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CROWDFUNDING INNOVATIONS (SUMMARY)

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SUMMARY

CROWDFUNDING INNOVATIONS

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Principal Topic:

One of the greatest challenges for entrepreneurs is to secure financial resources for commercializing innovative ideas (Gorman & Sahlman, 1989; Kortum & Lerner, 2000; Metrick & Yasuda, 2010). While many crowdfunding platforms claim that their goal is to help bring innovative pre-revenue ventures to the marketplace (McCracken, 2012; Ordanini, Miceli, Pizzetti, & Parasuraman, 2011; Riedl, 2013), such assertions have received scant scholarly attention.

Even though entrepreneurial finance studies suggest that extremely innovative ventures are strongly preferred by equity investors, (Hall & Woodward, 2010; Kortum & Lerner, 2000; Metrick & Yasuda, 2010), the crowdfunding context, especially the reward-based platforms, differs from the traditional new venture investment context. Indeed, on those platforms, the backers often behave more like consumers than investors. Thus, this paper takes a consumer perspective, an emerging framework in management literature (Priem, 2007; Priem, Li, & Carr, 2012; Schmidt & Keil, 2013), to examine the relationship between the innovativeness of campaigns and crowdfunding outcomes. We predict that crowdfunders are likely to prefer the incrementally innovative campaigns as these tend to be more familiar, beneficial and feasible for the average consumer (Ellen et al., 1991; Sheth, 1981; Rogers, 2003; Waarts et al., 2002), boosting consumption benefits. We further argue that radically innovative campaigns may require crowdfunders to significantly alter their behavior and consumption patterns, making these less attractive to these audiences (Ellen et al., 1991; Sheth, 1981). We then suggest that incremental innovativeness mitigates the negative effect of radical innovativeness.

Method

Using the Kickstarter platform, we constructed a dataset of 334 ventures to capture campaign characteristics and funding outcomes. We used Amazon Mechanical Turk (MTurk) to recruit participants willing to evaluate the video pitches of Kickstarter campaigns.

Results and Implications

Overall, we found that incremental innovativeness of campaigns led to better funding outcomes than radical innovativeness. This negative effect of radical innovativeness was mitigated by incremental innovativeness.

Our paper is one of the first studies that delineate crowdfunding as a new phenomenon with an investor-as-consumer theme. This study also joins a growing number of studies (Benner, 2010; Menguc, Auh, & Yannopoulos, 2014) that answer the recent calls for refuting innovation maximization fallacy stating that the more innovation the better.

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