RESEARCH ON CROWDFUNDING:
REVIEWING THE (VERY RECENT) PAST AND CELEBRATING THE PRESENT

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Abstract

Crowdfunding is a rapidly growing phenomenon wherein entrepreneurs directly seek funding for their entrepreneurial activities from a potentially large audience of interested individuals. Crowdfunding has exploded in popularity over the last decade and now accounts for tens of billions of dollars annually. But despite the importance and growth of crowdfunding, little scholarly knowledge exists about the topic. To address this gap, this special issue includes five articles that each advance knowledge about crowdfunding in important ways. We briefly review past work on crowdfunding in leading entrepreneurship and management journals. We then highlight the diverse contributions offered in the special issue articles.

Understanding what actions entrepreneurs take to secure the financial resources needed to bring new products and services into the marketplace is one of the cornerstones of entrepreneurship research. Entrepreneurship scholars have examined several funding methods. For example, many founders look to the three Fs – friends, family, and fools – as sources of capital (Berger & Udell, 1998; Kotha & George, 2012). Entrepreneurs can also acquire funds via angel investors (e.g., Maxwell, Jeffrey, & Levesque, 2011), venture capital firms (e.g., Shane & Cable, 2002), and initial public offerings (e.g., Deeds, Decarolis, & Coombs, 1997).

As a complement to these traditional forms of entrepreneurial financing, crowdfunding is a method of pooling often small amounts of capital from a potentially large pool of interested funders. Crowdfunding refers to an entrepreneur's direct solicitation (often through Internet platforms such as Kickstarter or Indiegogo) to a large number of individuals (i.e., 'the crowd') who may or may not have any historic or personal ties to the entrepreneur (Belleflamme, Lambert, & Schwienbacher, 2014).

While crowdfunding's contribution to entrepreneurial fundraising has resulted in increasing popularity over the last ten years, crowdfunding is far from a new phenomenon. In 1885, Joseph Pulitzer funded the completion of the Statue of Liberty's pedestal by soliciting investments from the readership of his New York World newspaper (National Park Service, 2016). The American Committee for the Statue of Liberty could not fund the completion of the project, leading a group of average Americans to contribute about $1 each, raising over $100,000 to fund the pedestal's completion. In return, all contributors were recognized by Pulitzer, who printed their names in an issue of his newspaper (National Park Service, 2016).

For individuals like Pulitzer who had ready access to a large 'crowd' from which to solicit funds, crowdfunding has always been a viable fundraising mechanism. However, for the average entrepreneur, the time and opportunity cost of soliciting small quantities of money from large numbers of investors was a significant barrier to crowdfunding. This barrier was alleviated by the advent of the Internet, online payment systems, and crowdfunding platforms, democratizing access to crowds of individuals who may be interested in funding the next big idea. As a result, practitioner interest in crowdfunding has grown rapidly. To date, approximately 2,000 crowdfunding sites exist to facilitate interactions between entrepreneurs and would-be funders (Drake, 2015). Their collective financial impact is tremendous. The World Bank believes that crowdfunding could account for over $300 billion in cumulative transactions by 2025 (Meyskens & Bird, 2015).

Several forms of crowdfunding exist to aid entrepreneurs. They vary in the nature of the investment and the expectations of would-be investors. In rewards-based crowdfunding, investors receive perks such as advance versions of a funded product (a well-known example involves the popular Pebble Smartwatch as a reward) rather than receiving a financial return on their contributions (Zipkin, 2015). In equity-based crowdfunding, entrepreneurs sell small ownership stakes in their firms as allowed by the 2012 Jumpstart Our Business Startups (JOBS) Act (Stemler, 2013). The SEC's implementation of this act includes Regulation A+ which allows for small businesses and startups to raise as much as $50 million from the crowd (Almerico, 2015). Finally, debt-based crowdfunding involves investors making microloans to entrepreneurs. In some cases, investors will see their original investment returned with interest; however in some social-investing platforms such as Kiva, only the principal is returned to the investor with no other expectation of financial or other return (Allison, McKenny, & Short, 2013).

To date, scholarly knowledge about crowdfunding remains quite limited. In this introduction to the special issue we explore the past and present of crowdfunding research. To explore the past, we briefly review the limited number of previous scholarly contributions culled from top entrepreneurship and management journals. We then introduce and overview the set of articles in the special issue.

PAST RESEARCH ON CROWDFUNDING

To assess the state of past research surrounding the nascent study of crowdfunding, we looked for relevant works in top entrepreneurship and management outlets. Specifically, we began our investigation by examining the set of journals used in Short et al.'s (2010) review of the opportunity concept in entrepreneurship research. This list included major management journals as well as three leading entrepreneurship journals, namely, *Academy of Management Journal*, *Academy of Management Review*, *Administrative Science Quarterly*, *Journal of Applied Psychology*, *Journal of Management*, *Journal of Management Studies*, *Journal of Organizational Behavior*, *Management Science*, *Organization Science*, *Organization Studies*, *Organizational Behavior and Human Decision Processes*, *Personnel Psychology*, *Strategic Management Journal*, *Entrepreneurship: Theory & Practice*, *Journal of Business Venturing*, and *Strategic Entrepreneurship Journal*.

We searched for all articles using one or more of the following terms in the title, abstract, or keywords: “crowdfunding” “crowd-funding” “microlending” “micro-lending” “microfinance” “micro-finance” and “Peer-to-peer lending.” While many microlending/ microfinance studies concern crowdfunded microlending, others look at traditional microlending where a bank rather than a crowd provides small loans to entrepreneurs. All microlending studies that did not directly address crowdfunded microlending or use a crowdfunded microlending sample (e.g., from Kiva.com or Prosper.com) were eliminated from the review sample. Based on these criteria, 21 original research articles relevant to crowdfunding constitute previously published relevant works. Journals publishing crowdfunding research included *Entrepreneurship Theory and Practice* (12 articles), *Journal of Business Venturing* (4), *Journal of Management Studies* (1), *Management Science* (7), and *Organization Behavior Human Decision Processes* (1). Table 1 summarizes each of these articles and we offer a narrative on the literature below.

Insert Table 1 About Here

Early crowdfunding research has focused on the determinants of crowdfunding success culled from a variety of theoretical and empirical approaches encompassing a number of crowdfunding platforms. Pioneers within this research stream have noted that knowledge of these determinants will be needed to inform how crowdfunding impacts the governance and outcomes entrepreneurial organizations (Bruton, Khavul, Siegel, & Wright, 2015).

A number of studies focus on the potential of crowdfunding to support microloans through social investing platforms. For example, Allison, McKenny, and Short (2013) suggested that funders of microloans in the Kiva platform are motivated to contribute to a campaign to get a ‘warm glow’ from contributing to entrepreneurs in need. They found that entrepreneurs were more successful raising money when the narrative used to solicit investment included language indicating accomplishment and rhetoric traditionally associated with political speech. Another set of perspectives previously applied to crowdfunded microlending are cognitive evaluation theory and self-determination theory. These theories predict differing responses to intrinsic versus extrinsic cues. In another study using data from the Kiva crowdfunded microlending platform, Allison, Davis, Short, and Webb (2015) found that intrinsic cues – those that frame a venture as an opportunity to help others – are positively related to crowdfunding performance. In contrast, extrinsic cues – which frame a venture as a business opportunity – are negatively related to crowdfunding performance.

While these findings provide examples of how crowdfunding of microloans may differ from traditional entrepreneurial fundraising, other work concludes that traditional entrepreneurial qualities remain desirable in crowdfunded microlending. Specifically, Moss, Neubaum, and Meyskens (2015) found that microenterprises signaling the entrepreneurial orientation dimensions of autonomy, competitive aggressiveness, and risk taking are more likely to receive funding.

Approximately a quarter of existing studies focused on the potential of crowdfunding to inform and influence lending decisions by examining platforms such as Prosper.com and Lending Club. For example, Iyer, Khawaja, Luttmer, and Shue (2015) demonstrate the power of the crowd in credit screening, discovering that peer lenders demonstrated 87% of the predictive power of an econometrician incorporating standard financial borrower information. Further, crowd lenders exhibited 45% greater accuracy in predicting an individual’s likelihood of defaulting on a loan than models simply using the borrower's credit score. Lin, Prabhala, and Viswanathan (2013) draw from research on adverse selection and signaling to find that online friendships of borrowers serve as signals of credit quality – increasing the probability of funding success and decreasing interest rates. The importance of crowd dynamics was also evidenced in work finding that lenders engage in rational 'herding' where they observe peer lending decisions to infer the creditworthiness of borrowers (Zhang & Liu, 2012). Sonenshein, Herzenstein, and Dholakia (2011) looked at the role of social accounts where borrowers project information meant to temper otherwise negative credit information (such as noting delinquency in a mortgage based on dealing with a family medical emergency). They found that these accounts successfully facilitated economic exchanges between unacquainted transaction partners increasing perceived trustworthiness, but that ultimately such accounts could negatively relate to loan performance. Using data from the Lending Club platform, Paravisini, Rappoport, and Ravina (2016) examined the role of wealth and threats to wealth on risk aversion, finding that wealthy investors tend to be more risk averse than their less-wealthy counterparts. They also find that when there is a negative shock to wealth – as with a shock to housing value – investor risk aversion increases. Leung and Sharkey (2014) draw from research in sociology and economics noting that market actors who span multiple categories tend to be valued lower than those who fit clearly into one category. They extend this work to suggest that even when the market actor does not explicitly note that they span multiple categories, investor perception that they do may lead to devaluation.

A number of studies leverage theoretical perspectives that build knowledge surrounding how individual crowdfunding campaigns project information to potential investors and how crowds react to this information. For example, Burtch, Ghose, and Wattal (2015) incorporate research on privacy and reputation, finding that reducing access to information controls positively impacts funds raised. Drover, Wood, and Zacharakis (2015) use an experimental design approach to examine certification effects in crowdfunding. They found that both angels and crowdfunding organizations can serve to certify nascent firms, but that certification from the collective is a function of crowdfunding platform type. Calic and Mosakowski (2016) build on research on social movements and found that a sustainability orientation positively affects funding success of crowdfunding projects and that this relationship is mediated by project creativity and third party endorsements. Mollick and Nanda's (2015) investigation of theater projects on the Kickstarter platform found significant agreement between the funding decisions of crowds and experts and that crowds were more likely to fund campaigns. Davis, Hmieleski, Webb, and Coombs (2017) use an affective events theory perspective to examine the effect of perceptions of product creativity and entrepreneurial passion on crowdfunding success via positive affective responses from potential funders. Kuppuswamy and Bayus (2017) examine changes in backer support for a project over its funding timeframe (i.e., 30 days). The authors find that support tends to increase as the project nears its target goal. This study thus contributes to knowledge about the importance of the decision-making surrounding goal-setting.

The role of geography as a key factor in crowdfunding success was evident in two early works. In a sample of 48,500 Kickstarter projects, Mollick (2014) found that crowdfunding success is driven by personal networks, project quality, and geography. In particular, Mollick found that projects in regions with a large proportion of creative individuals enjoyed greater crowdfunding success. Supporting the potential role of geography to better understand crowdfunding success, Lin and Viswanathan (2015) drew from research on home bias and found peer-to-peer lending transactions are more likely to occur when both parties are in the same geographical area.

The impact of crowdfunding as a global phenomenon was also evidenced by several papers using a variety of platforms worldwide incorporating numerous academic perspectives. Ahlers, Cumming, Günther, and Schweizer (2015) studied 104 equity crowdfunding campaigns from the Australian ASSOB platform and concluded that retaining equity and providing risk information serve as effective signals while social and intellectual capital have minimal impact on funding success. Cholakova and Clarysse (2015) examine 155 surveys from Sympid investors (the largest equity crowdfunding platform in the Netherlands) and found that equity funding motivation is financial/utilitarian with no significant role of nonfinancial motives. Illustrating the plurality of approaches informing crowdfunding, Belleflamme, Lambert, and Schwienbacher (2014) draw from price theory in economics to provide conceptual proofs showing why entrepreneurs should prefer pre-ordering in crowdfunding when capital requirements are small but shift to a profit sharing approach as capital needs increase. Demonstrating how crowdfunding research can draw from traditional research streams germane to management and entrepreneurship, Colombo, Franzoni, and Rossi-Lamastra (2015) examine the positive impacts of internal social capital on campaign success using the Kickstarter platform, finding the relationship is fully mediated by capital and backers collected in the early days of the campaign.

ARTICLES IN THIS SPECIAL ISSUE

We received 35 manuscripts in response to our call for papers. Following a double blind peer review process for all articles, five articles were accepted for inclusion in the special issue. In the first article, Josefy, Albert, Dean, and Fitza (2017, this issue) explore community aspirations to “Save the Local Theatre” through acquisition of new projection equipment needed in response to a decision by Hollywood studios to distribute films only in a digital format. Their sample of 176 crowdfunding projects provides a research design that allows for the exploration of variance in cultural goals of differing communities. They find that the degree to which the local community is considered Bohemian, is made up of creative individuals, and values historical architecture reflected by theatres listed on the U.S. National Register of Historic Places impacts likelihood of funding. Overall, their work demonstrates the powerful role of the community as a potential determinant of crowdfunding success.

The role of serial entrepreneurs has provided great insights into the nature of individuals who show the resilience and determination to launch multiple ventures. Two articles in our special issue provide insights into this phenomenon. Butticè, Colombo, & Wright (2017, this issue) explore the role of serial crowdfunders. Using an econometric exploration of a sample of 34,217 campaigns, they find that having social capital and an established community of backers provides serial crowdfunders with a significant advantage in comparison to novice peers. The results of their study invites entrepreneurship scholars to investigate forms of social capital beyond crowdfunders' contacts and crowdfunding platforms beyond Kickstarter to establish the generalizability of their findings.

In this special issue's second paper on serial crowdfunding, Skirnevskiy, Bendig, and Brettel (2017, this issue) explore track records by using a sample of 19,351 Kickstarter campaigns in conjunction with survey data. They find that loyal backers are especially influential to crowdfunding performance in the early stages of the campaign and that a strong track record encourages funding from loyal backers. In tandem, these two articles demonstrate that previous crowdfunding experience plays a powerful role in future efforts.

Chan and Parhankangas (2017, this issue) explore the role of innovativeness in crowdfunding outcomes. Specifically, they find that crowdfunders are more likely to support incremental rather than radical innovations. They suggest that this may be because more radical innovations in crowdfunding campaigns represent a greater development risk or are harder for potential funders to comprehend. The authors suggest that this negative effect of radicalness may be mitigated when campaigns prompt funders to appreciate and understand the nature of more radical innovative campaigns.

Courtney, Dutta, and Li (2017, this issue) draw from signaling theory to examine the crowdfunding impact of multiple signals (e.g., Plummer, Allison, & Connelly, 2016). The authors suggest that both startup actions and founder characteristics reduce information asymmetry between potential backers and crowdfunding entrepreneurs, making crowdfunding success more likely. The authors further suggest that third-party endorsement signals serve to validate other types of signals, consistent with prior literature on signal interactions in new ventures (Plummer et al., 2016). Overall, each of these five articles sheds new insights on the crowdfunding process, embracing a variety of theoretical perspectives and research designs demonstrating the promise of differing approaches to inform crowdfunding research.

CONCLUSION

We were delighted to be entrusted by editor Ray Bagby with the role of serving as guest editors to build knowledge surrounding the novel role of crowdfunding in entrepreneurship. We believe the five articles offered here take valuable steps toward closing the gap between ‘what we know’ and ‘what we need to know’ surrounding the determinant of crowdfunding success. In addition, we believe there is considerable fertile ground for future efforts seeking to build knowledge surrounding the crowdfunding phenomena. We hope the articles that follow will serve to both inform and inspire – enjoy!

TABLE 1

CROWDFUNDING RESEARCH IN LEADING ENTREPRENEURSHIP AND MANAGEMENT JOURNALS

Name	***Journal***	***Crowdfunding context***	***Literature/ Theory Base***	***Key Findings***
Ahlers, Cumming, Günther, & Schweizer, 2015	*Entrepreneurship Theory & Practice*	104 equity crowdfunding campaigns from the Australian ASSOB platform	Signaling and social capital theories	Retaining equity and providing risk information serves as effective signals while social and intellectual capital have minimal impact on funding success.
Allison, Davis, Short, & Webb, 2015	*Entrepreneurship Theory & Practice*	A sample of microloans made to over 36,000 entrepreneurs in 51 countries via the Kiva platform	Cognitive evaluations theory	Lenders respond positively to narratives highlighting the venture as an opportunity to help others rather than ventures framed as a business opportunity.
Allison, McKenny, & Short, 2013	*Journal of Business Venturing*	A sample of 6051 narratives from entrepreneurs in developing countries using the Kiva microlending platform	Economic research on the warm-glow effect coupled with research on political rhetoric	Narratives higher in language indicating blame and present concern lead to more rapid funding, while narratives higher in accomplishment, tenacity, and variety lead to slower funding.
Belleflamme, Lambert, & Schwienbacher, 2014	*Journal of Business Venturing*	Conceptual model	Price Theory in Economics	Entrepreneurs should prefer pre-ordering when capital requirements are small and profit sharing as capital needs increase.
Bruton, Khavul, Siegel, & Wright, 2015	*Entrepreneurship Theory & Practice*	Conceptual introduction to special issue on new alternatives to entrepreneurial finance	Emerging innovations in entrepreneurial finance	Knowledge of new institutional contexts is needed to learn how sources and demand for capital impact governance mechanisms and entrepreneurial outcomes.
Burtch, Ghose, & Wattal, 2015	*Management Science*	Randomized field experiment of online lending platform	Research on privacy and reputation	Reducing access to information controls positively impacts funds raised as individuals are more likely to engage in the platform but at a lower level.
Calic & Mosakowski, 2016	*Journal of Management Studies*	87,261 projects collected from Kickstarter using Python web-crawling algorithm	Research on social movements	A sustainability orientation positively affects funding success of crowdfunding projects mediated by project creativity and third party endorsements.
Cholakova & Clarysse, 2015	*Entrepreneurship Theory & Practice*	155 surveys from Sympid investors (the largest equity crowdfunding platform in the Netherlands)	Research on motivations to engage in reward-based crowdfunding	Equity funding motivation is financial/utilitarian with no significant role of nonfinancial motives.

Name	***Journal***	***Crowdfunding context***	***Literature/ Theory Base***	***Key Findings***
Colombo, Franzoni, & Rossi-Lamastra, (2015)	*Entrepreneurship Theory & Practice*	669 projects from Kickstarter.com	Research on social capital	The positive impacts of internal social capital on the campaign success is fully mediated by capital and backers collected in the early days of the campaign.
Davis, Hmieleski, Webb, & Coombs, 2017	*Journal of Business Venturing*	102 student participants' reactions to 10 Kickstarter.com funding pitches	Affective events theory	Perceptions of product creativity positively influence crowdfunding performance through positive affective responses among potential backers.
Drover, Wood, & Zacharakis, 2015	*Entrepreneurship Theory & Practice*	Results from two experiments utilizing 104 VCs making 1,036 screening decisions.	Research on certification effects	Both angels and crowdfunding organizations can certify nascent firms, while certification from the collective is a function of crowdfunding platform type.
Iyer, Khawaja, Luttmer, & Shue, 2015	*Management Science*	A sample of 194,033 listings from the Prosper.com peer-to-peer lending platform.	Research on credit and soft information screening	Peer lenders are 45% more accurate in predicting an individual's likelihood of defaulting on a loan than models using borrower's credit score. Peer lenders also demonstrated 87% of the predictive power of an econometrician incorporating standard financial borrower information.
Kuppuswamy & Bayus, 2017	*Journal of Business Venturing*	300,000 project-day observations from 10,000 randomly selected Kickstarter projects	Goal Gradients/ Perceived Impact	Backer support for a crowdfunded project will increase as the project nears its target goal.
Leung & Sharkey, 2014	*Organization Science*	A sample of 37,766 listings from the Prosper.com peer-to-peer lending platform.	Research on category membership	Perceptions that a campaign spans multiple categories results in a devaluation penalty by investors even when the profile does not explicitly identify that the campaign spans multiple categories.
Lin, Prabhala, & Viswanathan, 2013	*Management Science*	All listings seeking funding on Prosper.com between January 2007 and May 2008.	Research on adverse selection and signaling	Online friendships of borrowers serves as signals of credit quality.
Lin, & Viswanathan, 2015	*Management Science*	Quasi-experimental design of Our sample includes 777 borrowers who created 4,358 listings using the Prosper.com platform	Research on home bias	Peer-to-peer crowdfunding transactions are likelier to occur when parties are in the same geographical area rather than outside.

Name	***Journal***	***Crowdfunding context***	***Literature/ Theory Base***	***Key Findings***
Mollick, 2014	*Journal of Business Venturing*	Kickstarter dataset of over 48,500 projects.	Exploratory examination of determinants of crowdfunding success	Crowdfunding success is driven by personal networks, project quality, and geography where project success is tied to goods and services common to the area of funding. Most crowdfunding campaigns deliver on their projects goals although over 75% do so later than expected.
Mollick & Nanda, 2015	*Management Science*	Stratified random sample of theater projects attempting to raise at least $10,000 on the Kickstarter platform between May 2009 and June 2012.	Research on the role of experts in decision-making	There is significant agreement between the funding decisions of crowds and experts with crowds being more likely to fund campaigns.
Moss, Neubaum, & Meyskens, 2015	*Entrepreneurship Theory & Practice*	Loans made to entrepreneurs using the Kiva microfinance crowdfunding platform from 2006 to 2012.	Signaling theory, research in entrepreneurial and organizational virtue orientations	Microenterprises signaling autonomy, competitive aggressiveness, and risk-taking, are more likely to receive funding.
Paravisini, Rappoport, & Ravina, 2016	*Management Science*	Panel data using Lending Club platform loans between October 2007 and April 2008.	Research on risk aversion	Investors exhibit preferences consistent with decreasing relative risk aversion and habit formation where wealthier investors are more risk averse in the cross section and investors become more risk averse after a negative housing wealth shock.
Sonenshein, Herzenstein, & Dholakia, 2011	*Organizational Behavior and Human Decision Processes*	Loan data from Prosper.com coupled with controlled laboratory study data.	Research on the role of social accounts in lending decisions	Accounts facilitate economic exchanges between unacquainted transaction partners because of their role in increasing perceived trustworthiness, but accounts can negatively relate to loan performance.
Zhang & Liu, 2012	*Management Science*	Random sample of listing on Prosper.com from its inception in February 2006 through September 2008.	Research on lending ‘herding.’	Lenders engage in rational herding where they infer the creditworthiness of borrowers by observing peer lending decisions and use publicly observable borrower characteristics to moderate their inferences.

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