

Chapter 2

Social Networking Sites, Online Social Capital, and the Success of Crowdfunding Campaigns

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ABSTRACT

Crowdfunding is a phenomenon that exists because of interconnectivity. These platforms allow the connection of lenders, donors, and investors with recipients who may be entrepreneurs or beneficiaries. In the entire crowdfunding process, there is a direct involvement of network behaviors namely trust, norms, networking, and so on. In other words, social capital plays a role in crowdfunding. This chapter aims to review the existing literature on crowdfunding platforms and identify the role of online networking in the process and outcome. The chapter would benefit both researchers and various stakeholders who are engaged in crowdfunding or are exploring this platform for financial decisions.

INTRODUCTION

Crowdfunding is a modern financing mechanism that relies on the power of social networking for financing a variety of projects and businesses. It has transformed the financing landscape providing a direct link between the surplus and deficit, transcending the boundaries. As per (Mollick, 2014), the idea of crowdfunding is derived from the principles of “microfinance” and “crowdsourcing” but differs in the way it involves multiple Internet platforms. The process takes place in both specialized crowdfunding platforms as well as social networking sites such as Facebook, Twitter, etc. Crowdfunding is reportedly used more by nascent ventures where funding is difficult to access. The funding project, called “campaign” is characterized by a set goal in terms of time and money. Funds are provided by a group

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of individuals or organizations that may be in the form of donations or for some benefits. At its core, crowdfunding relies on many people who are not professionals, who are referred to as the “crowd”. It is a “two-sided market that links capital-seekers (crowdfunders) and capital-givers (investors)” (Haas et al., 2014). In this process, the crowdfunding platforms play a role of enablers only. Crowdfunding does not just provide financial benefits to creators but several non-financial benefits that include “enhanced reputation; marketing; audience engagement, and feedback on project”.

This chapter provides a description of the concept of crowdfunding, its working process, and the role of social media in the success of crowdfunding. The next section describes the concept of crowdfunding, role of social media is discussed in the second section, future research directions and conclusions are discussed in the fourth and fifth sections.

CONCEPT OF CROWDFUNDING

Definitions

(Datta et al., 2019) mention that (Schwienbacher & Benjamin, 2010) provided the first academic definition of the term crowdfunding. They defined crowdfunding as, “an open call for the provision of financial resources, to gather either donation or in exchange of reward and/or voting rights in order to support initiatives for specific purposes”. (Mollick, 2014) refined this definition and stated that, “crowdfunding is a way that collects funds from the public to support enterprises or individuals by drawing on relatively small contributions from a relatively large number of individuals using the Internet, without standard intermediaries”. Another comprehensive definition of crowdfunding given by (De Buysere, K; Gajda, O; Kleverlaan, R; Marom, 2012) state that crowdfunding is “a collective effort of many individuals who network and pool their resources to support efforts initiated by other people or organizations usually via or with the help of the Internet”.

The Rise of Crowdfunding

This method of raising money has seen rapid growth in the recent past. As of 2023 crowdfunding websites have helped in raising US\$ 1.1 billion worldwide (Elad, 2023). This financing method is not mere a “trendy buzzword” now but has gained the reputation of a mainstream financing model. One of the top crowdfunding platforms, Kickstarter, attracted five million contributors and about \$1 billion in just five years. Its competitor, Indiegogo, was able to manage one campaign that raised \$12 million. Other major crowdfunding platforms are GoFundMe, Microventures, YouCaring, Looking at history, it may be noted that crowdfunding did exist in the past in various forms, in book projects, war bonds, cooperatives, movies, software, to name a few. An interesting example of crowdfunding from the recent past is Tesla Model 3 that attracted \$1.5 billion from prospective buyers of its cars.

Modus Operandi

Crowdfunding basically involves an open call for financial support on Internet. It works on the principle of large pool of people contributing small amounts for a specific purpose technically called “campaign”. A campaign is marked by a definite starting and ending points. The main parties involved in the crowd-

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