Funders' positive affective reactions to entrepreneurs' crowdfunding pitches: The influence of perceived product creativity and entrepreneurial passion

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ABSTRACT

This study draws upon affective events theory, research regarding funders’ perceptions, and research regarding expectation alignment between products and their presenters to develop and test an indirect effects model of crowdfunding resource allocation decisions. To test our hypothesized relationships, we drew upon a sample of 102 participants who each assessed ten different product pitches made by ten different entrepreneurs. Results from the study indicate that perceived product creativity is positively related to crowdfunding performance, both directly and indirectly, via positive affective reactions of prospective funders. Moreover, we find the indirect effect of product creativity is contingent upon the extent to which funders perceive an entrepreneur to be passionate, such that perceived entrepreneurial passion increases the positive nature of the indirect effect. Implications for future theory development, empirical research and implications for practitioners are discussed as well.

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1. Executive summary

Rewards-based crowdfunding enables entrepreneurs to garner funds in support of a specific purpose, which often centers on the development or distribution of a new, unfinished, or unproven product. Since objective evidence of product quality or potential is often unavailable, prospective funders must rely upon perceived elements of the pitch (e.g., Maxwell et al., 2011; Parhankangas and Ehrlich, 2014). Prior funding decision research has primarily focused on how pitch elements interpreted by individuals as predictors of success, such as economic viability, influence resource allocation decisions (e.g., Chen et al., 2009). There is evidence, however, suggesting that by engendering affective reactions in prospective funders, pitch elements may also influence resource allocation decisions more directly via an emotional route (Baron et al., 2006).

Even though a number of perceived pitch elements may be considered by prospective funders, one that has been consistently found to differentiate successful new products from failures is product creativity (Cooper and Kleinschmidt, 1987). A product’s creativity level may both inform funders’ judgements in terms of overall quality or potential (Szymanski et al., 2007; Ward, 2004) and elicit positive affective reactions in individuals who observe or experience them (Algoe and Haidt, 2009; Baron, 2008). This point is particularly important because prior research has demonstrated that positive affect may increase one’s...
willingness to cooperate (Dimotakis et al., 2012) and provide support to others (Jones and George, 1998). Within the funding context, however, individuals are often unable to differentiate between affective reactions they have toward a new product pitch from their reactions to the actual product (Cialdini, 2016). As such, it stands to reason that the degree to which prospective funders experience positive affective reactions may be influenced by pitch content.

In the current study, we draw from affective events theory to examine: (1) how funders’ perceptions of a product’s creativity may influence their resource allocation decisions (at least in part) by engendering positive affective reactions; and (2) how funders’ affective reactions to product creativity are influenced by perceptions of the entrepreneur(s) delivering the pitches. Using multilevel analyses, we test our conceptual model using a two-stage study design in which 102 participants each assessed ten different, product-based, funding pitches drawn directly from the crowdfunding platform Kickstarter.

The results indicate that funding pitches are more likely to receive financial support when funders perceive the product to be creative. In line with our mediation hypothesis, we find that the effect of perceived product creativity on crowdfunding performance occurs both directly as well as indirectly (i.e., via the degree to which funders’ experience positive affective reactions), suggesting the influence of both affective reactions and merit-based judgments. Moreover, our results suggest that the indirect effect of product creativity is contingent upon the degree to which funders perceive the entrepreneur as displaying passion, such that the greater the level of perceived entrepreneurial passion, the more positive the indirect effect of product creativity with crowdfunding performance via the positive affective reactions of funders.

Our findings offer several important contributions. First, we contribute to a growing body of evidence suggesting that resource allocation decisions are not only driven by funders’ economic judgments, but may also be influenced by other individual-level attributes, such as funders’ affective reactions to the pitch (e.g., Baron et al., 2006). Second, by explicitly focusing on product creativity, we extend the stream of literature concerning the influence of funders’ perceptions in determining their capital allocation decisions (Maxwell and Lévesque, 2014; Mitteness et al., 2012). Moreover, while this work has typically focused on independent effects, we provide evidence for an interaction effect between funders’ perceptions of the products pitched and their perceptions of the pitching entrepreneur (Kamins, 1989; Till and Busler, 2000). Third, our findings extend the use of affective events theory within the entrepreneurship literature to include how funders’ actions may influence prospective funders’ affective states, subsequently influencing their decision-making behavior. More broadly, we demonstrate how affective events theory can be used to predict the mechanisms through which the actions of organizational leaders may influence the reactions and behaviors of external stakeholders. Lastly, we integrate additive log-ratio transformation for the use of compositional data (Aitchison, 1986) into the entrepreneurship literature. In doing so, we provide an avenue through which scholars may obtain more nuanced measurements of ipsative decision contexts, such as resource allocation decisions made by entrepreneurs or investors alike.

2. Introduction

Rewards-based crowdfunding represents a relatively new and increasingly common conduit for acquiring financial resources. Rather than providing funds for the general development or growth of a new venture, crowdfunding enables entrepreneurs to garner funds in support of a specific purpose, which often centers on the creation or distribution of a new product (Belleflamme et al., 2014). Since entrepreneurs who utilize crowdfunding are often in the midst of developing products that are unfinished or unproven (Parhankangas and Ehrlich, 2014), prospective funders may be required to rely heavily upon perception-based elements of the pitch (e.g., creativity, passion) when determining whether, and to what extent, they will provide monetary support to the entrepreneur (Maxwell et al., 2011). Research examining perception-based elements of pitches has predominately focused on funders’ judgments regarding the merits of business related information that might be used to predict the odds of venture success (e.g., Chen et al., 2009). There is, however, some evidence to suggest that, by engendering positive affective reactions in prospective funders, entrepreneurs might also influence funding through emotional aspects of the product pitch (Baron et al., 2006).

New products often represent the focal point in entrepreneurs’ crowdfunding pitches. Although a number of perception-based elements may be considered, one that has consistently found to differentiate successful new products from failures is product creativity (Cooper and Kleinschmidt, 1987). Creativity is highly valued across cultures (Peterson and Seligman, 2004) and is considered elemental to entrepreneurship (Schumpeter, 1947; Ward, 2004). For these reasons, creative products (i.e., those that are deemed to be both novel and meaningful; Andrews and Smith, 1996) have the potential to elicit positive affective reactions in those who view them (Algoe and Haidt, 2009; Baron, 2008). Moreover, the extent of creative products’ affect-inducing potential may be influenced by the entrepreneur delivering the pitch. Indeed, individuals are often unable to partition out the affective reactions they have to new product pitches from the reaction they have to the actual products (Cialdini, 2016). Despite this relationship, research has generally focused on how funders’ judgements and affective reactions are independently influenced by their perceptions of the entrepreneur(s) (e.g., Baron et al., 2006; Chen et al., 2009). Thus, relatively little is known with regard to (1) how funders’ perceptions of a product’s creativity may influence their resource allocation decisions (at least in part) by engendering positive affective reactions; and (2) how funders’ affective reactions to product creativity are influenced by perceptions of the entrepreneur(s) delivering the pitches.

To answer these research questions, we integrate affective events theory [AET] (Weiss and Cropanzano, 1996) with research findings regarding the importance of funders’ perceptions about elements of observed product pitches (Maxwell et al., 2011; Mitteness et al., 2012), and the alignment in expectations of both products and their presenters (Till and Busler, 2000) to develop an indirect effects model. More specifically, our model examines the relationship between a pitched product’s perceived level of creativity, funders’ positive affective reactions to that perceived creativity, and, ultimately, their decision to provide capital in
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