

# The long-term effects of self pledging in rewards-based crowdfunding

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# The Coolest cooler ever



*asked: 50k got: 13.3M expected delivery: 2.2015; actual: **not yet ended***

# More often small but widespread failures

Yet outright fraud is marginal at best

- 0.17% on Kickstarter
- 0.003% on Indiegogo

Cummings et al 2016

And the most widespread failure is a small and diffuse one

- $\sim 9\%$  of projects fail
- Smallest projects ( $< 1000\$$ ) fail at  $\sim 13\%$
- About  $\sim 30\%$  of projects experience delays

Mollick & Kickstarter 2015

# Opportunistic behavior in Crowdfunding

The crowd can be exploited even by a successful project

- Overselling of a product leading to disappointment
- Reward levels on CF website set higher than the future retail price
- Needed money inflated to get some slack in production
- ...

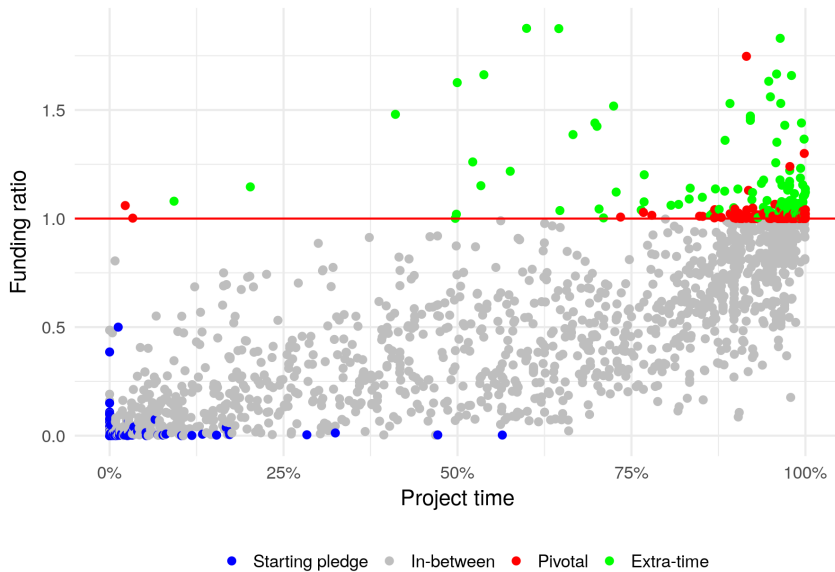
**Large information asymmetries  $\Rightarrow$  inefficiencies and cheating**

A behavior perceived as particularly bad: self pledges

- Pledges you make *incognito* to your own project
- Sort of insider trading
- Might push a project over the threshold
- Usually forbidden at most platforms (Kickstarter...)
- ...but easily circumvented

**Startnext.de allows self-pledges – and we have the data**

Scatter plot of self pledges in project time, by self pledge type



# Self-pledging: stylized facts

- self-pledges  $\sim 1.6\%$  of all pledges
- but  $\sim 10\%$  of starting pledges
- and  $\sim 9\%$  of *pivotal* pledges
- $\sim 6\%$  of projects self-funded  $> 25\%$

Crosetto & Regner 2018

# Are self-pledges bad after all?

## Good

- Positive insider info
- Signals commitment
- Science grant cycle
- Overconfidence

## Bad

- Reduces fresh money
- Negative insider info
- Fraud
- Overconfidence



# A toy simple model\*

- Project quality a function of cost
- Project launcher
  - knows *real* cost for different quality levels
  - Can set a threshold  $<, =, >$  than cost
  - Can self-pledge and has to decide amount
- Pledgers
  - just observe a noisy signal of quality
  - have no info about cost
  - unaware of self-pledges
  - suppose  $> \text{raised}$  means  $> \text{quality}$

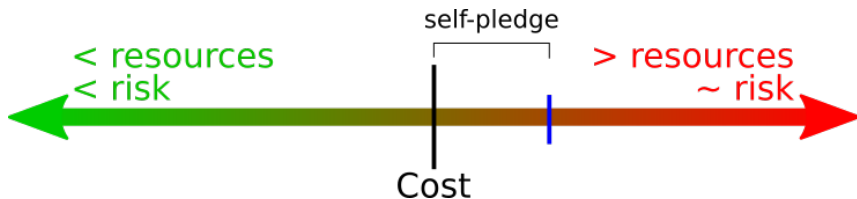
\*Sounds familiar? Stolen from Akerlof 1970

# Model intuition

## Without self pledges



Trade off risk (no funding) vs. reward (more funding) **With self pledges**



No risk if self-pledge, but quality supplied *lower* than perceived

## *Hypothesis (1)*

*Substantially self-pledged projects set higher thresholds*

## *Hypothesis (2)*

*Subsequent project success is negatively correlated to the extent of self funding during the campaign.*

# Our dataset: Startnext

Biggest reward-based crowdfunding platform in Germany

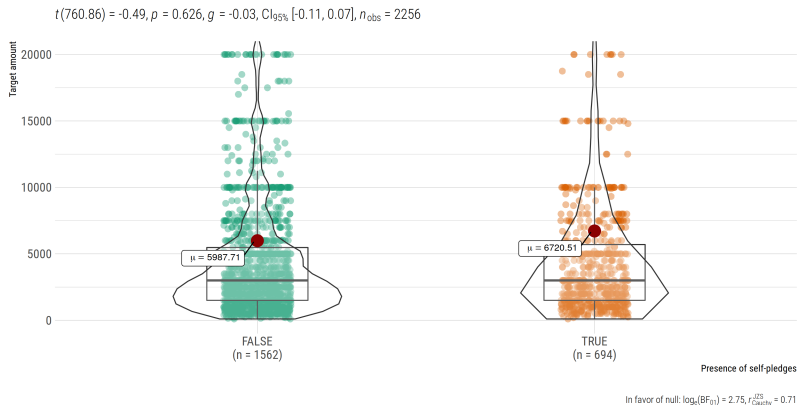
- Threshold pledge model
- 2,254 projects, 1,139 successes
- All transactions from October 2010 to February 2014

|                 | Failure | Success | Total | % Success |
|-----------------|---------|---------|-------|-----------|
| Self funded     | 235     | 458     | 693   | 66.1%     |
| Not self funded | 880     | 681     | 1,561 | 43.6%     |
| Total           | 1,115   | 1,139   | 2,254 | 50.5%     |

## Focus on 140 projects

- *pivotal self-pledge*  $\Rightarrow$  99 projects
- *largely self funded* ( $> 40\%$ )  $\Rightarrow$  41 projects

# Hypothesis 1 – self-pledged projects get more funding



# Hypothesis 2 – Manual data collection

- Complaints about a project
  - Comments section in project's homepage at Startnext
  - Complaints-related information for 79 projects
- Current status of project
  - Google search to find information about the project (web presence)
    - no online trace
    - project did not deliver what it promised
    - one-time event, delivery of the product/service
    - Product is still available (online)
    - recurring event (e.g. an annual festival, a magazine) or ongoing activity (e.g. more books, more music tours),
    - an established company/organization
- Repeat projects by project launcher and their success

# Hypothesis 2 – Results: Stats

## Number of complaints per project: not significant

| Number of complaints per project | 0   | 1  | 2  | 3 | 4 | ... | 11 |
|----------------------------------|-----|----|----|---|---|-----|----|
| Substantially self funded        | 100 | 23 | 14 | 3 | 0 | 0   | 0  |
| Not self funded                  | 101 | 27 | 5  | 5 | 1 | 0   | 1  |

## Current status: not significant

| Current status                      | Substantially self funded | Not self funded | Total |
|-------------------------------------|---------------------------|-----------------|-------|
| Failed                              | 6                         | 4               | 10    |
| Delivered but not active anymore    | 46                        | 61              | 107   |
| Product/service still available     | 63                        | 63              | 126   |
| Recurring event or ongoing activity | 8                         | 5               | 13    |
| Established company/organization    | 17                        | 7               | 24    |

## Repeat projects: not significant

| Creator's project number  | 1   | 2  | 3 | ... | 9 | ... | 14 |
|---------------------------|-----|----|---|-----|---|-----|----|
| Substantially self funded | 128 | 10 | 1 | 0   | 1 | 0   | 0  |
| Not self funded           | 130 | 7  | 2 | 0   | 0 | 0   | 1  |

# Hypothesis 2 – regression

|                           | Base regression |            | With category dummies |            | Robustness |            |
|---------------------------|-----------------|------------|-----------------------|------------|------------|------------|
| Substantially self funded | 0.201           | (0.133)    | 0.244*                | (0.133)    | 0.240*     | (0.134)    |
| Percentage self funded    |                 |            |                       |            |            |            |
| Funding target (in 1k)    | 0.0595**        | (0.0303)   | 0.0693**              | (0.0309)   | 0.0634**   | (0.0308)   |
| Year                      | -0.0744         | (0.134)    | 0.0478                | (0.145)    | 0.0605     | (0.141)    |
| Previous campaigns        | 0.0211          | (0.0742)   | -0.0184               | (0.0860)   | 0.00123    | (0.109)    |
| Word count                | -0.000169       | (0.000170) | -0.000120             | (0.000201) | -0.000169  | (0.000202) |
| Video                     | -0.0554         | (0.0349)   | -0.0362               | (0.0365)   | -0.0337    | (0.0366)   |
| Image                     | 0.00895         | (0.0112)   | 0.00801               | (0.0120)   | 0.00821    | (0.0118)   |
| Blog entries              | -0.00559        | (0.0153)   | -0.00400              | (0.0153)   | -0.000937  | (0.0155)   |
| Movie                     |                 |            | -0.403**              | (0.178)    | -0.384**   | (0.178)    |
| Music                     |                 |            | 0.401**               | (0.188)    | 0.417**    | (0.191)    |
| Event                     |                 |            | -0.311                | (0.245)    | -0.203     | (0.276)    |
| Theater                   |                 |            | -0.318                | (0.367)    | -0.237     | (0.407)    |
| Literature                |                 |            | 0.262                 | (0.184)    | 0.271      | (0.181)    |
| Art                       |                 |            | -0.317                | (0.299)    | -0.320     | (0.300)    |
| Photography               |                 |            | 0.283                 | (0.289)    | 0.241      | (0.273)    |
| Invention                 |                 |            | -0.692*               | (0.355)    | -0.646*    | (0.355)    |
| Journalism                |                 |            | 0.168                 | (0.307)    | 0.129      | (0.293)    |
| Design                    |                 |            | -0.0646               | (0.274)    | -0.0495    | (0.274)    |
| Cultural education        |                 |            | 0.126                 | (0.252)    | 0.152      | (0.259)    |
| Fashion                   |                 |            | 0.400                 | (0.608)    | 0.361      | (0.576)    |
| Technology                |                 |            | -0.0780               | (0.395)    | -0.0120    | (0.404)    |
| Games                     |                 |            | 0.283                 | (0.442)    | 0.215      | (0.427)    |
| Audio drama               |                 |            | 0.937***              | (0.334)    | 0.994***   | (0.353)    |
| Comic                     |                 |            | -0.281                | (0.331)    | -0.174     | (0.383)    |
| Observations              | 280             |            | 280                   |            | 280        |            |

Ordered probit regressions with robust standard errors; dependent variable is the current status of the project  
 Standard errors in parentheses; \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$



## "Results"

- Evidence of strategic self-pledging
- No evidence of higher threshold for self-pledged projects
- No detectable detrimental effect on post-campaign problems

## Why?

- potentially underpowered (140\*2 projects)
- lots going on (categories, amount...)
- self-pledge multifaceted phenomenon
- really no effect

## Key message

Self-pledge show no detrimental effect – strong focus on banning them might come from ethical reasons