



# The influence of online information on investing decisions of reward-based crowdfunding☆



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## ABSTRACT

How does online information influence investor decisions? Funders or investors have access to a variety of information about a project or product when they make investment decisions. Which kind of information affects investor behavior the most? Based on the elaboration likelihood model, we developed a research model and conducted an empirical study using objective data collected from a Chinese crowdfunding website. It was found that signals of quality and electronic word of mouth have significant positive effects on funder investment decisions. Results show that larger introduction word counts and video counts make funders feel the project has higher quality, and higher “Like” counts and online reviews make funders feel the project has good electronic word of mouth. Furthermore, analysis of the data here reveals that the central route information (signals of project quality) and the peripheral route information (e-word of mouth) have almost equal effects on funder investment decisions in the Chinese crowdfunding context. On the other hand, the central route was significantly more important for Science & Technology and Agriculture projects, whereas the peripheral route was more important for Entertainment and Art projects.

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## 1. Introduction

In recent years, crowdfunding has become a valuable alternative source of funding for entrepreneurs seeking external financing. It is an emerging approach for entrepreneurs to implement their ideas despite not having traditional monetary resources such as banks and venture capital. Through crowdfunding platforms, the crowd can invest in business ideas and projects, and entrepreneurs can raise funds via the Internet. According to a report from [massolution.com](http://massolution.com) (2013), global crowdfunding experienced accelerated growth in 2014, expanding by 167% to reach 16.2 billion dollars, up from 6.1 billion dollars in 2013. In 2015, the industry is set to more than double once again; it is well on its way to raising 34.4 billion dollars. Using one of the most popular reward-based crowdfunding sites, [kickstarter.com](http://kickstarter.com), >3.5 million people from nearly 20 countries on Earth pledged over 2.47 billion dollars to bring 108,437 creative projects to life, from the date [kickstarter.com](http://kickstarter.com) established till now. In China, crowdfunding sites emerged in 2013 and as of the end of 2014, the number of crowdfunding platforms was over 115 and over 0.9 billion Yuan had been raised using them.

Depending on what investors receive for their contributions, the categorization of crowdfunding platforms has four main types: donation-

based, reward-based, lending, and equity (Hemer, 2011). Prior studies have investigated all four kinds of crowdfunding platforms from different perspectives: Meer (2014) used data from a donation-based crowdfunding website to estimate the effect of price efficiency on giving, suggesting that price efficiency plays a crucial role in donation crowdfunding project performance and that competition plays an important role in the market for donations. Mollick (2014) summarized a description of the underlying dynamics of success and failure among crowdfunded ventures based on a dataset of over 48,500 reward-based projects. Those results suggesting that personal networks and underlying project quality are associated with the success of reward-based crowdfunding projects. Allison, Davis, Short, and Webb (2015) found that in lending crowdfunding platforms, lenders respond positively to narratives highlighting the venture as an opportunity to help others, and less positively when the narrative is framed as a business opportunity. In the equity crowdfunding context, Ahlers, Cumming, Günther, and Schweizer (2015) used signaling theory to examine the impact of firms' financial roadmaps, external and internal governance, and risk factors on fundraising success. As we can see from the existing literature, most prior researchers tried to find how entrepreneurs who started various projects can raise more money in crowdfunding sites from a “creator's” perspective. They do not provide a model of the formation of funders' attitude toward a crowdfunding project nor how such attitudes relate to the funders' online investing or funding decisions. Few studies explore how funders evaluate the content quality of crowdfunding project information. This limits our understanding of how online information about crowdfunding projects can be managed to increase the crowdfunding project success ratio.

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The elaboration likelihood model (ELM) is a major theoretical model used in online behavior research (Cheng and Ho, 2015; Chu and Kamal, 2008; Gupta and Harris, 2005; Ho and Bodoff, 2014; Shih, Lai, and Cheng, 2013; Park and Kim, 2008; Lee and Youn, 2009; Sher and Lee, 2009). In preceding literature, information about production quality and specifications is always classified as the central route, and the electronic word-of-mouth cues are the peripheral route (Cheng and Ho, 2015). Several researchers have explored the influence of factors related to these two routes on consumers' final attitudes toward the product and willingness to purchase (Ho and Bodoff, 2014; Luo, Wu, Shi, and Xu, 2014; Lee, Park, and Han, 2008; Lowry et al., 2012). However, few studies explore the effect of the two routes of ELM on decisions to invest in a crowdfunding context. As said in former chapter, the categorization of crowdfunding platforms has four main types, the process complexity and risk varies greatly in these four different categorizations. In donation-based crowdfunding platforms, investor join crowdfunding activities without desire to get rewards, they donate their money and time due to sympathy and empathy factors (Gerber, Hui, and Kuo, 2012; Meer, 2014). In donation-based crowdfunding context, the process complexity and risk are both very low, investor act like donator (Hemer, 2011; Gerber et al., 2012; Meer, 2014), so we cannot implement ELM model in donation-based crowdfunding research. Contrast to donation-based crowdfunding, the process complexity and risk are much higher in lending and equity crowdfunding, investors always face much more information and have much deeper consideration (Hemer, 2011; Joenssen, Michaelis, and Müllerleile, 2014). In some lending and equity crowdfunding platforms, platform provide due diligence service to online investors. Meanwhile, some investors require creators provide project finance roadmap (Ahlers et al., 2015; Magdalena and Bart, 2015). All of these illustrate that the decision process is very complex in lending and equity-based crowdfunding context, investors have different perception path and behavior patterns in different crowdfunding context. In prior literature, some researchers have figured out investors always act like consumers in reward-based crowdfunding platforms, because the major business model of reward-based crowdfunding is "pre-selling" (Hemer, 2011; Mollick, 2014; Massimo, Chiara, and Cristina, 2015; Magdalena and Bart, 2015). When investors considering whether to fund these "pre-selling" project, their online behavior just like consumers buy goods (Hemer, 2011; Mollick, 2014). So, in reward-based crowdfunding context, we can use ELM to investigate factors affecting the investment decisions about reward-based crowdfunding projects. Potential factors affecting funders' decisions are classified into one of the two routes. Based on previous literature, this study defines the signals of project quality as the central route and electronic word-of-mouth as the peripheral route in assessing the investors' attention to the two routes and the routes' influences on investment decisions.

This study extends the prior effort that examines the factors of crowdfunding projects in two ways. First, crowdfunding is an emerging field of research (Zheng, Li, Wu, and Xu, 2014). Most of the preliminary literature applied exploratory research methods, such as the case study (Hemer, 2011; Ordanini, Miceli, Pizzetti, and Parasuraman, 2011; Schwienbacher and Larralde, 2010) and the grounded theory approach (Gerber et al., 2012; Bradford, 2012). There is a lack of underlying theories and theoretical models in the current crowdfunding literature. This study aims to be one of the first to introduce the elaboration likelihood model to the crowdfunding literature. The elaboration likelihood model (ELM) is a persuasion theory (Petty and Cacioppo, 1986). When a person is exposed to messages, ELM models how the characteristics of the message influence the person's attitude formation and, subsequently, his or her behavior (Ho and Bodoff, 2014). A funder or investor will face a variety of information about a project or product when he or she considers whether to invest or not. Thus, ELM is an appropriate basis for modeling the factors that influence investor attitude formation toward crowdfunding platform project information as a whole. On the basis of the theory of the elaboration likelihood model, this study

develops a theoretical model to examine the effects of the central route and peripheral route on investment decisions by funders.

Second, there are different types of projects on crowdfunding websites. Projects are categorized by Kickstarter into a number of categories, including Film, Dance, Art, Design, and Technology. In [zhongchou.com](http://zhongchou.com) website, a famous crowdfunding platform in China, reward-based projects are divided into Entertainment, Games, Science and Technology, Agriculture, Art, and Publishing. Product type influences the effect of online information on people's online behavior (Mudambi and Schuff, 2010; Weathers, Sharma, and Wood, 2007; Huang, Lurie, and Mitra, 2009). Similarly, when funders face different kinds of projects, the information that draws their attention is not the same (Weathers et al., 2007). For example, when funders consider whether to invest in a Science and Technology product, they will pay attention to the specifications and care more about the indexes of production characteristics. However, if an investor wants to join an Entertainment activity through crowdfunding, he or she may care more about the online reviews of this activity. This paper investigates which kind of information attracts the most attention of funders when they make decisions regarding different kinds of reward-based crowdfunding projects. Specifically, this study will investigate which route, the central route or peripheral route, will have higher influence on the funders' investment decisions.

The remainder of this paper is organized as follows. We first provide a literature review of the current research in crowdfunding and the elaboration likelihood model. Then, we develop a research model and the corresponding research hypotheses. Next, we present an empirical study using data collected from a Chinese crowdfunding website. Finally, we discuss the findings and draw some implications for research and practice. We hope the results of such an empirical study will help researchers and industry practitioners understand how the basic principles of crowdfunding apply worldwide and whether some universal rules can be revealed.

## 2. Literature review

### 2.1. Crowdfunding and reward-based crowdfunding

The research community has paid attention to crowdfunding due to its popularity in practice. The preliminary research findings focus on the following three areas. First, some studies have discussed the definition of crowdfunding and the crowdfunding business model. The concept of crowdfunding originated from crowdsourcing, a broader concept, which refers to using the crowd to obtain ideas, feedback, and solutions to develop corporate activities (Belleflamme, Lambert, and Schwienbacher, 2014; Bayus, 2013; Kleemann, Voß, and Rieder, 2008). In one of the few published overviews of the topic, Schwienbacher and Larralde (2010) defined crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes." Buysere, Gajda, Kleverlaan, and Marom (2012) stated that crowdfunding could be defined as "a collective effort of many individuals who networked and pooled their resources to support efforts initiated by other people or organizations." However, Mollick (2014) argued that for academics examining new ventures and entrepreneurial finance where crowdfunding is particularly salient, a narrower definition of the term is preferable. He gave this definition of crowdfunding: "Crowdfunding refers to the efforts by entrepreneurial individuals and groups cultural, social, and for profit to fund their ventures by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries." After clarifying the definition of crowdfunding, Hemer (2011) argued that the categorization of the four main types of crowdfunding (donation-based, reward-based, lending, and equity) is based on what, if anything, investors receive for their contributions, and the legal complexity and

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