

How to improve crowdfunding success: An investigation into choice overload and prosocial framing.

Intro

Crowdfunding is an alternative to entrepreneurial financing that has seen impressive growth recently (Shneor & Torjesen, 2020). It enables fundraisers who cannot use traditional fundraisings, such as banks (Li & Martin, 2019), to obtain small amounts of funding from many backers (Belleflamme et al., 2014). Kickstarter, the largest crowdfunding platform, supports reward-based and donation-based crowdfunding (Du & Wang, 2017). This essay will focus on reward-based crowdfunding, when backers exchange monetary contributions for non-monetary rewards, as it is the most prevalent type (Bi et al., 2017; Burtch et al., 2014). On Kickstarter, 3.9% of campaigns succeed and reach their funding goals (Kickstarter, 2022); therefore, campaigns should be carefully designed to motivate backers. Reward hunting is the most recognised motivation for backers (Thürridl & Kamleitner, 2016), so founders must design their reward tiers (what rewards backers receive in return for pledges) to accumulate support. Researchers have considered whether the choice overload phenomenon (Iyengar & Lepper, 2000) is relevant when presenting rewards; however, there are conflicting results regarding whether too many options are detrimental to backers' decision-making (Kunz et al., 2016; Chen et al., 2016). Similarly, prosocial framing is when campaigns emphasise how they benefit others and society to gain backers' support (Penz et al., 2022); however, research has found both positive and negative impact on crowdfunding success. Understanding what factors influence backers' motivations is essential to improving campaign success (Du & Wang, 2017). To that end, this essay evaluates the literature on the effect of choice overload and prosocial framing on crowdfunding, considering their implications and limitations and finally concluding that more options and moderate prosocial framing are optimal for success.

Choice overload:

Choice overload has been heavily debated. Initially, the traditional economic theory suggested that presenting more options is more efficient as it helps consumers reach their purchasing goals (Messinger & Narasimhan, 1997). However, the choice overload phenomenon suggests that as consumers face greater options, they experience regret, choice deferral and reduced satisfaction (Chernev et al., 2015). Research into this phenomenon has investigated industries where choice overload is relevant, such as marketing. This may be pertinent to crowdfunding as campaigners offer different rewards to their donors depending on their funding pledge. There is no limit to the number of reward tiers a campaign offers, which begs the question of how many tiers are optimal to gain the highest support.

Research into this effect has found mixed results. Xiao et al. (2014) found that the number of reward tiers in a campaign harmed crowdfunding performance; finding an additional reward tier led to an 8.31% decrease in funding pledges. They explain this through procrastination and conflict. Similarly, Chen et al. (2016) found that fewer reward tiers made donations more likely, finding an optimal of six levels. These two studies support choice overload and suggest having many options is redundant and detrimental to success. In contrast, Lin et al. (2016) found a positive relationship between the number of rewards and success. This may be because having greater choice increases the likelihood of backers finding an option that suits them (Kahn et al., 1987).

To overcome the mixed findings and limitations of previous research, I consider Du and Wang's (2017) meta-analysis of over 10,000 campaigns. This study improved on previous studies by using field data and lab experiments and by providing a theoretical consideration using backer's backing centroid to compare a backer's choice to all other options. Their study found that more options significantly improved crowdfunding success

and popularity of a single option. Choice overload had a marginal impact; instead, Du and Wang explained their results via the compromise effect. The compromise effect is a robust cognitive bias where people are averse to extremes (Simonson & Tversky, 1992), so when an alternative becomes a middle option in a tier, its market share increases (Simonson, 1989). Therefore, increasing the number of options available to backers, increases middle option popularity. Du and Wang (2017) explain the minimal impact of choice overload effect for two reasons. Firstly, most (97.5%) crowdfunding campaigns do not have more than nine reward tiers; within this small range, choice overload is unlikely to occur (Chernev et al., 2015). Choice ordering can also mitigate choice overload (Song et al., 2019). On most crowdfunding platforms, reward tiers are organised in ascending order; therefore, choice overload will have minimal effect.

This meta-analysis draws together the inconsistent research, finding that prior studies had methodological inconsistencies that may have led to differing results. For example, Chen's (2016) study substantiating choice overload used campaigns with a mean of 11 reward tiers. In contrast, research contradicting the phenomenon used campaigns with a mean of 5 reward tiers (Du & Wang, 2017). To conclude this section, choice overload is not prevalent on crowdfunding sites such as Kickstarter, where people generally only present up to nine reward options and where options are ordered automatically. In actuality, having more choices is beneficial. Therefore, founders should add reward options to motivate backers. However, as this research has studied campaigns with up to nine reward tiers, we cannot be sure whether the effect still stands after nine options.

Prosocial framing:

Frames are cognitive shortcuts that help us identify and label information (Goffman, 1974); they can be helpful for campaigns trying to portray themselves in a particular way. Prosocial orientated projects are campaigns that display care for others, society, and the environment (Brickson, 2007). Recently, firms have applied green marketing strategies by

communicating their environmental efforts to frame their company as prosocial and raise their competitive advantage (Szabo & Webster, 2020). However, there is limited and inconclusive data regarding the effect of prosocial framing on crowdfunding campaigns. I present some of this research and explain why campaigns should take care when framing.

Previous research looks heavily into the positive impact of prosocial framing on crowdfunding websites such as [kiva.org](https://www.kiva.org) that specifically have a prosocial goal (Allison et al., 2015; Moss et al., 2018). However, the motivation of backers using Kiva is inherently prosocial (Galak et al., 2011); therefore, I narrowed my focus to research sites with no specific prosocial goal. Firstly, Calic and Mosakowski (2016) find that social orientation helps crowdfunding success. However, their study categorises projects into either prosocial or for-profit, ignoring for-profit campaigns that incorporate prosocial aspects. Research by Defazio et al. (2021) overcomes this issue by scoring different levels of prosocial orientation, finding that prosocial cues in crowdfunding campaigns help differentiate campaigns and subsequently increase success. This is especially the case on crowded platforms such as Kickstarter which has low entry barriers.

However, Defazio et al. also find that overemphasising prosocial orientation can have detrimental impacts. This upper limit is because overemphasis hinders credibility, causing scepticism (Levin et al., 1998) and because prosocial aspects take attention away from other important attributes, such as rewards, causing uncertainty in backers (Meyer, 1981). Because crowdfunding sites only allow approximately ten words for the title and blurb, if a campaign includes prosocial cues, it can easily overshadow other attributes (Defazio, 2021). Accordingly, backers' appreciation for prosocial orientation may be contingent on the campaign also fulfilling backers' self-serving needs. This is supported by Moss (2018), who found that campaigns focusing on economic and prosocial values have greater success than those focusing on one value.

Von Selasinsky and Lutz (2021) improve Defazio's study by taking a novel approach of studying both text and video. They replicated the inverted U-shape relationships between prosociality and crowdfunding success and found this effect was more significant for high-creativity projects. Therefore, founders must strike a balance between prosocial factors and other aspects, especially on crowded sites and for creative projects. However, if a campaign is prosocially driven, it may be more suitable to use a site like Kiva, where backers' main motivation is prosociality. As in these cases, campaigns do not seem to have an upper limit on prosocial cues (Allison et al., 2015; Moss et al., 2018).

Conclusion

Crowdfunding is changing how the economy operates, and businesses grow (Gerber et al., 2012). As it continues to grow in popularity, it is critical to understand its effectiveness and viability. The rewards tiers and the framing used can determine a campaign's success or failure (Kuppuswamy & Bayus, 2015). Our review suggests that the choice overload effect is not prevalent in reward tiers, as more reward options (within reason) will lead to greater success. More robust evidence supports the use of prosocial framing. Suggesting it can be a powerful tool for creating a successful campaign. However, backers only appreciate prosocial orientation when there is a balance between prosocial framing and other information. The research presented in this review helps create a strategic framework for campaigns to gain the most from their profiles. Some critics suggest that crowdfunding should not be so readily available due to ethics and inefficiencies (Mollick, 2015). However, as regulations increase, this research will be more critical than ever as crowdfunding gains popularity. In the future, research will need to evolve with technological change and as the salience of prosocial framing increases, for example, through longitudinal studies.

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