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Exploring Entrepreneurial Legitimacy in Reward-Based Crowdfunding

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Venture financing through social networks has become a global phenomenon. The processes and drivers of crowdfunding require careful study to identify similarities and distinctions from traditional venture finance. The demonstration of project legitimacy is especially interesting, because online crowdfunding limits investors' access to the entrepreneur and organisation. How do rewards-based crowdfunding projects establish and demonstrate legitimacy in this virtual, impersonal context? We employ a novel dataset collected from the Kickstarter crowdfunding platform to explore the characteristics of successful projects, including legitimating signals and content. The data reveals numerous findings linking project characteristics to legitimacy and success. First, lower funding targets and shorter duration signal legitimacy by setting modest, achievable expectations. Rewards structures, like traditional equity investment terms, appear to generate a sense of legitimate investment returns. Finally, narrative legitimacy in the online crowdfunding context may derive more from the online platform community than the visual pitch. Our study reveals a more nuanced picture of legitimacy-formation during rewards-based crowdfunding, with implications for theories of resource assembly and the practice of venture finance.

Keywords: crowdfunding, organisational legitimacy, entrepreneurial legitimacy, resource assembly, venture capital

Word count: 6257

1 Introduction

Early stage venture funding is difficult. Accelerating rates of innovation and market adoption increase the attractiveness of distributed online financing for new ventures. Although online social networking emerged as a consumer-driven service, entrepreneurs have now begun to exploit formal and informal networks for capital assembly.

Crowdfunding, a form of crowdsourced venture funding, is an online ecosystem experiencing rapid growth. Resource deficient entrepreneurs utilise crowdfunding as an innovative capital management mechanism to bypass early-stage capital gaps by pre-funding production and sales (Harrison 2013). Entrepreneurs target “amateurs” or affinity-based consumers to pre-finance a service or product, rather than pitch professional investors. Crowdfunding helps entrepreneurs and investors reduce the risk of underfunding a project, since investments are not executed unless the minimum funding amount is met.

Crowdfunding may facilitate legitimacy development for nascent ventures. The market-facing funding approach offers entrepreneurs a “tailor-made” solution to assemble and allocate finance (Belleflamme et al. 2013). Crowdfunding engages prospective customers and investors in the funding, (pre-) launch, or growth of entrepreneurial projects and firms (Burtch et al. 2011; Mollick 2014). Entrepreneurs can establish strong networks in the market and utilise traction from the distributed group of individuals to increase organisational legitimacy and facilitate financial capital assembly.

As Reuber and Fischer (2011) note, online reputation and brand communities support entrepreneurial activities in internet-enabled markets by attracting investors: the firm’s reputation with customers is co-created with legitimacy in an online environment. Online brand communities may confer market validity, encouraging investors and customers to engage with an entrepreneurial venture. Crowdfunding enables entrepreneurs to create, develop and foster online reputation and community using social-psychological incentives (Lehner 2013). Some entrepreneurs exploit these heterogeneous communities to mobilize socially embedded financial capital.

Legitimacy may be an important driver of financial resource assembly for these ventures (Mollick 2013). As crowdfunding is a recent phenomenon, our understanding of the drivers of legitimacy during crowdfunding and venture development has not been investigated. This study explores (1) how entrepreneurs facilitate organisational legitimacy creation during crowdfunding, and (2) how the process affects the financial outcome in reward-based crowdfunding. We discuss how entrepreneurs promote legitimacy through specific crowdfunding features. Our study reveals some of the narrative processes that entrepreneurs deploy to establish legitimacy in reward-based crowdfunding.

2 Research Motivation

2.1 Crowdfunding practice

The fundamental concept of crowdfunding – assembling financial capital from social networks – is not new. Historical examples of crowdfunding include the (family) partnership system in the late middle age (Lane 1944), charitable fundraising (Bremner 1996; Ingenhoff and Koelling 2009) and microfinance (Morduch 1999). However, recent developments in information and communication technology (ICT) facilitate the development and professionalization of crowdfunding via distributed, open access, online systems. Specialised online crowdfunding platforms are at ‘the heart of crowdfunding [and] drive the implementation of the crowdfunding model’ (Ingram et al. 2013, 1).

Crowdfunding platforms are developing into capital intermediates (Harrison 2013; Lehner 2013). There were more than 800 active online crowdfunding platforms in 2012, listing over 1.1 million crowdfunding projects and invested capital of US\$2.7 billion (Massolution 2013). Kickstarter surpassed US\$1 billion in funded projects in early 2014; crowdfunding's growth may ultimately impact the traditional venture capital market. The rapid growth of crowdfunding justifies research to better understand similarities and distinctions from traditional venture finance.

2.2 Crowdfunding theory

Nascent entrepreneurs and *de novo* firms face the disadvantage of small size and limited access to resources. Some entrepreneurs overcome the 'liability of newness' (Stinchombe 1965) through a series of techniques and actions to facilitate resource assembly (Hitt et al. 2011; Ciabuschi et al. 2012). It is unclear whether innovative ICT platforms are simply another tool in the entrepreneur's resource assembly toolkit, or an entirely distinct mechanism for capital formation processes. Rewards-based crowdfunding presents additional challenges to the traditional model, because it may represent a mechanism for generating "pre-production sales," reducing or eliminating the venture's initial working capital deficit.

Crowdfunding takes traditional "offline" business processes into an online environment, enabling entrepreneurs to nurture and facilitate business development. Features such as online-based communities and interaction mechanisms generate new settings for capital assembly, suggesting the potential for distinctive or novel entrepreneurial processes and potentially different success drivers. The use of ICT-enabled tools may also introduce different investment dynamics effecting processes and activities associated with organisational legitimacy creation and resource assembly.

The links between venture creation, resource assembly, and crowdfunding processes merit careful investigation. Crowdfunding, including rewards-based crowdfunding, may require new theories of resource assembly and venture heterogeneity. The drivers, processes, and outcomes of venture capital activity may not be entirely applicable in the context of crowdsourced finance.

3 Literature Review

Crowdfunding represents an apparently novel platform for early stage capital assembly. Its underlying practices and mechanisms have been examined in various literatures, including the resource-based view, social network theory, and micro-economic pricing models. We examine the characteristics of crowdfunding through the lens of prior research to specify novel aspects and potential deviations from prior research.

3.1 Crowdfunding as transaction mechanism

Four models of crowdfunding have been observed: donation, reward, lending, and equity-based. All rely on the crowdsourcing mechanism to obtain capital from a previously distributed and heterogeneous group (the crowd) who provide the capital injection in exchange for tangible or intangible returns.

Mollick (2014) argues that the difference between crowdfunding models lies in the goals of the entrepreneurs and supporters. Equity and lending based models rely on relatively traditional investment mechanisms. Lending-based model link founders and supporters in a debtor and lender relationship, and the equity-based model (similar to traditional venture capital) creating an entrepreneur-investor relationship. In donation-based models, project creators are social entrepreneurs while supporters serve as philanthropists. In the case of reward-based crowdfunding, the predominant online

model, entrepreneurs are characterized as “creators” or “project founders” and project supporters represent early customers or co-creators rather than investors.

The donation-based crowdfunding model is relatively well-aligned with models of social entrepreneurship (Lehner 2013). The other three models align more closely with traditional venture capital, since they assemble risk capital for entrepreneurial activities (Mollick 2013). Reward, lending, and equity-crowdfunding models feature a tangible or monetary exchange. This creates contractual relationships and instruments between the entrepreneur and stakeholders comparable to those in traditional venture capital. (Ley and Weaven 2011; Agrawal et al. 2011). Crowdfunding also provides an ecosystem facilitating broader resource exchange between stakeholders (Lambert and Schwenbacher 2010). This potentially facilitates the collective development of a business plan or other knowledge exchange not found in venture capital, which judges rather than co-creates the business plan. Crowdfunding participants may be able to use these ecosystems to increase market awareness and receive customer feedback.

Crowdfunding may be understood as a product pre-ordering model that enables price discrimination among early adopters (Belleflamme et al. 2013). For example, reward-based crowdfunding projects commonly have pre-order mechanisms integrated into their reward-structure (e.g. invest US\$10 to a music project and receive the recorded music album once it is completed). This presents a zero-cost capital management technique to fuel organic growth in early business stages (Vanacker and Manigart 2010; McKelvie and Wiklund 2010).

Crowdfunding may also facilitate investment based on alternative investor utility factors, including social good or other non-fiduciary values (Lehner 2013). From this standpoint, legitimacy incorporates social *and* business goals in investors’ evaluations. In this case, social and psychological factors may be equally or more important than strictly financial returns. This suggests that narrative may play a significant role in successful crowdfunding activities by establishing a convincing and compelling investment story distinct from the novel product or service attributes (Lounsbury and Glynn 2001).

Crowdfunding is an inherently distributed and socially-embedded process. Equity- and lending-based crowdfunding activities may incorporate significantly more social and psychological processes than observed in traditional venture capital (Mollick 2014). Although equity-crowdfunding is financially driven, investors might obtain utility from the excitement or sense of community associated with the process itself. This is supported by the characteristics of some equity-crowdfunding contracts, which are generally long-term and non-voting equity investment contracts (e.g. 10 years) without dividends.

3.2 Crowdfunding as social exchange

Social dynamics are fundamental features in the crowdfunding ecosystem, which is constructed around the relationships in heterogeneous social networks. Crowdfunding is intended to leverage the “wisdom of the crowd,” (Surowiecki 2004), but entrepreneurs must identify or create a suitable community accessible via the online platform (Belleflamme et al. 2013). Peer-effects are important in these communities since membership and communications are publicly observable and likely to influence individual decisions and pitch outcomes as Ward and Ramachandran (2010) demonstrate. The development of social interactions surrounding a given project, and the nature of the development process itself, may be critical to the outcome of the crowdfunding effort (Burtch et al. 2011). The demonstrated interest and positive conversation about a given project may be drivers of project legitimacy – supporting some projects just enough but others not at all (Burtch et al. 2011; Zhang and Liu 2012)

Resource assembly through traditional venture capital tends to be geographically contingent (Rocha 2004; Harrison et al. 2010). By contrast, crowdfunding may facilitate resource assembly that is independent of geography. Although ICT reduces a variety of business barriers (Anderson 2004), there is some evidence that offline social relationships and perceptions of trust may not be easy to entirely virtualize. We cannot expect new business models or wider broadband to eradicate cultural and institutional boundaries and geographically de-structure investment clusters. We agree with Mollick (2014) and Agrawal et al. (2011) who argue that space continue to matter and offline social relationships and perceptions of trust continue to shape patterns of crowdfunding interactivity: the potential of crowdfunding to overcome long-distance investment barriers is limited. Nor is crowdfunding likely to globalise attitudes towards risk-taking in science-based ventures, since crowdfunding investors bring to sites their inherited predilections and habituations. International patterning of technology-based firm investments is likely to persist for some time, despite the access opportunities crowdfunding sites create. Moreover, we expect urban clusters of particular technologies (software or games in San Francisco, apps in Bangalore) to continue providing new business pitches and investors from amongst offline communities with pre-understanding of the technology.

3.3 Crowdfunding as legitimacy building

Organisational legitimacy helps explain why some nascent entrepreneurial activities develop into successful firms and others do not (Suchman 1995). Indeed, Ahlstrom and Bruton (2002) found that organisational legitimacy may be understood as a resource, as well as a signal for resource assembly in entrepreneurial processes and activities. The lack of organisational legitimacy restricts access to prospective resource holders and hinders early-stage development (Alvarez and Busenitz 2001; Tornikoski and Newbert 2007). Establishing legitimacy may facilitate faster and efficient capital acquisition (Lounsbury and Glynn 2001). Legitimacy and resource assembly are likely co-created during organizational development (Zimmerman and Zeitz 2002). Legitimacy gives ventures access to external stakeholders and is associated with inflow of exogenous resources (Mason and Harrison 2000; Chen et al. 2009).

Organizational legitimacy is associated with a variety of individual and firm-level characteristics. These include founder education level and experience as well as the heterogeneity of the entrepreneurial team (Cohen and Dean 2005; Packalen 2007; Balboa and Marti 2007; Zimmerman 2008; Dalziel et al. 2011). Firms may institutionalize entrepreneurial narrative into artefacts or market-facing documents to communicate internally-generated legitimacy (Aldrich and Fiol 1994); Delmar and Shane 2004). Firms may seek conferral of legitimacy from external sources through certifications or authorizations (Rao 1994; Sorescu et al. 2007). Some ventures seek legitimization by communicating projections of the firm's intended operational or commercial pathway (Baron and Markman 2003; Anderson 2005). Legitimacy may be primarily conferred through intangible and socially-centred resources precisely because the firm has no financial history, operations, or assets that may be rationally valued (Khair 2010).

It is possible that online crowdfunding platforms play to the strengths of new venture legitimization. The lack of assets or operations is not a hindrance to establishing a positive reputation in a fully virtualized context. Crowdfunding participants may have little or no expectation for physical demonstrations of venture viability, precisely because the media establishes a level playing field in which reputation may be the primary currency.

The evidence, however, suggests that legitimacy is not easily obtained during crowdfunding. Mollick's (2014) study reports that unsuccessful projects fail their funding target by large amounts while successful projects exceed their targets by small amounts. This suggests that project legitimacy is relatively difficult to achieve. Projects that do achieve legitimacy do not generally benefit from a "tipping point" model of broad acceptance.

3.4 The role of narrative in establishing crowdfunding legitimacy

Cultural entrepreneurship theory emphasises that the subjective perception of the firm to external agents, regardless of the objective value of the firm's resource stock, may be essential to legitimization and ultimate resource assembly (Lounsbury and Glynn 2001). This contrasts with bounded rationality approaches to venture capital investment that rely on models of risk minimization and management (Zimmerman and Zeitz 2002). When risks are not easily quantified at new ventures, 'stories can provide needed accounts that explain, rationalize, and promote a new venture to reduce the uncertainty typically associated with entrepreneurship' (Lounsbury and Glynn 2001, 546).

Research suggests that effective storytelling is essential to establishing firm legitimacy and acquiring capital (Roddick 2000; O'Connor 2004). By packaging the firm's intangible and tangible resources into a meaningful bundle, entrepreneurial narratives reduce the appearance of uncertainty to external stakeholders, encouraging investment at the margin (Shane and Cable 2002; Smith and Anderson 2004). Stories provide a link for shared sense-making between the entrepreneurs and the stakeholders (Martens et al. 2007). In this framework, the video pitch and text narrative provided by the entrepreneur would appear to be the primary tools for conveying a compelling narrative. Potential investors are attracted to projects that *appear likely to succeed* (Mollick 2014).

Crowdfunding enables entrepreneurs to facilitate organisational legitimacy primarily through cultural entrepreneurship activities rather than via demonstrated resource configurations. In contrast to the traditional venture capital market, crowdfunding leverages interactive ICT features to create a dynamic environment that could nurture and build organisational legitimacy.

Using crowdfunding mechanisms, entrepreneurs are able to construct storylines that communicates static information but also establishes an interactive narrative through specific online related features such as visual updates and synchronous and asynchronous textual communication. We anticipate verifying Reuber and Fischer's (2005) idea that active engagement facilitates ventures establishing organisational legitimacy with their customers, leveraging cultural dynamics inside online communities to support capital assembly.

4 Research design and data

This study seeks to link specific features of reward-based crowdfunding platforms with organisational legitimacy creation and successful crowdfunding outcomes. We apply an explorative empirical research method. Research on crowdfunding is relatively new, so our focus is on identifying patterns and potential causal relationships to generate preliminary conclusions and advance further study (Cornelius et al. 2006; Blaikie (2011).

We analyse the dynamics and particular features in crowdfunding, contributing towards knowledge of entrepreneurial legitimacy creation in reward-based crowdfunding. Whilst we present data that has been subject to statistical analysis, we use it not to validate a hypothesis, instead given that this is an emergent area of research

we discuss the issues arising out of the data from an organisational legitimacy perspective triangulating with existing theory to develop new (Eisenhardt 1989).

Our exploratory analysis draws upon dataset derived from Kickstarter (2014), a successful crowdfunding platform established in 2009 that employs ICT features facilitating entrepreneurial organisational legitimacy construction and resource exchange and is the leading reward-based crowdfunding platform. According to Kickstarter's statistics 136,000 projects were launched using Kickstarter since 2009, reporting an investment volume of US\$1 billion and a community of *circa* 5.7 million individual backers (Kickstarter Statistics 2014). In terms of crowdfunding success rate, Kickstarter reports that around 57,500 projects were successful (42.3%) in their financial capital assembly, capturing an investment volume of US\$867 million (86.7% of the total investment volume). Approximately 74,500 projects (54.8%) were unsuccessfully funded with a total investment size of US\$118 million, representing 11.8% of the total investment volume of Kickstarter (Kickstarter Statistics 2014).²

4.1 Data collection

We used a web data extraction method to capture detailed data from the Kickstarter website, similar to other crowdfunding studies (Mollick's 2014). Web data extraction facilitates the collection of relatively large datasets with high levels of data validity because the site is in active use and the data generated specifically for web-based transmission (Kosala and Blockeel 2000; Thelwall 2001; Chang et al. 2006).

We were able to capture activities on all projects listed on Kickstarter in New York between June and July 2012 having chosen New York since it originates 13.5% of all US Kickstarter crowdfunding and 11.9% of all global Kickstarter crowdfunding projects (Kickstarter 2014). This dataset allows us to explore Kickstarter's diversity and enables us to generalize our findings to the Kickstarter population. By collecting variables such as the project-funding target, number of backers, the reward-level structure, and other project related data we are able to provide a first attempt to study entrepreneurial practices in the development of organisational legitimacy and capital assembly in reward-based crowdfunding. The data sample represents 421 projects and captures an investment volume of US\$3,514,125 provided by 44,578 backers.

4.2 Variables

Here we detail and justify the variables featuring in our study, which we chose as (1) projects required to provide information variables, and (2) they represent potential organisational legitimacy criteria as those variables are publicly observable and thus likely to influence crowdfunding efforts.

Funding target: Every crowdfunding project requires a funding target, which represents the amount of financial capital that project creators or entrepreneurs seek to assemble. On Kickstarter, entrepreneurs only receive the assembled financial capital when the funding target is achieved - the threshold crowdfunding model.

Final funding: The total amount of funds that the project collected between the starting date and the designated end date of the crowdfunding campaign. Reporting a final funding lower than the funding target means an unsuccessful effort. The final funding amount may be larger than the funding target, indicating that the respective crowdfunding project is overfunded.

Funding ratio: The funding ratio denotes the percentage of the funding target achieved at the end date of the crowdfunding campaign.

² The provided percentages do not equal 100% as numbers were rounded.

Backers: Individuals who financially support a project through Kickstarter represent the number of backers per project.

Funding per backer: Financial support per backer calculated as the final funding amount divided by the number of backers where high funding per backer indicates a project attracting less backers transacting a higher financial support. *Argumentum e contrario*, project creators were successful in communicating organisational legitimacy to stimulate backers to perform higher financial injections into the project.

Duration: The period of time (days) which projects can receive financial support from backers, which at Kickstarter is a maximum of 60 days.

Reward-level: The number of different reward-levels from which backers can select to financially support a project. Reward-levels are created and defined by project creators. Every project has a minimum of one reward-level with no maximum. Each reward-level will be given a predetermined price (maximum of US\$10.000 on Kickstarter) and a specific configuration of intangible or tangible qualities.

Visual pitch: In addition to a textual pitch, projects can implement videos. This variable represents a dummy variable, where dummy = 1 if a crowdfunding project has a video.

Founding team composition: Crowdfunding projects provide additional information about the project creator in form of a user profile. This variable explores whether a project was created by an individual or by a team and categorises the number and composition of the founding team.

4.3 Descriptive statistics

Table 1 provides the descriptive statistics of the main variables.

Table 1. Descriptive statistics.

Successful							
Variables	N	Min	p25	Mean	p75	Max	SD
Funding Target (\$)	227	100.00	2500.00	9460.61	10,000.00	100,000.00	14,132.11
Final Funding (\$)	227	100.00	3101.00	12,903.67	11,920.00	287,342.00	26,228.73
Funding Ratio (%)	227	100.00	103.76	133.31	133.89	953.50	79.85
#Backers	227	5	40	170	140	4242	374
Funding/Backer (\$)	227	15	49	88	98	729	73
#Duration	227	8	30	33	36	60	11
#Video	No	21					
	Yes	206					
#Reward-Levels	227	2	7	9	10	32	4
Failed							
Funding Target (\$)	177	57.00	5000.00	31,840.86	30,000.00	1,000,000.00	82,803.79
Final Funding (\$)	177	0.00	45.00	3244.36	2631.00	53,422.00	8082.12
Funding Ratio (%)	177	0.00	.46	12.04	17.00	82.57	17.02
#Backers	177	0	1	33	29	515	72
Funding/Backer (\$)	177	0	23	74	97	1007	104
#Duration	177	10	30	37	45	60	13
#Video	No	33					
	Yes	144					
#Reward-Levels	177	1	6	9	10	33	5
Cancelled							
Funding Target (\$)	17	1500.00	5000.00	28,794.12	50,000.00	124,000.00	36,920.97
Final Funding (\$)	17	0.00	100.00	631.82	775.00	4550.00	1083.96
Funding Ratio (%)	17	0.00	.88	5.84	3.86	56.88	13.51
#Backers	17	0	2	9	14	37	9
Funding/Backer (\$)	17	0	24	61	89	228	60
#Duration	17	21	30	37	41	60	11
#Video	No	2					
	Yes	15					
#Reward-Levels	17	1	7	9	11	16	4
Total							

Funding Target (\$)	421	57.00	3000.00	19,650.57	15,000.00	1,000,000.00	56,166.83
Final Funding (\$)	421	0.00	360.00	8347.09	7647.00	287,342.00	20,547.55
Funding Ratio (%)	421	0.00	4.50	77.18	112.49	953.50	85.19
#Backers	421	0	7	106	96	4242	287
Funding/Backer (\$)	421	0	38	81	97	1007	87
#Duration	421	8	30	35	40	60	12
#Video	No	56					
	Yes	365					
#Reward-Levels	421	1	6	9	10	33	4

From the total sample of 421 projects, 227 projects (53.9%) successfully achieved their funding target, 177 projects (42%) were unsuccessful and 17 projects (4%) were cancelled before they reached the official end date (Table 1). Success rate in the sample is about 10% higher than the official Kickstarter statistics (Kickstarter Statistics 2014). The sample exhibits a strong deviation in terms of project's funding target in reward-based crowdfunding, with a minimum funding target in our sample of US\$57, and the maximum funding target of US\$1,000,000. The average funding target for our sample size is US\$19,650. The average final funding is US\$8,347. The largest project achieved a final funding of US\$287,342. The average number of backers for projects is 106 individual backers. The largest backer number for a crowdfunding project is 4242. The samples average funding per backer is US\$81.27.

5 Findings

5.1 Funding target and final funding

Successful projects tend to have a much lower funding target (US\$9,415) in comparison to unsuccessful (US\$32,002) and cancelled (US\$30,281) projects (Table 1). However, the mean final funding for successful projects is US\$12,807, hence, successful projects tend to get over-funded by 32.6% on average. Figure 1 illustrates the distribution of the sample plotted against projects funding target and funding ratio showing that the density of projects lie in the funding area between 100 – 150% for successful projects and between 0 – 25% for unsuccessful projects. The mean funding ratio value for successful projects is 133.31% whilst for unsuccessful and cancelled projects the funding ratio illustrates that projects fail by large margin, with mean values of 12.04% and 5.84% respectively.

Figure 1 about here.

Figure 1. Scatter plot - Funding target and Funding Ratio.

Figure 2 exemplifies the frequency of successful, unsuccessful and cancelled projects for each category group and demonstrates that projects from the Music and Theatre category expose by far more successful than unsuccessful crowdfunding efforts. The data reveals that most reward-based crowdfunding projects come from the Film (117), Music (66), Theater (66), Publishing (46) and Art (37) categories and demonstrate that reward-based crowdfunding platforms such as Kickstarter are exploited by entrepreneurs that are aiming to explore 'new ways to raise funds for creative projects' (Kickstarter 2014). In fact, the total investment for projects from the two categories Film (US\$1,425,480) and Publishing (US\$492,010) count for 54.6% of the samples investment volume.

Figure 2 about here.

Figure 2. Histogram - Funding outcome per project categories.

5.2 Funding period

Surprisingly we find no significant difference between successful and unsuccessful crowdfunding projects fundraising duration (Table 1) with an average campaign days for unsuccessful projects at 37 and for successful projects 33 days.

We assumed that projects with a higher funding target have a higher chance to successfully assemble the required capital through a longer funding period. However, our data suggests that the combination of a high funding target and a long funding period (which is understood as any funding period above the mean value) are associated with less successful crowdfunding efforts. Vice versa, our explorative data suggests that shorter campaign periods seem to be related to a higher success rate. Yet, Figure 3 illustrates a low degree of correlation between the project duration and the funding ratio.

Figure 3 about here.

Figure 3. Scatter plot project duration and funding ratio.

Kickstarter suggests campaign durations of 30 days: ‘Statistically, projects lasting 30 days or less have our highest success rate’ (Kickstarter School 2014). Comparing the project duration among the various categories, we do not observe significant differences among them (Appendix 1). However, the mean values of the project duration are distributed around the suggested 30 days project period.

5.3 Reward-level structure

It is not possible to draw clear conclusions causally linking reward-level to success. Whilst we observe that the average number of reward-levels seem to be relatively similar for successful and unsuccessful projects, we deduced that creatively-oriented projects (e.g. art, design and publishing) have a higher number of reward-levels (Figure 4; Appendix 1).

Figure 4 about here.

Figure 4. Histogram Reward-levels for project categories.

5.4 Visual pitch

In addition to a textual presentation, often a business plan, crowdfunding platforms allow project initiators to include visual presentation. Most crowdfunding platforms facilitate the use of a video recorded pitch. In our dataset, 365 projects, representing 86.7% of the sample, incorporated a visual pitch in their crowdfunding campaign (Table 1; Appendix 1). 206 of these projects were successfully funded (56%). Kickstarter encourages the project initiator to use video: ‘[...] a video is by far the best way to get a feel for the emotions, motivations, and character of a project. It’s a demonstration of effort and a good predictor of success’ (Kickstarter School 2014).

Our data suggests the fact that a visual pitch is far from being a guarantee of success. Of the 227 successful projects, 206 projects (90.75%) had a visual pitch; 81.26% of failed projects also had a visual presentation (144 of 177 failing projects). A visual pitch has thus become standard, challenging the idea that using visual pitches predicts success.

5.5 Founding team composition

Table 2 reports summarises data on the founding team composition of the crowdfunding projects team showing that 320 projects (76%) were created by individual entrepreneurs and only 36 crowdfunding projects (8.55%) had an entrepreneurial team, with established organisations creating 65 funding projects (15.44%).

Table 2. Summary statistics - founding team composition.

Composition		All		Successful		Failed	
		#	%	#	%	#	%
Single	Female	93	22.1	64	68.8	29	31.2
	Male	227	53.9	104	45.8	123	54.2
Pair	Female	9	2.1	7	70.0	2	30.0
	Male	13	3.1	9	69.2	4	30.8
	Mix	10	2.4	5	50.0	5	50.0
Three	Female	1	0.2	1	100.0	0	0.0
	Male	-	-	-	-	-	-
	Mix	1	0.2	1	100.0	0	0.0
Four	Female	-	-	-	-	-	-
	Male	1	0.2	1	100.0	0	0.0
	Mix	1	0.2	1	100.0	0	0.0
Organisation		65	15.4	34	52.3	31	47.7
Total		421	100	227	53.9	194	46.1

The numbers are too small to draw firm conclusions, however, in traditional venture capital a balanced team (technical, financial, sales, operational expertise) is a clear predictor of success: none of the projects with teams failed (4 in number) and those with pairs of entrepreneurs (numbering 32) succeeded more than those with individuals (320). This suggests that in addition to evaluating the business idea, investors are look at the capability of the entrepreneur(s) to deliver the plan.

6 Discussion

Crowdfunding is of increasing significance to policy-makers and venturesome businesses caught in the funding gap facing many small and high-risk startups. How far the crowdfunding model will grow and internationalise is as yet unclear. Also unclear is the extent to which the model might disrupt traditional venture capital. Reward-based crowdfunding provides investors with the opportunity to invest relative small amounts in businesses to which they have subjective attachment in addition to gaining reward; they also have the opportunity to participate in online communities, which may shape the nature of proposed business propositions. For entrepreneurs, crowdfunding is a new way of marshalling capital resources, learning from the wisdom of crowds and/or creating a market for a nascent business.

We have explored the reward-based crowdfunding mechanism from a cultural entrepreneurship perspective providing tentative explanations of how particular features of crowdfunding process influence organisational legitimacy and success and failure in reward-based crowdfunding. The data reveals findings linking project characteristics to legitimacy and success.

Funding target and final funding

Our data suggests that the funding targets are associated with the creation of organisational legitimacy creation: a high funding target implies more effort is required by the project creator or entrepreneur to legitimate the requested funding. Accordingly, it seems important for project initiators to be transparent and persuasive about the funding goal. We support Achleitner et al. (2013) and Sievers (2013) conclusion that crowdfunding and traditional venture capital both require detailed, internally consistent and market-referencing business plans to achieve legitimacy, though high funding targets decrease organisational legitimacy without a convincing justification of source and use of funds.

We agree with Reuber and Fischer (2011) and Zhang and Liu (2012) that herding behaviour is influential in online communities' supporting pitches, since the openness of interactivity on crowdfunding platforms allows others note comments and feedback

and to follow the herd. Crowdfunding platforms may reinforce this behaviour by introducing popularity data, short-listing of projects and staff-picks, all of which serve herding by narrowing choices. Ward and Ramachandran's (2010) finding reveals a positive correlation between the listing on a popularity list and successful achievement of the funding target exists. The funding ratio values in our data illustrate that crowdfunding projects succeed by relatively small margins but fail by large margin, suggesting a dynamic that success amplifies success analogous to Mollick's (2014) findings. Interestingly, this finding is quite different from traditional venture capital processes where successful entrepreneurial resource assembly is usually realised by large margins and profitable ventures or projects tend to be heavily over-funded. One reason for that is that sophisticated investors have the knowledge and managerial skills to exploit good investment opportunities. In contrast, potential investors in communities such as crowdfunding appear to rely more on group dynamics and interactive entrepreneurial narrative activities in terms of investment choices, which lead to narrowed choices.

However, Burtch et al. (2011, 11) highlight how community driven popularity indicators might negatively influence the overall funding outcome, as 'higher contribution frequencies are associated with lower subsequent contribution amounts, as are lower contribution densities.' Although, Brynjolfsson et al. (2011) illustrate that the long tail hypotheses (Anderson 2004) is valid in product sales through digital environments, it seems that the implemented popularity indicators on crowdfunding platforms do diminish the effect of the long tail phenomenon in online crowdfunding platforms, distributing financial capital into more likely succeeding projects. As result successful projects tend to be over-funded as such mechanism seem to influence the organisational legitimacy creation. Community behaviour, therefore, might be a stronger indicator for organisational legitimacy rather than narrative legitimacy factors such as the funding target variable.

Crowdfunding duration

Our data illustrates that projects with higher funding targets tend to have longer funding durations. However, the data suggest that longer fundraising periods lead to lower funding ratio values. Based from an organisational legitimacy perspective, we can assume that a longer fundraising period might expose an uncertain narrative for the project, resulting in decreasing support for the project.

An explanation for that result can be deduced from the importance of project momentum for organisational legitimacy creation within reward-based crowdfunding platforms. As Ward and Ramachandran (2010) illustrate, projects have increased challenges to effectively build and maintain project momentum the longer their funding period is. In highly heterogeneous and dynamic communities such as crowdfunding platforms, attention for specific projects seems to diminish with time. Apparently it is more efficient to implement a shorter funding period as projects seem to go relatively quickly out of support with the crowdfunding community (Ward and Ramachandran 2010). Kickstarter states that 'shorter projects set a tone of confidence and help motivate your backers to join the party. Longer durations incite less urgency, encourage procrastination, and tend to fizzle out' (Kickstarter School 2014).

Reward-level structure

While the data did not provide clear implications of the relationship of the reward-level structure and successful crowdfunding efforts, we identified that creative projects tend to incorporate a higher number of reward-levels. Projects from creative categories seem to have a better ability to implement mixed intangible/tangible rewards. This allows project initiators to incorporate additional reward-levels in order to include

supplementary social-psychological investment incentives. The possibility to create rewards in any kind of tangible or intangible form establishes a key feature of reward-based crowdfunding. Therefore, rewards create a key driver for activities within the community and create strong narrative legitimacy factors. We argue that the reward-levels demonstrate an important factor that makes a project compelling to the audience. Burtch et al. (2011) suggest that projects that are positioned with their product or service in trending and popular content of the broader internet, are more likely to receive higher contribution from the community. Kickstarter (2014) highlights the influence of the right rewards for successful crowdfunding efforts and states that ‘the importance of creative, tangible, and fairly priced rewards cannot be overstated. Projects whose rewards are overpriced or uninspired struggle to find support’. Therefore, it seems those projects that are able to offer additional social-psychological reward-levels are more successful to motivate the community for financial support.

Visual pitch

The large majority of projects in our data included a visual pitch in their crowdfunding campaign. Unlike previous studies, which understand visual pitches in crowdfunding projects as quality signals, we argue that visual elements in crowdfunding pitches appeared to developed into a crowdfunding standard and therefore weakened its controlling character to predict success in reward-based crowdfunding. While the measurement of visual pitches is not adequate to predict success, we however understand visual pitches from the cultural entrepreneurship perspective as a powerful entrepreneurial narrative instrument.

Clarke (2011) highlights the importance of visual communication and the use of visual symbols to increase organisational legitimacy and develop support for nascent ventures. Visual pitches support entrepreneurs to attain support and funding for their projects and allow entrepreneurs to actively create and manage emotions of stakeholders (Clarke 2011). As more projects utilise the power of visual pitches to persuade the community to financially support the project, the findings emphasise a more social-psychological rather than rational business oriented organisational legitimacy creation process in reward-based crowdfunding.

Founding’ team composition

The composition and characteristics of the founding team in entrepreneurial ventures play an important role for organisational legitimacy and resource assembly processes (Kotha and George 2012; Zhao et al. 2013). Shepherd and Zacharakis (2003) illustrate that organisational legitimacy can be built by providing additional information of the organisation and management team of the entrepreneurial venture. Research has illustrated that information about the founding team represent a critical factor of traditional venture capital investment-decision making processes (Zimmerman and Zeitz 2002; Baum und Silverman 2004). It appears that investors in reward-based crowdfunding look at the team composition as well in evaluating the business idea. The data shows that the majority of the sample projects were created by individual entrepreneurs (76%), followed by organisations (15.4%), pairs (7.6%) and teams (0.5%). Projects with pairs and teams demonstrate much higher success rates than projects with individuals. Most interestingly, however, is that projects created by females experienced a higher success rate than males.

7 Conclusions

In this paper we have contributed to crowdfunding literature referencing the results of an empirical study that is explorative and descriptive in nature. This study illustrates

that cultural entrepreneurship activities play a significant role in creating online organisational legitimacy and links specific features to successful crowdfunding efforts. While this study offers additional understanding of some dynamics that take place in crowdfunding and can be associated with organisational legitimacy, research on crowdfunding is still limited and further research is required.

The possibilities for entrepreneurs to facilitate the collective development of a business idea establish an interesting research issue linked to co-creation. It appears that a distinctive feature of reward-based crowdfunding is the joint effort to develop and promote a business idea rather than primarily evaluating a business plan. It is important that future research focuses on the co-creation possibilities and its impact on the organisational legitimacy and resource assembly process. Further, our dataset revealed that women experience a higher success rate than males. This presents a fascinating area for future study; given the high male-to-female ratio generally present in both entrepreneur and investor populations.

Overall, further crowdfunding research is necessary as current studies are outcome oriented and utilise quantitative methods to explain specific patterns in crowdfunding. Current knowledge lacks understanding of the business processes that are associated with crowdfunding outcome. It is important to move crowdfunding research into more qualitative research methods to provide deeper understanding of specific entrepreneurial activities and processes. Moreover, qualitative research would enable to capture a broader picture of the crowdfunding phenomena and allow to link offline activities with online processes. It is important to disclose offline activities to understand online crowdfunding processes and outcomes as our current understanding is built on knowledge that originates from activities on online crowdfunding platforms. While this paper focuses on specific variables that are captured of crowdfunding projects, further work is required to analyse more qualitative features of crowdfunding project pitches such as textual and visual pitches. Such future studies will allow us to extend knowledge about the organisational legitimacy creation of crowdfunding projects in terms of entrepreneurial narrative.

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Appendix 1. Descriptive statistics on project categories.

Variables	Total			Successful		Failed		Cancelled		
	Min	Mean	Max	N	Mean	N	Mean	N	Mean	
Art (N = 37)	FundingTarget (\$)	57.00	40,799.65	1,000,000.00	18	6,485.00	18	77,186.50	1	3,500.00
	FinalFunding (\$)	0.00	7,034.27	53,422.00	18	7,782.33	18	6,662.00	1	270.00
	FundingRatio (%)	0.00	67.83	171.70	18	122.58	18	16.42	1	7.71
	#Backers	0.00	69.32	317.00	18	102.11	18	40.28	1	2.00
	Funding/Backer (\$)	0.00	89.43	250.00	18	78.89	18	97.44	1	135.00
	Duration	10.00	31.73	60.00	18	29.33	18	34.22	1	30.00
	#RewardLevels	2.00	9.41	30.00	18	9.17	18	9.61	1	10.00
	#Video No				1		5		0	
	Yes				17		13		1	
Comics (N = 7)	FundingTarget (\$)	3,000.00	10,142.86	27,000.00	4	6,125.00	3	15,500.00	0	-
	FinalFunding (\$)	0.00	6,048.71	21,372.00	4	9,659.50	3	1,234.33	0	-
	FundingRatio (%)	0.00	84.06	213.72	4	143.42	3	4.92	0	-
	#Backers	0.00	207.14	962.00	4	351.75	3	14.33	0	-
	Funding/Backer (\$)	0.00	37.46	90.08	4	34.71	3	41.14	0	-
	Duration	20.00	33.86	45.00	4	35.50	3	31.67	0	-
	#RewardLevels	6.00	13.86	32.00	4	16.25	3	10.67	0	-
	#Video No				0		1		0	
	Yes				4		2		0	
Dance (N = 10)	FundingTarget (\$)	2,000.00	6,750.00	16,700.00	9	7,166.67	1	3,000.00	0	-
	FinalFunding (\$)	511.00	8,585.70	31,028.00	9	9,482.89	1	511.00	0	-
	FundingRatio (%)	17.03	111.14	258.57	9	121.59	1	17.03	0	-
	#Backers	9.00	63.70	153.00	9	69.78	1	9.00	0	-
	Funding/Backer (\$)	40.69	121.84	294.12	9	129.07	1	56.78	0	-
	Duration	13.00	31.00	55.00	9	28.33	1	55.00	0	-
	#RewardLevels	5.00	6.90	9.00	9	7.00	1	6.00	0	-
	#Video No				1		0		0	
	Yes				8		1		0	
Design (N = 18)	FundingTarget (\$)	300.00	51,945.56	275,000.00	5	26,360.00	12	62,768.33	1	50,000.00
	FinalFunding (\$)	375.00	18,432.78	135,002.00	5	35,346.40	12	12,843.58	1	935.00
	FundingRatio (%)	1.87	53.67	158.26	5	134.85	12	24.16	1	1.87
	#Backers	7.00	286.61	2,279.00	5	645.40	12	159.67	1	16.00
	Funding/Backer (\$)	30.57	80.58	200.69	5	49.30	12	95.46	1	58.44
	Duration	30.00	37.00	60.00	5	39.40	12	36.17	1	35.00
	#RewardLevels	4.00	10.33	28.00	5	7.60	12	11.58	1	9.00
	#Video No				1		2		0	
	Yes				4		10		1	
Fashion (N = 26)	FundingTarget (\$)	1,000.00	10,365.38	100,000.00	5	6,600.00	20	11,325.00	1	10,000.00
	FinalFunding (\$)	0.00	6,961.77	128,722.00	5	31,932.80	20	1,062.10	1	100.00
	FundingRatio (%)	0.00	69.36	953.50	5	332.12	20	7.09	1	1.00
	#Backers	0.00	93.46	1,181.00	5	419.20	20	16.65	1	1.00
	Funding/Backer (\$)	0.00	76.17	500.00	5	63.54	20	78.13	1	100.00
	Duration	15.00	31.73	50.00	5	31.00	20	32.00	1	30.00
	#RewardLevels	3.00	9.19	33.00	5	10.20	20	9.20	1	4.00
	#Video No				1		7		0	
	Yes				4		13		1	

Variables	Total			Successful		Failed		Cancelled		
	Min	Mean	Max	N	Mean	N	Mean	N	Mean	
Film (N = 117)	FundingTarget (\$)	100.00	28,230.16	200,000.00	60	17,741.77	55	38,353.15	2	64,500.00
	FinalFunding (\$)	0.00	12,183.59	124,114.00	60	20,577.03	55	3,461.24	2	245.00
	FundingRatio (%)	0.00	67.58	350.00	60	120.77	55	11.94	2	1.96
	#Backers	0.00	125.81	1,976.00	60	216.18	55	31.42	2	10.50
	Funding/Backer (\$)	0.00	99.73	1,006.62	60	113.01	55	87.95	2	25.49
	Duration	10.00	37.36	60.00	60	34.60	55	40.25	2	40.50
	#RewardLevels	3.00	9.74	31.00	60	10.22	55	9.15	2	12.00
	#Video No				2		2		0	
	Yes				58		53		2	
Food (N = 3)	FundingTarget (\$)	5,000.00	10,666.67	20,000.00	3	10,666.67	0	-	0	-
	FinalFunding (\$)	8,212.00	13,379.67	21,777.00	3	13,379.67	0	-	0	-
	FundingRatio (%)	108.89	139.38	164.24	3	139.38	0	-	0	-
	#Backers	75.00	193.67	272.00	3	193.67	0	-	0	-
	Funding/Backer (\$)	30.19	86.19	135.33	3	86.19	0	-	0	-
	Duration	30.00	30.00	30.00	3	30.00	0	-	0	-
	#RewardLevels	8.00	12.00	19.00	3	12.00	0	-	0	-
	#Video No				0		0		0	
	Yes				3		0		0	
Games (N = 8)	FundingTarget (\$)	600.00	30,889.00	100,000.00	2	14,750.00	4	50,653.00	2	7,500.00
	FinalFunding (\$)	1.00	5,202.63	15,081.00	2	14,826.00	4	2,669.25	2	646.00
	FundingRatio (%)	0.16	28.84	100.54	2	100.52	4	3.94	2	6.95
	#Backers	1.00	102.88	435.00	2	286.00	4	52.50	2	20.50
	Funding/Backer (\$)	1.00	39.70	106.36	2	70.52	4	30.00	2	28.28
	Duration	30.00	33.63	41.00	2	32.00	4	33.50	2	35.50
	#RewardLevels	7.00	10.38	15.00	2	10.00	4	10.25	2	11.00
	#Video No				0		0		0	
	Yes				2		4		2	
Music (N = 66)	FundingTarget (\$)	500.00	7,552.95	100,000.00	43	4,652.19	20	13,147.55	3	11,833.33
	FinalFunding (\$)	0.00	3,710.74	13,327.00	43	5,339.63	20	739.45	3	172.00
	FundingRatio (%)	0.00	83.69	342.00	43	123.61	20	10.06	3	2.34
	#Backers	0.00	48.68	221.00	43	70.33	20	8.70	3	5.00
	Funding/Backer (\$)	0.00	71.40	270.27	43	84.43	20	48.69	3	36.17
	Duration	8.00	36.03	60.00	43	34.84	20	38.10	3	39.33
	#RewardLevels	2.00	8.27	22.00	43	8.23	20	8.10	3	10.00
	#Video No				5		9		0	
	Yes				38		11		3	
Photography (N = 14)	FundingTarget (\$)	500.00	11,971.43	55,000.00	4	9,150.00	7	7,714.29	3	25,666.67
	FinalFunding (\$)	0.00	3,665.21	16,935.00	4	10,784.50	7	1,062.14	3	246.67
	FundingRatio (%)	0.00	41.66	172.72	4	132.91	7	6.72	3	1.52
	#Backers	0.00	44.21	223.00	4	122.75	7	17.00	3	3.00
	Funding/Backer (\$)	0.00	52.80	145.99	4	87.17	7	39.46	3	38.13
	Duration	25.00	36.57	60.00	4	40.00	7	32.43	3	41.67
	#RewardLevels	3.00	7.93	14.00	4	10.00	7	6.29	3	9.00
	#Video No				0		0		1	
	Yes				4		7		2	

Variables	Total			Successful		Failed		Cancelled		
	Min	Mean	Max	N	Mean	N	Mean	N	Mean	
Publishing (N = 46)	FundingTarget (\$)	120.00	14,771.63	100,000.00	20	7,821.25	23	15,437.83	3	56,000.00
	FinalFunding (\$)	0.00	10,695.87	287,342.00	20	22,721.50	23	1,355.74	3	2,132.67
	FundingRatio (%)	0.00	78.15	718.36	20	167.74	23	7.86	3	19.75
	#Backers	0.00	174.72	4,242.00	20	380.20	23	17.00	3	14.00
	Funding/Backer (\$)	0.00	67.75	416.44	20	80.70	23	47.20	3	139.00
	Duration	10.00	33.33	60.00	20	33.20	23	34.26	3	27.00
	#RewardLevels	1.00	7.48	18.00	20	8.55	23	6.26	3	9.67
	#Video No				4		7		1	
	Yes				16		16		2	
Technology (N = 3)	FundingTarget (\$)	2,000.00	7,333.33	10,000.00	1	9,999.99	2	6,000.00	0	-
	FinalFunding (\$)	30.00	3,358.33	10,000.00	1	10,000.00	2	37.50	0	-
	FundingRatio (%)	0.45	33.98	100.00	1	100.00	2	0.98	0	-
	#Backers	1.00	78.67	233.00	1	233.00	2	1.50	0	-
	Funding/Backer (\$)	22.50	31.81	42.92	1	42.92	2	26.25	0	-
	Duration	15.00	31.67	45.00	1	45.00	2	25.00	0	-
	#RewardLevels	4.00	7.00	9.00	1	9.00	2	6.00	0	-
	#Video No				0		0		0	
	Yes				1		2		0	
Theater (N = 66)	FundingTarget (\$)	100.00	7,131.11	100,000.00	53	4,678.36	12	18,433.33	1	1,500.00
	FinalFunding (\$)	0.00	4,656.30	40,903.00	53	5,416.72	12	1,685.83	1	0.00
	FundingRatio (%)	0.00	108.39	304.00	53	129.92	12	22.33	1	0.00
	#Backers	0.00	62.24	269.00	53	72.40	12	22.58	1	0.00
	Funding/Backer (\$)	0.00	77.08	410.00	53	73.96	12	97.30	1	0.00
	Duration	12.00	33.29	60.00	53	31.06	12	41.42	1	54.00
	#RewardLevels	1.00	7.58	16.00	53	7.55	12	8.25	1	1.00
	#Video No				6		0		0	
	Yes				47		12		1	