

# Crowdfunding

## - The development of an online community



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## 1. Executive Summary

This thesis investigates the financing method of reward-based crowdfunding, which is a way for entrepreneurs to attract finance by using an online platform to connect with a large crowd of possible investors. Crowdfunding has experienced significant growth as entrepreneurs find that it is a new way to obtain funding for projects that otherwise have a difficult time of getting funded through traditional sources. This thesis uses current theories on trust development and signalling of trust in virtual organisations to understand how the entrepreneur and online platform can develop a functioning online community that makes it possible to attract investors. The necessity of developing a trustworthy online community is due to the nature of the crowdfunding relationship where investors have no possibility of knowing whether or not the entrepreneur will behave fraudulently. This is because the virtual setting means that the investor has little opportunity to monitor and punish a fraudulent entrepreneur. Therefore the entrepreneur and platform must work together to create a trustworthy and functioning online community.

The key findings of the thesis is that crowdfunding can provide a viable alternative for entrepreneurs to attain funding for their projects, but in order to do so they must be able to signal their trustworthiness as investors have little to no protection. The best way of doing so is to develop a shared social identity where investors feel they become part of a larger group of developing a specific product.

The main contribution of this thesis is thus to increase the understanding of how crowdfunding participants can signal their trustworthiness in order to make crowdfunding a safe place to invest. In a situation where there are no formalised governance structures, thereby allowing the entrepreneur to have a new source of finance in a world where there is a lack of risk-willing capital from traditional sources.

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## 2. Introduction

The difficulty of attracting risk-willing capital has always been of large importance for entrepreneurs in order to get their business idea funded. However with the financial crisis the access to early stage financing has become even more constrained. Thus entrepreneurs have had to look for other forms of financing to fund their business. One such method has been crowdfunding that allows entrepreneurs to use the Internet and a crowdfunding platform to contact a large crowd of people, who in turn for their small investment can receive the end product or another reward. By utilising the power of the crowd the entrepreneur can get access to cheap financing, and so far crowdfunding has been used to fund projects ranging from small artistic projects needing a few thousand dollars to technological innovations collecting millions.

The idea of crowdfunding can be seen as part of the wider concept of crowdsourcing. Where the crowd through an open call on an Internet platform, is used to develop ideas, solutions and resources in order to improve corporate activities. And in turn the contributors are rewarded in various ways for their commitment and work. Crowdfunding is thus like crowdsourcing with an open call focused on obtaining financial resources in return for private gains such as early access to end product or good feeling from backing an up and coming businesses. A crowdfunding relationship thus relies on three parts, first an entrepreneur with an idea that needs funding second a crowd of investors who are willing to invest money and finally it all needs to be coordinated by a crowdfunding platform, to make sure that the two parties can connect in an online community allowing the crowdfunding transaction to take place.

## 3. Problem Statement

In the last couple of years the crowdfunding market has experienced rapid growth as more and more entrepreneurs and investors have used crowdfunding to get new and interesting products on the market. However this growth has also led to an increased focus on investor protection as the crowdfunding market for reward based crowdfunding has been scarcely regulated and investors have thus been left with little protection toward an entrepreneur that are unable to deliver the promised return. Thus investors have to rely solely on the trustworthiness of the entrepreneur, as they are unable to monitor and punish an entrepreneur who behaves opportunistic. Thus being able to communicate and develop a trusting relationship becomes of utmost importance if crowdfunding



is to remain a viable way for entrepreneurs to attract risk-willing capital in a cheap and effective manner. This thesis will seek to contribute an answer to how crowdfunding entrepreneurs and platforms can communicate and develop a trusting relationship with investors in such a way that reward-based crowdfunding can be a viable alternative to the traditional sources of risk-willing capital. This thesis will thus seek to explore the research question: *How can platforms and entrepreneurs develop a trustworthy online community that allows for crowdfunding to be a viable alternative to traditional sources of capital?*

In order to be able to answer the overall research question the question will be broken down to a number of sub research questions that will help explore various facets of the research question. First of in order to understand how a trustworthy online community can be developed it must be investigated *How entrepreneurs can signal trustworthiness in a virtual setting?* The first part of the analysis will seek to explore the trust creating mechanisms that are inherent at the entrepreneur level. Signalling trust becomes difficult as a crowdfunding relationship relies on Internet communication with a large and anonymous crowd. The entrepreneur must therefore be capable of signalling his trustworthiness in a virtual setting without having a personal relationship with the crowd of investors.

The second part will investigate the specific role of the crowdfunding platforms. Since the platform is the main nexus for communication between entrepreneur and the investors, it is necessary for the platform to be able to develop an online community that can facilitate and support the signalling of trustworthiness of the entrepreneur. Thus this part of the analysis will seek to explore *how can a crowdfunding platform develop a virtual community for the crowdfunding partners to coordinate the transaction.*

The final part will explore how the investors can be motivated to participate in a crowdfunding activity as not only must the investors be willing to expose themselves to the behaviour of a specific entrepreneur. But the investors must also be provided with an online community that can maintain and motivate investors to participate at a general level. Thus this part of the analysis will explore *How does the investors behave in a virtual crowdfunding relationship.*

Bringing these three parts together it will be possible to provide answers to how crowdfunding entrepreneurs and platforms can interact in order to develop a trustworthy online community that allows crowdfunding to be a viable way to secure financing for entrepreneurial endeavours.

## 4. Definitions of key terms

As crowdfunding is a fairly new form of securing finance the following section will define what is meant by the term crowdfunding in order to ensure a common basis for this thesis. Furthermore the following section will also provide a definition of the term crowdsourcing as it provides a starting point for the crowdfunding trend.

### 4.1. Crowdsourcing

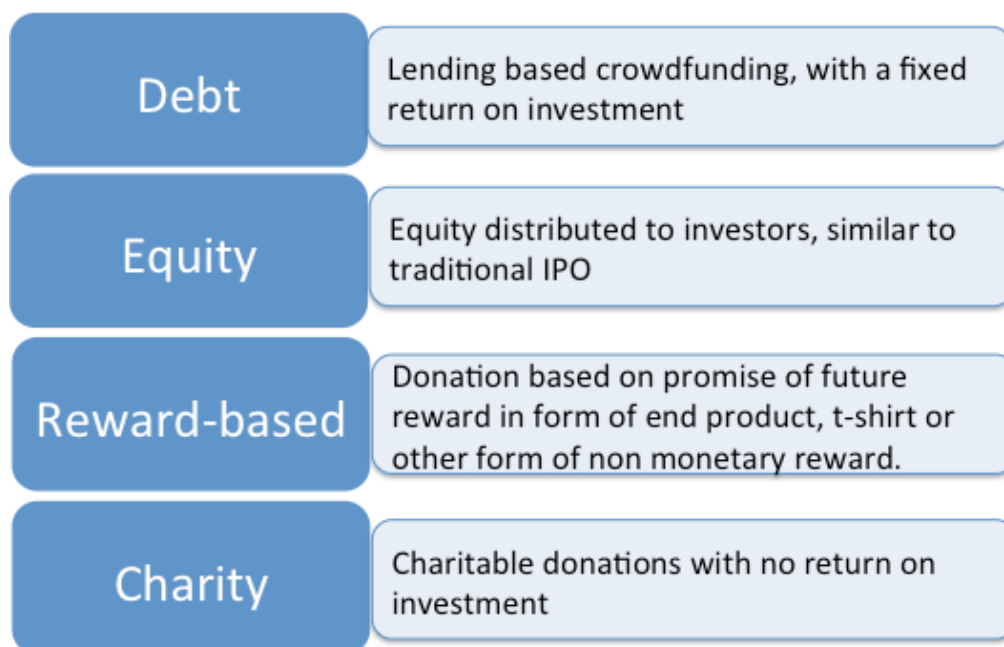
Crowdsourcing was a term used by Jeff Howe and Mark Robinson in Wired magazine 2006 (Howe 2006c) and on his internet blog Jeff Howe went on to define crowdsourcing as follows,

*“crowdsourcing represents the act of a company or institution taking a function once performed by employees and outsourcing it to an undefined (and generally large) network of people in the form of an open call. This can take the form of peer-production (when the job is performed collaboratively), but is also often undertaken by sole individuals. The crucial prerequisite is the use of the open call format and the large network of potential laborers.”* (Howe 2006a) in a later blog post he goes on to further clarifying the phenomena as follows *“It's only crowdsourcing once a company takes that design, fabricates in mass quantity and sell it”* (Howe 2006b). Crowdsourcing can thus be used to solve different types of problems at different levels of the company activities for instance Procter & Gamble and Ellie Lilly uses crowdsourcing to access crowds of scientists and other types of professionals to help solve their problems and move products quicker to market (Howe 2006c). On the other hand smaller businesses can also take advantage of the crowd to solve more menial tasks, for instance on the webpage mturk.com companies can access large crowds of workers, called mechanical Turks, to perform a task on the internet. These kind of jobs can take the form of translating pieces of text into another language or typing in business card information into a database, in return for their work these mechanical Turks receive compensation in form of a small payment depending on the difficulty of the task.

### 4.2. Crowdfunding

Simply put crowdfunding is a manner of fundraising that is done by asking a large crowd of people to contribute money to support a specific cause for instance an artistic project or a business venture. These contributions can vary in amount from a few dollars to hundreds of thousands, the funding is achieved by pooling all of these investments, big or small, together to achieve the larger goal for the

entrepreneur to be able to complete his or hers project. The entrepreneur in crowdfunding can like In typical business relationships be anything from an individual to an already established business unit. Furthermore crowdfunding can take place at various times in a projects life, it can be in the very beginning of the business project or it can be in the final stages of development where it can be used to obtain the last bit of funding when other sources of finance have been exhausted (Steinberg, DeMaria & Kimmich 2012), crowdfunding it thus a fairly versatile form of fundraising and can be used alone or in conjunction with other forms of funding. Furthermore there are different types of crowdfunding namely the reward-based, equity, debt and charity types of crowdfunding, each of these different types of crowdfunding has different reward structures; a short overview of the different types of crowdfunding can be seen in Figure 1.



**Figure 1: The different types of crowdfunding. Source: own creation**

Crowdfunding have taken advantage of the web 2.0 to make an open call on the Internet to approach the large amounts of potential investors with access to the Internet. Crowdfunding can thus be said to be a different version of crowdsourcing (Schwienbacher, Larralde 2012). But where crowdsourcing rely on the crowd to provide ideas or input to a corporation crowdfunding aims to make the crowd the investors to an entrepreneurs ideas. Even though crowdfunding can be done in a lot of different way the typical way is a relationship between a person or group with an idea or project that needs funding, the entrepreneurs, a platform that have a system to handle payments and

have database of investors who have signed up to their website and the third part of the relationship is the investors who will provide the financial funds. A definition of crowdfunding is thus that crowdfunding is the activity whereby entrepreneurs through an open call, over the Internet, to a large crowd of people in order to obtain funding for a project.

#### **4.3. Traditional sources of finance**

The term traditional source of finance and sophisticated investors is a term that will be used to contain a wide range of different professional investors. The term will be used to describe professional investors who are mainly interested in attaining a monetarily reward and who are generally approached by entrepreneurs to attain funding for their entrepreneurial endeavour. It will thus be used to cover both venture capitalist firms, business angels and banks who are typically the sources for capital to entrepreneurs.

## 5. Methodology

This chapter will discuss the chosen research philosophy, approach and strategy, which have guided the research process of the thesis, and discuss why one approach has been chosen instead of another. Furthermore it will be discussed which specific research methods have been applied when gathering and analysing data. Finally this chapter will include remarks on the limitations of the chosen research strategy.

### 5.1. Research purpose

Before setting out to consider what research strategy to choose when investigating any topic it beneficial to first identify what the purpose of the research is. Saunders, Lewis & Thornhill (2003) identifies three different types of research namely exploratory, descriptive and explanatory. The three type of studies all have different aims in what type of questions they can be used to answer, an exploratory study seeks to find out what is happening and seek new insights (Saunders, Lewis & Thornhill 2003), the explanatory study seeks to explain the relationship between variables (Saunders, Lewis & Thornhill 2003) and seeks to explain the descriptive findings (Gray 2009). The descriptive study seeks to provide an accurate profile of a certain event or situation or show how events are related to each other (Gray 2009), one of the weaknesses of a descriptive study is that it doesn't seek to explain why an event occurred but rather only describe the situation (Cooper & Schindler 2005), for this reason Saunders, Lewis & Thornhill (2003) highlights that the descriptive study rather than being a study in itself should be used in combination with the other types of research. The notion that the descriptive study is usually not in itself an adequate type of study is also true for the two other types of study, in the sense that a study will have to change from an explorative study to an explanatory in certain cases. It can thus be difficult to choose one type of study that adequately will be able to investigate a certain topic; rather it is important for the researcher to be aware that at certain type of investigation is more relevant in different parts of a study.

## 5.2. Research plan

The development of the research plan is based on the process “*onion*” as developed by Saunders, Lewis & Thornhill (2003) that can be seen in Figure 2 The Process Onion. One issue that however must be mentioned is that rarely can the different items of the “*onion*” be sufficiently used in isolation but rather must be used in combination with the other items of the different layers (Saunders, Lewis & Thornhill 2003).

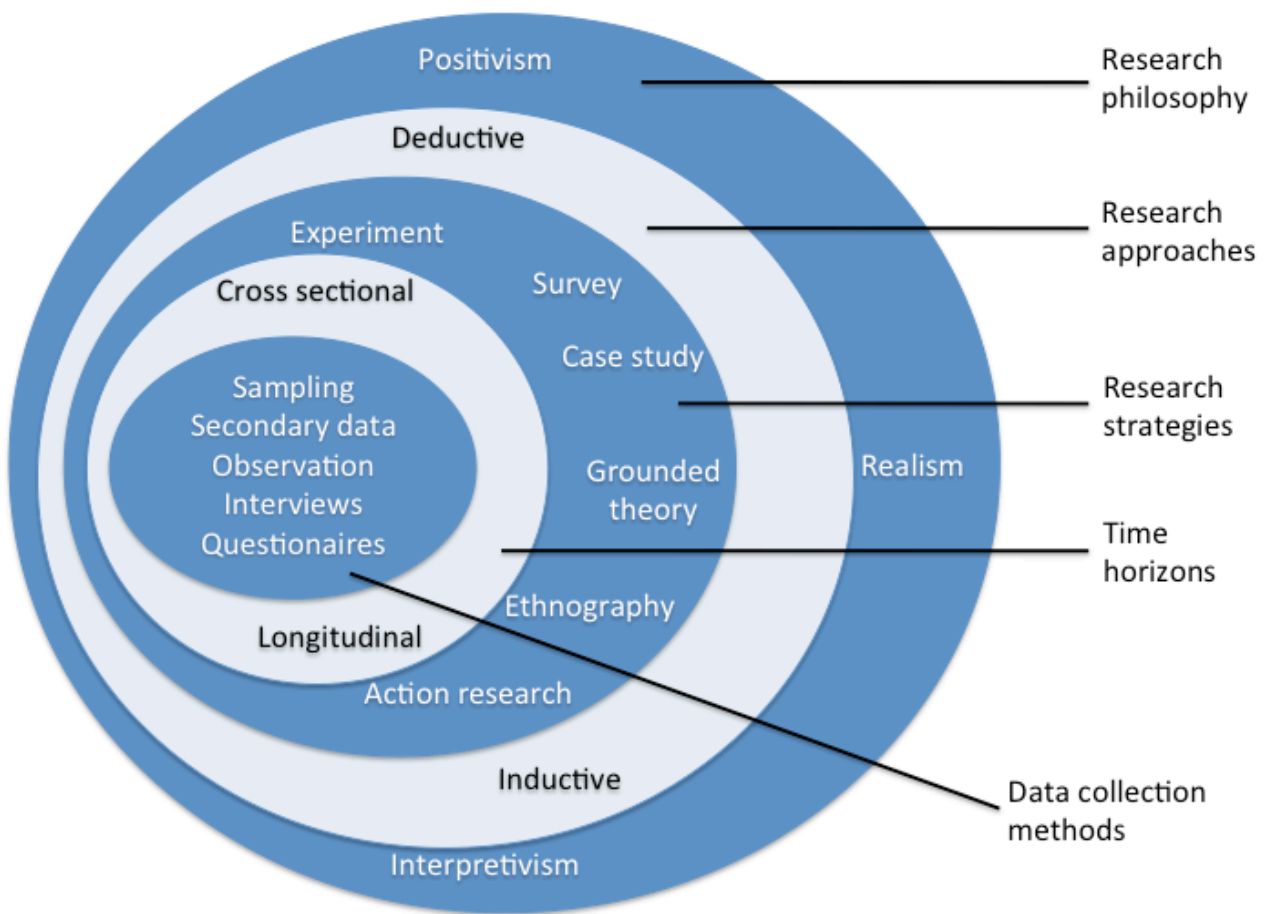


Figure 2 The Process Onion

Source: (Saunders, Lewis & Thornhill 2003)

## 5.3. Research philosophy

The first element of the research plan is the research philosophy, which relates to the way the researcher views the development of knowledge. Commonly there are three views on how

knowledge is developed namely positivism, interpretivism and realism (Saunders, Lewis & Thornhill 2003). This thesis adopts the interpretive view as it is acknowledged that only through subjective interpretation of reality, as the world is complex and ever changing, can it be fully understood.

One shortcoming of the interpretive view is that it doesn't lend itself well to the creation of generalizable knowledge, however according to Saunders, Lewis & Thornhill (2003) the interpretivists argue that generalizability is not of crucial importance as the world is constantly changing, and if it is accepted that today's circumstances may not apply in six months, then the value of generalisation becomes of less importance, similarly as each situation is unique and different from each other, then the value of generalisations becomes limited. As the aim of this thesis is to better understand the complex relationship and interaction between crowdfunding parties, the relevance and need for generalizability is limited.

However it must be noted that rarely can one philosophy be relied upon to answer all questions, instead different philosophies must be adapted in order to fit different parts of the thesis development. Thus at certain points the view of positivism must be adopted in order to develop generalizable knowledge when relevant for the thesis.

#### **5.4. Research approach**

Related to the approach of the research one can distinguish between the deductive or inductive perspective. The deductive approach seeks to develop theories and hypothesis in order to be able to confirm or reject their validity through rigorous testing (Saunders, Lewis & Thornhill 2003), thus in the deductive approach the data will have to fit the theory. On the other hand, the inductive approach seeks, better understanding of the situation by first collecting the data and then upon these develop the theories to fit the data, thus in the inductive approach theory will follow the data (Saunders, Lewis & Thornhill 2003).

Saunders, Lewis & Thornhill (2003) explains that followers of the inductive approach criticize the deductive approach for being too rigid in its methodology as it seeks to only test the chosen theory, thereby limiting the possibility of finding alternative explanations. This form of structured methodology does lend itself well to subjects that adhere to law-like generalisations, but as



explanations might be found outside of a set of predefined variables the inductive approach becomes more relevant as it is better capable to cope and adapt to the data. Therefore this thesis has adopted the inductive research approach in order to discover new insights in the crowdfunding phenomena rather than investigating it from a predefined standpoint.

## 5.5. Research strategy

The research strategy is the general plan of how the researcher will go about answering the research question(s) (Saunders, Lewis & Thornhill 2003). Turning back to the process “*onion*” Saunders, Lewis & Thornhill (2003) identifies six different strategies; experiment, survey, case study, grounded theory and action research. In choosing which research strategy to employ various elements must be taken into account for instance Yin (2009) argues that every research strategy can be used whether the researcher is conducting an exploratory, descriptive or an explanatory study, Yin (2009) also found that the researcher must choose between the research strategy based on three conditions first, the type of research question second, the extent of control an investigator has over behavioural events and third the degree of focus on contemporary events as opposed to historical events. Based on these three conditions Yin (2009) identifies five different methods to conduct research, which can be seen in Figure 3 Overview of different methods that provides an overview of when to select one method instead of another.

Method	Form of research question	Requires control of behavioral events?	Focus on contemporary events?
Experiment	How, why?	Yes	Yes
Survey	Who, what, where how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/no
History	How, why?	No	No
Case study	How, why?	No	Yes

Figure 3 Overview of different methods

Source: (Yin 2009)

Having taken the findings of Yin (2009) and Saunders, Lewis & Thornhill (2003) into consideration the case study is selected as the main research strategy for investigating the research questions. The main reason for selecting the case study as the research strategy is that it provides a good possibility of gaining insights into complex issues and is good at focusing on a limited amount of events or conditions and their relationship (Flyvbjerg 2006). The case study is capable of answering questions pertaining to “why” and “how” (Yin 2009) furthermore if there is no need for control of events the case study is capable of providing a good view into contemporary events (Yin 2009). This fits with the aim of the thesis, which is to provide an insight into the complex relationship of the current crowdfunding world.

It must however also be mentioned that the case study has been criticised for not being a source of generalizable knowledge due to usually a small number cases being used and Flyvbjerg (2006) shows that arguments have been made that case studies can mostly be used when doing exploratory research but that other types of methods must be used when performing more explanatory research, in order to create valid knowledge. However both Yin (2009) and Flyvbjerg (1991) has shown that case studies are far from being only useful when conducting an explorative study, but can also provide valuable insights when conducting explanatory or descriptive research. Flyvbjerg (1991), has also argued that case studies are indeed capable of generating generalizable knowledge. Thus the case study is considered a valid research strategy of study in not just exploratory studies but also explanatory and descriptive studies.

Thus the case study seems to be the best strategy when seeking to understand a few or a single complex issue, such as crowdfunding relationships. Case studies provides an opportunity to gain insights into very complex relations and at the same time allows for sufficient flexibility, in the selection of cases and designing the study, necessary to seek insights in various places, and as mentioned above there is a limited need for the generation of generalizable knowledge.

However when investigating the investor side of the crowdfunding relationship the case study is not the best strategy as the need for generalizability becomes larger and other strategies is more fitting when seeking to understand the large unknown crowd. In order to investigate the role of the investors this thesis will adopt an ethnographical study, as it will seek to interpret the setting the investors operate in by investigating how they themselves interact in this setting. However as the ethnographic approach in general is considered a very time consuming process (Saunders, Lewis &

Thornhill 2003), and requires the researcher to be present where the subjects being studied carry out their routines (Whitehead 2005), it becomes difficult to complete a classical ethnographical study. Due to both time constraints and the fact that the investors are unknown and widely spread it becomes unfeasible to conduct interviews and observe the investor in his or hers environment. Instead this thesis will rely on secondary sources for relevant data that can provide insights into the action of the investors, by doing so the analysis will refer back to existing data (Whitehead 2005). The use of secondary data is not only used when investigating the investors but will also be used when investigating both the entrepreneur and platforms where it will be combined with primary data, it is therefore only when analysing the third sub research question, that secondary data will be used as the main data set. One advantage of so doing is that it draws less on the researchers resources and allows for the researcher to analyse larger amounts of data (Saunders, Lewis & Thornhill 2003) . By relying on secondary data it is thus possible to broaden the scope of the research into the role of the investors, who are otherwise difficult to investigate. However there are some disadvantage to using secondary data, first of the collected data may not fit the need of this thesis, access can be difficult or expensive to get and there is no control of data quality (Saunders, Lewis & Thornhill 2003), all of these facets must be taken into consideration when deciding which secondary data to apply, not only when investigating the investors but also both the role of the entrepreneur and the platforms. Having chosen a research strategy it is also necessary to determine which time horizon this strategy should seek to explain, be it a “snapshot” (cross-sectional) of current events or a certain phenomenon or a “diary” perspective (longitudinal) of development over time (Saunders, Lewis & Thornhill 2003) . For this thesis the cross-sectional horizon will be applied as the thesis investigates a current phenomena at a specific time.

In the following subchapters the research design will be outlined together with a discussion of which methods will be used to collect data and how to ensure their quality.

## **5.6. Research design**

This Thesis is divided into two parts. The first part begins with an investigation of the different participants in the crowdfunding relationship and how crowdfunding is different to other types of traditional financing. Thereafter follows an investigation of the role of trust in crowdfunding. The first part ends with a conclusion on the importance of developing a trustworthy online community. The second part combines the findings from the first part with the data collected; answering the sub

research questions and seeks to provide new insights into the area of signalling of trustworthiness and crowdfunding. Combining these new insights and explanations will lead to the conclusion of the findings and their influence on the overall problem statement of *How can platforms and entrepreneurs develop a trustworthy online community that allows for crowdfunding to be a viable alternative to traditional sources of capital?* Thus the research design will follow a funnel approach starting with a broad literature review and descriptive part and ending in a narrower analytical second part.

## 5.7. Data collection methods

### 5.7.1. Primary data

The aim of this element of the process “*onion*” is to illustrate what collection methods the researcher will use to gather the data in order to carry out the chosen research strategy and research design. When deciding how to collect data it must also be considered what type of data one seeks to collect, as it influences the way questions must be asked and influences the choice of data collection method, for instance surveys might be a better method when seeking quantifiable data, from a large population whereas an interview is more appropriate when qualitative data is collected or when context specific knowledge is sought (Kvale 1997). As this thesis seeks to explore the complex relationship inherent in crowdfunding activities it will mostly rely on the gathering of qualitative data. The data is to be collected by taking the role of what Saunders, Lewis & Thornhill (2003) calls the complete observer which allows the researcher to, in an unobtrusive way, observe the behaviour of the entrepreneur and the platforms. This is possible as the crowdfunding activities take place in an online public setting, which gives the best observations as the subjects are unaware of them being observed and therefore it doesn’t influence their behaviour. Furthermore as trust is a social construct that is communicated unconsciously, observations can be the best way to collect data on the reaction and behaviour of the subjects. Another source of primary data comes from an explorative mail correspondence between the crowdfunding platform and the researcher, these interviews mainly provided access to data and statistics that helped guide the thesis in the beginning of the project. However as trust is communicated unconsciously mostly observational data is used to analyse the crowdfunding relationship.

### 5.7.2. Sampling

One of the benefits of choosing the case study as a research strategy is that it allows the researcher to reduce the amount of data to be analysed, as the data will stem from a selection of relevant cases rather than from an entire population. An advantage of choosing a few select cases is that the researcher can spend more time in collecting and testing more detailed and accurate data (Saunders, Lewis & Thornhill 2003). Ensuring more valid data. However in order to ensure the quality of the data it is necessary to choose cases that are relevant to the answering of the research questions.

When the purpose of the research is not to create statistical inferences or it is unfeasible to collect data from a complete population, Saunders, Lewis & Thornhill (2003) points to the use of non-probability or judgemental sampling as the correct sampling method. This method enables the researcher to use his or hers own judgement when selecting the cases that is best capable of answering the research question. In order to choose the relevant cases it is necessary to create a sampling frame of all possible cases. For this thesis a list of relevant cases was compiled according to the judgement of the researcher, of where interesting cases could be found, it was from this list that the case campaign was chosen, and when relevant observation from other cases was included. By so doing the case study cannot be considered as representative of the total population and are thus only representative according to the research question. In this thesis there are two parts that rely on the case study strategy each of these areas will have their own sampling considerations.

In analysis of the entrepreneur the sample will only include campaigns seeking a substantial amount of money, for this thesis only campaigns with a minimum goal of \$100,000 is chosen, by so doing it is possible to disregard a lot of the thousands of campaigns that otherwise would have to be examined, as only the larger campaigns will be considered. Another benefit of this is that the more money is sought for the more information the campaign will have to disclose as they will most likely need to attract and convince a larger number of investors as opposed to a campaign only seeking \$1,000, secondly the cases must be presented on the largest and best known reward-based crowdfunding platform called Kickstarter.com. This is because Kickstarter.com hosts a broader spectrum of projects than more specialised platforms, that focus on a limited type of projects, so that a larger variety of campaigns can possibly be explored. Furthermore by focusing on one platform the time needed to investigate the large number of possible cases from all available

crowdfunding platforms is minimized, thirdly campaigns where the purpose is to create an artistic product, such as a dance troupe or theatre performance, is not considered as these doesn't live up to the definition of crowdfunding as a venture for the entrepreneur to gain a financial benefit, finally both cases that were successful and unsuccessful in obtaining finance will be taken into consideration. Based on these conditions the relevant cases will be chosen and analysed.

The second case study will be presented in the analysis of the platforms. The sample frame is here limited to only include the platform Kickstarter.com as this platform are one of the largest and best known platform that deals with reward based crowdfunding. By limiting the sample to just this one platform more time can be spent on the analysis of how a platform can assist in the creation and communication of trust and trustworthiness.

### **5.7.3. Secondary and other data**

Besides the primary data gathered by observations other sources of data will also be included. This data will come from various other sources, Whitehead (2005) names a number of possible sources for valuable secondary sources among others these include scholarly and popular (including media) publications and products, archival and statistical data from various administrative sources and lastly records and data collected by businesses and professional associations.

The use of secondary data are very important to provide a broader scope on the research as it can provide insights from other perspectives or sources that would otherwise not be accessible to the researcher (Whitehead 2005). Thus secondary data can be useful when investigating the new phenomena of crowdfunding as it can open up the investigation to include findings from previous research and interviews. This thesis relies on secondary data from especially interviews made to media outlets but also both quantitative and qualitative data from both market reports and previous research in crowdfunding.

### **5.8. Quality of the research**

Collecting and analysing data is not enough to ensure that the conclusion drawn from these are correct, the researcher must therefore pay attention to two factors, reliability and validity, in order to reduce the possibility of getting the answer wrong (Saunders, Lewis & Thornhill 2003).

Saunders, Lewis & Thornhill (2003) goes on to suggest three questions that can be used to asses

reliability first, Will the measures yield the same results on other occasions? Second, Will other observers reach similar observations? And third. Is there transparency in how sense was made from raw data? The threats to reliability can likewise be categorised into four categories including first, Subject or participant error second Subject or participant bias third Observer error and fourth final observer bias.

The first threat of subject or participant error is difficult to assess but one way of limiting the effects is to combine the collected data and make sure that the data is coherent throughout interviews, observations and secondary data. In relation to subject or participant bias there is a threat that cannot be discarded, as interviewees might be interested in only revealing a partial picture that can place their crowdfunding campaign or platform in a positive light. This is especially relevant when observing the interviews made by entrepreneurs to news media during the time where their crowdfunding campaign was active, as they during that time period were interested in setting their project in the best possible light. The same applies to platforms, as they in these situations are interested in raising their own legitimacy. One way of mitigating this is to be critical of what information the participants disclose and combine it with the data that comes from independent researchers and sources, who are not depended on the success of an individual campaign or platform.

Furthermore observer error and bias cannot completely be discarded especially when dealing with qualitative data that by nature are very open to interpretation on behalf of the researcher. Saunders, Lewis & Thornhill (2003) highlights that in order to mitigate this effect it is necessary to structure the data in such a manner that the researcher can avoid giving an impressionistic view of his or her own feelings or thoughts (Saunders, Lewis & Thornhill 2003). By following the research design and strategy such effects should be limited, but cannot be totally eliminated as the researchers prejudices and cultural background will naturally influence the interpretation of data. Another source of bias comes from the fact that unsuccessful crowdfunding campaigns are difficult to collect from the platforms as these projects are not shown any interest from the platforms and thus are quickly removed from easily accessible viewing on their webpage, as opposed to successfully funded projects that are kept easily visible on their site. Thus a sampling error or bias can arise as it is not possible to identify all relevant cases and thus interesting cases might not be identified.

Overcoming these threats are important to ensure the reliability of the thesis, having taken these threats into consideration, the reliability can then be assessed according to the three questions mentioned previously in this chapter. The first two questions deal with whether the findings will be the same results on other occasions and whether other observers would make the same observations. As this thesis deals with qualitative data that are a reflection of reality at a specific point in time of a complex and dynamic setting, thus any attempt to replicate the results of thesis at a later stage will therefore inherently be difficult and unrealistic. If the thesis sought to conform to make the research replicable it would undermine the strength of the case study and qualitative data (Saunders, Lewis & Thornhill 2003). Instead in order to ensure reliability this thesis will present its findings in a clear and logic form in order to provide transparency in how these findings were deduced from the data.

The point if the following section is to comment on the quality of the results and to address the validity of the findings and whether the results can actually be used to conclude on the identified behaviour of the crowdfunding participants and the creation of a trustworthy environment. Again Saunders, Lewis & Thornhill (2003) provides some threats to the validity of the findings.

When dealing with complex terms such as trust that are very dependent on cultural backgrounds and are difficult to completely grasp there is a risk of what Saunders, Lewis & Thornhill (2003) describes as ambiguity of casual direction. In the case of crowdfunding it will be difficult to asses whether there actual is a relationship between the level of trustworthiness and the success of a crowdfunding campaign or whether this relationship is actually a result of successful campaign being deemed as more trustworthy due to their success ex post of the funding process. In order to deal with this very important aspect this thesis will draw on findings from theories dealing with trust and trust creation in order to create a clear definition of when trust worthiness is actually present and not a result of ex post rationalization, however when dealing with interpretations and qualitative data ambiguity of the findings cannot is easily be ruled out.

When investigating the generalizability or external validity it is important to take into consideration to what extent the findings can be generalized upon to the total population. The purpose of this thesis is not to generate a theory that is applicable across all crowdfunding campaigns. The purpose is therefore not to provide a theory that can predict what campaigns that will be successful or not, but rather an attempt to deepen the understanding of how trust creation and trustworthiness plays a



role for the reward based crowdfunding business in a certain context and provide an understanding of how trustworthiness is evaluated in an virtual online setting.

When taking these threats into consideration when conducting the research and analysis the overall quality of the findings should be considered to be high, but there are certain aspects that can not be completely ruled out as this thesis doesn't deal with clear cut rules and laws that are always applicable, but rather the interpretation of events at a certain point in time. However by showing the analysis in a clear and logical manner the threats to validity and reliability should be mitigated and the quality of the findings to be raised.

### **5.9. Delimitation**

The purpose of this thesis is to uncover how the relationship between crowdfunding participants is influenced by the trustworthiness of the entrepreneurs and platforms and how these can develop a functioning virtual setting in which transactions can take place without the opportunity of monitoring and control of the participants. This is done through primarily observations of qualitative data, as the purpose is to understand how the participants behave in the virtual setting. As such the findings will be of an interpretive nature of how the current crowdfunding market functions. As such further research is needed if one wishes to provide more generally valid findings, but hopefully it will provide a input in to improve the understanding of the field of crowdfunding.

Three major delimitations will be made

1. Only the market for reward-based crowdfunding will be analysed
2. Only projects that have a significant economical value and deals with product development and product design will be investigated
3. Only projects that are offered on the online crowdfunding platform Kickstarter.com will be explored.

The reasons for setting these delimitations is that there are many ways of conducting a crowdfunding campaign and it has been used to fund a wide variety of projects ranging from small artistic projects to large multi million projects. The following section will explain why each of the different delimitations has been made.

The first on is that only reward-based crowdfunding will be analysed. There are generally four different archetypes of crowdfunding namely, reward-based, equity, debt and charity crowdfunding each of these type of crowdfunding has their own unique facets. The reason for focusing solely on reward-based crowdfunding is that first of the charity crowdfunding doesn't resemble investments as there is no expectancy of a return rather than a sense of "good feeling" and second the debt and equity types are clouded by various formalised regulatory rules and laws that clouds the role of trust in crowdfunding.

The second delimitation is to only investigate projects that has a certain economic size and are within typical product categories that have a possibility to build a business upon. This delimitation is made because in order to understand how crowdfunding can be an alternative for entrepreneurs to get funding instead of relying on sophisticated investors it is necessary to look past the artistic projects that also uses crowdfunding to obtain funding, as the motivations behind investing in artistic projects is likely to be different than investments in for profit projects.

The third delimitation is that projects must be publicized on an online crowdfunding platform, this delimitation is made to be able identify and observe the behaviour of a large crowd of investors. Even though it is possible to use for example an entrepreneurs own website to be the connection hub between the investors and the entrepreneur it is very difficult to identify and observe the behaviour of the crowd when it is spread out on various different platforms, therefore only projects that are presented on crowdfunding platforms, such as Kickstarter.com, will be investigated.

## **5.10. Limitations**

This section provide an overview on some of the challenges that is beyond the control of the research but still influences the findings of the research. First of this thesis deals with a fairly new phenomenon in the financing market as such various new research reports and market developments, so even though this thesis try to use the newest research and data in the crowdfunding and try to adapt to new research made during the writing process it is possible that some new developments will not be identified and thus valuable information might be missing in the thesis. Second the thesis deals with the element of trust and trustworthiness, which is based on cultural background and past experiences, thus what one person might view as a signal of trust another person might interpret as untrustworthy. This is especially important when dealing with

crowdfunding investors who can come from very different backgrounds and cultures, but as the crowd is by definition large and anonymous identifying these differences is difficult it is therefore a limitation that the investigation into the investors might not be correct due to these limitations as instead of a diversified group the analysis will be based on them being a uniform group that regards signals of trust equally. Finally even though Kickstarter.com was readily available to provide answers to questions in the early stage of the thesis they declined to participate in a more structured interview. The same was the case with the entrepreneurial case organisation as they lacked the time and resources to commit to an research interview this lack of access to the case organisations could have provided some valuable insights into the more specific reasoning's behind their behaviour, however as trust and trustworthiness is communicated unconsciously it most likely wouldn't have provided a better understanding of the unconscious social cues that is communicated in a crowdfunding relationship, but it still would have been preferable to have the direct insight of the crowdfunding participants.

## 6. Literature Review

As crowdfunding is a fairly new phenomenon little previous research has been conducted into the various facets of crowdfunding. In general the research that have been done has been split into four areas first the investor behaviour and how investors and consumers chooses between a number of services and products the second research area have been how crowdfunding makes the marketplace more democratic and shapes value creation the third topic is research made into the legal/judiciary rules regarding, especially the equity and debt types, crowdfunding that doesn't fit into the current rules of stocks and corporate bonds. The final generalised topic area comes from the service marketing area where it is explored how creators can benefit from crowdfunding in the form of not only funding but also information from the market and marketing from a involved and enthusiastic investor base. Some of the findings from these research streams have been made by Kappel (2008) who investigated the differences in the type of crowdfunding and the effect of having a product ready once payment is made or if the investment is made as a beginning to create something in the future second Bradford (2012) made a study into the legal ramifications of crowdfunding and the security laws and finally BELLEFLAMME, LAMBERT & SCHWIENBACHER (2011) made a investigation into how crowdfunding could be used as a price discrimination model and how crowdfunding could be viewed as a form of pre-ordering which was further supported by Gerber, Hui (2013) who described how many investors describes their transaction as “buying” and “getting” which suggest that crowdfunding shares some elements with consumer experience. BELLEFLAMME, LAMBERT & SCHWIENBACHER (2011) also found that for crowdfunding to be a viable alternative to traditional forms of funding there needs to be a trustworthy online community, it is upon their findings that this thesis seeks to build and develop new findings as to how this trustworthy online community can be achieved. In order to investigate this facet of crowdfunding it is necessary to broaden the scope to other research areas where valuable insights might be found.

### 6.1. Crowdsourcing

One area that can shed light on crowdfunding is the literature on crowdsourcing and open sourcing for instance the research made by Lakhani & von Hippel (2003) in open sourcing and the research made by Kleemann, Voß & Rieder (2008) in crowdsourcing illustrates that both these areas shares some features with crowdfunding. In an Open source setting the production and development of a

good is distributed to potentially many people by giving access and the sharing of the source material amongst these open source participants (O'Mahony 2003), as opposed to crowdsourcing where a specific task is outsourced, by an open call, to a large undefined group of people (Howe 2009). This is done in order to obtain input from a large group from various backgrounds and fields. One distinction between open sourcing and crowdsourcing is that in the case of open sourcing the end product will be freely available to everyone, and in the case of crowdsourcing the end product will belong to a company, in the case of crowdfunding the distinction becomes more evident as capital cannot be shared. In both open sourcing and crowdsourcing a crowd of people contribute to some aspect of the production, design or fixing of another problem related to the development of the product. In a crowdsourcing context the motivation for participating is often a direct compensation, learning, self-promotion and social benefits (Leimeister et al. 2009). Furthermore even though the direct compensation were often the best motivational driver for participating in a crowdsourcing project also more intrinsic motivational properties were important, such as enjoying the challenge of problem solving or having free time (Lakhani et al. 2007). This correlates fine with Lakhani, Jeppesen (2007) who found no significant correlation between the size of price money and the success of the problem being solved. In the case of Open sourcing Raymond (2001) found that there were three basic motives for participating in open source software development first the participants themselves can use the software they develop, second they enjoy the work itself and third they gain a higher reputation among their peers. In the case of crowdfunding the crowd is required to not only contribute knowledge and effort but also provide a promotional and investment role in support of the crowdfunding campaign, so even though crowdfunding, open sourcing and crowdsourcing shares some similarities in relying on the crowd to provide valuable resources. However the motivational role in crowdfunding is likely to be driven by other types of motivations, as it require a different set of input than both open sourcing and crowdsourcing.

Another stream of literature that can be distantly related to crowdfunding is the literature on threshold public goods for instance by Cadsby, Maynes (1999) in threshold public goods the good can only be created after a sufficient amount of contribution is reached. In relation to crowdfunding a creator also needs to collect funds before producing his or hers good, the difference stems from the product being private rather than public and in the case of public goods there's the possibility of free riding, which is not present in a crowdfunding relationship as the end result, generally speaking, will be private rather than public.

## 6.2. Motivation

In order to investigate the investors motivation for participating in a crowdfunding campaign one could explore the research on psychology and consumer behaviour. As mentioned earlier BELLEFLAMME, LAMBERT & SCHWIENBACHER (2011) explains that crowdfunding can be seen as a form of pre-ordering model of consumer behaviour and way of using price discrimination. By using crowdfunding a creator can identify the users who are willing to pay a higher price for the product than other users thereby allowing the creator to reap more of the consumer surplus. The decision to participate in crowdfunding can thus be seen as the investors placing a higher value upon the reward offered than other users would. However BELLEFLAMME, LAMBERT & SCHWIENBACHER (2011) also found that in order to attract and identify these investors/users that are more willing to pay they must be presented with a sort of “*Community experience*” that creates value for the investors. Building on the notion of crowdfunding being a model for pre ordering and the need of an online community other sides of research must be investigated, first what motivates people to participate in an online community and second what motivates people to buy the product offered. In order to create an online community it is necessary to motivate people to participate. Wang & Fesenmaier (2003) categorize motivations into five main categories instrumental, efficacy, quality assurance, status and expectancy. The instrumental motivation describes the need to use the community for something; it must have a function, like finding friends on Facebook. An example of the efficacy motivation is to satisfy the needs of others, like providing help on an internet forum, the notion of quality assurance is the motivation to control products or service quality and so on, by being able to for instance rate other users input the user gets a feeling of importance, the status motivational factor is that of gaining prestige and status in the community and lastly expectancy is the motivational factor that stems from the seeking of future exchange from others in the community. In a crowdfunding relationship it is not only necessary to get people to participate in the online community they must also be motivated to invest in the crowdfunding campaign. Research into the psychology of giving describes some of the motivation as sympathy and empathy (Rick, Cryder & Loewenstein 2008), Happiness (LIU, AAKER 2008) and the identity of the giver (Aaker, Akutsu 2009). Furthermore research into why people choose to buy for instance by Puccinelli et al. (2009) suggests that goals, preconceived ideas, information processing, memory, involvement, attitudes, affective processing, atmospherics and consumer attributions and choices are the key elements of consumer behaviour and the decision process.

Since crowdfunding is also a form of investment into, typically, a start-up company another strand of research that could help explain the emergence of crowdfunding is the research on why people choose to invest. As crowdfunding doesn't provide a financial return, other types of investors than the typical formal investor must be explored. One such type of investor is the Business angel. The typical business angel is described as a high net-worth individual who are willing to invest a portion of their assets in high-risk, high-return ventures and typically prefer investing in early stage start-up companies (Freear, Sohl & Wetzel 1994). This informal investor types differentiate from their formal investor counterparts such as venture capital firms by not only being motivated by the return on investment but also by the satisfaction and enjoyment from playing a role in the entrepreneurial process, being emotionally involved and in some cases selflessness (Mason & Harrison 2002, Van Osnabrugge & Robinson 2000 & Wetzel 1981). Even though crowdfunding campaigns rely on small investments from a large crowd still some similarities between the motivations for crowdfunding investors and business angels can be identified. The enjoyment of being part of the entrepreneurial process and the emotional involvement and selflessness seems to fit perfectly into the motivation for participating in a virtual community and furthermore as the groups of potential participants are much larger than usual and, thus, the cost and associated risk per investor is significantly lower than that in a traditional funded project (Ordanini 2009). The crowdfunding investor could be viewed as form of business angel with a much lower investment level. Thus both a combination of why people participate in the online community and what motivates people to buy or invest in a crowdfunding campaign can help provide insights into the crowdfunding world.

A facet of psychology that can identify what crowdfunding creators and platforms must seek to eliminate the effect of is the social psychology theory of the bystander effect. The bystander effect demonstrates that an individual's likelihood of helping decreases in the actual or perceived presence of others (DARLEY & LATANE 1968, Latané & Darley 1970, Garcia et al. 2002). Latané, Nida (1981) and Fischer et al. (2011) argues that the bystander effect can be observed in many different situations both emergencies and non-emergencies. Furthermore it has also been observed with donation behaviour (Wiesenthal, Austrom & Silverman 1983). For instance Latané, Darley (1970) identify three motivations for the occurrence of bystander effect. First is the diffusion of responsibility, where people refuse to help as it is assumed that others will help instead. Second is the social influence where people regard the actions of others and determine whether help is necessary and third is audience inhibition where people are afraid of misinterpreting the situation

and taking the wrong action thereby risking the ridicule of the community. In a crowdfunding context the investors are usually anonymous and the projects are pretty clear in what action to take (invest money) thus audience inhibition are not as relevant as the diffusion of responsibility and social influence. If a potential backer sees a project with a lot of time left to collect funding he can be less likely to invest as it is perceived that others will do so second by regarding whether others have invested in a project, a potential investor can use that information to judge that if the project has few investors an investor might be inclined to decide not to invest as project quality is judged low by others and thus not warrants the help of the investor. Extending this into studies related to virtual communities Barron, Yechiam (2002) found that emails send to a large group of people reduces the willingness to help as opposed to emails send to one person at a time, also studies made by Markey (2000) into how fast help were received in online chat groups and the research made by Voelpel, Eckhoff & Förster (2008) found that the likelihood and quality of responding to help request was significantly related to group size; small groups are more likely to help when compared to larger groups. It thus seems evident that the bystander effect can also be found in virtual communities. In the case of crowdfunding however Kuppuswamy & Bayus (2013) found that the bystander effect becomes less negative in the later stage of a crowdfunding campaign, as the funding goal was reached. Thus crowdfunding platforms and creators must be aware of this psychological effect on their possible investors.

### **6.3. Entrepreneurial finance**

Another area that can help shed light on crowdfunding is the literature on entrepreneurial finance. A lot of research have been made into the financing methods for start-up companies for instance by Cosh, Cumming & Hughes (2009) who investigated a broad range of finance alternatives, however none of these alternatives considers the crowd as possible alternative for financing. One stream of literature that does look toward the crowd for investment opportunity is donations to charitable organization among others Lee & Chang (2007) and Hibbert & Horne (1996) who investigates the motivation for the crowd to donate and the research mentioned earlier by Rick, Cryder & Loewenstein (2008), LIU & AAKER (2008), Aaker & Akutsu (2009) into why people are willing to give. Another source of literature comes from micro financing for instance Morduch & Rutherford (2003) shows the role of the crowd in the financing of small projects in developing countries. However both of these streams only seeks to explore the motivations for participating in what can



be considered as charitable donations with little to no focus on the tangible return from the investment. Thus these streams of literature cannot in itself help explain crowdfunding initiatives where there is an expectancy of receiving some form of reimbursement from the investment, as highlighted by BELLEFLAMME, LAMBERT & SCHWIENBACHER (2011) who described crowdfunding as a form of pre-ordering, thus it could seem that to understand crowdfunding one must look towards finding both from theories on financing and buying experiences.

#### 6.4. Network Organizations

Regarding the platforms role in crowdfunding one stream of literature that can provide some insights is the literature on network organizations. For instance literature on modularity by Baldwin & Clark (1997) discuss firms organizing their activities through dispersed networks where some participants act as coordinators of the networks without playing a direct role in the specific activities. This leader role can be compared to the role of crowdfunding platform that have to bring both creators and investors together and coordinate their behaviour. One problem with the view of modularity and crowdfunding is that modularity is used to coordinate the production of one good by splitting it up into various smaller independent parts that can be combined to create a complete product (Baldwin, Clark 1997). But in crowdfunding this can't take place, as the transaction is heavily depended on direct interaction between investors and entrepreneurs. Instead in order to analyse the network effects of crowdfunding one could view the theories on social organisations, which deals with organisations that is build around the formation of a social group such as social media sites. These types of organisations have a lot of similarities with the crowdfunding platform as they to have to develop a network that can coordinate the interaction between various participants. Thus the findings on social organisations can provide valuable insights into how the crowdfunding platform can make sure that crowdfunding can function in an online marketplace. One stream of literature on social organisations comes from Kraut et al. (2012) who argues that in order to develop a functioning social organisation it is necessary for the network creator to develop ways of attracting, maintaining and motivating participants furthermore he must also be able to regulate behaviour in such a fashion that misbehaviour is punished or avoided altogether, but Kraut et al. (2012) also identifies that doing so is difficult especially when the organisation only exist in a virtual setting.

## 6.5. Governance and trust

The emergence of crowdfunding has as mentioned before resulted in a stream of research into how to legally handle these new forms of finance that are not controlled by current institutional rules, for instance the research made by Bradford (2012) have highlighted the needs for a response in these governing institutions. This is especially true for debt and equity forms of crowdfunding, as these require the approval of the local security exchange commission to be considered legal. However the discussion regarding the legal issues have also spurred another view namely that it becomes a trade-off between securing the rights of investors and making it too costly and difficult for creators to participate in a crowdfunding arrangement (Heminway, Hoffman 2010). On the other hand these legal issues do not pertain to the reward-based and donation types of crowdfunding as these are not involved in the trade of securities, as investors in these arrangements are offered nothing or a “consumption item” in return rather than financial return (Bradford 2012). However as illustrated by Kappel (2008) and the emergence of crowdfunding, especially the reward-based type, it is possible to successfully attain funding without offering a financial return. As this thesis only seeks to explore the reward-based type of crowdfunding it must be mentioned that this type of crowdfunding are upheld to some legal constraints for instance no selling of drugs or weapons and such. But in general there are little legal action a backer can take against a fraudulent creator, this is because as investors mostly invest very small amount they are in turn offered very little investor protection, and the small investment amounts also means that an investor have little incentive to intervene (BELLEFLAMME, LAMBERT & SCHWIENBACHER 2011). This can lead to corporate governance issues, as moral hazard becomes an issue as creators have no formalised control schemes that force them to behave appropriate after the funding period or they might simply take the money and run. Therefore, trust building is an essential ingredient for any successful crowdfunding initiative (BELLEFLAMME, LAMBERT & SCHWIENBACHER 2011).

Another reason for investigating trust creation in crowdfunding can be seen as trust is a common basis for monetary transactions (Gefen 2000), and that trust, in various business relations, described as being an important component as trust helps minimize transaction costs and can be the necessary facilitator that allows the transaction to take place. Trust can therefore increase the confidence in the relationship when normal control mechanisms of human interaction, in the form of hierarchy, legal framework and control are scarce (Kasper-Fuehrer, Ashkanasy 2001). Also trust reduces ambiguity and uncertainty in social perceptions, in such a way that a cooperative and

productive activity can take place (Jarvenpaa, Shaw & Staples 2004). Another illustration of the importance of trust in crowdfunding relationships comes from Gerber & Hui (2013) who describes how one investor described that he felt more comfortable with giving money to an unknown person if he had a feeling of trusting the unknown party. Trust is thus of vital importance in a crowdfunding relationship as it is a necessary facilitator of making sure a transaction can take place when there is a lack of normal control mechanisms are scarce.

In order to investigate how trust is build various literatures can be investigated for instance according to Locke (2001) there is two different views of how trust is build, 1. Trust is build by long term interaction, where trust is a product of assimilation where some people are more culturally inclined to trust people with similar cultural values, thus trust is a cultural artefact. 2. Trust is based on a cost-benefit analysis where a trusting behaviour can benefit the trustor and lead to repeat business, thus trust is seen as a rational decision. However in a crowdfunding relationship both of these types fall short as first, there is no long term interaction between creator and investor the decision to trust must be taken upfront second again there is most likely no chance of a repeat business opportunity thus the building of trust must come from other sources. As crowdfunding takes place in a virtual setting another source for how trustworthiness is signalled in this type of situation is for instance the research of Jarvenpaa & Leidner (1998) who found that there was four different types of signalling trust namely the initial-, deterrence-, knowledge- and identification-based trust. These four trust types were ways that trust could be signalled in different types of relationship, not only in physical face-to-face setting but also in virtual settings. This view was also supported by Saunders (2010) who argues that for trust to be developed there has to be some communication and signalling of trustworthiness on behalf of the trustee. Trust can however come from various sources For instance various rules, laws or other institutional mechanisms can to a certain degree help increase the trustworthiness of other parties because they result in the trustor knowing that something will happen to the trustee if he behaves opportunistic. Furthermore these institutional rules can help promote or encourage correct behaviour. Other sources of trust could be to have some form of proven professional ability, such as a pilot or doctor, or sharing of other personal information (Jarvenpaa & Leidner 1998), in a crowdfunding relationship this can be done by providing a lot of personal information by the creator, telling who he his and what his background is can help build trust and can be tested by looking at information that can be present on Facebook or other internet sources, this has so far been one way for Kickstarter.com to monitor

fraudulent campaigns by relying on the capabilities of potential investors in checking creators claims of trustworthiness. Other sources for building trust comes from relational rules where moral and social norms can help regulate behaviour of the trustee through punishment in the form of social exclusion and so forth. However in a crowdfunding setting it can be very difficult to communicate these norms, to create a common framework or execute a punishment. This view is also supported by Gibson & Manuel (2003) who found that the use of computer mediated communication is a challenge for trust building as this form of communication doesn't replicate the interpersonal interaction from face-to-face communication, and can hurt message understanding. Kasper-Fuehrer & Ashkanasy (2001) described this as computer mediated communication being limited in its capability of communicating nonverbal social cues that is necessary for the creation of trust. Therefore trust creation in crowdfunding relationships must come from depersonalised sources as they are communicated better in a virtual setting. Another view on how trust is build is that of the personal traits of the investors themselves, for instance some people are more willing to be trusting than others (Jarvenpaa, Shaw & Staples 2004). When this is considered in combination with Gerber & Hui (2013) who found that creators and investors seek a community of likeminded others. The building of trust could be partly a facet of the people who are attracted to crowdfunding relationships in the first place, being more inclined to be trustworthy and have a trusting personality. But the creation of trust can also come from more general sources such as the creator providing background information that proves his trustworthiness to potential supporters, and with the emergent of social networking and the Internet these types of claims can be easily tested.

Even though a crowdfunding relationship is very lightly governed the actual platform still plays a role in creating a trustworthy setting. For instance Saunders (2010) describes that in order to limit uncertainty and build trust, there also must be formulated a common business understanding and ethics. This can ensure an alignment of goals and set up rules and standards for interaction. Thereby limiting the uncertainty and increasing the trustworthiness of the other participants, which leads to a more trusting relationship. By so doing it creates a sort of in-group atmosphere within the virtual team thereby promoting trustworthy behaviour. It is thus evident that a platform have to perform this duty as little formalised control is established for the crowdfunding marketplace and thus the crowdfunding platform must perform this duty.

## 6.6. Service marketing

Another research area that can provide valuable insights into crowdfunding is the literature on service marketing. The service marketing literature are full of literature investigating the role of the customer in service provision (Zeithaml Valerie 1997, Murray 1991, Blazevic, Lievens 2008, Bitner et al. 1997) this is because in all service relationships there is always a degree of customer participation Dabholkar (1990) & Meuter et al. (2000), which may involve providing information to the service organization, or more direct involvement in the service provision itself (Ordanini 2009). The customer participation can lead to better efficiency and customization beneficial for the consumers but it also leads to a higher degree of uncertainty and gives the consumer part of the responsibility over the outcome (Bendapudi, Leone 2003). Furthermore with the idea of Service Dominant Logic Vargo, Lusch (2004) has introduced the notion that consumers should play a larger role in the service value network. In relation to crowdfunding it seems that for the creator there are some similarities, for instance crowdfunding does provide the creator with information about the market and does distribute some of the risk to the investor and further on behalf of the investor there is a large degree of uncertainty in the form of whether the product will actually be created/delivered and whether it will live up to his or hers initial expectation, and further integration of the consumer into the value network could conceivably also be in the field of providing financing to the creator and in certain cases also provide relevant input into the product.

Enhancing the role of the consumer to more of a involved counterpart can also be seen in the literature on lead user theory (von Hippel 1986) and open innovation (Chesbrough 2003) the literature on these two areas focus on the customer being involved earlier in the development face, rather than just waiting for them to buy the end product. The argument builds on the idea that certain users can anticipate needs before the rest of the market thereby allowing companies to capitalize on these users skills and knowledge if they can identify them (Von Hippel & Katz 2002) Identifying one lead user can be difficult and might not mean that the same user is able to anticipate needs earlier in future periods thus lead users are a scarce commodity with limited future value as other individuals or organizations move forward to close the gap. This shares some similarities with crowdfunding as the ability of crowdfunding investors to identify future needs is important in early stage start-up ventures and most likely a skill that banks or venture capital firms lacks. Furthermore by making an open call over the internet crowdfunding campaigns are probably better suited to find

these lead users that are difficult for other companies as their search and scouting for investors are more broadly communicated when compared to a company's market research.

Another stream of literature from marketing that relates to crowdfunding is the literature on brand community. This literature suggest that consumers that are deeply involved with a brand can develop "a common understanding of a shared identity" (Muniz Jr, O'guinn 2001:p.413) this notion was also investigated by Kappel (2008) who regarded the way Obama was able to raise campaign funds over the internet from a large crowd not only meant that he could raise money to fund his presidential campaign but also that he was able to mobilize his followers, their small investment made them deeply involved in the campaign. It is the same kind of connection that crowdfunding seeks to recreate as it relies on its investors to not only provide monetary funds but also to promote the campaign to their own network.

## **7. Part 1.**

### **7.1. The Crowdfunding relationship**

The following section will develop and discuss the problem statement more specific than what was set out to in the introduction. This section of the thesis will begin with an explanation of the parties involved in a crowdfunding relationship followed by a discussion of the position of crowdfunding in comparison with other forms of funding and third a discussion of the role of trust in crowdfunding relationships. Finally these chapters will be put together to provide a deeper explanation of the overall problem statement.

### **7.2. The relationship**

The aim of this chapter is to provide an explanation of the role of the different parties that are involved in a crowdfunding campaign and how these relate to one another. First off, as mentioned earlier in the thesis, crowdfunding can be done without the use of a specialised platform, but as driving traffic to ones own website, outside that which comes from friends and family, can be difficult it will typically be quite unfeasible for the large projects that are investigated in this thesis. As mentioned in the demarcation this thesis only studies the projects that are presented on Kickstarter.com. Thus the crowdfunding relationships discussed in this thesis requires an entrepreneur who has a project that needs funding, a crowd of investors who are willing to provide funding to the entrepreneur and a platform that can bring the two groups together and act as a facilitator of communication and transferring of funds between the two.

#### **7.2.1. The Entrepreneur**

The first group in the crowdfunding relationship is the entrepreneurs who have a project that needs funding. The entrepreneur is the main protagonist in the creation of a crowdfunding campaign, as he is the one that has an idea/product that needs funding and is thus the one that can take initiative to create a crowdfunding campaign. The entrepreneur is the one who is responsible for using the funds raised to develop and produce the specific product according to the campaign description. In return for the funds provided by the investors he is also solely responsible for the development and distribution of the rewards that he have offered to the investors. Finally the entrepreneur is also responsible for informing and communicating with the investors. The development of the end

product and distribution of rewards happens after the campaign period and thus is beyond the scope of this thesis.

During the campaign period however the entrepreneur will often use various sources of communication to promote his crowdfunding campaign, as this is the period where he will seek succeed in attaining funding for his idea. The communication can happen across various different media types, but typically the main communication will be through online media as by using these he will be able to communicate with a widely dispersed group of people. The type of media that is typically used are social media, such as Twitter and Facebook, internet blogs and news media that are willing to publish an interview with the entrepreneur and the entrepreneur can also use his own blog or webpage to promote his project, furthermore the entrepreneur can also choose to engage in more personal communication with potential investors, for instance through private mails, this last mentioned communication form however is difficult to accomplish with everyone, as investors often numbers in the thousands thus making private communication unfeasible. Finally he can use the campaigns own website, that is provided by the crowdfunding platform. Common for all these different media is that ideally the entrepreneur will seek to drive individuals toward his campaign website where the collection of investments take place Furthermore the campaign website is also the only place that the entrepreneur is guaranteed that all investors can see his communication as the investors might not be present at other media outlets but have to be signed up to the platforms website in order to be able to make an investment. As the goal of his communication and marketing strategy will be to ensure that his crowdfunding campaign succeed in attaining finance.

### **7.2.2. The platform**

The platform is a different entity than the entrepreneur and investors as it is not directly with a specific campaign but rather play a supporting role in the campaign. The platform thus acts more as a middleman than an active participant in the individual crowdfunding campaign.

Instead The platform provides five things, a place where entrepreneurs can communicate directly with all their investors, second the provide the entrepreneur access to a database of investors that have signed up to their platform and thus provide a base of willing investors and third they manage the transaction of funds from investors to entrepreneurs fourth they can choose to actively promote a specific campaign and finally if a project is thought to be fraudulent they can also close it down



and make sure that the money invested will not reach the fraudulent entrepreneur. The platform owner thus provides a wide range of supporting activities to both the investor and the entrepreneur. On behalf of the entrepreneur they provide a database of willing investors who have signed up to the website and by promoting it they can help drive investors toward the entrepreneurs campaign site. One way this promotion of a specific campaign is done by Kickstarter.com is to show a link to the campaign on their start page or highlighting it as a “*staff pick*”, thereby making it more visible to would-be investors. Also benefiting the entrepreneur is to provide the campaign website and having a database of willing investors as even though the internet has meant that it is easy and cheap to get in contact with people from across the world it is still time consuming if an entrepreneur had to communicate and find his investors at various places. Thus platforms provide a necessary environment for entrepreneurs (Agrawal, Catalini & Goldfarb 2011), as without this connection point the likeliness of success would rapidly decline.

With regards to the investor the platform also performs a valuable service. First off they provide the investors with a platform where the investors can find and invest in exciting campaigns. Second the platform also plays an important role in maintaining the little protection that investors are offered. Because even though the investors will have to do their own due diligence if an entrepreneur is found. During the collection time, to be fraudulent it is only the platform that can take appropriate action and close down the campaign and make sure that no funds are taken from the investors.

Finally the platform also have an interest in legitimizing the crowdfunding market, as their business plan requires successful transactions between entrepreneurs and investors as the little amount of investment protection offered to investors means that they are likely to disappear if they experience that the crowdfunding marketplace is not a serious space of providing funding to entrepreneurs. The main role of the platform is to create a trustworthy online social community where entrepreneurs can efficiently secure funding for their projects.

### **7.2.3. The investor**

The third participant in the relationship is the investor, whose primary role is to provide the capital necessary for the entrepreneur to develop his idea. As mentioned previously in this thesis one way to view the investors is to regard them as customers making a pre order of a product. This view can be supported by the fact that in crowdfunding campaigns investments returns will generally come in

the form of the end product or another type of reward. However there are some reasons why the crowdfunding investors can't only be regarded as customers. First off when pre ordering a product usually the customer will be protected by rules regarding the sales of goods. This protection is not applicable to crowdfunding as part of the risk regarding the crowdfunding relationship is that the product might not live up to expectations or can't be delivered within the promised time. Thus the crowdfunding investor will adopt much higher risk than a typical customer would. Furthermore the approach of the crowdfunding investor is that he isn't simply buying a product but rather that he is part of the development process and not simply a customer.

However as an investor in an entrepreneurial endeavour where there is little investor protection the investor have to conduct his own due diligence in order to decide upon which entrepreneurs to trust. This is important as the crowdfunding investor risk loose his investment once the campaign period ends. If the entrepreneur is incapable of developing the promised good and are not capable of repaying the investors or if the entrepreneur is fraudulent. However as the number of investors are large the process of valuating the trustworthiness of the entrepreneur can be said to be split between a lot of people and if one investor finds that the entrepreneur is incapable of delivering the promised goods he can communicate directly on the campaigns own website and if more serious can report the entrepreneur to the platform.

Thus while sharing some similarities with customers doing pre-ordering of a product, the crowdfunding investors are also exposed to a larger degree of risk and must therefore also conduct an evaluation of the trustworthiness of the entrepreneur, before deciding to commit to invest.

### **7.3. Crowdfundings role in financing world**

The aim of the following section is to discuss how crowdfunding fit into the world of financing and why crowdfunding has emerged as an alternative for entrepreneurs to obtain funding for carrying out there projects and why crowdfunding has been touted as leading the development of democratising the financing market.

There are some fallacies of relying on traditional sources of finance mainly resulting from constraints such as information asymmetries, transaction costs, well-defined markets, solid plans and track records (Hekman, Brussee 2013) which mean that at certain times traditional sources of finance might not be a possible source of cheap finance. One thing that is also often brought up in the discussion of crowdfunding is that the crowdfunding projects are inherently bad and would not

be able to get funding from traditional sources (Belleflamme, Lambert & Schwienbacher 2010), however as the total crowdfunding in 2012 is estimated to be around 2.7 billion \$ and that there has been an explosive growth in the capital raised (World Bank 2013), it seems that consumers value these projects and are willing to invest in bringing them to the market. Furthermore crowdfunding has been used to fund projects such as the Oculus rift, which in 2014 was bought by Facebook for \$2 billion (Bloomberg 2014). So crowdfunding campaigns are not necessarily projects with limited potential but rather valuable projects that for one reason or another have turned to crowdfunding to obtain funding. This is also supported by Howe (2009) who argued that the people involved in making corporate decisions might not be the people who are most able to grasp the potential of a product, as customers are most aware of what products they want. Instead of being projects of low quality Belleflamme, Lambert & Schwienbacher (2010) mentions that it is more the lack of value that can be pledged to investors and finding willing investors that is the reason behind crowdfunding being viewed as a viable alternative for entrepreneurs, especially in small business ventures.

Usually for a small business start-ups the easiest way to secure financing outside the traditional sources of banks and venture capitalist have been to rely on the three F's, being Friends, Family and Fools (Belleflamme, Lambert & Schwienbacher 2010). Highlighting that often potential investors will have to be found within the entrepreneurs immediate proximity, which is also the case for traditional sources of finance. Agrawal, Catalini & Goldfarb (2011) also found that investments made by venture capitalist were within a very close geographical proximity. Thus the development of crowdfunding has led to a broadening of the investor base from a limited amount of investors placed within the entrepreneurs close proximity to an investor base that is geographically very dispersed all over the world. It can also be argued that the emergence of crowdfunding has simply led to an increase in the "Fool" category meaning that crowdfunding simply has allowed to lure in more investors with limited understanding and knowledge of the risk involved in the business proposal. However crowdfunding also opens up for a new type of investors that can be considered lead-users that have specific knowledge of market wishes and possibilities and therefore, in certain situations, are better capable of grasping the potential of a product, than a venture capitalist, angel investor or banker.

Another result of the developing of crowdfunding is the democratising of investment, meaning that traditionally the investment decision has been spread between a, comparatively, small number of

sophisticated investors, as with crowdfunding every individual with an internet connection and disposable income can be considered a possible investor. The benefit of democratising the funding process is that it allows for the development of products and services that live up to the customer needs that are otherwise neglected by the market place (Howe 2009), and by having lead-users engage at the very start-up of projects it is likewise likely that these product needs can be identified and serviced faster and more efficiently. This also provides a solution to another general problem of entrepreneurial finance; typically an innovative entrepreneur can also have difficulty in attracting investors due to him overvaluing his product or investors undervaluing it (Gourville 2005). This has been called the curse of innovation and means that due to the innovative nature of his product estimating the correct value of the innovation can be difficult and lead to a valuable project not being developed. By giving more people the chance to evaluate the innovation, it is more likely that investors with the necessary market knowledge can judge the value of the project. This way making it more likely that a valuable innovation will be financed. This however does not mean that every type of product can be developed outside of the traditional ways. Sophisticated investors and companies are still able to develop products outside the imagination of consumers, when there is a lack of enough lead-users to see the potential or when product development can only take place as part of a larger network of knowledge (von Hippel 1986). Instead crowdfunding can have a complementary role of providing the market with ideas and knowledge of the direction of consumer preferences (Belleflamme, Lambert & Schwienbacher 2010). Furthermore by including future users into the funding process entrepreneurs are also capable of reaping the benefit of the overall trend of value creation moving away from a product- and firm-centric view and toward a more personalised consumer experience (Prahalad, Ramaswamy 2004). By doing so entrepreneurs are able to provide consumers with extra value as opposed to the traditional way of developing products leading to a higher degree of loyalty.

Crowdfunding has made it possible to identify large crowds of capable investors from a much more dispersed group of investors, furthermore crowdfunding has the potential to develop the market for funding into a much more democratic setting, where customers to a much larger degree can pick and choose between the projects that they think will service them best.

It thus seems that crowdfunding not necessarily deals with projects that are inherently uninteresting for investors but rather deals with projects that for one reason or another are unable to provide sufficient returns to entice investors or projects where entrepreneurs are unable to find and persuade

investors that are willing to invest in a project from the traditional sources. Crowdfunding is capable of providing solutions to both these problems by first giving entrepreneurs the possibility to provide a different and smaller return and second enables the entrepreneur to get in contact with possible investors from a broader scope than traditionally. The following section will based on these findings discuss some of the direct benefits that also arises from a crowdfunding relationship when compared to the sophisticated investors.

By dispersing the funding process away from the sophisticated investors the entrepreneur does loose certain benefits, among others, access to their skillset and the benefit of having a small number of investors whom he has to convince of the viability of his idea. On the other hand however there are also costs associated with having to pay back a loan with interest, providing security for the loan and or loosing part of the control over the product development and having to share future profits with investors. With crowdfunding however the entrepreneur doesn't have to pay back a loan or share the future profits with his investors, instead he can remain in complete control of the product development. At the same by relying on crowdfunding the entrepreneur can also have access to some of the same knowledge and skills that he would have with the sophisticated investor. This is the case, as investors will often provide more than just the financial resources in crowdfunding. Often investors will also provide, among other things, market knowledge and ideas such as input to product design and marketing (BELLEFLAMME, LAMBERT & SCHWIENBACHER 2011). Thus part of what the sophisticated investor can provide in the form of market knowledge and ideas to product design the entrepreneur can likewise attain from his investors in a crowdfunding campaign. For instance in an interview the CEO of Kickstarter.com commented that *"we're used to this industrial creative complex of movie studios, record labels and production houses. It wasn't always that way. This is relatively recent in human history.... any dent we can put into the machine we're happy to do. I think we're already seeing it. A lot of these things that are getting funded would not have been funded in any way."* (Malik 2012) Demonstrating that not only can crowdfunding provide funding to projects that otherwise wouldn't be funded but also that entrepreneurs can cope without relying on the typical business structures and still be successful. However crowdfunding doesn't always have to be the only source of finance; often time it can be used in cooperation with the sophisticated investors. By combining the two forms of funding an entrepreneur cannot only benefit on the knowledge and skillset of the

sophisticated investors but also prove the projects true value by demonstrating that the crowd finds his project interesting and take advantage of the special knowledge that lies within the crowd.

Furthermore as mentioned above value creation is moving toward a more personalised and complete consumer experience, this way of getting hold of the crowd can become increasingly valuable as people who are financially and emotionally engaged in a product are much less likely to change to a competitors product and are likewise more likely to promote the product on social media and other such platforms (Howe 2009). Meaning that having a crowd of enthusiastic backers can provide a competitive advantage that is difficult to replicate by competitors who relies on the support of traditional firm centric views of product development. Hence not only can crowdfunding provide cheap funding and unique knowledge to a project that otherwise would have difficult in getting financed, it can likewise give the entrepreneur a change to remain in control of product development and give him a valuable source of promotional resources.

The special construct of crowdfunding where investors doesn't have any influence on the development process some challenges to the viability of crowdfunding arises when comparing this to funding from traditional sources. When relying on financing from the sophisticated investors, the entrepreneur will typical receive more than just the financial backing but will also be able to draw on the expertise and network of the sophisticated investor (Hekman, Brussee 2013). Often the number of sophisticated investors for a typical start-up company will also be small in numbers thus allowing the entrepreneur to have a tight relationship with his investors and can communicate directly with these. Thus sophisticated investors are much closer in the day-to-day running of things when providing funding to early stage start-up. This is also the case when the entrepreneur chooses to rely on the 3 F's for funding, as these will likely already be part of the entrepreneurs' life. By having this closer relationship the entrepreneur is thus capable of developing a trusting relationship with his investors, as the whole endeavour will be based on a continuous relationship. Likewise the investors will be protected by the fact that they are capable of conducting close monitoring of the entrepreneurs behaviour and will typically have a strong knowledge of the field they are investing in. However when dealing with crowdfunding these mechanisms is not present as typically investors will be geographically dispersed, have no extensive knowledge about the business as a whole and finally the individual crowdfunding investor doesn't have the same direct access to the entrepreneur as instead of having to deal with a few sophisticated investors the crowdfunding entrepreneur will often have thousands of investors with different anticipation and information

needs. On the other hand the development of the web 2.0 and social networking has also made it possible for investors to a large extent to gather information and, to a certain extent, monitor the entrepreneur across large distances thus to a certain extent mitigating the effect of distance specific cost (Agrawal, Catalini & Goldfarb 2011).

In this way crowdfunding can be a viable alternative to traditional forms of funding as it not only can provide funding to projects that otherwise have difficulty in achieving funding but can also provide valuable resources to the crowdfunding campaign. This development has to large extent been driven by the development of the web 2.0 that has made it possible for entrepreneurs to connect with possible investors from all over the world. That crowdfunding is a viable source of funding for entrepreneurs is also demonstrated by the estimates provided by the World Bank (2013) that the total crowdfunding market will have grown to 96 billion \$ in 2025 which is 1.8 times higher than the level of funding invested by venture capital funds in 2012. Even though these estimates of the future crowdfunding market obviously are tainted with risks it still shows that crowdfunding has the potential to become a large player in the future.

#### **7.4. Trust in crowdfunding relationships**

This chapter will seek to explore the role and importance of trust in a crowdfunding relationship, and how trust can be build. This will be done in order to further explore how the development and signalling of trust is important to the crowdfunding transaction.

In order to understand what role trust plays in a crowdfunding relationship, it must initially be explained what is meant by trust, as trust can be viewed from many different angles. For instance Locke (2001) identifies two ways of regarding trust, first as a personal, trait some people are inherently trustworthy, or second that the notion of trust is situational and/or relational and something that develops in a specific context. Then trust is regarded as highly depended upon the situation as the behaviour of others can be deemed trustworthy by one individual that has one type of relationship with the other party but at the same time this behaviour can be deemed untrustworthy by another who lacks the same understanding and relationship with the other party. This view fits with the notion that economic relationships are very context specific and have to be regarded from this view in order to be able to understand how they are developed while at the same time accepting that the findings could be different under different circumstances. Therefore this

thesis will adopt the view that trust is build or present in a specific context as it seeks to explain how trust is established in the specific economic transaction of crowdfunding.

Having identified trust as relational construct that is dependent on a specific context it must then be explained what trust actually means. One way to view trust is to understand it as an individual-level construct that can be defined as an individual's willingness to be vulnerable to the actions of another person (Robert, Denis & HuNg 2009), this understanding highlights the vulnerability part of trust, which an individual has to have something that he can loose. He must be willing to take on some risk. This view is also adopted by Barney & Hansen (1994) that reports, "*trust is the mutual confidence that one's vulnerability will not be exploited in an exchange*". Again it shall be highlighted that trust is only present once one is vulnerable to being exploited by the action of another party. These definitions however also highlight that for this vulnerability to be present the transaction must not be adequately governed by other forms of control and governance structures, as the presence of these will mean that an individual doesn't bear the same amount of risk and uncertainty that would leave him vulnerable to the behaviour of others. Furthermore the definition presented above by Barney & Hansen (1994) also shows that trust is depended on the specific transaction and that the vulnerability can change from case to case and between different individuals thus agreeing with the view that trust is situational and relational and can change depending on the context in which trust is analysed. In essence trust is thus the willingness to being exposed, of being taken advantage of, by others above what is supported by the governance mechanism in place.

Having set the foundation for what trust is, it can then be discussed whether or not trust plays an important role in a crowdfunding relationship. As previously explained the only security that investors are given in return for their investment is whether the entrepreneur is trustworthy. The investors are thus highly vulnerable to the behaviour of the entrepreneur and can make the campaign fail if the entrepreneur is not deemed trustworthy by the investor base, as they will be unwilling to expose themselves to this risk. Furthermore trust has been identified as playing an important role in any kind internet relationship for instance Wang & Emurian (2005) found that one of the biggest barriers that has repeatedly been identified to obstruct people from engaging in e-commerce and the transactions of financial and personal information is the lack of trust. This finding is also supported by the findings of Robert, Denis & HuNg (2009) who found that trust is a necessity in an individual's justification process when deciding whether or not to contribute to a



virtual relationship. Trust is therefore of huge importance when dealing with internet transactions such as crowdfunding as it is even more risky than typical e-commerce that is typically, to some extent, governed by laws such as credit card protection. Trust is also important due to the nature of the relationship between the entrepreneur and the investors as crowdfunding investors rarely have a pre-existing relationship to the crowdfunding entrepreneur (World Bank 2013), meaning that not only does the entrepreneur offer little investor protection but there is also no former relationship upon which to base the transaction. Also the lack of governance structures means that investors will have to rely on much more informal trust evaluations. It is therefore of great importance to the entrepreneur that he is capable of creating a trusting relationship with his investor base.

Having discussed the type and trust and its importance the following section will discuss whether trust can be built in a crowdfunding relationship, that only exists in a virtual setting. The typical way of viewing the building of trust is that trust is positive outcomes of repeated behaviour and gradually develops over time (Robert, Denis & HuNg 2009), meaning that trust is built through repeating interaction between one another leading to over time a decline in the importance of formal governance structures. In the case of crowdfunding this view should predict that the level of trust is very low and creating trust is difficult, typically, there are no repeated business between the entrepreneur and his investors. However both Jarvenpaa & Leidner (1998) & Jarvenpaa, Knoll & Leidner (1998) has observed high level of initial trust among members in virtual teams and this initial trust has also been found in crowdfunding relationships (World Bank 2013). Thus it is possible for an entrepreneur and the crowdfunding platform to provide some form of initial trust building

### **7.5. The importance of creating a trustworthy environment**

Putting it all together it is therefore very important for the entrepreneur and platforms to be able to create a trustworthy environment in which investors feel safe to invest in as the investors are left with little protection. They must be made to trust the entrepreneur if they are to be willing to invest. Even though crowdfunding can be a viable alternative for entrepreneurs to raise funds instead of relying on the sophisticated investors there is an imperative need for the developing a trustworthy environment and for the entrepreneur to be capable of communicating his trustworthiness in a different manner than what is typically viewed as the way trust is created in a normal relationship as his trust level is judged in a virtual setting without the possibility of direct communication between

investors and the entrepreneur. Therefore the role for entrepreneurs and platform owners is consequently that in order for crowdfunding to take place they must be able to understand how a trusting environment is developed in the crowdfunding context in order for them to be capable of adopting measures that can make crowdfunding a viable source of funding for entrepreneurs.

## 8. Part 2

### 8.1. Crowdfunding history

Crowdfunding has been taking place in a variety of forms for a long time. For instance by charities or NGO where a community has come together for example to provide funding for humanitarian aid to a third world country or in the political environment, where politicians have relied on the financial backing from their supporters (Kappel 2008). However traditionally this form of collecting funds has been a cumbersome process requiring to have people going door to door to collect funds, thus limiting the size of the crowd to depend on the number of the volunteers one could amass to be willing to go door to door in order to support the cause. This obviously limits the scope and area one can exploit for potential backers. However with the emergence and development of the web 2.0 this process has become far easier as one can now connect directly with a large part of the world quickly at a low cost. This development has opened up the market for financing of entrepreneurial ventures to not only being open to what Belleflamme, Lambert & Schwienbacher (2010) calls a small group of sophisticated investors, but rather it is now open to a broader spectrum of investors which have led to a democratisation of the access to capital (Kim & Hann 2013). The emergence of the web 2.0 has meant that entrepreneurs no longer needs to rely on financing from sophisticated investors but rather can replicate the funding process of a charitable organisation or NGO, without having to rely on volunteers to do the foot work. By using the crowdfunding platforms and social media entrepreneurs have gained a direct communication line with potential investors all over the world, be it whether they seek to develop a new type of technology or a local event.

The first of what is considered the modern crowdfunding initiatives where made in the music industry (Kappel 2008), as the music industry suffered a lot from the emergence of illegal downloading and thus caused the traditional music studios to focus on popular artist thus new or non-popular artist where left to find new forms of funding for their next album, creating a new type of business that delivered a platform for bands to get in contact with their fans to attract help to fund their next album. Another benefit of this type of crowdfunding was also that the bands were able to maintain creative control over the end product instead of having to adapt to a studios commercial wishes (Kappel 2008). Crowdfunding was therefore a way of not only securing funding but also to retain control of the project. Later on this phenomena have developed further as financial unrest meant that it became more difficult to attract external funding from the traditional sources (Kim &

Hann 2013). In this situation crowdfunding became a viable alternative as it not only gave access to cheap financing but also meant that control could remain with the entrepreneur.

The development and possibilities of crowdfunding have led to an explosion in the number of platforms that offer crowdfunding services to entrepreneurs as well as the amount of money collected this way. For instance Massolution (2013) has registered 452 crowdfunding platforms that together raised 2.7 billion \$ in 2012 up from 1.5 billion in 2011 furthermore the World Bank (2013) estimates that the market will have grown to 96 billion \$ in 2025 across all types of crowdfunding. Crowdfunding has thus grown significantly over the past years and is estimated to continue to do so in the coming years and has the potential to become an alternative source of funding for ventures that would otherwise have difficulty in being financed or for other reasons do not wish to be financed by the traditional sources.

## **8.2. Data**

### **8.2.1. Crowdfunding cases**

In order to identify the possible cases that fulfil the criteria's developed previously in the methodology chapter the criteria was applied to the webpage [www.kickspy.com](http://www.kickspy.com), which is a webpage not affiliated with Kickstarter.com, that allows one to search for all campaigns on Kickstarter.com and filter them according to various criteria. This resulted in a search of all successful projects in Comics, Design (Product Design), Film & Video, Food, Games, Photography, Publishing and Technology that was funded at least 100%, with a goal of at least 100,000 and that ended before 2013/12/31. This resulted in a list of 362 eligible projects being identified; a full list of eligible cases can be seen in appendix 1.

Based on this full population of eligible projects one case was, according to the judgmental sampling process, chosen to be the basis for the case study. The chosen campaign was Wasteland 2 a campaign that sought to fund the development of a computer game. Wasteland 2 was chosen due to some specific properties, first of the entrepreneur behind the campaign, Brian Fargo, has been active in the promotion of his campaign throughout a lot of different media outlets. Second Wasteland 2 was a follow-up to the first Wasteland game, which was released in 1988 and created the very popular spinoff game series Fallout that came out as 4 different games between 1997 and

2010. Thus it seemed logical that the game was not necessarily a bad project as it had already proven its capability, and that the team behind the game had a previously proven record of success. Finally in a lot of news articles Wasteland 2 has been mentioned as one of the most important reasons for the emergence of reward based crowdfunding, as the entrepreneur behind the campaign had previously been very successful in the game development and thus it seemed strange that he chose crowdfunding to fund his next development.

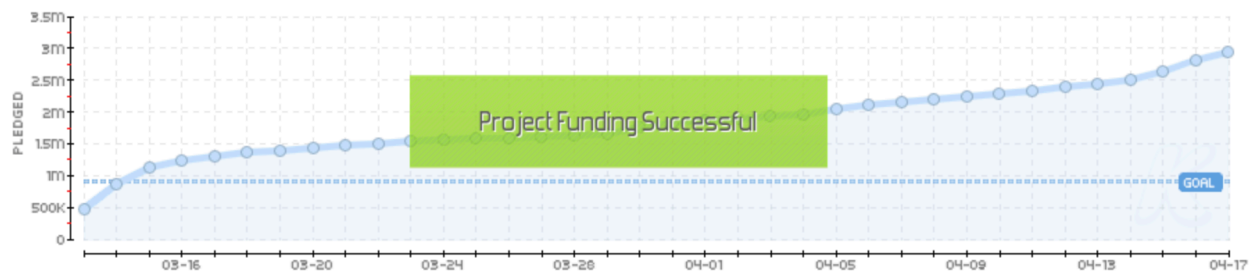
#### **8.2.1.1. Wasteland 2**

Wasteland 2 is a computer game that takes place in a post apocalyptic world and is the follow up to the computer game Wasteland that came out in 1988. The rights to the Wasteland franchise was brought in 2003 by the company InXile entertainment that is owned by, one of the creators of the original Wasteland game, Brian Fargo. The campaign site for Wasteland 2 can be seen at <https://www.kickstarter.com/projects/inxile/wasteland-2>. Even though the development is done by a larger team of developers the main figure head for the campaign is Brian Fargo, who have been involved in the production of a lot of different successful games (Strategy Informer 2014) , and as such is a well known personality in the gaming industry.

The campaign went live/public on march 13, 2012 and ended on April 17, 2012 the game was to have a minimum budget of 1 million \$ but Brian Fargo promising to invest up to 100,000 \$ if the project would fail to collect the full million, thus the minimum funding goal was 900,000 \$. However on the 17<sup>th</sup> of April wasteland 2 had managed to receive little over 2.9 million \$ from 61,290 different investors, giving an average donation of 47.86 \$. The full funding process can be seen in Figure 4 Chart of funding process and Daily chart of number of investors and size of investments these figures shows that the project was fully funded after just 2 days.

## Funding Progress: Wasteland 2

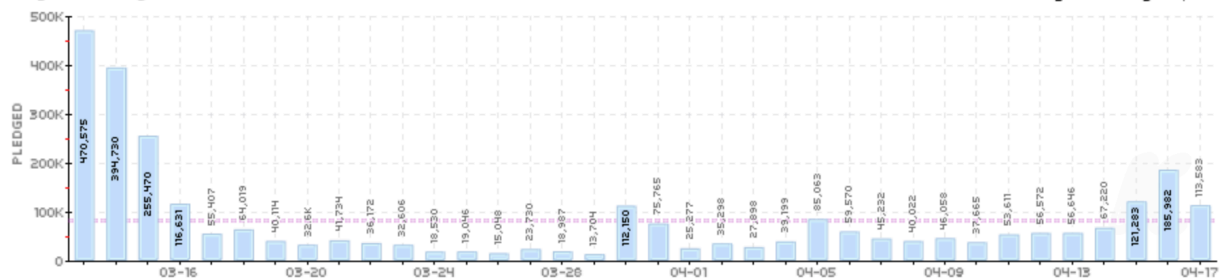
Closed at: 2,933,197 / 900k (325%)



(c) 2013 Kicktraq. Additional content provided by Kickstarter Inc. and InXile Entertainment. Trademarks and related content are owned by their respective companies. Shared under the creative commons (CC BY-NC 3.0) license. Read more about sharing this image at [www.kicktraq.com/projects/inxile/wasteland-2/#sharing](http://www.kicktraq.com/projects/inxile/wasteland-2/#sharing)

## Pledges Per Day: Wasteland 2

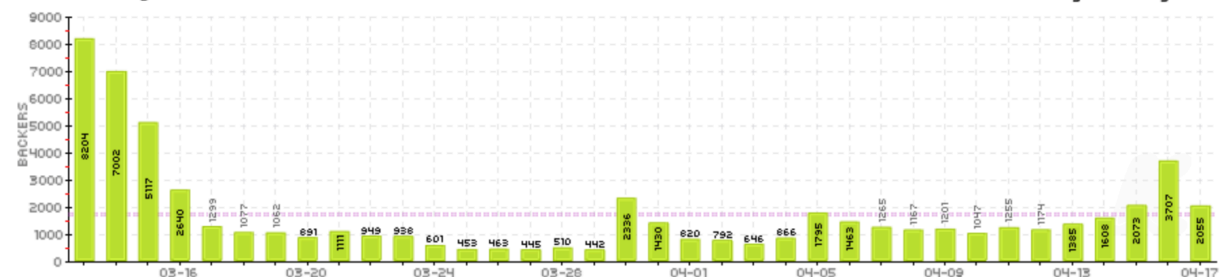
Average Per Day: 81,478



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## Backers Per Day: Wasteland 2

Average Per Day: 1702



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Figure 4 Chart of funding process and Daily chart of number of investors and size of investments

Source: <https://www.kicktraq.com/projects/inxile/wasteland-2/> & <https://www.kicktraq.com/projects/inxile/wasteland-2/#chart-daily>

### 8.2.1.1.1. The campaign site

The Wasteland 2 campaign site, like most campaigns on Kickstarter.com, have a central video, that act as the main item for providing investors with relevant information about the campaign and at the right side is a window that shows the current number of backers, the money pledged and the time left of the campaign period. Below this fact box is the biography of the entrepreneur, with a contact

form, a history of the entrepreneurs previous project and the projects he himself have been willing to invest in, a link to their own webpage and Facebook connection. Next follow a text compartment where the entrepreneur can write more about his project the risks and challenges and what the entrepreneur would do if his project becomes overfunded. Next to this is the list of rewards offered to the investors at various levels of investments. In the case of Wasteland 2 the rewards for the investors started at investments of \$20 where the investor would get the full game and up to \$10,000 where among other things the investors would be invited to a party with the main creator, Brian Fargo, and his team. Furthermore the investor would receive various unique items both within the game and other merchandise. Between those two reward extremities investors were promised a variety of different effects such as special collectibles, t-shirts and some in game perks.

During the campaign period Brian Fargo, and his team continued to provide updates on how things was going what their ideas was for spending the extra money provided to the development and so on. Up until April the 18<sup>th</sup> 2012 they had provided 14 updates of varying lengths and content averaging about an update every second day of the funding period.

#### **8.2.1.1.2. *The Wasteland 2 video***

The following section will go deeper into the description of the promotional video provided on the Wasteland 2 site as the video plays a large role in the success of the campaign. For instance Kickstarter.com has found that the success rate for campaigns with a video succeed 50 % of the time as opposed to the 30 % success rate for campaigns without a video (Kickstarter School) . The Wasteland 2 video spends a lot of time explaining why they chose to turn to crowdfunding instead of traditional funding, this they do by illustrating a the meetings they have had with traditional sources of financing for the computer game industry. For instance at one point a fictive computer game producer, asks that he only have a few ideas for changes, but when presenting these changes it becomes evident that they will change the entire game. The video thus showed that if Brian Fargo was willing to compromise with his vision for the game he might have been able to achieve funding. It also shows that the production companies who typically finance the development of games didn't understand the developers and with the success of the campaign it also showed that producers didn't fully understood or was willing to cater to the market that Wasteland 2 targeted.

Even though the campaign was very successful in obtaining funding it did however fail to deliver on one of its promises namely that it was targeting a release in October 2013, but in March 2014 the game has yet to release and is now looking toward a release of the complete game at sometime in 2014.

### 8.2.2. Platform description

There are a lot of different crowdfunding platforms focusing on different business types and reward schemes. According to Massolution (2013) there were at least 452 platforms in 2012 that combined had raised \$1.5 billion, across all types of crowdfunding. As mentioned before this thesis will focus on of the larger platforms that focus on reward based funding namely Kickstarter.com. In March 2014 Kickstarter.com published that they have now reached over \$1 billion of funding since the beginning in 2009 with approximately half of the sum being collected during the last 12 months (Kickstarter 2014), thus Kickstarter.com have had a very large growth rate.

#### 8.2.2.1. Kickstarter.com

Kickstarter.com is probably the best well-known and largest crowdfunding platform when it comes to funding pledged and size of investor pool. On the 3 of March Kickstarter.com published, that they had collected \$1 billion from 5.7 million unique investors (Kickstarter 2014). According to their mission statement *“Kickstarter’s mission is to help bring creative Projects to life”* (Kickstarter Guidelines) Kickstarter.com started out as a platform mainly focussing on artistic projects, such as music, theatre and movies, but has since broadened its scope to include projects in various business fields, but stills maintain a focus on creative business ventures.

Kickstarter.com adopts an all or nothing approach to funding, also called fixed funding; i.e. if a funding goal isn’t met no funds will be taken from the investors and given to the creator, and Kickstarter.com gets no payment. If however the funding goal is met the funds are given to the creator and Kickstarter.com takes 5% of the total collected as payment for their services. In exchange for the 5% payment Kickstarter.com provides access to their platform and to their large user database of at least 5.7 million registered investors.

In order to get a project on the Kickstarter.com platform the project have to adhere to two overall guidelines, first off every project must have a clear end, meaning that there must be an end product



that can be delivered to the investors. It can therefore not be a charity or so-called “fund my life” projects (Kickstarter Guidelines) . The second guideline is that every project must fit into one of their categories of Art, Comics, Dance, Design, Fashion, Film, Food, Games, Music, Photography, Publishing, Technology and Theatre. These categories show Kickstarter.com focus on the creative businesses types. Furthermore there are some other guidelines that generally speaking is aimed to make sure that projects are morally acceptable, no drugs or alcohol and such. The largest funded project on Kickstarter.com so far is the Pebble e-watch, a type of smart-watch with apps and connectivity to a person’s smartphone. In little over a month they collected \$ 10.2 million from a little under 69,000 investors. The creators of this project had started out with a goal of \$ 100,000 and the project was thus very successful and was overfunded with about 10,000 %.

Once a creator has a project that needs funding and he feels can adhere to the guidelines the creator then can start the process of presenting his or hers project in a template created by Kickstarter.com in order to secure uniformity in how projects are presented. The creator then has to describe and present his project and how the funds, if successful, will be used and what will happen if more funds are raised than what is necessary. Furthermore the creator will have to decide upon what types of rewards will be promised to investors and at what individual investment level the specific reward will become available to the investor. Normally the typical campaign will end up with a video, where the creator presents his products and usually also presents himself. This is followed by a written presentation of the product, reward levels and the risks involved with the development of the product. Once this is done the project is then presented to Kickstarter.com where they will check to see if it adheres to their guidelines and if it is accepted then it will be ready to launch. The creator can then choose between a funding period of 1-60 days. Kickstarter.com has found that statistically projects that have a funding period of less than 30 days are more successful than projects than run for a longer period (Kickstarter School) . Once the project is launched on kickstarter.com it gets its own homepage within the Kickstarter.com platform where the creators can write updates of what they are doing, both during and after the funding period. Furthermore Kickstarter.com gives everyone the chance to ask the creator a question and gives the investors a place to comment on the project and its update. Non-investors will not be capable of commenting on the project but can still write a question to the creator. Once the funding period is over, if successful, the money is transferred to the creators bank account. If the project however is not

successful Kickstarter.com gives creators the chance to change resubmit their project and start a new funding period from scratch or to abandon the project altogether.

### **8.2.3. Investors**

As discussed in the methodology chapter the crowd of investors is a difficult entity to explore. This as it per definition is a large, geographically dispersed and to a large extent anonymous crowd. Thus getting in contact with the crowdfunding crowd is a difficult proposition. For instance Kickstarter.com has 5.9 million registered investors thus contacting and understanding their wishes is quite unfeasible. However other studies have ventured into the more general research of the crowd in trying to understand the wishes and behaviour of the crowd. Furthermore as the crowd mainly acts and exists in a virtual setting insights into their behaviour will also be drawn from these public outlets thus the analysis of the investors will be based on the results and data provided by other studies and combined with data from commentaries provided by investors to various internet media and platforms. Thus the analysis will lead to a more general view of the traits and behaviour of the investors in crowdfunding, instead of providing a more accurate and context specific understanding of investor behaviour.

## 9. Analysis

### 9.1. Entrepreneurs

The main reason for an entrepreneur to use crowdfunding is naturally to get his project developed and brought to the market, be it by relying on the money raised in the campaign or using the campaign to raise awareness from other sophisticated investors, who can provide the necessary funds and skills that the entrepreneur are missing. For Wasteland 2 the main reason to use crowdfunding was to raise the necessary funds as Brian Fargo mentioned in an interview with Griffiths (2013) *“I was out trying to pitch Wasteland to publishers, and it went nowhere. I didn’t even get to the part of the conversation where they asked me how much it would cost. There just couldn’t have been less interest.”* This statement together with the fact that the last game in the series came out 26 years ago shows that without the possibility of crowdfunding this game most likely would have never existed. Another benefit of using crowdfunding is that it connects entrepreneurs with investors who have a large knowledge and/or interest in the field. For Wasteland 2 using crowdfunding gave them access to a knowledgeable base of investors who could provide valuable insights that they would not easily or cheaply have gotten in the free market. Brian Fargo highlights this in an interview with Strategy Informer (2014) where he commented that the main difference in the development process is *“this transparent development process. When you hire a QA<sup>1</sup> department they aren’t necessarily all hardcore role-playing gamers”* with crowdfunding not only did he receive funding for his game he also gained access to a team of eager investors who were willing to pay for the right to test the game before hand and furthermore this group was likely better able to do so than what could be bought in the market. Furthermore Crowdfunding also makes sense when dealing with a niche market where there is limited mass appeal and a lack of interest and knowledge on behalf of the sophisticated investors for instance in the game industry Brian Fargo mentions that *“For the publishers, it’s also a matter of scale. And in some ways, you can’t blame them. I mean, what did I read, that Tomb Raider sold 3 million copies in two weeks, and that wasn’t considered a success? So, look at us – selling 60,000 units on Kickstarter. I’ll just make up a number and say we sell another 100,000 or 200,000 on digital. It could be higher, but let’s just pick a number. That’s not very successful for these guys.”* (Griffiths 2013). Thus even though the project might have a financial potential the generally smaller size of the projects means

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<sup>1</sup> QA – Quality Assessment

that sophisticated investors might not find it interesting to invest in a project as the reward is not high enough to make it worth their while, and this is similar to the general problem of entrepreneurs not being able to pledge enough return to investors thus not succeeding in attaining funds as shown by (Belleflamme, Lambert & Schwienbacher 2010).

Based on the case of Wasteland 2 it can thus be said that crowdfunding was a good way for Brian Fargo to secure funding for his project, as he was unable to attain funding through sophisticated investors. This was because his project could not adequately distribute sufficient return to these investors and second Brian Fargo was able to keep control over the project, and not let it be influenced by sophisticated investors, that lack the understanding of the niche market he was seeking to service. Finally by using crowdfunding he was also able to gain valuable resources in the form of access to lead users that could provide valuable insights into the development process.

#### **9.1.1. How to build trust**

Having chosen crowdfunding as the measure in which to secure funding for the game Wasteland 2, the next challenge became how Wasteland 2 could attract and motivate investors to participate in their campaign. Doing so will have to rely on the trustworthiness that they can communicate to investors as there are no formalized way of regulating the transaction. One thing that does make it difficult to communicate trustworthiness is the lack of social interaction as Agrawal, Catalini & Goldfarb (2011) found that the Internet could mitigate the distance related costs but it did not eliminate problems of social-related frictions. The reason for this is that several factors that usually are associated with the development of trust is not present in a global and virtual setting, such as the crowdfunding relationship. The four factors that Sitkin & Roth (1993) found to build trust is first personal relationships with frequent face to face interactions, second shared social or demographic characteristics or affiliations, third expected future association, and finally cooperative behaviour. The first three of these factors are challenged in a virtual relationship with people spread out geographically and have different cultures and there is no expectancy of a repeat transaction. The development of trust thus happens in a different way in a crowdfunding relationship than it typically would.

As mentioned earlier the initial way that the trustworthiness of an entrepreneur is evaluated is initial or swift trust, as investors have little time to get to know the entrepreneur, due to campaign time constraint, and second there is no direct communication with the entrepreneur as the investor is only

faced with a campaign website. The difficulty of initial trust is that it is reliant on the investors previous experience and stereotypical impressions of the other party (Jarvenpaa, Shaw 1998). This makes it difficult for a crowdfunding entrepreneur to develop or rely upon as it is based on the characteristic of the individual investor and his own past experiences. This of course is only true for the completely anonymous investor who has no prior engagement with the entrepreneur, as friends and family would. In a crowdfunding relationship high levels of initial trust can thus be seen as a prerequisite if people is to be attracted to a crowdfunding campaign. In other words the investors must have some initial willingness to trust the crowdfunding method, if he is to be attracted to crowdfunding in the first place. That could be another reason why entrepreneurs will rely on crowdfunding platforms, as the crowdfunding platform can be a place where people with high levels of initial trust, towards crowdfunding, will gather. However trust is not a static entity and as other forms of trust developing will take place as investors becomes more knowledgeable and involved in a specific campaign. Building on the forms of trust identified by Jarvenpaa & Shaw (1998) that was described in the literature review, the following section will explain how Wasteland 2 was able to develop and communicate trustworthiness to potential investors.

### 9.1.2. Deterrence

The first form of trust is the deterrence based-trust where trust is based on being able to deter participants from behaving opportunistic, through effective punishment. As mentioned there is little to no way to effectively punish a fraudulent entrepreneur which fits with the findings of Jarvenpaa & Shaw (1998) that argues that there is no or limited opportunity for deterrence based-trust in virtual teams. However in certain crowdfunding campaigns there are still possibilities, that can deter some entrepreneurs from misbehaving as Brian Fargo mentions in one interview *“I’ve never felt more pressure to deliver in my life. And trust me, they (the investors) send me Twitter messages letting me know what they’re going to do to me if I don’t do a good job – messages I don’t even want to repeat. But I’ve also never felt more confident, because I’m in such lock-step with the fans.”* (Brown 2012). Even though the punishment might not be as serious as the Twitter messages seems to indicate it still holds a deterrence value as Brian Fargo is publicly held responsible for the development and as such he stands to loose a large degree of his reputation if he were to deliver a product that is subpar to the expected value that the investors expect. Thus for the case of Wasteland 2 deterrence based trust might provide a higher level of trustworthiness as investors know Brian Fargo will loose his reputation if he behaved opportunistic. Another Entrepreneur who

worked as a product designer also describes, *"When you fail on Kickstarter, it's a very public failure, it definitely derailed my career substantially. Your backers can give you massive support, but they can also tear you down if you fail."* (Markowitz 2013b) Again this entrepreneur also had a professional reputation that was harmed by his failure to deliver and second he also had some personal traits that made him feel responsible but this is also supported by another entrepreneur who mentions that *"When you create a Kickstarter to a certain degree you are cashing in on people's good will and belief in you," he said. "If you breach or violate that you can't go back. Imagine if your backers were your own family: what would it be like if you took money from them and never gave them anything in return."* (Parkin 2014). So the main driver for the honesty is the entrepreneurs' own personal trait of wanting to fulfil his obligation, in that sense trust can be said to be a personal trait, per the discussion above, but also a driver of trustworthiness. The feeling of obligation is also supported by the findings of Dasgupta (2000) who found that once people have chosen to trust an individual the individual would normally feel obligated to live up to this trust. However if the entrepreneur lacks this sense of responsibility and are more interested in using crowdfunding as a tool for creating a fraud the possible punishments are of little effect. Therefore generally speaking for crowdfunding entrepreneurs who doesn't have a professional reputation to protect it still holds true that deterrence based trust plays a small role, as punishment is virtually impossible.

### 9.1.3. Knowledge based

The second form of trust is the knowledge based trust formation, where exchange of information between entrepreneur and investor can develop trust. In the virtual setting of crowdfunding, the exchange of information happens through computer-mediated communication that doesn't facilitate social information, when the receiver is unknown. In order to be able to develop high levels of trust the entrepreneur must be able to communicate social cues and motivations (Jarvenpaa, Shaw 1998), especially as this is especially important early in the relationship (Jarvenpaa, Knoll & Leidner 1998), which is important for crowdfunding as the investment is to be made early in the relationship. Again Reputation is a good way of establishing trust as it can communicate a lot of information (Agrawal, Catalini & Goldfarb 2013). Generally speaking Agrawal, Catalini & Goldfarb (2013) identifies three ways of signalling reputation; 1, Quality signals 2, feedback systems and 3, trustworthy intermediaries. For crowdfunding only one and three is relevant, as feedback systems relates to repeat transaction.

The signal of quality could be, as pointed out by Kasper-Fuehrer & Ashkanasy (2001), to have a proven ability. Wasteland 2 with Brian Fargo had this proven ability that they were capable of developing games. This fact was one of the things that they emphasized in their video. Another way is to enclose a large amount of personal information, sharing motivations and goals have also been linked with the development of high level of trust (Jarvenpaa, Shaw 1998). For Brian Fargo this meant being active on outlets such as Twitter, conducting interviews with game sites and frequent updates on their campaign site during the campaign period. By doing so he was able to communicate his vision with that of the investors and educating the investors on his prior achievements in game developing. For entrepreneurs who lack this proven ability there are other forms of signalling quality. One way is to show a functioning prototype that can prove that the product can function and doesn't simply exist in the mind of the entrepreneur. Kickstarter.com for instance made stricter rules regarding the showing of product ideas and disallowed the use of concept drawings and computer-animated renderings (Kickstarter Blog 2012a). As these types of methods failed to show whether the entrepreneur was actually capable of developing a functioning product. Being able to demonstrate the necessary skills and capabilities to develop the product is therefore highly related to proving the trustworthiness of the entrepreneurs' claim of being able to deliver the envisioned product.

The other signal is using trustworthy intermediaries that can prove that the entrepreneur is who he claims he is. This is especially important in crowdfunding in order to secure that investors is who he claims to be, by connecting his Kickstarter.com profile to a trusted social media account such as Facebook and Twitter. Wasteland 2 didn't do this but as Brian Fargo is a well-known figure within the game industry he didn't need to do this, as it was validation enough that he was in the video. But for a less well-known entrepreneur associating his Kickstarter.com profile with that of his Facebook or Twitter account can assure the investors that the entrepreneur is who he claims to be. Using trustworthy intermediaries can thus provide a higher level of trust between investor and entrepreneur as by guaranteeing the authenticity of the entrepreneur, he is less likely to behave opportunistic as investors will gain a platform to punish the entrepreneur and harm his reputation and second it can also help the identification process, as investors can become more familiar with the entrepreneur.

#### 9.1.4. Identification

The last form of trust is identification based trust, where investors and entrepreneurs create a form of shared identity. For crowdfunding creating such a tight relationship of shared identity of investors feeling part of something great is difficult, at least before the end of the campaign period, as connecting with investors on a deeper level takes time. Typically creating identification based trust is also considered difficult in a virtual setting, as there are no back and forth exchange of information and social cues between entrepreneurs and investors, as such social cues and personal information mainly flows from the entrepreneur to the investor base. However one that crowdfunding can be used to at least provide the foundation for the creation of identification-based trust is through the campaign video, as this is where the entrepreneur can demonstrate his passion and try and create a close tie with his potential investors. Kickstarter.com also recommends that entrepreneurs make a video in order to show himself and his passion for the product.

Kickstarter.com also finds that campaigns that have a video is much more likely to be funded (Kickstarter School) . Furthermore the use of a video also mitigates part of the negative effect on trust development of virtual settings as it provides a visual connection with the entrepreneur. This makes it possible to regain some of the trust creation that takes place in face-to-face meetings as it allows the investor to pick up certain intangible clues. For Wasteland 2 this process of creating a common identity and group mentality was created in the campaign video by highlighting that the crowdfunding investors was doing something exceptional and participating in something that was beyond the comprehension of the sophisticated investors.

In summary in order to get investors to be willing to invest in the first place in the unsafe crowdfunding environment the investors need to have a high degree of swift or initial trust, based on the investors own personal traits and past experiences. However this initial trust is not enough to provide a high level of trustworthiness. Instead entrepreneurs should seek to first open them up to being punished if failing as it will prove to investors that the entrepreneur trust himself to be able to deliver. The second source of trust comes from getting the investors to know the entrepreneur and understand his skill level. If investors judge this level to be sufficiently high they will be willing to expose themselves to the behaviour of the investor. Finally entrepreneurs can increase their trustworthiness by creating a common identity. By having a tight connection with investors the entrepreneur will be able to be viewed as trustworthy as he is part of the team. It must however also be mentioned that these different trust forms develop in isolation, rather they develops intertwined



and in support of on another, for instance for the entrepreneur allowing people to get to know him and also opens him up for being punished for wrongful behaviour in a way that fraudulent entrepreneurs would not be willing to do.

## **9.2. Platforms**

The second sub research question deals with the role of the platform and how the platform can support the entrepreneur in creating a trustworthy environment in which crowdfunding can take place. Having explained that the role of the platforms is to act as a middleman where crowdfunding investors and entrepreneurs can connect with one another, but also to provide a supporting role for the creation and development of an online social community. Based on the case of Kickstarter.com and the previous findings explored in the literature review the analysis will provide a view on how they seek to develop and maintain this social community the second part of the analysis will provide some insights into how crowdfunding platforms can develop to provide an environment that can make crowdfunding a viable alternative for both investors and entrepreneurs.

### **9.2.1. Attract**

In order to understand how the environment for crowdfunding, is developed at Kickstarter.com we will adopt the view of the social organisation in order to explain the case. One reason for Kickstarter.com popularity is that they are the largest when collecting funds. However one challenge for any social organisation, especially with virtual organisations, is to attract and maintain contributors (Kraut et al. 2012). This because contributors can easily disappear to other online communities and there are no physical barriers that maintain contributors at a specific organisation as the organisation is virtual. This challenge is the same with Kickstarter.com where investors and entrepreneurs are free to move to other platforms or leave the crowdfunding market altogether. Kickstarter.com cannot lock in investors to their platform, as they have no control that can force investors to stay at their platform or in the crowdfunding market as a whole. This challenge is a general problem for all social organisations, where users can disappear without any warning. One example of this is Myspace.com that have experienced a large fall in their user numbers as other social media sites have developed such as Facebook and Twitter. One way to attract and maintain a solid user base is to have interesting content (Kraut et al. 2012). This of course lead to a problem for new platforms as how can platforms attract interesting content without a base of willing investors and on the other hand investors will not come without the interesting content in other words there need to be a critical mass of investors for entrepreneurs to be able to get there project funded. This

problem can also, to a certain extent, be seen with the growth development of Kickstarter.com where over half the total amount collected has been collected within the last 12 months. As Kickstarter.com started out with supporting smaller artistic projects they have developed into being capable of supporting the funding of projects such as Wasteland 2, that had a goal of 900,000\$ and have also successfully funded more multimillion projects. Many has pointed to Wasteland 2 and another game called double fine as being the main driving force for making the interesting content available for Kickstarter.com in order for Kickstarter.com to reach this critical mass of investors. Also Kickstarter.com also encourage investors to share the projects, they find interesting, with the investors own personal network through other social networks such as Facebook, Twitter and email. Another way that Kickstarter.com has been able to also attract investors is by having famous people, within their own specific genre, to have their projects funded on Kickstarter.com. This development did give rise to a heated debate among entrepreneurs that these famous people, who might be able to be funded other ways, took away some of the investment funds that they would otherwise have been getting. Kickstarter.com challenged this view by explaining that 63 % of those that invested in two specific movies, where the entrepreneur was a famous person, had never invested in another project before and a large part of these new investors went on to also invest in other projects (Kickstarter Blog 2013b). Thus Kickstarter.com was aware of increasing the investor base was important as the size of the base means that they can attract more entrepreneurs who in turn attracts more investors from the outside. Another benefit for Kickstarter.com with the famous entrepreneurs, be it globally famous or famous within a niche, is that these entrepreneurs have a much broader appeal to more people than non-famous do. Furthermore they also provide legitimacy to the whole crowdfunding market, as by accepting this way of achieving funding they also share some of their own brand to the marketplace (Agrawal, Catalini & Goldfarb 2013). Thus not only can famous people, generally speaking, attract more investors and help give the marketplace legitimacy. Another way to attract investors is also to allow projects that are not mainly interested in the funding of a project, but are mostly interested in gaining awareness to their project or use Kickstarter.com to prove a projects viability to more sophisticated investors who doubts the value of the project. For instance to a question on the frequently asked questions page Kickstarter.com answers a question of whether it is okay to use their platform even if raising funds is the primary goal, and to this Kickstarter.com responds “*Kickstarter is about more than just money. A Kickstarter project is a great way to connect with your audience and spread the word*” (Gerber, Hui

2013) By so doing Kickstarter.com can attract entrepreneurs, with another goal, that in turn can attract further investors.

### 9.2.2. Motivation

Not only must Kickstarter.com try and attract and maintain a base of investors to ensure that there is a vibrant market for entrepreneurs to collect funds, they must also encourage investors to contribute. One barrier of contribution in online communities that Kraut et al. (2012) found was that contributors saw their contribution as redundant. This could be a problem in Crowdfunding as investors usually will only be able to invest a small amount of the total investment need.

Furthermore Wang & Fesenmaier (2003) found that other factors that motivated participation was instrumental, efficacy, quality assurance, status and expectancy. In relation to crowdfunding the relevant motivational categories is mainly those of instrumental, efficacy, quality assurance and the status factor, as the expectancy factor relates to an expectancy of a future relationship, which is typically not the case of crowdfunding transactions and Agrawal, Catalini & Goldfarb (2011) found that platforms must find a way to recreate a interpersonal relationship. When looking at Kickstarter.com they themselves explains why investors provide funds for entrepreneurs as being that *“Many backers are rallying around their friends' creative projects. Some are supporting a new effort from someone they've long admired. Some are just inspired by a new idea, while others are motivated to pledge by a project's rewards”* And *“Backing a project is more than just pledging funds to a creator. It's pledging your support to a creative idea that you want to see exist in the world.”* (Kickstarter FAQ) . Here Kickstarter.com talks to some of the motivational factors that was identified above, that investors seeks to support the effort of a friend, family or someone they admire talks to the efficacy of helping someone. Furthermore they highlight that investors participate in order to get the rewards, an instrumental factors. They benefit directly from their investment and finally the last statements highlight that being an investor in a crowdfunding campaign is that their investment is not redundant it is important for the development and bringing new ideas to the market. Furthermore these quotes also highlight the motivational factor of quality assurance, that the investors have a say in which projects gets developed and which do not. Another way to motivate investors to participate is also to highlight the importance and urgency of the campaign. This has repeatedly been suggested as a reason for why projects fail in acquiring the necessary funding as supported by figure 5 Project duration vs. Project Success which shows that the longer a campaign runs the less likely it is to be successful. This is also another way that a

platform can mitigate the effect of investors feeling their investment is redundant and is the reason that Kickstarter.com has cut its maximum funding period from 90 days to 60days.

Another way Kickstarter.com tries to motivate investors from not viewing their investment as redundant and also provide a status factor is to broadcast statements on their website to the effect of “*you made this come true in 2013*” which also gives a status effect that by participating in crowdfunding campaign the investor becomes something special and is at the front of supporting innovative products.

The effects of being able to attract and motivate leads to a crowdfunding platform that one platform executive describes as “*The way this model works is that people generally feel like they are involved or engaged in the project throughout the duration, and they give people opportunity to be involved in something that they maybe otherwise wouldn't have the opportunity to be involved in, so just to be a part of something is what really motivates people in those cases.*” (Gerber, Hui & Kuo 2012) or as a entrepreneur describes being part of the social organisation of crowdfunding as “*There's just something magical about Kickstarter, the way it's set up, and the fact that everyone is using it as a common platform by which to do crowd-funding businesses. You immediately feel like you're part of a larger club.*” (Kickstarter Blog 2011) and also it can be described as “*backing a*

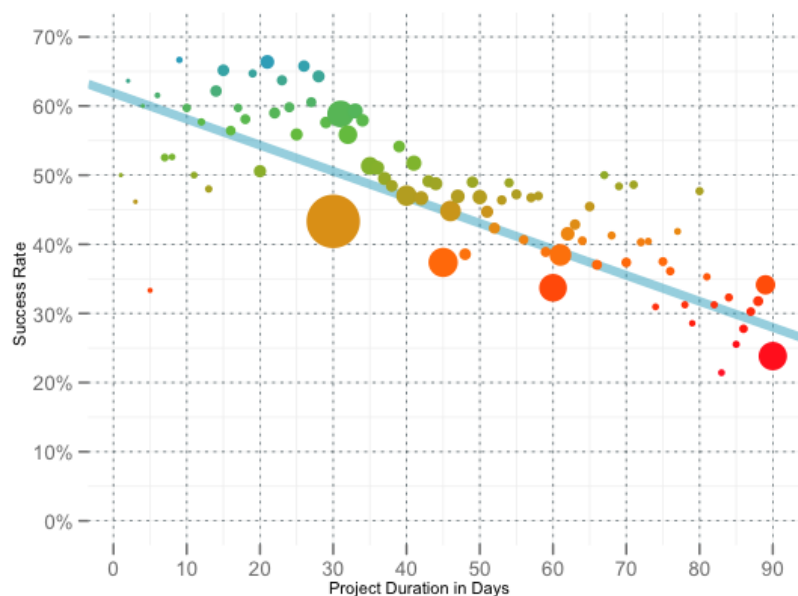


figure 5 Project duration vs. Project Success

Source: <https://www.kickstarter.com/blog/shortening-the-maximum-project-length>

*project is more than just giving someone money, it's supporting their dream to create something*

*that they want to see exist in the world.”* (Kickstarter Press) thus trying to create a deeper connection between investor and entrepreneur by highlighting that the project also has an emotional component. Thereby creating what Muniz Jr, O’guinn (2001) calls a common understanding of a shared identity. Creating and maintaining a social organization is thus of large importance for crowdfunding platform if they are to maintain and motivate investors to participate. Kickstarter.com has been successful in attracting investors as they in 2013 had 3.3 million investors participating in one project on Kickstarter.com, but not only have they attracted this large crowd they have successfully motivated nearly 25% (nearly 820,000 investors) of these to participate in more than one campaign (Kickstarter 2013) . Developing a social organization is thus a case of attracting investors by having interesting projects, which is mostly dependent on the quality of the entrepreneurs who have an interesting idea. However these projects only come once there is a sufficient amount of investors. Thus it becomes a question of what comes first, having interesting products that attracts investors or having investors that in turn attracts entrepreneurs with interesting projects. In the case of crowdfunding and Kickstarter.com it seems likely that the entrepreneurs have been attracted, not by a large investors base, but rather as a result of the lack of access to risk willing capital, which has meant that entrepreneurs have had to look at different opportunities to get their project funded, which in turn have opened up the eyes of famous entrepreneur to see crowdfunding as an opportunity to have their project funded without the interference of sophisticated investors, thereby opening up the crowdfunding platform to a new group of investors, from the “famous” entrepreneurs personal network.

### **9.2.3. Regulation of behaviour**

Another task of creating a functioning social organization, such as a crowdfunding platform, is to be able to regulate the behaviour of the participants. This is necessary as attracting and motivating people to participate in a social organization is not enough as the organizational structure can be quickly destroyed if there is an emergence of inappropriate behaviour (Kraut et al. 2012). For crowdfunding it can be interesting to examine how other social organizations regulate behaviour, one such organization, that shares some similarities with crowdfunding platforms, such as Kickstarter.com, is Ebay.com that is a auction site that allows users to sell new and second hand products in a global network in exchange for a percentage fee to Ebay.com, in return for allowing a buyer to submit his product on the Ebay.com platform. Ebay.com thus resembles the crowdfunding platform as they have a challenge in attracting and maintaining both buyers and sellers in order to

have a functioning platform and second they interact in a virtual setting where neither buyers or sellers know each other beforehand and finally Ebay.com also have challenges with protecting sellers and buyers from the behaviour of fraudulent users, thus especially how they have regulated the behaviour of the participants can provide some interesting insights into how Kickstarter.com or other platforms can regulate behaviour. Typically organizations can use both formalized rules and laws and informal ways to punish the wrong behaviour. In a virtual social context however regulating behaviour becomes more difficult as participants are not bound by the same physical barriers as others would be when interacting in a physical space e.g. it has a larger effect to be thrown out of a local community when there are no other communities to join in close proximity. However on the Internet there are endless amount of online communities, meaning that there is a lower cost of misbehaving and finally technologically it is more difficult to banish an individual effectively in a virtual setting. Ebay.com has formalized some rules that can punish both fraudulent buyers and sellers, with what they call buyer- and seller-protection, where transactions that live up to certain rules are guaranteed by Ebay.com. So if a buyer or seller is exposed to a fraudulent counterpart he will get his money back guaranteed by Ebay.com. Ebay.com can do this by a increasing the fee pr. transaction as a insurance against fraud and second as the transaction are of less uncertainty than crowdfunding projects, as products already exists thus it is easier to determine whether an unsuccessful transaction is due to a fraudulent seller/buyer or if the product is as described and third Ebay.com have a much better control over the payment process and can thus reclaim the money directly from the fraudulent party. Thus Ebay.com have some advantages and control that crowdfunding platforms doesn't have access to in the current setting. Another effect of increasing the investor protection in this way is also that it will lead to higher costs to the entrepreneur, which would lead to crowdfunding being a less feasible way of achieving entrepreneurial funding. Kickstarter.com does write that if an entrepreneur is unable to fulfil his promises he must reimburse investors. However Kickstarter.com doesn't have any real possibility of enforcing this rule for instance on their own blog also visualize their lack of possibility to directly punish fraudulent entrepreneurs in this specific blog post dealing with a project that should have been cancelled,<sup>2</sup> but wasn't before the collection period ended and Kickstarter.com wrote “*there is no taking back money from the project or cancelling funding after the fact. When the project was funded the backers' money went directly from them to the creator. We missed the*

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<sup>2</sup> The project apparently had a promotion of violence against women, which wasn't clear during the review process made by Kickstarter.com and as such didn't live up to their guidelines.

window.” (Kickstarter Blog 2013a) but also having control is also difficult when dealing with early stage projects that are inherently risky and as Kickstarter.com highlights that *“Many of the projects you see on Kickstarter are in earlier stages of development and are looking for a community to bring them to life. The fact that Kickstarter allows creators to take risks and attempt to create something new is a feature, not a bug.”* (Kickstarter FAQ). So not only does Kickstarter.com have no control over the projects once the monetary transaction takes place but also the risky nature of the crowdfunding projects also means that for Kickstarter.com to judge a project is outside their scope as *“Kickstarter does not guarantee projects or investigate a creator's ability to complete their project. On Kickstarter, backers ultimately decide the validity and worthiness of a project by whether they decide to fund it”*. (Kickstarter Press) thus it is outside Kickstarter.com interest and possibility to actively monitor and control the entrepreneur’s behaviour through formalized rules. As (NPR 2012) states that's the conflict at the heart of Kickstarter: *“While the company's policy says creators have to give refunds on failed projects, the website doesn't have a mechanism to do it”* and as Ethan Mollick told NPR, *"Enthusiasm is ahead of [the] tools. So, Kickstarter is a very minimal system in some ways. It's not really built to police itself."* (NPR 2012) Thus Kickstarter.com doesn't have any true way of making a formalized regulation of behaviour as they cannot efficiently punish opportunistic entrepreneurs.

Another way of regulating behaviour, in a virtual setting, is identified by Kraut et al. (2012) who argues that storing and designing a system to showcase past interactions can regulate behaviour as it shows previous good, or bad, behaviour. This way of building a reputation based on past behaviour, is for instance the way Ebay.com tries to regulate behaviour, where based on past sales and acquisitions participants can evaluate the trustworthiness of the other party and participants who misbehave will be given a lower rating and thus have a public measure of them not being trustworthy. With crowdfunding platforms however there is no expectancy of repeat transactions, on behalf of the entrepreneur, as the entrepreneur will typically only have one project thus using past crowdfunding campaigns is unfeasible for crowdfunding as no such past information will exist.

Instead of relying of these two ways of regulating behaviour Kickstarter.com is by using the knowledge of the crowd of investors to determine if an entrepreneur is fraudulent or not. This is for example what was done in a campaign that sought funding for the development of Kobe Beef Jerky, which would have been able to collect \$120,000 if Kickstarter.com hadn't suspended the project before the end of the collection period (Mims 2013). In this case a documentary team, making a



video on crowdfunding, detected the scam but it does show that Kickstarter.com relies on user input to exclude fraudulent projects from their platform. Thus the crowd are mostly associated with regulating the behaviour as one entrepreneur put it "*When you fail on Kickstarter, it's a very public failure*" (Markowitz 2013a) meaning that one thing that deters entrepreneurs from behaving opportunistic is the backlash it will have on social media, such as Facebook, where the entrepreneurs friends and family will be able to see the negative feedback if behaving opportunistic. Furthermore by developing the "common understanding of a shared identity" (Muniz Jr, O'guinn 2001) also means that entrepreneurs will be less inclined to behave opportunistic, as they thus will fail their commitment to the social organisation. Thus even though the regulation of behaviour is spread out toward the investor base, by creating a strong social organisation Kickstarter.com is capable of assisting the regulation of behaviour as it will create a very strong commitment between investor and entrepreneur, but it cannot deter the most opportunistic entrepreneur as Kickstarter.com lacks the (willingness to acquire the) tools that could allow them to control and punish entrepreneurs that behave opportunistic.

As argued above Kickstarter.com has done a lot of things to attract, maintain and motivate investors and entrepreneurs to use crowdfunding, this has been done by creating a strong social community that binds the investors and entrepreneurs together in a tighter relationship and creates a common understanding of shared identity. However on the other hand Kickstarter.com lacks the tools necessary to regulate opportunistic behaviour as they seek to only be a middleman and have no influence on the individual project. Kickstarter.com however must be aware that as the crowdfunding platform becomes more popular. It might attract more opportunistic entrepreneurs, which can harm the legitimacy of the crowdfunding market, as investors will not be willing to stay at the platform, if they continually experience fraudulent projects. Kickstarter.com can therefore in the future be forced to adopt more embracing control measures. This could be in various forms but one way could be to be able to help investors that fall victims to a fraudulent entrepreneur to recoup some of his investment, in a similar way as Ebay.com, but without Kickstarter.com being directly accountable for reimbursing investors. Another way of increasing the investor protection by Kickstarter.com is identified by the World Bank (2013) who argues that platforms should educate and inform investors to better be able to understand the risks of crowdfunding relationship. Kickstarter.com has already addressed the education of investors by challenging some investors view that crowdfunding is similar to a shopping experience. They have done this in a blog post where they state "*It's hard to know how many people feel like they're shopping at a store when*



*they're backing projects on Kickstarter, but we want to make sure that it's no one.*” (Kickstarter Blog 2012b) and forcing entrepreneurs to address risks and challenges so it becomes more evident that investors cannot expect the same security as they would expect when buying online. However increasing control and monitoring is a double edged sword as increasing the costs and difficulty of getting a project on Kickstarter.com is likely to have a negative effect on the stability of the social organization as it increases costs and make transactions more difficult and furthermore increasing control also interferes with the crowdfunding idea of allowing investors to make the decision of which projects should get backed and which shouldn't.

Summing it up Crowdfunding platforms must attract and maintain a large base of investors in order to reach a critical mass that makes it possible for entrepreneurs to successfully be funded by crowdfunding, this Kickstarter.com has done by allowing among others famous people to have their projects on the site as these types of entrepreneurs have their own large network that can be a possible source of future investors. Finally being able to regulate behaviour is of importance but it can be difficult as the crowdfunding market is very much build around an open and transparent process where Kickstarter.com have no real possibility of punishing entrepreneurs once the campaign ends. Furthermore building this measure of regulation can have an adverse effect on the crowdfunding market as increasing control and monitoring, will increase transaction costs and can subdue the feeling of social network and creative freedom.

### 9.3. Investors

As explained the entrepreneur must take into consideration a number of factors for him to be able to communicate trustworthiness to the investors, at the same time he will have to rely upon the crowdfunding platform to develop and maintain a social network that can attract and motivate investors to participate in the crowdfunding activity. The analysis also showed that even by increasing trustworthiness the entrepreneur and platforms would still have to rely on the traits of the large and anonymous crowd. Therefore the following section will explore which investors are motivated to participate in the online crowdfunding community.

Crowdfunding is a very high-risk investment, with generally little knowledge of who the entrepreneur is and his capabilities and motivation, where there is no guarantee of getting any tangible return on investment. Thus crowdfunding investors are more exposed to risk than typical investors who invest in stocks and businesses as these investments are governed by formalised rules

and laws and allow the investor to monitor the behaviour of the entrepreneur. The crowdfunding investor thus have to be more risk willing but also have to be willing to accept their return to come in the form of something other than control and monetary reward.

As BELLEFLAMME, LAMBERT & SCHWIENBACHER (2011) explained one way to regard the crowdfunding investor is to view them as pre-ordering customers. This view is also supported by the views of one crowdfunding investor who explain, *"I was a typical backer like anyone else. I came across this iPad stand. To me, it looked like a cool thing you could buy. 'If you give me \$70, I'll send you one of them.' I didn't do any due diligence. I didn't think I had to. I'm not investing. I'm not doing the same sort of things a potential shareholder would do. I'm just buying a product."* (Markowitz 2013b) others view it as a helping endeavour of supporting someone's dream *"It makes me feel like I'm helping someone's dream come true, while also investing in something that'll make me happy as well."* (Kickstarter Blog 2014) but also seeing as a way of having a say in what future products that will make it to the marketplace *"It's knowing that I'm voting for what I want to see in the world without having been browbeaten or marketed to. I have to navigate to a page, view/read a proposal from the actual people wanting to make something, and decide for myself."* (Kickstarter Blog 2014). Not only are investors thus a large and anonymous group, it is also a group with very different expectations and understanding of what crowdfunding is and should be. Which is harmful to the crowdfunding market as what it currently is can be illustrated by the following comment *"In fact, Kickstarter backers are exchanging something for nothing except a pledge that they will, at some estimated date in the future or very possibly after, receive what they paid for – something which very often will not even exist when one commits one's money. This isn't investment. It's not even purchasing. It's whatever comes before early adopter on the continuum of high-risk ways to rid oneself of cash."* (Holloway 2013). If investors are unaware of the risk inherent in a crowdfunding project they are very likely to become disappointed if an entrepreneur is unable to develop the promised project or are fraudulent. Thus it seems for the crowdfunding community both entrepreneurs and platforms have to better at educating investors in what crowdfunding is. Kickstarter.com has tried to do this with the quote mentioned above that they are not running a store, rather it is a very high risk endeavour with a possibility of failure.

However the different expectations and views of crowdfunding correlates well with the finding of Kraut et al. (2012) who found that there are two different reasons for contributing in online communities, some do it for intrinsic reasons and other for extrinsic reasons. In the case of

crowdfunding this can translate into some investors invest in order to help and become part of something (intrinsic) and others invest in order to receive the reward (extrinsic). With the focus on educating investors on the higher risk Kickstarter.com has tried to move the focus away from those only focused on getting the reward and instead to focus more on the intrinsic value of crowdfunding. In that sense the investors attracted to crowdfunding should put a larger degree of importance on the satisfaction and enjoyment of being part of an entrepreneurial activity instead of the typical investors focus on returns or some crowdfunding investors focus on reward. In this sense the typical crowdfunding investor can be seen as a, small, business angel that participates in the support and backing of projects in which he holds a large interest and can get a large return in the form of enjoyment and sense of being part of a community, which he gets by frequent updates both before and after the end of the funding period. This can also support the finding that investors on a crowdfunding platform are inherently more inclined to invest in the kind of high risk projects offered on for example Kickstarter.com as opposed to investors looking toward more secure return. This is also supported by Berry (2014) who explained that certain types of investors do not wish to participate in unregulated and unsafe markets, thus suggesting that crowdfunding investors in general must be willing to trust the informal regulation of a social network in the first place if they are to be attracted to crowdfunding.

Thus the attractiveness of crowdfunding on behalf of the investor will thus lie within the individual investors psychology of why he chooses to participate. For instance the bystander effects can be used to explain some of the behaviour that have been identified for crowdfunding campaigns, for instance one investigation made by Pi (2012) found that campaigns tended to fail by a large margin or be successful by a very small margin. This behaviour can be explained by the bystander effect that as even though people are willing to help they might not do it if other investors have been unwilling to do so. This is what Latané & Darley (1970) called social inhibitions that investors base their decision on the decision of others, this could also be viewed as investors reacting to the due diligence of the crowd, that if a project presented is deemed interesting by one but nobody else have chosen to participate, it can be interpreted by the individual investor as a statement by lead users that the project is not interesting for the market or the entrepreneur lack the skill and knowledge to be able to develop the project. This is supported by a quote by an entrepreneur “*Backers want to be part of a successful campaign, not a failing one!*” (crowdcruX) or as Godin (2012) puts it “*we don’t want to back a loser*”, meaning that investors take cues from other

investors and if other investors have deemed a project a failure, fairly or not so, other investors will do the same as investors rely on the due diligence of others to decide which projects to back. The result of this social inhibition also explains why initially it is important to have a large personal network, as these will provide the first investments thus proving to other investors that the entrepreneur is trustworthy and that the project is worth supporting. For entrepreneurs without a large personal network however this could prove fatale for the success of a campaign if he is unable to overcome this initial social inhibition, and will have a much more difficult time appearing trustworthy. Instead he would have to look towards the lead users, who are willing to adopt and value projects before the normal users (von Hippel 1986). Doing so however is easier said than done when identifying and communicating specifically with lead users is difficult when dealing with a large anonymous crowd.

### 9.3.1. Risk

Another view on the crowdfunding investor is also that he is not very exposed to loss or fraud as the amount invested is generally fairly small as one investor puts it *"In general, the attitude many have for Kickstarter is that you're not going to be overly disappointed,"* (Vuong 2012). While it might be true that most crowdfunding investors won't be financially hit if their investment of \$20 disappears there are various sources that points to the true cost of a campaign disappointing or being the victim of a scam is not the lost money but rather the betrayal of trust as Godin (2012) puts it *"The cost isn't money—the cost is heartbreak. Once you've committed, cognitive dissonance gets louder, and if a campaign ultimately doesn't work, it hurts."* Failure of the entrepreneur to live up to the expectations of the investor is what deter people from investing and the fear of being taken advantage of can also mean that the investor doesn't make the investment initially due to fears of being betrayed. This is of especial importance for the crowdfunding market as entrepreneurs rely on the initial trust level of investors, which in turn is based on the investors past experience and if the past experience is that crowdfunding is associated with betrayal of trust then it can lead to a collapse of the crowdfunding market. Thus both entrepreneurs and platforms have a large incentive to make sure that projects that are funded are also successful in delivering the rewards as promised, as it influences the trustworthiness of the crowdfunding market as a whole.

In conclusion the crowdfunding investor must act as a business angel in the sense that investment is not purely for tangible rewards but rather the intangible rewards of being part of an entrepreneurial

endeavour and helping bring some new product to the marketplace. Another facet of the crowdfunding investor is their reliance upon the crowd as a tool of due diligence. This can lead to a failure of the market where good entrepreneurs, without a sufficient personal network, can be adversely hit by social inhibition. The risk attributed to the crowdfunding investor might not be of financial importance but much more serious is the feeling of betrayal that the investor feel if a project fails to develop or the entrepreneur acts fraudulent. This is a challenge to the crowdfunding market as they have little possibility of protecting investors but the legitimacy of the crowdfunding market can be seriously devalued if investors loose their initial trust necessary for crowdfunding.

## 10. Conclusion

Even though crowdfunding is not right for all types of entrepreneurs as the sophisticated investors can bring resources to the entrepreneur in the form of market and business knowledge that can provide value to an inexperienced entrepreneur. On the other hand crowdfunding can be very useful to attain funding for a project, especially when sophisticated investors have declined to do so. For an entrepreneur engaging in a crowdfunding campaign other benefits can also arise, first of the crowdfunding investors can have a better knowledge of the market and second they can provide a source of a very loyal support that can promote the product in a cheap and efficient way.

The challenge with crowdfunding is that it takes place in a virtual setting where investors have no knowledge of the motives and behaviour of the entrepreneur and they have no possibility of knowing if the entrepreneur is competent in delivering the promised reward and second they have no way of efficiently punish a fraudulent entrepreneur. Therefore the entrepreneurs must find ways to signal that they are trustworthy in order to attract investors. This thesis found that the first element in the development of trust however was the initial trust that the investors themselves carries to the relationship, and entrepreneurs to a large part have to rely on the investors past experiences and personality in the first place. However once the investors have placed their initial trust in the crowdfunding market other elements take over that allows the entrepreneur to signal his trustworthiness. First the entrepreneur can open himself up to being punished if he fails to behave as promised. Having a previous reputation that the investors could destroy if the entrepreneur misbehaves could fulfil this role, but this is only possible for entrepreneurs who are willing to open up and have a reputation. More relevant for the virtual setting is that the entrepreneur can allow the investors to get to know him better, thus making the investors more informed about his capabilities and personality. The last element of signalling trust is creating identification, by creating a sort of group mentality, where investors will become emotionally involved in the project thus creating a sort of friendship between investors and entrepreneurs. In order to signal his trustworthiness the entrepreneur must rely to some extent on these four elements of initial-, deterrence-, knowledge- and identification-based trust if he is to be deemed trustworthy to the investor.

The second sub research question of the thesis dealt with the platforms and how they can create a community that makes crowdfunding a possibility. It was identified that the platform played a role

in attracting and maintaining investors and second also had to motivate them to be willing to invest, this was done by developing a social identity for the investor where they feel they can influence which projects get funded. This however also limits the platform's opportunity to develop tools that could increase the protection of investors, as it would destroy the identification process and move the crowdfunding process toward a buying experience instead of the high-risk investments that is prevalent in the crowdfunding setting.

The last sub research question dealt with how the investors behave in a crowdfunding relationship. This thesis identified that there is a discrepancy between how the crowdfunding platform has been set up and how some investors viewed the transaction as buying experience rather than a high-risk investment. In order to avoid this misunderstanding of the process, that leads to investors feeling unsatisfied, the platform and entrepreneur have a task in educating the investors in the high-risk nature of the crowdfunding investment. The platforms have done this by requiring entrepreneurs to address the risks and challenges that they might experience. The second facet that was explored in relation to the behaviour of the investors was the psychology influencing the willingness of the investors to participate. Here it was discovered that as the investors are the ones who are doing the due diligence entrepreneurs are exposed to the bystander effect of the investors as the investors reacts to certain social cues communicated by others the lack of early investment in the campaign period can thus lead to investors concluding that other investors have deemed the entrepreneur untrustworthy. Hence the individual investor can be said to base his investment decision on not only the trustworthiness, which an entrepreneur signals, but also on the behaviour of the crowd.

Thus in order for platforms and entrepreneurs to develop a trustworthy online community, that can make crowdfunding a viable alternative to traditional sources of capital the entrepreneur must signal that he is trustworthy by, if possible making himself vulnerable to punishment, as that is a strong signal of trustworthiness. Generally speaking it will not be possible to efficiently punish the entrepreneur of more relevance the entrepreneur must share a lot of information both about the project but also personal information that shows that he is capable of delivering the rewards shared with the investors. Just as important the entrepreneur must also create a feeling of social identity among his investors, he must communicate that they are part of something bigger than just giving money to an entrepreneur. The creation of a social identity is also the way that the crowdfunding platform can maintain and motivate a large base of investors to participate and invest in the different campaigns. Kickstarter.com have been very good at developing a social network where

investors feel that they are part of something bigger and more important and have a feeling of being part of a crowdfunding identity. Another reason why entrepreneurs should very much focus on developing a common social identity between themselves and their investors are that the behaviour of the investors is very much influenced by the behaviour of others. The finding that the likelihood of success in crowdfunding correlates with the amount invested within 48 hours also supports this. Thus entrepreneurs who can bring a large personal network to the beginning of a campaign are likely to be more successful. This is the case, as other investors will view this large influx of early investment, made by the personal network of the entrepreneur, as a signal of trustworthiness. In short in order for crowdfunding to be a viable source of funding the crowdfunding entrepreneurs and platforms have to develop a shared identity to overcome the lack of formal governance and punishment structures.

## **11. Suggestions for further research**

As this thesis has explained trust plays a very large role in any transaction and especially in the case of reward-based crowdfunding where the investors have to be willing to be exposed to behaviour of the entrepreneur as they have little possibility to carry out an effective punishment. Even with the absent of formalised governance structures the crowdfunding market has proven to be very successful to efficiently fund a large amount of entrepreneurs who have developed a wide array of different projects that have proven their worth to the general marketplace. The success of this informal regulation of a financing market creates a contrast to the traditional finance market that is heavily regulated by local governments and the like, this creates a lot of transaction costs that is especially cumbersome for, especially smaller, entrepreneurs who can have a difficulty in securing sufficient collateral for a loan or cannot guarantee sufficient returns to be attractive for sophisticated investors. The creation of efficient governance structures is also a large part of the discussion regarding the protection of investors with regard to the equity and debt type of crowdfunding, that has been predicted to be an area of huge potential (World Bank 2013). The problem with the development of these formalised rules of increasing investor protection is that it makes the transaction more expensive and cumbersome for the entrepreneurs, meaning it becomes a less viable form of funding. For instance (Lingam 2014) found that the proposed crowdfunding rules put forward in the American JOBS act would mean that campaigns of under 115,000 \$ would result in negative cash flow over a 5 year period. Instead of relying heavily on formalised governance



structures the regulatory system could to a larger extent adapt rules that combine some formalised rules with an reliance on the knowledge of the crowd, who at least in the reward-based crowdfunding, has proven to be very efficient in identifying valuable projects such as the Oculus rift, thus one direction of further research could be to investigate how trust and the due diligence of the crowd could be used to develop an efficient market for the equity and debt types of crowdfunding with less reliance on expensive governance structures.

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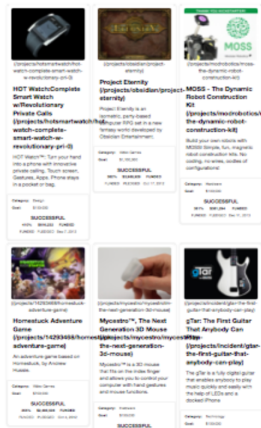
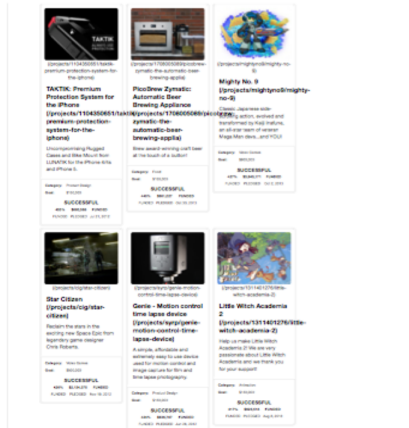
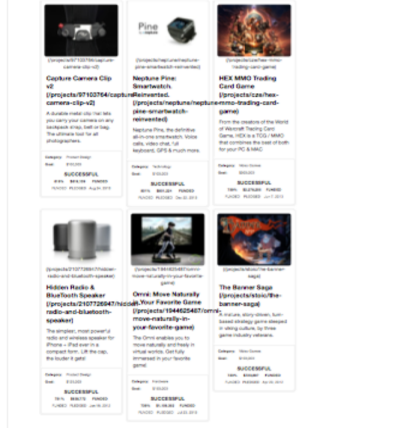
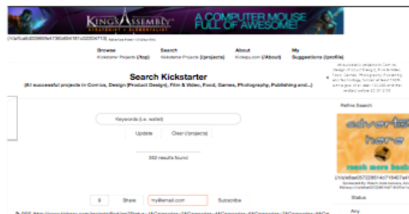
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# 13. Appendices

## 13.1. Appendix 1



myDory: Passwords at the tip of your finger  
[projects/ingenuity/mydory-passwords-at-the-tip-of-your-finger]  
Nothing is more stressful than forgetting your password. myDory is a small, sleek, and easy-to-use device that stores your passwords and lets you retrieve them with a simple touch.

Category: Security  
Team: myDory  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Sound Band - Finally, a headset without a cord  
[projects/ingenuity/sound-band-headset-without-a-cord]  
A wireless headset without a cord. Sound Band is a sleek, modern headset that lets you listen to music, take calls, and more without the hassle of a cord.

Category: Audio  
Team: Sound Band  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

MetaWatch STRATA: The Smartwatch for the iPhone 4S  
[projects/ingenuity/meta-watch-strata-smartwatch-for-the-iphone-4s]  
A sleek, modern smartwatch that works with the iPhone 4S. MetaWatch STRATA is a stylish, functional accessory that lets you check the time, take calls, and more without pulling out your phone.

Category: Wearable  
Team: MetaWatch  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Cynical & Happiness Show  
[projects/ingenuity/the-cynical-happiness-show]  
A weekly podcast that explores the ups and downs of life. The Cynical & Happiness Show is a humorous, thought-provoking series that looks at the world from both sides of the coin.

Category: Audio  
Team: The Cynical & Happiness Show  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Maison: A Headband and Mobile App to Measure Your Focus  
[projects/ingenuity/maison-headband-and-mobile-app-to-measure-your-focus]  
A headband and mobile app that help you measure your focus. Maison is a unique combination of hardware and software that lets you track your concentration levels throughout the day.

Category: Health  
Team: Maison  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

WATSON: The Smartest Thing in the Room  
[projects/ingenuity/watson-the-smartest-thing-in-the-room]  
A smart, interactive robot that can answer your questions. WATSON is a small, friendly robot that is powered by a sophisticated AI system, making it one of the most intelligent things in the room.

Category: Robotics  
Team: WATSON  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Veronica Mars Movie Project  
[projects/ingenuity/the-veronica-mars-movie-project]  
A movie project for the Veronica Mars TV series. The Veronica Mars Movie Project is a fan-driven initiative to bring the beloved character back to the big screen.

Category: Film  
Team: The Veronica Mars Movie Project  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Robo: Desktop 3D Printer and Micro-Manufacturing Platform  
[projects/ingenuity/robo-desktop-3d-printer-and-micro-manufacturing-platform]  
A desktop 3D printer and micro-manufacturing platform. Robo is a compact, easy-to-use device that lets you create small-scale prototypes and parts.

Category: Manufacturing  
Team: Robo  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

CloudTV: Wireless share ANY USB storage with iPad, iPhone, and Android  
[projects/ingenuity/cloudtv-wireless-share-any-usb-storage-with-ipad-iphone-and-android]  
A wireless device that lets you share content from any USB storage. CloudTV is a simple, elegant solution for streaming photos, videos, and more from your USB drives to your mobile devices.

Category: Storage  
Team: CloudTV  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Assessment: A New Way to Assess Your Skills  
[projects/ingenuity/assessment-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. Assessment is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: Assessment  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Small World 2: The Return  
[projects/ingenuity/small-world-2-the-return]  
A board game that explores the world of Small World. Small World 2: The Return is a sequel to the popular board game, offering new challenges and adventures.

Category: Games  
Team: Small World  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Digital Desk: The Most Affordable Digital Desk for the Home Office  
[projects/ingenuity/the-digital-desk-the-most-affordable-digital-desk-for-the-home-office]  
A digital desk that is both affordable and functional. The Digital Desk is a sleek, modern piece of furniture that integrates digital technology into your workspace.

Category: Furniture  
Team: The Digital Desk  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

CloudTV: Wireless share ANY USB storage with iPad, iPhone, and Android  
[projects/ingenuity/cloudtv-wireless-share-any-usb-storage-with-ipad-iphone-and-android]  
A wireless device that lets you share content from any USB storage. CloudTV is a simple, elegant solution for streaming photos, videos, and more from your USB drives to your mobile devices.

Category: Storage  
Team: CloudTV  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Transporter: A New Way to Assess Your Skills  
[projects/ingenuity/transporter-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. Transporter is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: Transporter  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

7 Days to Die - Zombie Survival Game  
[projects/ingenuity/7-days-to-die-zombie-survival-game]  
A zombie survival game that challenges you to survive for 7 days. 7 Days to Die is a first-person survival game where you must scavenge for resources and fend off hordes of zombies.

Category: Games  
Team: 7 Days to Die  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Petiole - stay closer to your pet  
[projects/ingenuity/petiole-stay-closer-to-your-pet]  
A device that helps you stay closer to your pet. Petiole is a small, wearable device that lets you track your pet's location and health.

Category: Pet  
Team: Petiole  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

90% Invisible: Season 4  
[projects/ingenuity/90-invisible-season-4]  
A podcast that explores the hidden details of everyday life. 90% Invisible is a weekly podcast that delves into the design and function of the objects and systems we encounter every day.

Category: Audio  
Team: 90% Invisible  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Home Automation Kit: Self-Cleaning Fish Tank That Does the Work for You  
[projects/ingenuity/home-automation-kit-self-cleaning-fish-tank-that-does-the-work-for-you]  
A self-cleaning fish tank that automates the maintenance process. The Home Automation Kit is a complete system that lets you keep your fish tank clean and healthy with minimal effort.

Category: Aquarium  
Team: Home Automation Kit  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Plethora: A Next Generation of Smart Glasses  
[projects/ingenuity/plethora-a-next-generation-of-smart-glasses]  
A next-generation smart glass that offers a new way to interact with the world. Plethora is a pair of smart glasses that provide a wealth of information and functionality through a transparent display.

Category: Wearable  
Team: Plethora  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

STEM System: The Best Way to Interact with Virtual Worlds  
[projects/ingenuity/stem-system-the-best-way-to-interact-with-virtual-worlds]  
A system that lets you interact with virtual worlds in a new way. The STEM System is a platform that combines science, technology, engineering, and math with virtual reality.

Category: Education  
Team: STEM System  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Equis Smart TV: Make your dumb TV smart  
[projects/ingenuity/equis-smart-tv-make-your-dumb-tv-smart]  
A smart TV that lets you do more than just watch TV. Equis Smart TV is a sleek, modern television that integrates a variety of smart features, including streaming services and voice control.

Category: Electronics  
Team: Equis  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Equis Smart TV: Make your dumb TV smart  
[projects/ingenuity/equis-smart-tv-make-your-dumb-tv-smart]  
A smart TV that lets you do more than just watch TV. Equis Smart TV is a sleek, modern television that integrates a variety of smart features, including streaming services and voice control.

Category: Electronics  
Team: Equis  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Diversity: Original Sin  
[projects/ingenuity/diversity-original-sin]  
A video game that explores the concept of diversity. Diversity: Original Sin is a first-person action game that challenges players to work together to overcome a variety of challenges.

Category: Games  
Team: Diversity  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Future: A New Way to Assess Your Skills  
[projects/ingenuity/the-future-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. The Future is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: The Future  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Dead State: The Zombie Survival Game  
[projects/ingenuity/dead-state-the-zombie-survival-game]  
A zombie survival game that challenges you to survive in a post-apocalyptic world. Dead State is a first-person survival game where you must scavenge for resources and fend off hordes of zombies.

Category: Games  
Team: Dead State  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Future: A New Way to Assess Your Skills  
[projects/ingenuity/the-future-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. The Future is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: The Future  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Battle Worlds: A New Way to Assess Your Skills  
[projects/ingenuity/battle-worlds-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. Battle Worlds is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: Battle Worlds  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Future: A New Way to Assess Your Skills  
[projects/ingenuity/the-future-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. The Future is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: The Future  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Penny Arcade: A New Way to Assess Your Skills  
[projects/ingenuity/penny-arcade-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. Penny Arcade is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: Penny Arcade  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Charlie Kaufman's Anomalisa  
[projects/ingenuity/charlie-kaufman-anomalisa]  
A movie project for Charlie Kaufman's animated film. Charlie Kaufman's Anomalisa is a unique, thought-provoking animated film that explores the concept of individuality.

Category: Film  
Team: Charlie Kaufman's Anomalisa  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Delta Six: A New Kind of Game Controller  
[projects/ingenuity/delta-six-a-new-kind-of-game-controller]  
A new kind of game controller that offers a more intuitive way to play. Delta Six is a sleek, modern game controller that integrates a variety of new features and controls.

Category: Gaming  
Team: Delta Six  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Guns of Iconic Online  
[projects/ingenuity/guns-of-iconic-online]  
A new online game that challenges you to master the art of marksmanship. Guns of Iconic Online is a first-person shooter game that offers a unique and challenging experience.

Category: Games  
Team: Guns of Iconic Online  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Delta Six: A New Kind of Game Controller  
[projects/ingenuity/delta-six-a-new-kind-of-game-controller]  
A new kind of game controller that offers a more intuitive way to play. Delta Six is a sleek, modern game controller that integrates a variety of new features and controls.

Category: Gaming  
Team: Delta Six  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Future: A New Way to Assess Your Skills  
[projects/ingenuity/the-future-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. The Future is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: The Future  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Guns of Iconic Online  
[projects/ingenuity/guns-of-iconic-online]  
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Category: Games  
Team: Guns of Iconic Online  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Future: A New Way to Assess Your Skills  
[projects/ingenuity/the-future-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. The Future is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: The Future  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

The Future: A New Way to Assess Your Skills  
[projects/ingenuity/the-future-a-new-way-to-assess-your-skills]  
A new way to assess your skills and abilities. The Future is a platform that uses a variety of tools and techniques to evaluate your strengths and weaknesses.

Category: Education  
Team: The Future  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

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[projects/ingenuity/guns-of-iconic-online]  
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Category: Games  
Team: Guns of Iconic Online  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
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The Future: A New Way to Assess Your Skills  
[projects/ingenuity/the-future-a-new-way-to-assess-your-skills]  
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Category: Education  
Team: The Future  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

Guns of Iconic Online  
[projects/ingenuity/guns-of-iconic-online]  
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Category: Games  
Team: Guns of Iconic Online  
Size: \$1500  
Funded: \$1500  
Funding: \$1500  
Success: 100%  
Funded: \$1500  
Funding: \$1500

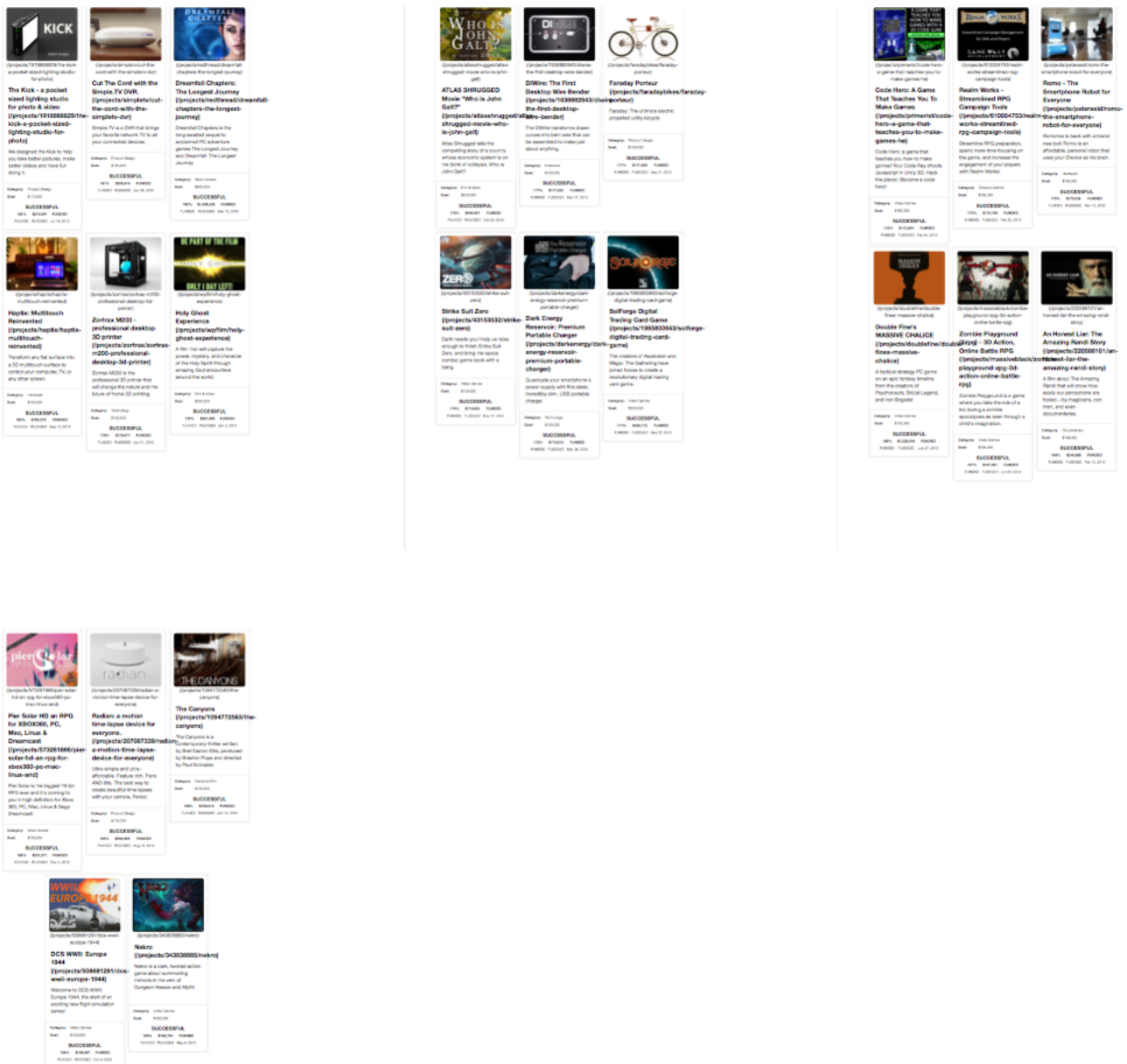


Figure 6 Appendix 1 List of eligible cases

Source: [www.kickspy.com](http://www.kickspy.com)