PICKING WINNERS OR FOLLOWING THE CROWD? THE ROLE OF FINANCIAL ACUMEN AND SEARCHING EFFICACY IN CROWDFUNDING INVESTMENT DECISIONS (SUMMARY)

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Principal Topic

There has been much excitement for the potential of equity crowdfunding from entrepreneurs, legislators, and other interested parties. Despite this, emerging research has yet to provide clear guidance regarding how the crowd in this unique setting might influence non-professional investment decisions. In this study, we develop a framework that seeks to explore the underlying individual-level factors that influence equity crowdfunders to respond differently to crowd influences. In developing our hypotheses we build upon studies of conformity (Asch, 1956) and the social cognitive perspective to explore how the influence of the crowd varies among different “types” of individuals in a crowd investment context.

Method

We tested our hypothesized relationships with a quasi-experimental randomized factorial between-participants design. Using this setup we manipulated two variables; (1) investment cues by other equity crowdfunders (“the crowd”), and (2) venture quality. Our final participant sample was made up of 223 of non-professional investors who were actively participating in the crowdsourcing economy (mean age = 34.6 years, mean work experience = 11.5 years). For external validity purposes we presented each participant a link to a mock crowdfunding website (www.crowdfundinvest.biz). Participants were informed that they were visiting the beta version of a new equity crowdfunding website.

Results and Implications

Overall, our study makes two distinctive contributions. First, we put forth a model emphasizing the individual-level factors that affect equity crowdfunders’ investment decisions. Second, traditionally, entrepreneurial self-efficacy has been used to explain positive entrepreneurial outcomes (e.g., Douglas, 2013). In contrast, our study introduces a contingency in which higher levels of entrepreneurial self-efficacy may be detrimental for non-professional investors. Specifically, our results demonstrate that investors with high levels of internalized entrepreneurial searching self-efficacy demonstrate an “eager social bias” and are more likely to follow the crowd when the crowd has demonstrated a willingness to invest. However, these individuals did not demonstrate an ability to detect and subsequently invest in higher quality venture opportunities relative to low quality venture opportunities.

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