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Revisiting Signaling Theory for Initial Coin Offerings

Moritz Bruckner
University of Augsburg, moritz.bruckner@wiwi.uni-augsburg.de

Dennis M. Steininger
University of Augsburg, dennis.steininger@wiwi.uni-augsburg.de

Daniel Veit
University of Augsburg, veit@wiwi.uni-augsburg.de

Jason Bennett Thatcher
University of Alabama, jbthatcher1@culverhouse.ua.edu

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Research Idea

Moritz Bruckner
University of Augsburg
moritz.bruckner@wiwi.uni-augsburg.de

Dennis M. Steininger
University of Augsburg
dennis.steininger@wiwi.uni-augsburg.de

Daniel Veit
University of Augsburg
veit@wiwi.uni-augsburg.de

Jason Bennett Thatcher
University of Alabama
jbthatcher1@culverhouse.ua.edu

Abstract

Blockchain applications such as Initial Coin Offerings (ICOs) have recently garnered significant attention as means of entrepreneurial financing. While receiving attention in the press, the majority of ICOs do not meet their financial goals. Lacking traditional ways to estimate value or gather information (e.g. a centralized valuation authority or a centralized platform of communication), ICOs have turned to using persuasion signals on social media to directly communicate the alleged value of their offerings to investors. In this study, we draw on signaling theory and lock-up situations, to examine the efficacy of the most commonly used persuasion signals of ICOs (social proof and authority). Technology induced lock-up periods in this context are defined as the inability to sell the purchased tokens for an unknown period of time and have not been in the focus of academic literature so far. To quantitatively test our hypotheses, we conducted a 2x2 factorial online experiment with 473 participants. Our experimental study suggests that persuasion signals were effective in the absence of a lock-up period. However, when the ICO includes a lock-up period, the persuasion signals do not work as expected from existing theory. The results even suggest that the perceived plausibility of an ICO is significantly reduced because of the combination of a lock-up period and persuasion signals.

Keywords: Initial Coin Offerings, Signaling Theory, Persuasion, Lock-Up, Social Media