

# 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**

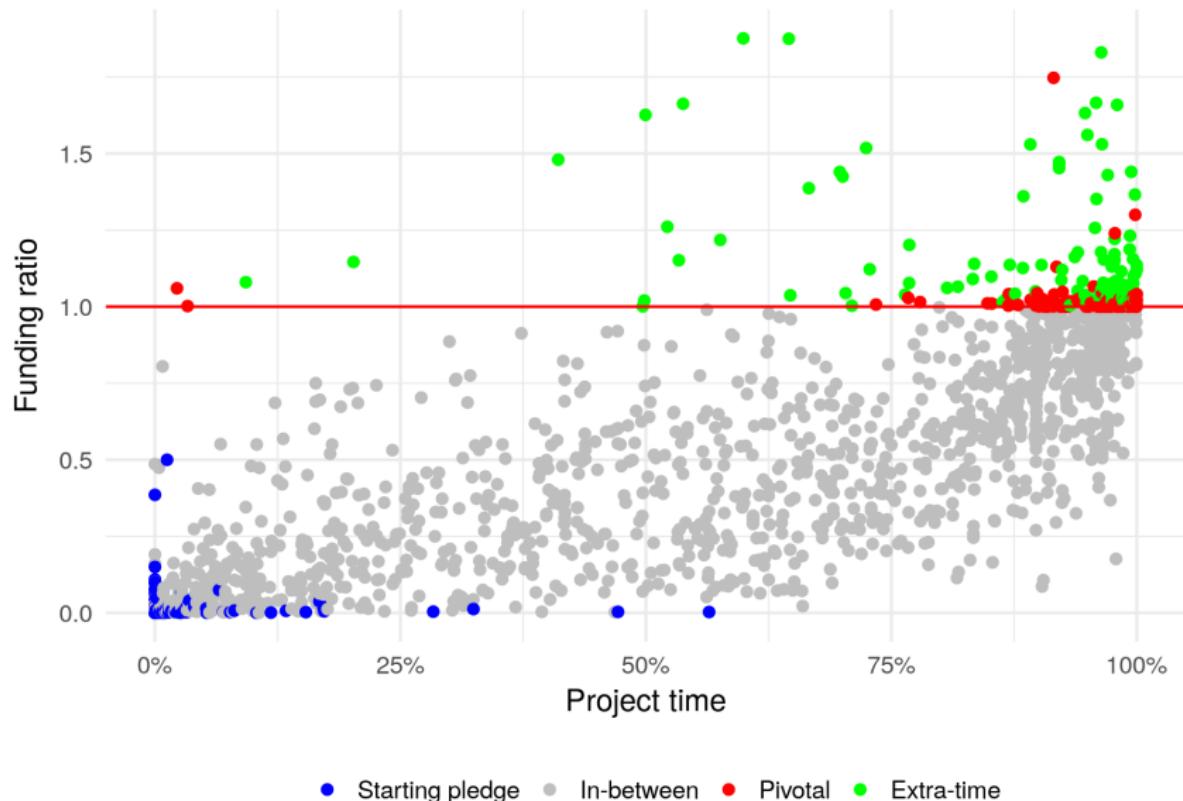
# Self-pledging

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  $>$  *raised* means  $>$  *quality*

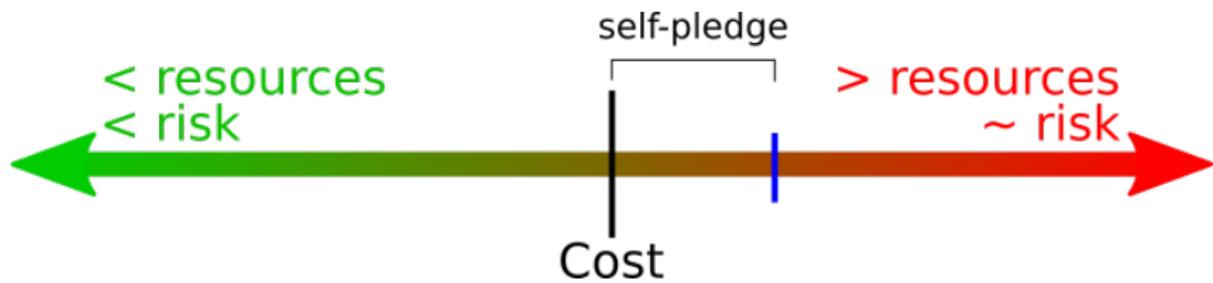
\*Sounds familiar? Stolen from Akerlof 1970

# 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

# Hypotheses

## 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

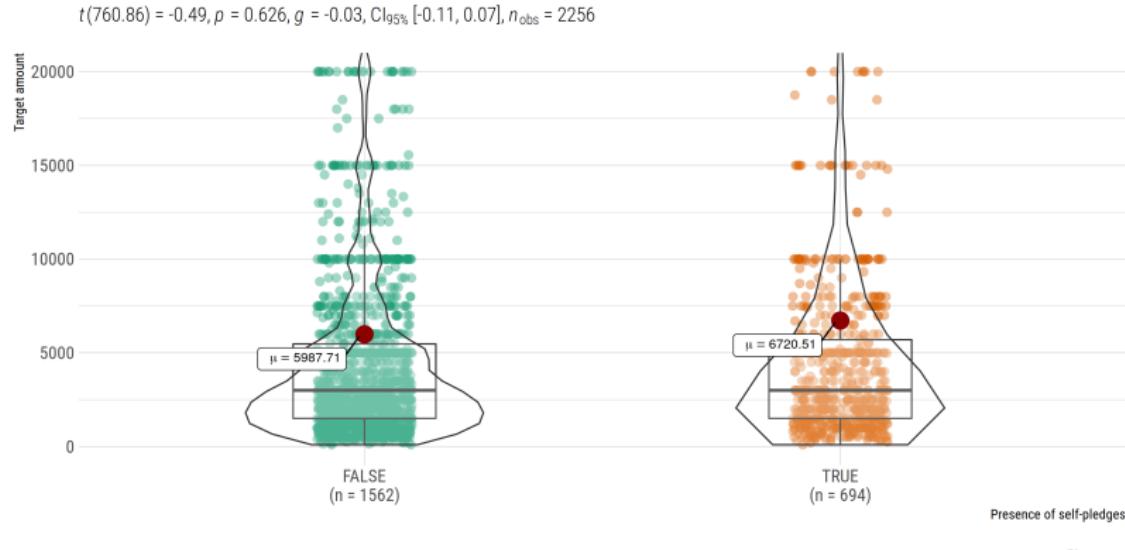
- Threshold pledge model
- 2,254 projects, 1,139 successes
- All transactions from October 2010 to February 2014

	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



In favor of null:  $\log_{10}(\text{BF}_{01}) = 2.75, r_{\text{Cauchy}}^{DSS} = 0.71$

## 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; \*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

# Summary and conclusions

## "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