



# The role of multidimensional social capital in crowdfunding: A comparative study in China and US<sup>☆</sup>



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## ARTICLE INFO

### Article history:

Received 31 July 2013

Received in revised form 17 January 2014

Accepted 16 March 2014

Available online 27 March 2014

### Keywords:

Crowdfunding

Social capital

Obligation

Crowdfunding performance

Comparative study

## ABSTRACT

How does an entrepreneur's social network impact crowdfunding? Based on social capital theory, we developed a research model and conducted a comparative study using objective data collected from China and the U.S. We found that an entrepreneur's social network ties, obligations to fund other entrepreneurs, and the shared meaning of the crowdfunding project between the entrepreneur and the sponsors had significant effects on crowdfunding performance in both China and the U.S. The predictive power of the three dimensions of social capital was stronger in China than it was in the U.S. Obligation also had a greater impact in China.

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## 1. Introduction

Web 2.0 technologies empower firms to outsource their internal business tasks and activities to individuals, or the crowd, on the Internet who are capable of completing these business tasks [1]. The crowd can also invest in business ideas and projects that are initiated by entrepreneurs in the crowd who do not have the traditional monetary resources, such as banks and investment agencies, to implement their ideas. These entrepreneurs can pledge for financial resources from the crowd in various open social communities. This emerging approach of raising money via the Internet is called crowdfunding. Massolution [2] reported that the volume of crowdfunding grew 81% from 2011 and reached \$2.7 billion in 2012. In addition, the reward-based type of crowdfunding [3,4] was expected to reach \$1.4 billion in 2013 [2]. According

to Kickstarter.com, one of the most popular reward-based crowdfunding sites, more than 5 million people have pledged over \$900 million to fund 13 million projects, 43% of which have successfully raised money.

The popular practice of crowdfunding has drawn attention from the research community. Some preliminary research findings are revealed in the following three areas. First, some studies have examined under what conditions entrepreneurs adopt crowdfunding rather than other fundraising approaches [5,6]. Schwienbacher and Larralde [5] find that successful crowdfunding projects are generally appealing to the crowd, and these projects request a smaller amount of capital. The entrepreneurs of these projects are knowledgeable about and skillful with Web 2.0 technologies. They are also willing to expand their expertise and skill sets. Second, some studies have explored the motivations of entrepreneurs and sponsors to participate in crowdfunding [3,7]. Entrepreneurs seem to have a diverse range of motivations to start crowdfunding projects, such as raising money, attracting the public, and obtaining feedback from the crowd for their products and services [3]. Project sponsors, conversely, are motivated to support those individuals who have similar interests and expertise and are like-minded. They are also motivated to become a member of the crowdfunding community where they can learn and share their knowledge and

<sup>☆</sup> This study is supported by the Natural Science Foundation of China (71302186), the Chinese Ministry of Education Humanities and Social Sciences Young Scholar Fund (12YJCZH306), the China National Social Sciences Fund (11AZD077), and the Fundamental Research Funds for the Central Universities (JBK120505).

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business ideas [7]. Third, some scholars have investigated the determinants of crowdfunding performance (e.g., [3,8]). Crowdfunding projects that are focused on non-profit objectives tend to be more successful, and projects that produce tangible products rather than provide services tend to attract more capital [3].

In addition, some studies have investigated the social network community where an entrepreneur is embedded. The amount of capital collected in crowdfunding is heavily dependent on the range of social networks where entrepreneurs belong [8,9]. Social network sites, such as Twitter and Facebook, are important platforms for entrepreneurs to connect with fans and friends who are willing to provide financial and information supports [10]. These studies have investigated the formation of social network ties, the geographic locations of sponsors, and the number of an entrepreneur's fans as these factors relate to crowdfunding performance (e.g., [7–9,11,12]).

This study extends the prior effort that examines the effect of social networks in two ways (e.g., [8,11]). First, the current literature is mostly exploratory and adopts research methods, such as the case study [13] and the grounded theory approach [7]. There is a lack of underlying theories and theoretical support in the current crowdfunding literature. This study aims to be one of the first to introduce the theory of multidimensional social capital to the crowdfunding literature. The theory suggests that the social networks in which individuals are embedded can facilitate resource exchanges and knowledge sharing among the individuals through the structural dimension (e.g., network ties), the relational dimension (e.g., trust), and the cognitive dimension (e.g., shared narrative) [14–16]. These three dimensions are widely adopted in the business and management literature (e.g., [14–16]). Based on the theory of multidimensional social capital, this study develops a theoretical model to examine the effects of the three dimensions of social capital on the performance of crowdfunding.

Second, social capital may have different impacts on crowdfunding in different countries after crowdfunding has become a global business practice. For example, while Kickstarter and Indiegogo have become well-known crowdfunding platforms in the U.S., some competing platforms have emerged in China, such as Demohour.com and Dreamore.com. To the best of our knowledge, little research has examined crowdfunding from a cross-cultural perspective. The cross-cultural literature and Guanxi literature suggest that culture has an important effect on an individual's social life and that people from different cultural backgrounds have different beliefs, attitudes, and behaviors [17–20]. This paper is one of the first to conduct a comparative empirical study to determine the differences of crowdfunding across cultures. We test our research hypotheses using data collected from China and the U.S. The results of such a comparative study will help researchers and industry practitioners understand how the basic principles of crowdfunding are applied worldwide and whether some universal rules can be revealed.

The remainder of this paper is organized as follows. We first provide a literature review of the current research in crowdfunding and the theory of multidimensional social capital. We then develop a research model and the corresponding research hypotheses. Next, we present an empirical study that was conducted in China and the U.S. Finally, we discuss the findings and draw some implications for research and practice.

## 2. Literature review

### 2.1. Crowdfunding

The concept of crowdfunding evolved from crowdsourcing, a term first coined by Howe [1] as “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.” Companies can obtain ideas, feedback, and solutions from their customers and business partners through crowdsourcing mechanisms [6]. In addition to collecting creative business ideas and solutions, crowdsourcing can be used to tap peoples' excess capacities and resources, such as monetary and financial resources [1]. This type of crowdsourcing where customers serve as investors is called crowdfunding. Crowdfunding is an effective funding channel for obtaining small- to medium-sized investments from the crowd [13,21].

In the current study, we focus on reward-based crowdfunding, which is defined as “crowdfunding involves an open call, essentially through the Internet, for the provision of financial resources either in the form of a donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes” ([3], p. 6). This definition of crowdfunding does not cover other models, such as lending-based crowdfunding [22] and equity-based crowdfunding [4].

Crowdfunding is a popular practice in the music industry, where fans are not only consumers of the music but also involved in the production of albums. Some Internet-based platforms, such as SellaBand, MyMajorCompany, and Artistshare, provide music artists with the ability to raise funds from fans. Artists post their songs on the various websites. Fans then access and listen to these songs for free. These fans then decide whether to invest in the production of the songs. If the total amount of money raised for an artist reaches the threshold of the funding goal, the artist can produce the album using the money that was raised. Sponsors or investors of these songs are compensated by receiving some revenues from the album or are rewarded by being allowed to participate in the album production process [6]. In addition, crowdfunding can be observed in the publishing industry, where the crowd helps professional journalists research and publish articles [23].

Belleflamme et al. [24] summarize three characteristics of crowdfunding. First, crowdfunding initiatives often rely on the advanced purchase of products that are not available on the market. Entrepreneurs who start crowdfunding projects describe what the final products are and offer a list of monetary or nonmonetary rewards for sponsors who are willing to invest. Second, consumers or sponsors pay more in the pre-ordering process than do traditional consumers, who wait to buy the finished products on the market. Third, sponsors identify themselves as members involved in the production process, which ranges from the initial donation of money to direct involvement in the entire project. The third characteristic is considered one major benefit of crowdfunding over traditional funding approaches because crowdfunding can involve consumers or sponsors and thereby enhances their experiences in the complete production process. Schwienbacher and Larralde [5] identify three crowdfunding business models: donation, passive investment, and active investment. The donation model has long been implemented in non-governmental organizations. Passive investment means that crowdfunding sponsors have limited interaction and communications with entrepreneurs but still aim to obtain rewards, tailored products, honorary recognitions, or other forms of revenue sharing from crowdfunding projects. In contrast, active investment provides crowdfunding sponsors with opportunities to not only invest money but also constantly interact with entrepreneurs by, for example, helping entrepreneurs with new features, testing products, and providing directions and feedback [5,9].

### 2.2. Social capital theory

Social capital lies in an individual's social structure, which is different from other types of physical capital [64]. There are different definitions and conceptualizations of social capital in different academic disciplines. For example, Coleman [64] defines

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