Editorial:

Advancing Crowdfunding Research -New Insights and Future Research Agenda

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ABSTRACT

Purpose – The editorial introduces the papers included in the special issue by highlighting their contributions to advancing crowdfunding research and identifying remaining gaps to be addressed in future research.

Design/Methodology/Approach – A review of the papers included in the special issue supplemented by suggestions for future research.

Findings – While mostly covering the aspects directly or indirectly related to campaign success, the papers included in this special issue provide insights from less studied contexts and address relatively underexplored factors impacting crowdfunding practice. The papers focus on understanding backer-fundraiser relationships and behavior, platform and model choice, as well as industry self-regulation. Triggered by emerging insights, the editorial highlights three important themes for future research, i.e. relationship with traditional finance, ethical practice and decision-making, and internationalization of platforms.

Originality/value - This editorial and special issue cover new research advancing understanding of crowdfunding practice, motivation, success, and industrial organization. It provides new insights from both widely and less studied contexts, while exploring the role of important factors in the crowdfunding process, which have thus far been underexplored.

Keywords – Crowdfunding, Alternative Finance, Campaign, Platform, Success

Paper Type – Editorial/Literature Review

Crowdfunding, in its recent digital manifestation, is a method of pooling small financial contributions from a potentially large pool of interested backers (Short et al., 2017), while using the internet, and often without standard financial intermediaries (Mollick, 2014). It may be viewed as community-enabled financing that draws on the principles of crowdsourcing while being adapted to the context of fund-raising (Schwienbacher and Larralde, 2012).

At the core of crowdfunding practice lies an expectation for a 'win-win' game, where all stakeholders enjoy various benefits from their involvement in the process. Successful fundraisers receive funding, but also achieve market validation effects, the recruitment of initial customers and users, cost-effective marketing promotions, as well as valuable feedback for their product development efforts (Frydrych et al., 2014, Thürridl and Kamleitner, 2016, Wald et al., 2019). Backers enjoy greater levels of customer empowerment in deciding and influencing the design of products to be potentially available in the market, influencing their own future consumption opportunities, while strengthening their sense of belonging to certain groups and communities (Chaney, 2019, Gerber et al., 2012, Steigenberger, 2017). Finally, intermediaries make their income from facilitating exchanges between fundraisers and prospective backers in forms of success fees, and payments for supporting services (Belleflamme et al., 2015).

In practice, the term 'crowdfunding' serves as an umbrella term encompassing multiple funding models, which incorporate both investment and non-investment financing. Crowdfunding models have often been conceptually clustered into four core models, including peer-to-peer lending, equity, reward, and donation crowdfunding (Mollick, 2014, Belleflamme et al., 2014). Building on the working definitions provided by the Cambridge University Centre for Alternative Finance in its annual bench-marking reports (e.g. Ziegler et al., 2019), *peer-to-peer lending* is when backers provide loans to borrowers while expecting the repayment of the principle and a set interest within a certain timeframe. *Equity crowdfunding* refers to backers buying an ownership stake in an organization. *Reward crowdfunding* means that backers provide funding in exchange for non-monetary rewards, most frequently in the form of products or services, while *donation crowdfunding* is when backers provide funding based on philanthropic or civic motivations without expectation of material rewards.

Initially, online crowdfunding was characterized by sporadic independent fundraising initiatives. However, new players such as crowdfunding platforms have gradually taken over the crowdfunding market. A crowdfunding platform usually represents an internet application linking fundraisers and their potential backers while facilitating the exchanges between them in accordance with pre-specified conditions (Shneor and Flåten, 2015). The emergence of such platforms, helping individuals and organization raise funds from peers, happened at the same time as financing from traditional institutions has dried up following the last financial crisis (Bruton et al., 2015, Moritz and Block, 2016). Data collected globally from thousands of crowdfunding platforms shows a dramatic growth in terms of volumes in recent years. Indeed, in 2017, global alternative finance volumes reached USD 371 billion (covering all crowdfunding models), growing 42% from 2016 volumes, 185% from 2015 volumes, and 1024% from 2014 volumes (Ziegler et al., 2019).

Naturally, such market development has attracted interest towards crowdfunding among academic scholars. A literature review on early crowdfunding research (Moritz and Block, 2016) has identified several streams so far addressed in the literature. These include fundraisers' motivations to adopt crowdfunding, the determinants of successful crowdfunding practice, legal compliance and challenges in various crowdfunding models, antecedents of backer behavior, the role of social networks in crowdfunding, applications of signaling theory in crowdfunding, as well as classifications of crowdfunding types and their related strategies. Nevertheless, there is a growing gap between the limited availability of crowdfunding research (Short et al., 2017) and increasing academic and public interest in this phenomenon (Martínez-Climent et al., 2018), indicating that it is becoming one of the most important research streams of entrepreneurial finance (Barbi and Bigelli, 2017).

Accordingly, the current special issue aims to contribute to the growing knowledge on crowdfunding, while answering some of the many questions related to its emergence and evolving practice. Our call for the papers advancing crowdfunding research has received many interesting submissions, the best of which are incorporated into the current issue.

Papers included in the special issue

The papers featured in this special issue present findings from multiple contexts, crowdfunding models, platforms and users. A common theme for the papers is exploration of the conditions facilitating crowdfunding success. The first paper presents a literature review on crowdfunding success based on earlier research. The following three papers look at various aspects related to the relationships between backers and fundraisers and their implications for campaign success in different crowdfunding models. The fifth and sixth papers address considerations for platform and model choice with the aim of achieving successful crowdfunding. The seventh paper combines exploration of fundraiser motives, platform choice, and campaign success. Finally, the eighth paper presents self-regulation policies and practice as guarantors of crowdfunding industry success.

The issue opens with *Shneor & Vik*'s systematic literature review of earlier research on crowdfunding success. Through the meticulous coding of 1718 associations between 111 aggregated independent variables with six aggregated success indicators, they identify both salient and less salient associations across studies for each of the main crowdfunding models, i.e. reward, donation, equity and lending. The paper's main contribution is twofold. First, the authors develop the four frameworks predicting crowdfunding success by crowdfunding model, based on the most pervasive findings across studies. Second, by identifying the gaps in the existing literature they suggest several venues for future research such as: (1) data collection from alternative sources (e.g. primary sources) and contexts (including understudied national and sectoral contexts); (2) greater focus on the development of crowdfunding-specific theory through either evaluations of competing theories or grounded qualitative and conceptual work; (3) considering success beyond financial results by exploration of more strategic, as well as psychological outcomes; and (4) more research on investment crowdfunding models such as equity, lending and invoice trading. The papers that follow this review address some of these gaps.

The following three papers present novel insights with respect to the effects of factors either directly or indirectly linking backers and fundraisers. First, the study by *Giudici and colleagues* contributes to this line of research by introducing the role of homophily between investors and fundraisers in predicting successful investment. They show that geographical proximity and age similarity are associated with greater likelihood of investment behavior. Moreover, they also demonstrate that such effects are particularly relevant when the fundraising entrepreneurs reside in areas characterized by high risk of opportunistic behavior. This study also contributes to the field by its contextual anchoring in equity crowdfunding in Italy, hence both answering the need for more research into equity crowdfunding (as a less frequently studied model) and using the case of Italy (as an understudied national context).

Second, the study by *Efrat and colleagues* introduces an important distinction between backer engagement with the fundraiser and backer engagement with the campaign. Their analysis, combining secondary platform data with primary survey data, shows that (1) communication enhances backer engagement with the fundraiser but not with the campaign; (2) engagement with both fundraiser and campaign enhances likelihood of backers promoting the campaign; (3) backer's promotion of campaign is positively associated with long term loyalty in terms of future support; and (4) backer engagement with fundraiser enhances campaign's long-term success. Accordingly, the paper has multiple contributions such as introducing an important conceptual distinction of backer engagement with the fundraiser and backer engagement with the campaign, studying an underexplored national context (i.e. Israel), and using multiple sources of data (i.e. combining survey and platform data).

Third, the study by *Bukhari and colleagues* shows that both fundraiser's credibility and previous backer endorsements positively influence successful donation campaigns in the context of Muslim religious donations during the holiday of Ramadan. Furthermore, the authors demonstrate that when comparing the effects with respect to donors in developed and developing countries, backer endorsements are more important in developing countries. This paper contributes to research by examining the less researched donation crowdfunding, in a unique context of religious community and practice, while comparing findings about backers from developed and developing countries. Indeed, earlier research has been largely silent about the differences of effects across groups from different developmental contexts, and this study provides clear evidence that such line of research is needed and meaningful.

Next, the study by *Zhao and Sun*, also in the context of donation crowdfunding, presents a novel research question related to the fit between a crowdfunding model and a campaign's purpose, which they study in the context of a non-investment crowdfunding platform in China. Here, building on cognitive evaluation theory, the authors show that pure donation campaigns are more likely to be successfully funded, as well as receive funding from more backers, than hybrid campaigns (reward and donation). Accordingly, the paper contributes to the field in several ways such as introducing a new factor of model fit and exploring its effect on crowdfunding success, investigating the less studied model of donation crowdfunding, and drawing inspiration and insights from a theory that has been applied to crowdfunding research to a limited extent in earlier literature.

The sixth paper by *Rykkja and colleagues* addresses a different novel issue, i.e. the choice between using a local or an international platform for reward crowdfunding campaigns in the Nordic cultural sector. They find that cultural productions with a higher degree of production complexity and those characterized as incorporating composite motives are more likely to use an international platform. Additionally, they show that the higher the funding goal, the more fundraisers are likely to opt for using international platforms rather than local ones. This study's contribution lies in addressing a very pressing concern for both platforms competing for projects, and fundraisers deciding how to choose between them. Even though the platform choice has been addressed in earlier studies, the current findings present an important milestone inviting research examining other factors influencing platform choice. Moreover, while Finland and Sweden have served as interesting study contexts in several earlier publications, the current study is one of the first to provide insights from less studied markets such as Denmark, Iceland and Norway.

The papers presented so far have followed a quantitative approach aimed at theory testing. However, we believe that it is appropriate to conclude the issue with two qualitative studies focused on conceptual and theory development, bringing us closer towards building frameworks that emerge from crowdfunding contexts. Here, *Maehle* examines the particularities associated with crowdfunding practice in the context of sustainability-oriented projects. Building on in-depth interviews with fundraisers, the author develops a list of propositions with respect to motivations to seek crowdfunding, platform choice, costs associated with the campaign activities, as well as drivers of success in this unique context. This paper has multiple contributions, as it is one of a few published qualitative studies using crowdfunding as the departure context for theory development, rather than a context for application of existing theories. The author uses mainly primary data, which again represents a novel approach as earlier studies frequently rely on platform data only. Yet another contribution is addressing the timely issue of sustainability, which has been set as a top priority for public concern by both authorities and social activist groups.

Finally, *Wenzlaff and Odorovic* embark on a conceptual discussion exploring the merit of multiple theories in explaining self-regulation patterns of crowdfunding platforms' associations in the European context. They do so through qualitative analysis of multiple codes of conduct with respect to the motivations behind the codes, types of commitment taken, and measures adopted for overseeing their implementation. Thus far, limited research at the intersection of law and crowdfunding practice has focused on the fit between existing regulatory frameworks and crowdfunding realities. The current paper therefore contributes to the field by introducing a new concept to crowdfunding practice at the platform level involving self-regulation. The departure from national regulator responsibilities to platform responsibilities for the benefit for their own success and growth is an important aspect for consideration. Such work may serve as an invitation for comparative studies of codes across contexts, their evolution over time, the extent to which they are implemented, and the perceived effects of such implementation.

In summary, the papers included in the current issue advance our understanding of crowdfunding phenomenon in several ways. First, they cover both widely (i.e. China) and less explored contexts (i.e. Israel, Italy, the Nordic countries, and international Muslim communities) in crowdfunding research, as well as both specialized funding efforts (i.e. cultural sector, sustainability-oriented projects, and religious donations) and non-specialized funding efforts, which contributes to testing of generalizability's boundaries. Second, while most papers employ quantitative approach to data collection and analysis, they use data from understudied platforms. In addition, two studies complement secondary platform data with primary data collected directly from backers (e.g. Efrat et al.) and fundraisers (e.g. Maehle). Third, the special issue includes three theory development papers using conceptual and qualitative analyses, which have been limited in published crowdfunding research thus far. As a result, they contribute with concrete aggregate models refined from the existing literature (e.g. Shneor & Vik), as well as concrete propositions which may be followed by theory-testing efforts (e.g. Maehle~~ et al.~~; Wenzlaff & Odorovic).

Finally, several studies in the special issue examine the questions that have not been explored in earlier research, e.g. drivers of platform choice (Maehle; Rykjja et al.), fit between crowdfunding model and campaign objective (Zhao & Sun), religious donation behavior in crowdfunding (Bukhari et al.), homophily in investor-fundraiser dyadic relations (Giudici et al.), distinction between supporting the person behind the campaign vs. supporting the project (Efrat et al.), and platform self-regulation practices (i.e. Wenzlaff & Odorovic). These new studies are complemented by a systematic review of earlier research, summarizing accumulated knowledge in aggregate models (Shneor & Vik).

Opportunities for future research

Despite the fact that this special issue covers many interesting and novel aspects in crowdfunding research, some topics still require our attention and present promising venues for future research. In this context, we specifically outline three themes of particular interest including the relationship between crowdfunding platforms and traditional financial institutions, ethical practice and decision-making in the context of crowdfunding, and internationalization of crowdfunding platforms.

Relationship with traditional finance

Crowdfunding has emerged after the global financial crisis as a consequence of drying up of traditional financing. It then gradually shifted from offering rewards and royalties into primarily financing structured loans and equity investments (Bruton et al., 2015). Technological changes have contributed to this development by enabling new practices and business models disrupting the traditional financial services and leveraging a degree of user distrust towards traditional institutions following the financial crisis (Haddad and Hornuf, 2019). While some regard crowdfunding as a threat to profitability and growth of traditional actors (Kotarba, 2016), others suggest that it, together with other FinTech solutions, may both complement existing financing channels as well as fill a need for some channels from which traditional institutions have withdrawn (Haddad and Hornuf, 2019). In this context, empirical evidence does show that traditional financial institutions participate in funding of crowdfunding campaigns, especially investment-oriented ones (Ziegler et al., 2019).

This gives rise to interesting unexplored questions representing an important gap that future research should address. To which extent do crowdfunding actors and traditional financial institutions compete or complement each other? To what extent do they cooperate and under which conditions? How do such collaborations manifest themselves organizationally and practically? How do traditional institutions react to the emergence of crowdfunding actors in different contexts and with respect to different services and market segments?

Ethical practice and decision-making

Another aspect related to industry growth and its positioning vis-à-vis traditional institutions is a growing focus on ethical decision-making and practice in the context of crowdfunding. It is a relevant concern as a degree of risk and information asymmetry are inherent to the crowdfunding process (Schwienbacher and Larralde, 2012). Indeed, while not representing mainstream market developments, there is some evidence for non-delivery or downright fraudulent misuse of crowdfunding (e.g. Cumming et al., 2019, Mollick, 2015). Thus far, ethics has only been addressed indirectly in the studies examining legal issues associated with crowdfunding practice, e.g. investor protection (e.g. Heminway, 2014, Pierce-Wright, 2016). This follows a general trend where ethical aspects in finance have been often overlooked, under the incorrect assumption that what is legal is also ethical, instead of looking on how ethics can serve as the foundation for regulation (Boatright, 2010).

Accordingly, substantial opportunities for both research and practice lie in fleshing out common ethical dilemmas associated with crowdfunding practice, as well as identifying potential strategies and remedies to address them. Here, research questions may include the following. What are the ethical dilemmas faced by fundraisers, backers, and platforms? How do the stakeholders in the crowdfunding industry address ethical dilemmas? What are the most and least effective strategies when addressing ethical dilemmas in these contexts? Moreover, what are the implications of addressing ethical dilemmas by various stakeholders involved in the crowdfunding process?

Internationalization of platforms

Finally, survival and growth of crowdfunding industry players, from most countries, relies on scaling their operations through, among other strategies, international expansion. Evidence shows that substantial and growing volumes are recorded with respect to both in- and out-flows of funding across borders in Europe (Ziegler et al., 2019) and beyond. However, thus far, the importance of cross-border crowdfunding has mostly been considered from a legal perspective, e.g. as development towards a common investment crowdfunding market in Europe (Zetzsche and Preiner, 2018). The only insight about platforms' internationalization strategies is suggested by Ziegler et al. (2019) demonstrating that most European crowdfunding platforms employ a globalized standard English website to serve international customers, instead of locally adapted websites. In addition, several studies not addressing internationalization per se, have highlighted cultural differences across countries in terms of campaign depiction (Cho and Kim, 2017) and funding patterns (Zheng et al., 2014), hence suggesting a need for more localized approach to international crowdfunding efforts.

Therefore, research on internationalization of crowdfunding platforms, as well as crowdfunded ventures, is both needed and valuable for all stakeholders involved (e.g. platforms, backers, fundraisers, regulators, etc.). We invite future studies to address the following research questions. What are the drivers and barriers for platform internationalization with regard to different crowdfunding models and target markets? What internationalization patterns do platforms follow (e.g. sprinkler vs. waterfall, born global vs. gradual following psychic distance, etc.)? What influences different internationalization patterns and strategies? How do platforms serve different national markets characterized by different institutional, cultural and developmental conditions? In addition, what implications does platform internationalization have for its growth and strategic choices?

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