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## Reward-Based Crowdfunding Research and Practice

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### Introduction

In the last decade, fundraising has dramatically changed by the emerging of crowdfunding (Mollick 2014). As an extension of crowdsourcing (Schwienbacher and Larralde 2012), crowdfunding is defined as “a collective effort by individuals who network and pool their money together, usually via the Internet, to invest in or support the efforts of others” (Ordanini et al. 2011). Via crowdfunding, individuals can contribute to different kinds of projects ranging from entrepreneurial to prosocial projects (Roma et al. 2017). Moreover, some have also suggested that as an

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online fundraising method, in reward crowdfunding, the geographical barrier of traditional fundraising channels may be eliminated to a certain degree (Agrawal et al. 2015).

In this chapter, we focus on the reward-based crowdfunding model. Through reward-based crowdfunding supporters can provide funding to individuals, projects, or organizations in exchange for non-monetary rewards such as products or services, while accepting a certain degree of risk of non-delivery on campaign promises (Shneor and Munim 2019). Like other crowdfunding models, besides being a fundraising channel, reward-based crowdfunding can also work as a marketing tool (Brown et al. 2017) and a base of co-creation (Xu et al. 2016). Specifically, through the pre-ordering mechanism, entrepreneurs can boost their sales at the early stage market entry of new products. It can also be used to test the market potential of new products in order to diminish market uncertainty. Besides, entrepreneurs can improve products which may better match consumers' needs by engaging customers to take part in the developing process of new products (Messeni Petruzzelli et al. 2019).

The purpose of the current chapter is thus to review the fundamentals of reward-based crowdfunding, especially with respect to its potential influences on entrepreneurial financing and start-up incubation. Accordingly, we first discuss the definition, mechanisms, and unique aspects of reward-based crowdfunding. Next, the regional characteristics of reward-based crowdfunding development are presented. Then, through an extensive literature review, two main research streams of reward-based crowdfunding (success drivers and contributor behaviour) are summarized. Finally, this chapter highlights the implications for practice and research, as well as mentions potential contributions and limitations.

## **Definition, Mechanisms, and Unique Aspects**

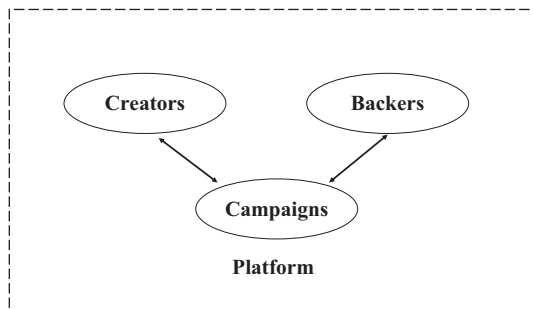
Reward-based crowdfunding can be considered as the most publicly familiar crowdfunding model, where backers contribute to projects without any monetary returns (Mollick 2014). Instead, they expect to receive material compensations (e.g. real products) as well as immaterial

compensations (e.g. thank-you letter) in return of their contributions (Gerber et al. 2012).

The rewards commonly used in reward-based crowdfunding campaigns fall into three categories (Colombo et al. 2015; Thürridl and Kamleitner 2016): pre-orders, services, and recognition. Particularly, campaign creators offer their products in a pre-order mechanism through which backers have early access to the products. As part of the process, contributors also evaluate the products and may offer creators useful suggestion on how to make the products better at satisfying their needs. Recognition and services are examples of immaterial rewards. Recognition as a reward applies to the entry-level backers (backers contributing a small amount of money). Here, creators may write thank-you letters to such backers or display their names on the website in order to acknowledge their contribution. Creators may also provide special services, instead of physical products, as rewards for backers. Examples of these may include private performances and screenings, training and educational experiences, free usage of commercial services being developed, and so on.

Reward-based crowdfunding is a two-sided market (Tomczak and Brem 2013). Specifically, the supply side of the market consists of a group of backers who are willing to contribute to crowdfunding campaigns for achieving material or immaterial compensations. The demand side of the market consists of a group of campaign creators who design their campaigns in order to get projects they are developing funded. This two-sided market is in most cases operated through an online intermediary (crowdfunding platform) such as Kickstarter.

In this chapter, a framework (Fig. 6.1) is applied to explain the mechanism of reward-based crowdfunding. It consists of four essential elements (campaigns, creators, backers, and platforms) of the whole reward-based crowdfunding process (Ordanini et al. 2011). The three elements (creators, backers, and platforms) will be discussed separately at the different phases of the crowdfunding process namely—the preparation phase, the crowdfunding phase, and the outcome phase. Specifically, the preparation phase refers to the period before launching campaigns. The crowdfunding phase refers to the active fundraising period of campaigns, and



**Fig. 6.1** The four-dimension framework of reward-based crowdfunding

the outcome phase refers to the consequences of crowdfunding campaigns, once they are closed and the fundraising period is over.

## Campaigns

The process of decision-making and strategic thinking of the crowdfunding participants is mainly based on what is presented in the crowdfunding campaigns (Messeni Petruzzelli et al. 2019). Therefore, the campaign is the core of the framework. Here, project creators design their crowdfunding campaigns following guidelines of crowdfunding platforms and other sources of advice, often stressing the importance of information disclosure for crowdfunding success.

First, project creators need to set up the funding targets of their campaigns, as covering all related costs for fulfilling the projects' objectives. Here, funding "targets" mean the amount of money they aim to collect through the crowdfunding process. Next, in order to present their projects to the potential backers, project creators are required to describe their projects in comprehensive ways by providing adequate and truthful information in the forms of texts, images, and/or videos (Ahlers et al. 2015). The provided information relates to the project and its rewards, the background of the creator(s) and the perceived risks of surrounding the future project execution process. In addition, the rewards also play vital roles. Before launching their projects, project creators need to design their own reward schemes. In the reward schemes, creators are required

to clarify the benefits to the backers based on the different levels of contributions. Usually, a reward scheme should include several reward tiers with different prices associated with each. These often come in the forms of different number of units of the products, different versions of same products, opportunities for creative collaborations of various kinds, creative experiences and creative mementoes depending on different contribution levels (Kuppuswamy and Bayus 2017).

As the campaigns are designed and officially launched online, backers should find out which campaigns are worth contributing to and how much to contribute based on the provided information. In the meanwhile, crowdfunding platforms provide the technical infrastructure for information presentation, payment facilitation, and interaction around campaigns in order to facilitate a smooth crowdfunding process.

## Creators

Creators are individuals or organizations with a project that requires funding, are the source of information about the project, and are responsible for delivering on the campaign promises once the campaign is finished.

*Preparation Phase:* Before launching campaigns, creators should clearly define their business idea by answering the following questions: what the final product/service is, what the overall scope is, what the overall vision is, and what the final target is. Once all the answers to the above are known, creators can start to design their campaigns. Designing a crowdfunding campaign must follow according to the requirements of the crowdfunding platform and will often include multiple media elements and a textual description answering critical issues about the concept, the people behind it, and the project execution plan. Information related to legal issues, launch date, and duration should be taken into consideration when designing crowdfunding campaigns (Mollick 2014).

*Crowdfunding Phase:* Once the business idea is determined and the campaign is designed, the crowdfunding phase starts when a campaign is officially launched online. The campaign ends at the stated end date of the campaign's fundraising duration. From the creator's perspective, the

crowdfunding phase is critical as it is closely related to the crowdfunding efforts' results. Therefore, creators should spend time and effort to establish and maintain the relationship with potential backers and niche groups in order to promote the awareness about their campaigns. In addition, to facilitate fundraising, creators should also provide extra information related to the campaigns through interaction with backers, social media promotional efforts, sharing of updates, and campaign improvements.

*Outcome Phase:* The outcome phase starts when the crowdfunding phase is finished. For platforms adopting the “all-or-nothing” mechanism, the entire amount of the fundraising will only be transferred to the creator if the campaign is successful (the final fundraising amount is equal or exceeds the fundraising target). A commission fee should be deducted from the total collected amount by the platform before funds are transferred to the creator. Alternatively, for platforms using the “keep-it-all” mechanism, the sum of contributions raised will be transferred to creators (after deducting the commission fee for platform services) irrespective of whether the campaigns' fundraising targets have been achieved or not. Regardless of fundraising model, creators have the responsibilities to execute the projects and deliver the promised rewards within the time-frame stated in the campaign, after they receive the funds raised.

## Backers

Backers are individuals or organizations who provide financial contributions for the crowdfunding campaign in return for a promised reward.

*Preparation Phase:* Before contributing to crowdfunding campaigns, backers should be familiarized with the concept of reward-based crowdfunding and make sure they understand how it works, as well as its related risks and benefits.

*Crowdfunding Phase:* During the crowdfunding phase, backers should decide whether and how much to contribute to a campaign based on their evaluation of the provided campaign information and the perceived risk level of the campaign. In addition, backers may also be interested in acting as co-creators of the supported campaigns (Mollick 2014). They

may interact with campaign creators by asking campaign-related questions on the crowdfunding platform or by writing comments concerning campaign updates in order to help the creators improve their products/services (Steigenberger 2017). In addition, with the embedding of social media, backers can easily spread campaign information and make their favourite campaigns go viral through their online social networking as social media exposure is positively associated with campaign success (Gerber et al. 2012). Indeed, research by Shneor and Munim (2019) has shown that both information-sharing intention and financial contribution intentions lead to actual financial contribution behaviour.

*Outcome Phase:* For campaigns run on platforms using the “all-or-nothing” mechanism, backers can only receive their rewards if a campaign is successful (the final fundraising amount equalizes or exceeds the fundraising target). However, if a campaign is failed, the contributions will be refunded to the backers. In terms of the “keep-it-all” platforms, backers will receive their rewards, regardless of the outcome of a campaign. Nevertheless, in most cases, backers don’t receive rewards immediately but within pre-stated periods of time required for completing product development, manufacturing, and shipment.

## Platforms

Paraphrasing Shneor and Flåten’s (2015) definition of crowdfunding platforms into the reward crowdfunding context, a reward crowdfunding platform can be defined as an internet application bringing together project creators and their potential backers, as well as facilitating exchanges between them according to the reward crowdfunding conventions presented earlier.

*Preparation Phase:* In the preparation phase, as information intermediaries, platforms should host educational sessions about crowdfunding to the public in order to introduce crowdfunding to the general public. Such efforts are likely to help support the development of a crowdfunding community, which may consist of future backers and creators. In terms of backers, contributing to crowdfunding campaigns might be risky. As a novel fundraising channel, crowdfunding is tangled with

market uncertainty and information asymmetry (Roma et al. 2017). To decrease perceived risks, crowdfunding platforms should set up an extensive campaign review process to verify whether a campaign has satisfied the basic requirements for launching online in terms of information disclosure and fundraiser identity verifications. In that way, platforms may ensure avoiding the publication of illegal and immoral campaigns, such as campaigns related to fraudulent activities, money laundering, criminal, and terrorist funding. For creators, platforms should give suggestions on defining, developing, and presenting creators' business ideas, as well as guide them in designing attractive crowdfunding campaigns. Besides, all fees related to the campaign process should also be disclosed to creators in advance for proper campaign budget planning.

*Crowdfunding Phase:* During the crowdfunding phase, crowdfunding platforms may help creators and backers to exchange information through different channels. For example, platforms are encouraged to integrate instant messaging tools, third-party social network websites and microblog links on campaigns' webpages to facilitate extensive interaction between creators and backers (Zheng et al. 2014). In addition, platforms can also support the promotion of campaigns through online marketing. Platforms may also selectively promote certain campaigns as part of "staff picks" recommendations, or in direct promotions to special interest groups among their users. Lastly, legal and ethical compliance should also be taken into consideration in the crowdfunding phase. Platforms should apply identity verification of backers to ensure ethical contributing practices.

*Outcome Phase:* In the final phase, depending on the different mechanisms ("all-or-nothing" or "keep-it-all"), platforms will transfer the total fundraising to the creators after deducting the commission fee for their services. Creators have the obligations to complete their projects and fulfill rewards once the money is received. However, given the uncertainty underlying the post-crowdfunding process, reward-based crowdfunding platforms may warn backers if they notice that some projects may not go as planned. For example, some campaigns may suffer from delivery delays or no delivery (Mollick 2014). However, platforms do not carry legal precautions about such problems as it is backers' responsibilities to understand the risks and their consumer rights by law before participating in



crowdfunding activities. Nevertheless, a platform's long-term survival depends on the positive experience of users, and its engagement in follow-up on campaign promise delivery is linked to its own interest in long term success. In such cases, platforms may follow up on creators to ensure they meet their obligations. In addition, possible refunds or alternative options to complete the projects may also be offered to the backers. Finally, the platform should maintain relations with new users brought by with the campaign and continue informing them about future campaigns that they may find interesting, based on them opting to receive such information.

## Regional Variances

Reward-based crowdfunding as a global phenomenon may not operate in the same way in different regions. Because some factors such as financial infrastructures, regulatory environments, and technological advancements may vary by region. Hence, consideration and discussion at the regional level is also warranted. In this section, we report the situation in different regions around the world in order to provide a better understanding of reward-based crowdfunding from a global perspective by taking regional features into consideration.

### China

According to the 3rd Asia Pacific Region Alternative Finance Industry Report (Ziegler et al. 2018b), reward-based crowdfunding is a popular crowdfunding model in China in terms of the number of participants. Although reward-based crowdfunding works similar all over the world, there are still some special features in the Chinese reward-based crowdfunding market. Generally, reward-based crowdfunding market in China is still growing. However, the number of reward-based crowdfunding platforms in China is decreasing. It means the reward-based crowdfunding market in China is highly concentrated. For instance, the fundraising of several large reward-based platforms (e.g. JD, Taobao) account for

approximately 90% of the total market fundraising volume. Almost all the reward-based crowdfunding platforms in China operate domestically. Most platforms do not have global websites and global brands. Reward-based crowdfunding platforms in China usually do not accept contributions out of China. Therefore, cross-border inflows and outflows in Chinese reward-based crowdfunding market are rare. Defaults, regulatory changes, and fraud are perceived as the main obstacles of reward-based crowdfunding development in China.

### **Asia-Pacific (APAC)**

According to the same report (Ziegler et al. 2018b), the reward-based crowdfunding market is still growing in Asia-Pacific (APAC) areas (excluding China). Here, 96% of reward-based crowdfunding platforms place “media and promotion” as their key focus of R&D. Approximately 81% of all the reward-based crowdfunding platforms in APAC (excluding China) have been actively pursuing customer verification, payment processing, and e-learning. Around 69% of the reward-based crowdfunding platforms have pursued R&D into “community management”. However, only 29% of the reward-based crowdfunding platforms in APAC refer gamification as their key R&D focus and for customer relationship management (CRM) the rate is 36%. With respect to female participation in the APAC region, 18% of all the reward-based crowdfunding fundraisers (e.g. campaign creators) are female, and female backers accounted for 27% of the total backers. Some 17% of the backers in APAC have supported campaigns abroad. Approximately 15% of reward-based platforms in the region are having both a global website and a global brand, but only 1% of the total fundraising of reward-based crowdfunding is contributed by backers out of APAC. Fraud and cyber-security breach are perceived as the main risks of reward-based crowdfunding in the APAC area.

## UK

According to the 5th UK Alternative Finance Industry Report (Zhang et al. 2018), reward-based crowdfunding is experiencing a decline in volume in the UK, which is likely related to the result of 63% of reward-based platforms reported slightly alternating their business model in 2017. Specifically, 14% of the operating costs of crowdfunding platforms account for the R&D mostly invested towards customer support tools for social media promotions. Moreover, approximately 75% of all the reward-based crowdfunding platforms in the UK choose to invest in e-learning, customer verification and payment processing as their R&D focuses. Half of the reward-based platforms in the UK have also pursued R&D into artificial intelligence, community management and performance enhancement features. In terms of female participation, in the UK, 56% of all the reward-based crowdfunding fundraisers are female and female backers accounted for 38% of total backers. Reward-based crowdfunding is the most international crowdfunding model in the UK with approximately 75% of platforms having both global websites and global brands and with approximately half of the inflow transactions made cross-border. In terms of risks, concerns about possible collapse of a platform due to malpractice is perceived as the main risk of reward-based crowdfunding industry in the UK.

## Middle East and Africa

According to the 2nd Annual Middle East and Africa Alternative Finance Industry Report (Ziegler et al. 2018c), non-financial crowdfunding models (reward-based crowdfunding and donation-based crowdfunding) account for the majority proportion of the alternative finance market in the Middle East and Africa (MEA) region. It is the key feature distinguishing the alternative finance market in the MEA region from other alternative finance markets. Due to the low economic and infrastructural development level, all the reward-based crowdfunding activities in the Middle East and Africa areas remain domestic activities with no cross-border transactions, internationalization and R&D investment. In terms

of female participation, 27% of the reward-based crowdfunding fundraisers are female and female backers account for 33% of the total backers. Reward-based crowdfunding development in the Middle East and Africa are exposed to various risks. For instance, fraud is perceived as the most serious risk in African reward-based crowdfunding market followed by collapse due to malpractice, defaults and changes to regulation. In the Middle East areas, defaults are placed as the greatest risk followed by changes to regulation, collapse due to malpractice and fraud.

## Europe

According to the 4th Annual European Alternative Finance Report (Ziegler et al. 2019), 67% of reward-based crowdfunding platforms have placed community management as the key focus of R&D investment in European areas. This is closely followed by 66% of platforms that have pursued R&D into social media and promotional tools. Customer Relationship Management (CRM) is chosen by 48% of the reward-based platforms as their main R&D focus and process streamlining have been chosen as priority R&D focus by 37% of the European reward-based crowdfunding platforms. Referring to female participation, 49% of the reward-based crowdfunding fundraisers are female and female backers accounted for 54% of the total backers. About 27% of reward-based crowdfunding platforms in Europe only focus on the local markets with no global websites and brands. However, 58% of reward-based crowdfunding platforms have both global websites and global brands. About 6% of reward-based crowdfunding platforms in Europe choose to utilize a global brand name but localize the websites and contents for certain markets. Compared to other crowdfunding models in Europe, reward-based crowdfunding model has the lowest level of cross-border funding flows. Specifically, cross-border funding outflows account for 9% of the total market volume and 21% of the transactions are made by cross-border funding inflows. Finally, in terms of risks, cyber-security breach is perceived as the most significant risk factor followed by changes to regulation and campaign fraud in the European reward-based crowdfunding market.

## The Americas

According to the 3rd Americas Alternative Finance Industry Report (Ziegler et al. 2018a), reward-based crowdfunding reported a decline in 2017 in the US and Canada. However, in Latin American and Caribbean (LAC) areas, reward-based crowdfunding has continued to grow with newly established alternative finance ecosystems. Regarding R&D, 88% of reward-based crowdfunding platforms in the Americas have emphasized customer support tools for social media promotion as their priority R&D focus. Some 63% of the platforms mention payment processing and e-learning as two important R&D focuses. Furthermore, half of the platforms have pursued R&D into community management features. In terms of internationalization, 80% of reward-based crowdfunding platforms in the US have both global websites and global brands. In the LAC areas, the rate is 87%. For cross-border inflow and outflow, 11% of transactions were associated with cross-border inflows, and 18% of transactions were associated with cross-border outflows in the US reward-based crowdfunding market in 2017. Regarding female participation, 50% of the reward-based crowdfunding fundraisers are female and female backers account for 32% of the total backers. Specifically, in the US, 47% and 53% of fundraisers and funders are female respectively. In the LAC area, 47% and 56% of fundraisers and funders are female respectively. In the reward-based crowdfunding market of the Americas, cybersecurity breach is perceived as the most significant risk factor followed by collapse due to malpractice and campaign fraud.

## Literature Review

After presenting the stakeholders and the current status of reward-based crowdfunding globally, in the following section we review the literature on reward crowdfunding in different disciplines, including management, entrepreneurship, and information systems. Based on database searches employing the terms “crowdfunding” and “reward-based” as the keywords, we collected and analysed 30 studies published in influential

journals in each discipline. Based on the analysis, we identified two main research streams: (1) success drivers of crowdfunding campaigns and (2) factors affecting individual contributors' behaviour.

## Success Drivers

A strand of literature on reward crowdfunding highlights factors critical for determining the success of a crowdfunding project. First, a stream of research found that effective dissemination of information regarding the project and creator via the crowdfunding platform is important to crowdfunding success (Mollick 2014). Information on project quality (e.g. a competition-winning business plan) and social information (e.g. other potential contributors' willingness to invest) serve as effective cues for potential contributors (Ciuchta et al. 2016). In relation to this, the characteristics of the creators play a significant role in attracting and retaining the attention of contributors and thereby in determining a campaign's success. For example, creators' social information and educational backgrounds have all been shown to affect the success of a campaign (Mollick 2014). Similarly, Boeuf et al. (2014) found that disclosure of personal information about project creators has positive influence on crowdfunding success because it helps obtain a higher level of trust from potential contributors. In the same vein, Frydrych et al. (2014) argue that information on the creator adds legitimacy to the project, attracting more contributors as a result. Ryu and Kim (2018) found that reward value and societal contribution of a campaign are influential campaign characteristics affecting crowdfunding success.

Second, information on project progress posted on the project page is another influential factor. Investor participation in early project stages is essential for signalling project quality and subsequently attracting more investors (Agrawal et al. 2015; Burtch et al. 2013; Colombo et al. 2015). The success of a campaign is fully mediated by the funds collected in the campaign's early days (Colombo et al. 2015). Kim and Viswanathan (2019) showed that information about early contributors with expertise has a distinct influence on later investors. Regarding communication between the creators and their contributors, Antonenko et al. (2014)

pointed out that intensive communication, such as reacting promptly to questions and providing frequent status updates, positively influences crowdfunding success.

Third, it has been found that different types of creator and contributor networks act as key influencers of crowdfunding success. For example, based on the social capital theory, Zheng et al. (2014) examined how project creators' social network ties, experience in funding other projects, and the shared meaning between creators and investors impact crowdfunding success. Particularly, internal social capital developed inside a crowdfunding community contributes significantly towards triggering "a self-reinforcing mechanism" of a crowdfunding project (Colombo et al. 2015). Social capital accumulated from the contributors' social networking site (SNS) is also positively associated with the success of the project (Kang et al. 2017).

Finally, campaign attributes are important. Belleflamme et al. (2014) find that the types of campaigns that are part of non-profit organizations are more successful than those of other organizational forms. Several design components, such as duration, goal, and inclusion of a video on a campaign site, are all associated with success (Mollick 2014). More specifically, Mollick (2014) argues that potential contributors are more likely to select realistic funding goals, as campaign goals that are too high or too low are not likely to lead to a successful campaign. Relatedly, Zhao and Vinig (2017) found that the application of lottery as a reward for a crowdfunding campaign has a positive influence on crowdfunding success. Linguistic styles and texts used in campaign descriptions also influence the success of crowdfunding campaigns (Parhankangas and Renko 2017; Allison et al. 2017). Linguistic styles that make a campaign more understandable and relatable to potential contributors enhance the success of social campaigns but hardly matter for commercial campaigns (Parhankangas and Renko 2017). Relatedly, based on the Elaboration Likelihood Model, Allison et al. (2017) found logically persuasive messages (cognitive) and emotionally persuasive cues (affective) influence crowdfunding campaign success.

## Contributor Behaviour

A second stream of research on reward crowdfunding has documented various factors affecting contributors' behaviour. First, some studies show that different social influences drive the demand for crowdfunding. For example, Skirnevskiy et al. (2017) identified the significant role of peer effects in crowdfunding. The physical distance between creators and contributors are also found to have significant effects on contributor behaviours (Agrawal et al. 2015; Kang et al. 2017). Local contributors are more likely to pledge at the early stages of the funding period than distant contributors, and they are less sensitive to peer effects. They are also less sensitive to information about the cumulative amount of funding (Lin and Viswanathan 2015). In similar vein, contributors are more likely to contribute to "culturally similar and geographically proximate" creators' projects (Burtch et al. 2014). Relatedly, recognizing the importance of contributions at the early stages, a small set of studies has attempted to show why and who are more likely to make earlier contributions. For example, Kuppuswamy and Bayus (2017) showed the importance of goal proximity in explaining fund timing. Specifically, they found that people are more likely to contribute when a project approaches its funding goal, where they can make an impact on the ultimate success of fundraising, than when the funding goal has been reached. Also, research shows that contributors who are experts (Kim and Viswanathan 2019) or local (Kang et al. 2017; Agrawal et al. 2015; Giudici et al. 2018) tend to participate in crowdfunding earlier.

Second, beyond social influence, some research has investigated how the available information or format of crowdfunding affect funders' decisions. For example, Davis et al. (2017) found that contributors' decision to pledge is positively influenced by perceived product creativity and the influence of perceived product creativity is promoted when contributors perceive the creator as passionate. From the perspective of platform design, permission to control the disclosure of funding information was found to increase the number of contributions and simultaneously to decrease the amount of each contribution (Burtch et al. 2015).



Finally, an additional group of studies focused on psychosocial factors such as individual contributors' motivation. For example, Zheng et al. (2018) examined the positive effects of contributors' psychological ownership towards a campaign on their decision to contribute. Contributors also engage in crowdfunding campaigns with different intentions (Gerber et al. 2012). Contributors often seek rewards from the campaigns, in the form of tangible products or intangible rewards. Contributors would also support creators and their campaigns for upholding values. Some contributors may join crowdfunding to engage in a community where they are willing to be a part of. Shneor and Munim (2019) apply the "theory of planned behaviour" (TPB) for addressing the relationship between contribution intentions, behaviour, and their antecedents. They found that both financial contribution intentions and information-sharing intentions are positively related to actual contribution behaviour. Relatedly, Ryu and Kim (2016), with surveys and matched transaction data from platforms, identified four types of contributors based on their motivations to participate in crowdfunding. The four types of contributors are angelic backers, reward hunters, avid fans, and tasteful hermits. Angelic backers are similar in many aspects to charitable donors while reward hunters are similar to traditional investors. Avid fans are the most enthusiastic contributor group and similar to members of a brand community. Tasteful hermits fully support the crowdfunding campaigns but are less concerned with relational aspects of crowdfunding behaviour.

## Implications

### Implications for Research

Given the differences between reward-based crowdfunding and traditional funding channels, the drivers of crowdfunding campaign success, and the factors impacting individual contribution behaviour have both been extensively examined in the crowdfunding literature. The literature supports the view that reward-based crowdfunding possesses both common aspects as a funding channel and distinguished aspects as a new type

of channel. That is, reward-based crowdfunding can be considered as a riskier form of online commerce, where people pre-order products before the products are fully developed and produced, while accepting a degree of risk of non-delivery or deviations from campaign promises. Reward-based crowdfunding is similar in some respects to the traditional funding sources in that potential contributors make a decision based on information they are exposed to and/or collect. This is important because creators in the reward-based crowdfunding context are still expected to present their resources and capabilities to potential contributors. The differences are that they may leverage different types of information. Social information and progress of a campaign may be more critical factors in the context of reward crowdfunding.

Although previous literature found some implicative mechanisms of reward-based crowdfunding, the current body of literature has several limitations, which indicate our future research directions. First of all, while the literature validated the factors influencing campaign success and individual contributors' behaviours, detailed theoretical mechanism of how a specific factor affects the campaign performance or contributor behaviour has not been well addressed. Future research can find more theoretical evidence for the findings so far, or develop new theories explaining the underlying dynamics in the specific context of reward-based crowdfunding.

Second, the main research streams on reward-based crowdfunding have focused on explicit factors related to creators and their projects as affecting the success of a crowdfunding campaign, but less attention has been paid to the motivation of players on both sides. Creators and contributors join crowdfunding for different motivations (Gerber et al. 2012; Ryu and Kim 2016, 2018). As discussed, a few pioneering studies dealt with motivations in the reward-based crowdfunding context, but the literature has not established how those motivations interact with other factors, such as campaign characteristics. To fill this gap, future research can delve deep into how different motivations interrelate with crowdfunding success and contributor behaviours. Specifically, because motivations are psychological factors, examining how motivations interact with other attributes such as demographics, campaign, or platform characteristics could be an important consideration.

Third, in consideration of the risks embedded in the context of reward-based crowdfunding, researchers are expected to deal with these risk factors. Reward-based crowdfunding is not free from drawbacks such as delays in fulfilment and potential fraud (Mollick 2014). Future research could identify that specific types of campaigns may be more prone to certain risks, compared to other campaigns. More importantly, examining the effectiveness of the current coping mechanisms of reward-based crowdfunding in mitigating such risks could be a promising research domain.

Finally, the extant literature on crowdfunding has myopically focused on the success of campaigns “inside” crowdfunding platforms. Recently, the perspective is expanding to post-campaign phenomena by examining the effects of crowdfunding success on follow-on performance of start-ups (Roma et al. 2017). Nevertheless, we still know little about how crowdfunding can influence entrepreneurial organizations’ long-term performance and thus survival. Regarding this gap between the findings from previous literature and expected role of crowdfunding in longer term, future research can identify how crowdfunding affects subsequent performance.

## Implications for Practice

The current body of literature on reward-based crowdfunding also provides practical implications, especially into the launch of crowdfunding campaigns and the management of platforms. For potential creators, the literature provides some guidance. Most of all, different aspects of information quality and effective communication of that information are critical for a reward-based crowdfunding campaign. A strand of research identified specific attribute or characteristics of campaigns and their creators that boost individual contributors’ behaviour and thus crowdfunding success. Those results can provide practical aid in this regard. More importantly, in addition to polishing the campaign itself, understanding the social aspects of reward-based crowdfunding is critical to reaching the goal amount. Creators must understand the importance of earlier pledges and momentum throughout the campaign process. They are expected to

develop a strategy to collect a group of earlier contributors according to the nature of the campaign. Strong social capital of a creator from inside and outside of the crowdfunding platform should help the creator initiate this momentum towards crowdfunding success.

For platform operators, the current literature provides implications related to building up a sustainable platform. Platform operators should not only try to expand their platforms but also understand the existence of different types of creators and contributors on their platforms. Based on this understanding, they can offer the most suitable benefits based on their distinct characteristics. For example, social campaigns and commercial campaigns may draw different types of (potential) contributors and thus need different formulas for crowdfunding success. If they can provide more customized guidance for novice creators, their platforms can enjoy higher rates of crowdfunding success and thus enhance their sustainability. Finally, in order to build up sustainable platforms, they are required to understand the combinative characteristics of reward-based crowdfunding, providing both commercial and communal values to both creators and contributors (Ryu and Kim 2018).

## Conclusion

As an innovative entrepreneurial fundraising channel, crowdfunding has gained increasing popularity in the last few years (Mollick 2014). Specifically, reward-based crowdfunding, the best-known crowdfunding model, has attracted increasing attention from the public. It has offered feasible opportunities for entrepreneurs to test new business ideas, conduct market research, and access early-stage financing. Despite the growing popularity of reward-based crowdfunding research, as well as the increasing relevance of employing reward-based crowdfunding for entrepreneurial financing, relatively little literature has systematically investigated it as a unique phenomenon separated from other crowdfunding models.

To mitigate this gap, we have highlighted the reward-based crowdfunding model and the unique aspects of it. In this chapter, we have comprehensively discussed the reward-based crowdfunding phenomenon

based on a four-dimension framework which includes the main players engaged in the crowdfunding process: the creators, the backers, the campaigns, and the platforms. In addition, an evidence-based introduction to the reward-based crowdfunding development across different regions is also provided. We have highlighted the regional variances by including the facts of developing trends, R&D priority, female participation, internationalization, cross-border transaction and risk in different reward-based crowdfunding markets. A literature review of the academic research on reward-based crowdfunding was also provided in this chapter by focusing on two main research aspects: success drivers and consumer behaviour. Based on the findings of the literature review, the practical and theoretical implications of what we know about reward-based crowdfunding were discussed.

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