable, thus discouraging potential backers. Mollick (2014) and Liu and Liu (2016), as well as Marelli and Ordanini (2016), find that a higher goal size negatively affects the success of fundraising campaigns. Thus, incorporating the principles of the goal-setting theory, this paper tests the following hypothesis:

H₃. Big-sized projects have a lower probability of success.

The goal-setting theory also argues deadlines improve the effectiveness of goals, serving as a time-control mechanism and increasing

the motivational impact of targets. By contrast, if ample time is available to achieve a goal, individuals do not stay focused on time (Lunenburg, 2011). In crowdfunding campaigns, longer fundraising time windows could decrease chances of success, possibly because they indicate a lack of confidence. Although previous studies seem to confirm this idea (Liu & Liu, 2016; Marelli & Ordanini, 2016; Mollick, 2014), this paper tests whether potential backers appreciate having more time to comprehend information before investing their money. In a crowdfunding context, capital seekers and providers interact only through a virtual channel, thus magnifying information asymmetry. If more time is available, potential investors are able to fully appreciate the features of different projects, overcome possible concerns, and effectively screen projects. These considerations lead to the following hypothesis:

H₄. Prolonged campaigns are more likely to reach the project target.

According to a resource-based view of the firm, resources are the primary source of firm performance, and direct a firm's strategy (Grant, 1991). Among resources that could be identified as determinants of a firm's growth, the presence of an entrepreneurial team plays a positive role (Ensley, Pearson, & Amason, 2002; Ruef, Aldrich, & Carter, 2003). In particular, businesses managed by entrepreneurial teams show a more diversified and skilled resource base. They may also benefit from a wider network of contacts and, consequently, grasp business opportunities. Apart from the literature on crowdfunding, Cooper, Gimeno-Gascon, and Woo (1994) suggest entrepreneurial teams may increase firm legitimacy and thus, potentially reduce a young firm's disadvantages. Further, Chandler, Honig, and Wiklund (2005) show that adding partners allows firms to develop team heterogeneity and improve the quality of decisions. Federico, Rabetino, and Kantis (2012) note that the size of entrepreneurial teams at the start-up positively influences the firm's subsequent growth. As such, team-size is a quality signal in the crowdfunding context, too. Consequently,

H₅. Big-sized teams positively affect the decisions of crowd-investors.

Referring to the marketing approach of fundraisers toward potential backers, theories on narrative persuasion and information processing provide an interesting subject to investigate.

As narratives are an effective means to orient human attitudes and behaviors (Escalas, 1998; Green & Brock, 2005; Stern, 1991; Wang & Calder, 2009), this influence may vary according to the type of medium used to convey the narrative. A video typically adopts multimodality, using visual (image and animation), verbal, and audio elements.

Outside the crowdfunding field, research has not achieved definite results on the influence of videos on persuasion.

Scholars argue the use of different elements in storytelling enriches the productive and perceptive effects of the narrative (Herman, 2010). According to literature on learning and educational psychology (Mayer & Anderson, 1991; Moreno & Mayer, 2007; Paivio, 1971), a multimodal communication requires individuals to integrate information from different sources to comprehend the meaning; thus, they become more involved. Additionally, the use of multiple modalities may generate a higher level of narrative comprehension compared to communication that relies only on textual information. A higher comprehension may thus lead to more persuasion.

However, Kronrod, Grinstein, and Wathieu (2012) state videos are particularly useful in promoting consumption of hedonic products and services. Further, Nevarez (2013) demonstrates that pacing and duration of videos have a negative impact on message comprehension. Videos usually contain explicit messages, requiring little involvement of the recipient's mental and imaginative resources. Conversely, text-only messages encourage imagination because imagery is suggested rather than rendered with complete details (Green & Brock, 2002).

Referring to literature on crowdfunding, Mollick (2014) shows that not including a video decreases funding chances by 26%. Marelli and Ordanini (2016), as well as Bi, Liu, and Usman (2017), confirm the

Download English Version:

<https://daneshyari.com/en/article/7425006>

Download Persian Version:

<https://daneshyari.com/article/7425006>

[Daneshyari.com](https://daneshyari.com)