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SIGNALS TO THE CROWD: THE EFFECTS OF OBSERVED AFFILIATIONS ON CROWDFUNDING SUCCESS (INTERACTIVE PAPER)

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SIGNALS TO THE CROWD: THE EFFECTS OF OBSERVED AFFILIATIONS ON CROWDFUNDING SUCCESS

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Principal Topic

Crowdfunding, a means to finance business ventures by raising small amounts of money from a large number of investors, has emerged as a popular alternative to traditional financing routes (e.g., loans, venture capital, and equity). In this context, where information asymmetry is rampant, external entities are increasingly likely to pay attention to secondary sources of evidence (Rao, 1994) or valuable signals that help them to perceptually differentiate across ventures and assign value. These signals convey that an entrepreneur’s proposed venture is perceptually and qualitatively different from other ventures. Without such signals, information asymmetry is comparably increased, value is diminished, and prices are discounted (Riley, 1989). We propose that affiliation with and or support from external entities is perceived as valuable and credible signals by potential funders. Affiliations with legitimate third parties and venture backed projects provide a signal that separates low and high quality campaigns. Thus, we suspect that potential funders recognize these external affiliations, view the campaign as legitimate and take action.

Methods

These data consist of information extracted from the population of Kickstarter campaigns completed prior to the end of 2014 using computer aided text analysis (CATA). Following the guidance of Short and colleagues (McKenny et al., 2013; Short et al, 2010) data dictionaries were developed to capture the constructs of interest (e.g., affiliations, prestige of prior employment, prestigious professional firm affiliation, prestigious University affiliation, and prestigious government affiliation). Consistent with prior crowdfunding studies (Mollick, 2014), we measure the outcome of the campaign as a dichotomous variable (funded/not funded).

Implications

The study is still in progress. We argue that potential funders look for legitimacy signals and a predominant signal occurs when a campaign has established affiliations. This is one of the first studies to examine the effects of affiliations on crowdfunding campaigns; and determine if prestige of affiliations increase funding in this context. Our study extends the crowdfunding literature and offers practicing entrepreneurs insight into how they can frame campaigns to attract the maximum amount of support.

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