In Crowdfunding we Trust: Testing a Trust building Model in Crowdfunding

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Extended Abstract

Unlike traditional funding sources, where a set of social, economic, and legal systems provides the basis for protecting investors, crowdfunding has currently no authority with a gate-keeping function or regulatory power. Moreover, crowdfunding transactions are mostly characterized by separation between the quid and the quo of what is acquired and what is offered, while the quality of the reward is often difficult to ascertain mainly due to the lack of physical contact. All the above make it difficult for a crowdfunder to know whether he/she is dealing with a legitimate fund-seeker and to what extent an opportunistic behavior is likely to occur. As a result, individuals are reluctant to trust a crowdfunding project and thus are unwilling to invest financially on it. Consequently, the question of how to establish trust towards a crowdfunding project becomes of paramount importance. Understanding the nature and antecedents of crowdfunders’ trust can provide fund seekers with a set of manageable, strategic levers to build such trust, which will promote greater participation in the project. The purpose of this study is to develop and empirically test a trust-building model in the context of crowdfunding. The specific questions the study addresses are: What factors influence a crowdfunder’s initial trust in a crowdfunding project? Does trust in a crowdfunding project influence a crowdfunder’s intention to support it financially?

The focus of our model is initial trust, since in crowdfunding actors are mostly unfamiliar and unknown to each other. Trust in a crowdfunding project is defined as a multidimensional construct with two interrelated components- trusting beliefs and trusting intentions. Our proposed model (Figure 1) focuses on beliefs and behavioral intentions instead of actual behaviors since the results of previous research have confirmed a strong correlation between behavioral intentions and actual behavior (McKnight et al., 2002; Sheppard, Hartwick, &Warshaw, 1988). Within crowdfunding, project creators obviously play a central role in determining the overall level of trust of a crowdfunder towards a project. However, trust in the project creator can be hardly observed directly, but instead need to be inferred from signals. We posit that credentials, social capital, project creator’s interactivity and communication and finally other verbal and nonverbal cues such as the language used by the fund-seeker, his/her appearance and style, his/her gestures, etc. will play a significant role in trust levels.

Besides the project creator another important trust-building factor is the project’s representation on the web side which includes everything crowdfunders see on the project page. Prior work in crowdfunding has highlighted the relation between the project representation and the outcome of a campaign (Ahlers, Cumming, Günther, & Schweizer, 2015; Mollick, 2014). We pose that trust in a crowdfunding project will further depend on the storytelling aspect of the business idea, namely the narrative aspect, perceived preparedness, including information quality, transparency,
accuracy and thoughtfulness of the business plan as well as idea feasibility of the business idea and the beliefs of other crowdfunding seen on the funding status, others’ endorsements and positive comments. In our model, other trust-building factors include disposition to trust and institutional trust. This study examines the perceived effectiveness of two common institutional mechanisms, namely structural assurance and trust in the crowdfunding intermediary.

![Proposed Trust-building Model](image)

**Figure 1. Proposed Trust-building Model**

**Methods**

The proposed model will be tested by means of Structural equation modeling in the context of equity crowdfunding. We chose equity crowdfunding mainly because funders run much higher risks in equity-based crowdfunding, due to the fact that financial stakes are higher and the investment decision more complex. Therefore, we expect trust to be particularly relevant in the context of equity-based crowdfunding. Data for the study will be collected through questionnaires administered in the context of a randomized, controlled experiment. A well-established crowdfunding platform has allowed us to use its logo and page layout for the purposes of our online experiment. Moreover, the platform will facilitate our data collection by letting us tap into its member pool and thus recruit a satisfactory number of participants. The data collection will be as follows: First, subjects will respond to a short questionnaire that includes items designed to measure their disposition to trust and their familiarity/prior experience with crowdfunding. Subjects will be then taken to a custom-created web site designed to present an equity crowdfunding project of the platform we are cooperating with. Subjects will be given time to review the project and when they are ready proceed to the next step, in which they will be
asked to evaluate their trust levels towards the project as well as to make a decision whether they
intent to support financially the project or not.

**Implications**

This paper develops and tests a model of trust in a crowdfunding context. Building crowdfunders
trust is a strategic imperative not only for fund seekers but also for crowdfunding platforms, as
trust strongly influences crowdfunders’ intentions to support financially a project. Trust allows
crowdfunders overcome perceptions of risk and uncertainty and enhances the likelihood they will
invest in the project. This study brings upfront some very important academic and managerial
implications. From an academic point of view, it opens up the field for new research in the area
of crowdfunding in relation to crowdfunders’ behavior and the role of trust as a core element of
the crowdfunding process. For fund-seekers, it proves evidence on how to promote trust in order
to transform a potential consumer from curious observer to one who is willing to transact over
the site.

**References**


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