CROWDFUNDING AND SOCIAL NETWORK THEORY: AN EMPIRICAL INVESTIGATION (SUMMARY)

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Principal Topic

This paper takes as its central focus crowdfunding – and explores whether this newly trendy (but not truly new) and still evolving phenomenon represents (1) a fundamental paradigm shift in venture financing, or (2) an incremental relocation of traditional financing approaches from the “real” to the “online” world. Rephrased in network theoretic terms, the paper explores whether crowdfunding represents (1) the distributed acquisition of resources through abundant and structurally disconnected “weak” ties, or (2) a technology-enabled mechanism for the acquisition of initial resources through “strong” ties who then refer out to “weak” ties for subsequent resource provision. Much hype has accompanied crowdfunding sites’ claim to be democratizing the funding process by giving resource access to innumerable entrepreneurs. But crowdfunding might in fact be traditional financing “on steroids” (i.e., the usual process, amplified by Internet-facilitated connectivity).

Method

Crowdfunding’s online aspect enables the networks of those seeking funds to be analyzed with more complete information than has been available previously. The paper capitalizes on this new data availability. Specifically, the paper utilizes the complete quantitative data set, through January 2013, of an existing crowdfunding company, to assess emergent relational patterns across funder-fundseeker dyads. Statistical analysis was used to provide validation or invalidation of basic propositions in social network theory – using proxy measures of tie strength to shed light on extant theories of dynamic networks and resource acquisition.

Results and Implications

The paper provides empirical evidence that early activity through the site in question relies heavily on strong ties – and does not manifest the considerable network diversity and reach often described as a benefit of crowdfunding. As such, the data demonstrate adherence to long theorized patterns of early funding network development, while also appearing to challenge the long-heralded promise of crowdfunding sites. Given that the paper is situated at such an early stage in the organizational and industry life cycle, the data also provide a strong foundation upon which to begin exploring the trigger points (if such exist) from strong core to weak periphery. Lastly, the data provide a unique view of social networks as a foundation for acquiring the “resource” of organizational legitimacy.

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