Does similarity of idea evaluator and idea creator affect idea valuation in enterprise crowdfunding?

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Extended abstract

Ideas are the seed for creativity in organizations and selecting promising ideas for further development and implementation is crucial for organizational innovation. Yet, organizations do not necessarily select the best ideas, because novel ideas may deviate from existing ideas in the organization (Berg, 2016) and the selection may suffer from evaluator bias (Reitzig, 2011). E.g. idea evaluators over- or undervalue ideas due to biases rooted in cognition (Moreau, Lehmann, & Markman, 2001), role (Berg, 2016), social categorization (Elsbach & Kramer, 2003), or subunit favoritism (Reitzig & Sorenson, 2013). Another factor which has so far received little attention but may bias evaluation of ideas in organizations is the social similarity of the idea evaluator and the idea creator.

In this paper we set out to investigate this bias by drawing on theories which state that similarity between individuals leads to increased social interaction, communication, and understanding (McPherson, Smith-Lovin, & Cook, 2001). Similarity between idea evaluator and idea creator will lead to higher valuation of ideas by the idea evaluator, because similarity facilitates the communication between idea creator and idea evaluator, leads to shared cognition, and increases interpersonal trust. In similar setting like crowdsourcing (Piezunka & Dahlander, 2015) and crowdfunding (Greenberg & Mollick, 2014; Muller, Geyer, Soule, & Wafer, 2014), actor proximity has been shown to affect idea valuation. Similarity is especially important for novel ideas which deviate from existing ideas. Here, similarity between idea creator and evaluator helps to accommodate new ideas as it reduces the uncertainty inherent in novel ideas (Dane, 2010).

In this project we set out to investigate to what extent evaluators overvalue ideas due to proximity to the idea creators. Controlling for idea quality, we expect that similarity between idea evaluators and idea creators is positively related to evaluators’ idea valuation. We also expect that this relationship is stronger for radical ideas and weaker for incremental ideas.

We explore these relationships in a natural setting, in which a firm uses internal crowdfunding to generate and select ideas. During the idea generation phase all 7,800 employees from the company’s research department were invited to submit ideas to an internal crowdfunding platform. These ideas were openly accessible for all employees of the organization for a limited amount of time and included an estimation of the required budget to realize these ideas. After that time, 472 employees evaluated the ideas by allocating a total budget of 500,000 Euros to one or more ideas. Idea creators, whose ideas were funded, had the opportunity to use the budget to realize the idea.
To test our expectations we use budget allocated to a specific idea by one evaluator as dependent variable and measure similarity as closeness of idea evaluator and idea creator with respect to hierarchy, geography, department, and gender. We control for idea quality (novelty, value, feasibility, elaboration, budget adequacy and overall preference) by using expert quality assessments (8 raters from the organization). Our sample includes 639 budget allocation decisions nested in 78 ideas.

Upon completion, we hope our project will contribute to research focusing on biases affecting idea selection in organization (Berg, 2016; Elsbach & Kramer, 2003; Reitzig & Sorenson, 2013) and on our understanding of the emerging phenomenon of enterprise crowdfunding (Feldmann, Gimpel, Kohler, & Weinhardt, 2013; Muller et al., 2014).

References


