

Funding Failure: Determinants of Persistence

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Abstract

Since the economic meltdown in 2008, crowdfunding has emerged as an alternate source of finance for entrepreneurs looking for funds to start or support their venture. Most research in the area of crowdfunding has focused on the determinants of successful funding. To the best of our knowledge, very few studies exist about what happens to a project with an unsuccessful funding on crowdfunding platforms. Do the entrepreneurs who failed to get funding from crowdfunding platform abandon their project or do they persist with it and try to find alternate sources to make their dream come true? In this article, we study the determinants of persistence of an entrepreneur to bring their project to life after failing to receive funding from crowdfunding platforms.

Keywords

crowdfunding, failure, learning from failure, persistence

Introduction

Entrepreneurs play a critical role in the economic development of country or region. They contribute to innovation, employment and social welfare of the region in a direct or indirect way (Ahmad & Hoffmann, 2008). Probability of success of an entrepreneurial venture is low due to risks and uncertainty associated with starting a new venture, and hence entrepreneurs have always found it difficult to source

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capital to start a new venture. Traditional sources of finance, like banks, usually do not give loans to entrepreneurs due to risk associated with projects and lack of collaterals (Ferrary & Granovetter, 2009), and sophisticated investors, like venture capitalists (VCs), have very specific and stringent criteria for investment, and, in general, in a year, VCs invest in a few hundred companies only (Mollick, 2013).

Crowdfunding with its advent after the 2008 financial crisis became an alternate source to seek fund for entrepreneurs, where they could go beyond family and friends and involve society at large in their entrepreneurial cause (Bruton et al., 2015). As on date, entrepreneurs in over 100 countries have sourced over billions of dollars to start or support their entrepreneurial activities (infoDev, 2013).

Even after such a promising data to support its success, it is a fact that only about 50% projects get funded on crowdfunding platforms and only 3% of failed projects retry for funding (Greenberg, 2015). Contemporary research on crowdfunding has so far focused on the determinants of success for a funding request, that is, what characteristics should an entrepreneur and its project have to receive funding from crowd and what happens to projects once they receive funding. Do they deliver as per their commitment? Do they contribute to economic and social development of the region and society at large (Colombo et al., 2015; Mollick, 2014, 2016)? To the best of our knowledge, only a handful of research has been done on what happened to the entrepreneurs and projects which failed to acquire funds on the crowdfunding platform (Greenberg, 2015; Harburg et al., 2015)? Do the projects die or do the entrepreneurs persist in their quest to bring their venture to life? More specifically, we focus on what characteristics of entrepreneurs and environmental context contribute in their decision to persist with their venture and look for alternate ways to bring their dream to life versus abandon the idea completely.

Theory and Proposition Development

Failure

Failure is an integral part of entrepreneurial activities. Entrepreneurial projects fail more often than not (Greenberg, 2015). Creative and innovative projects fail multiple times before succeeding eventually (Barron & Harrington, 1981). The implication of failure becomes more severe and critical in online environment like crowdfunding because of high visibility and persistence of evidence of failure even after the event has passed (Greenberg, 2015). Failure has been studied in entrepreneurial literature from various lenses—grief, passion, emotions, motivation, self-efficacy and learning (Cannon & Edmondson, 2005; Jenkins et al., 2014; Shepherd & Cardon, 2009; Wolfe & Shepherd, 2015). But none of these studies have focused on the online aspect of failure and its associated social cost. In an online crowdfunding environment, success or failure occurs in a social context, which an entrepreneur creates by engaging their social capital on

crowdfunding and social media platform (Colombo et al., 2015; Giudici et al., 2013; Mollick, 2014). In such an environment, failure does not only have a monetary cost but it also has a social cost. Researchers have also studied the behaviour of individuals under public and private failure events and have found out that in order to restore self-esteem, individuals exaggerate their superiority over others in a private environment, but in a public environment where information is transparent, individuals are forced to adopt a more humble and egalitarian view (Brown & Gallagher, 1998). Individuals look for psychological safety when they engage in risky behaviour. Self-efficacy can reduce the need for psychological safety as well as provide motivation for success. Self-efficacy also aids in learning from failure (De Hoe & Janssen, 2014; Harburg et al., 2015).

Margin of Failure and Intention to Persist

On a crowdfunding platform, it is easy to determine the level or margin by which a particular project failed to achieve its funding goal. Entrepreneurs can see the daily progress as the project moves through the funding cycle. Projects can fail by a small or large margins on a crowdfunding platforms (Kuppuswamy & Bayus, 2015). The margin by which a project fails on a crowdfunding platform has implications for the entrepreneur. A project which fails by a small margin sends a positive signal to the entrepreneur about the acceptance of their idea and entrepreneur's competency by the community. On the other side, when an entrepreneur fails by a large margin, they get a negative signal from the community about the confidence of the community in the idea and the entrepreneur to pull it off. But in both the cases, the signal strength is strong. As one moves along the continuum of margin of failure (from large to small), one would interpret more and more positive signals from the community, and it would result in providing the required cue to the entrepreneur to continue to persist with their idea and give it another try.

Based on the above arguments, we posit that as the margin of failure will decrease for a crowdfunding campaign, the intention to persist with the idea will become stronger.

Proposition 1. *Margin of failure will be negatively associated with the intention to persist with the project idea.*

Learning from Failure and Intention to Persist

The process of executing a funding campaign is an enriching experience. An entrepreneur has the opportunity to learn various aspects of executing a funding campaign: pitch creations, social media and crowdfunding community engagement, PR management, etc. All these experiential activities have the potential to enhance the learning and skills of an entrepreneur (Yang & Hahn, 2015).

Crowdfunding platform not only serves as a source of funds for the entrepreneurs but it also serves as a source of wisdom from the crowd (De Buysere et al., 2012). An entrepreneur gets feedback from the crowd about their idea and business plan once they launch their campaign on the crowdfunding platform (Schwienbacher & Larralde, 2010).

For example, one of the backers on a campaign page (Kickstarter, n.d.) commented as follows:

Don't you guys have a feeling that multipack has totally no sense when you're charing 3x shipping with it? 30 USD per copy is enough to buy another game for it

And the entrepreneur responded back by saying as follows:

Thank you for bringing it to our attention. The price of the bundle reward tier is discounted, so you save \$5/game. However, we realize this isn't really a significant discount, especially for those in Central EU and other parts of the world where a single game is \$30/shipping. So, we're working on recalculating our shipping cost for bundles to those areas, and I'll update you shortly on what we come up with :)

This clearly demonstrates the wisdom shared by the crowd and the learning attribute of the entrepreneur.

The learning from a failure (Leoncini, 2017; Simmons et al., 2014) which an entrepreneur gets should help them process the signals received from the failure margin with less ambiguity. In the case of low margin of failure, the positive signals are strong and the relationship between the margin of failure and intention to persist with the project idea should not be impacted by the level of learning from the failure.

In the case of high margin of failure, the learning from the failure can have a significant effect, and it could change the direction of the original relationship between the margin of failure and the decision to persist with the project idea. In this case, if an entrepreneur learns from the failure through their own experience of executing the campaign and also through the feedback received from the community (Yamakawa et al., 2015), then they will be able to identify the gaps in their project idea or campaign execution and it should give them strong reason to change the idea so that it is appealing to the community. Since the original idea or the original execution process did not click at all, the entrepreneur will not hesitate in changing them based on their learning.

The effect of learning from failure on the case when the funding failed by around 50% should be different than what we expect when the margin of failure is high. In case a project receives around 50% of funding with its current pitch and execution, the entrepreneur will be in two minds regarding changing the pitch and the execution plan for a relaunch because they may fear losing the current backers if they modify the idea based on the inputs from a certain section of the community.

Based on the theoretical arguments discussed above, it can be proposed that learning from failure will moderate the relationship between the margin of failure and the intention to persist, such that the intention to persist will be high for both high and low levels of the margin of failure and low for mid-levels of the margin of failure (Figure 1).

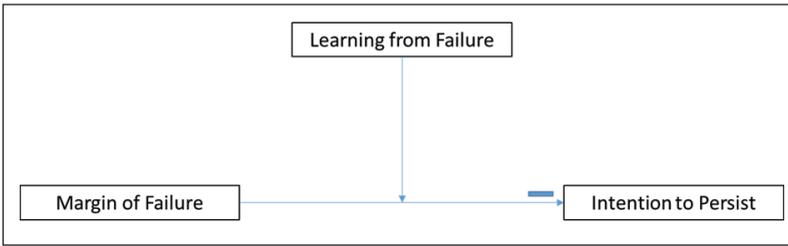


Figure 1. Proposed Model.

Proposition 2. *Learning from failure will moderate the relationship between the margin of failure and the intention to persist such that there will be high intention to persist at both low and high levels of the margin of failure when an entrepreneur learns from a funding failure.*

Discussion and Conclusion

This article has multiple theoretical implications. It contributes to the field of crowdfunding and learning from failure in entrepreneurship. Funding failures are not an adequately researched area in crowdfunding. With over 50% of crowdfunding projects failing to get funding, it is an important area for research. It is not only a loss of time and money that went into executing failed campaigns but also a personal loss of self-esteem and self-efficacy which an entrepreneur goes through with the event of failure (Harburg et al., 2015). By understanding how an entrepreneur makes a decision about relaunch and to persist with their project idea, we can help devise solutions which can aid entrepreneurs during failure events. Such interventions will lead to relaunch with improved project ideas which will raise the level of the overall entrepreneurship and innovation in the industry (Greenberg, 2015).

This research contributes to our understanding of how an entrepreneur interprets the signals from the margin of failure and how those signals are moderated by their learning from the failure experience. If an entrepreneur is able to learn from the failure, then the probability that they are going to persist and try again to relaunch their campaign goes up even in situations where the margin of failure was large during the original campaign. This has implications for the crowdfunding platforms. Crowdfunding platforms can intercept the failure events and can connect the failed entrepreneurs with others by forming a community of creators, who can share their experience of failure and how it led to the success later and help maintain the self-esteem and self-motivation of the entrepreneur. The crowdfunding platform can also intervene in connecting the backer community to the creator by asking them to leave a note of encouragement and feedback for the entrepreneur. All these interventions will aid the entrepreneur in learning and will motivate them to persist with their project idea (Yang & Hahn, 2015).

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