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The Ethics of Crowdfunding platforms

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1 Introduction

The phenomenon of crowdfunding has really picked up in the last decade. The idea of getting large funds in small donations from a big crowd has existed for a long time, but with the rise in spread and accessibility of the internet, and the rise of many crowdfunding platforms, the concept has become a valid springboard for small start-ups and experimenting innovators to get funds, that they would never have gotten through traditional means. The process has been praised by economist, but as we see the end of larger projects, and see some not deliver what was promised, it is clear that not every project is meant to be crowdfunded. This might be to be expected, from the way crowdfunding functions, but are people funding aware of this? And is it someone's responsibility to prevent the failure of projects? I would like to explore the question: What are the ethical implications of the current implementations of crowdfunding platforms?

In this paper I will analyse the phenomenon of crowdfunding platforms, and try to get to a concrete definition of this otherwise wide topic. I will try to describe the different actors of crowdfunding platforms, and look at their motivations, to uncover their goals for crowdfunding. In the third section, using this definition of crowdfunding, I will define some concepts of general ethics as described by Tavani (2003) and computer ethics as described by Moor (1985), and from this I will give an accord of utilitarianism and Kant's ethics of disposition of duty, and analyse the ethical system of crowdfunding, and how the different actors act within. From the conclusions of these analysis I will discuss if the current systems implemented for crowdfunding platforms are truly fair.

2 Crowdfunding

Crowdfunding on a platform on the internet is a rather new concept. The word was used for the first time in 2006 ¹. It arises from the more general concept of crowdsourcing, where it is not only money that are being tapped from the crowd, but any kind of resource, be it design or artistic work or the co-creation of intellectual property ². The concept of crowdfunding can generally be defined as:

“The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet.” (Oxford Dictionaries ³)

In this paper I will stick to the “via the Internet” part of the definition, and focus on the communities and platforms that provide basis for this rising trend, e.g. Kickstarter, IndieGoGo, RocketHub. There is not a readily available definition of a generic crowdfunding platform, but the basic common process of crowdfunding on these platforms, consists of the following components:

- **The “Creator”:** The entrepreneur that needs funding for a project. This can be start-up companies that need capital to start their business, existing companies that are forced to change their business model because of lack of funds, big co-operations wanting to utilize their community or make an experimental product, a non-profit group wanting to unite like-minded people for a cause, or individual people wanting to by a burrito ⁴. The name used varies from platform to platform, e.g. “Creatives”, “Designers”, “Activests” etc.(Gerber et al., 2012, p.4)
- **The “Funder”:** The people of the crowd that supports the project with funding. These are mostly single persons, but there has been cases of groups banding together to support a project. They can have many different backgrounds, and their interest in the project can both be professional or personal. Again the name varies from platform to platform, e.g. “Backers”, “Fuelers” etc. (Gerber et al., 2012, p.4)
- **The “Platform”:** The places on the net that facilitates the transaction of funding between the creator and funder, but otherwise have nothing to do with the development of the project. Many of these

¹<http://en.wikipedia.org/wiki/Crowdfunding>

²<http://en.wikipedia.org/wiki/Crowdsourcing>

³<http://www.oxforddictionaries.com/definition/english/crowdfunding>

⁴<https://www.kickstarter.com/projects/1613730240/graphing-the-deliciousness-of-a-chicken-burrito>

platforms are independent and support projects of any kind, within all sorts of categories. Others try to narrow their domain, some existing under the roof of a bigger cooperation, such as the IBM 1x5 project. Different sites have different policies of how the transaction is done, which affects the business model of the crowdfunding projects associated with it. (Gerber et al., 2012, p.4) The way the platform is designed also has a big affect on which projects will be funded, and how the creators act to get the attention of the funders. (Belleflamme et al., 2013, p.6)

- **The “Project”:** The product or activity that needs funding. As already mentioned, practically anything can be crowdfunded, everything from big products designed for mass market consumption, to small personal projects where the main product of the project does not necessarily reach the funder directly (As there may not be at physical or tangible product to send), but the funder gets some small token of gratitude from the creator. (Belleflamme et al., 2013, p.5)
- **The “Reward”:** What the funder gets in return for funding the project. The rewards of crowdfunding can generally be put into two categories; pre-order and profit sharing. The first category can contain many non-monetary things, the usual being a copy of the product, maybe at an early release or prototype level, but it can also be other physical rewards, like merchandise, or non-physical, like a meet-up with the creators or credit for funding displayed in some way. The second category of profit sharing, as it sounds, mainly contain rewards of getting a certain percentage of the net profit of the project when it has been developed and marketed.(Belleflamme et al., 2013, p.4-6)

2.1 Examples of crowdfunding platforms

In this section I will try to use the above definition of the components of crowdfunding, and describe some of the different platforms in existence today. As described, the platforms differ in many ways, which groups of people they target, and especially what process and policies they use.

One of the biggest and most well known platforms is Kickstarter. There is no specific group of creators, funders or or specific projects targeted: “We’re a home for everything from films, games, and music to art, design, and technology. Kickstarter is full of projects, big and small, that are brought to life through the direct support of people like you. Since our launch in 2009, 6.2 million people have pledged \$1 billion, funding 61,000 creative projects.” (Kickstarter, 2014). Kickstarter is an example of the broad and general crowdfunding platform, together with IndieGoGO and RocketHub. But the way Kickstarter sets it self aside, is it’s all-or-nothing

principle, where “projects must reach their funding goals to receive any money.” (Kickstarter, 2014). If a project is not funded, the funder gets his money back, and neither the creator nor Kickstarter gets money. Other similar crowdfunding sites have gone with the policy of all-or-more, where the creators get what ever they raise, more or less than their goal, and the motivation to reach the goal comes from the platform taking a bigger or smaller cut of the funds depending of the outcome.(Gerber et al., 2012, p.4)

The reward system on Kickstarter is two-sided. Firstly, the reward system works in “tiers” where the more funds a funder provides, the bigger the reward: “Backers of an effort to make a book or film, for example, often get a copy of the finished work. A bigger pledge to a film project might get you into the premiere.” (Kickstarter, 2014). Secondly, though not a part of the official Kickstarter process and more a concept grown from the community, the concept of “stretch goals” is implemented in many projects to keep support and funding going beyond the funding goal ⁵. This is also in part due to the all-or-nothing principle, where creators have to lower the expectations as much as possible, to make the funding goal seem reachable, but in the process maybe cut features. The stretch goal help to re-implement these features.

An example of a small, niche platform is Sandawe, a platform for crowdfunding comic books. Creators are all comic book writers and artist, that produce an initial couple of pages for a comic book concept to put up for funding. The reward for funders is not the comic book itself, but profit sharing. The funder gets a high percentage of the profit until their initial investment is paid back, after which they get a smaller cut for the remaining net gains.(Belleflamme et al., 2013, p.5)

2.2 Motivations of the actors in crowdfunding

As seen from the above sections, many different kinds of crowdfunding platforms exists, and each of them attract different creators and funders. Because of this, it can be hard to compare the motivations of everyone involved, but to get some key point to work from, we can try to narrow the scope and generalize. In their article, Gerber et al. (2012) have done exactly this. They have interview creators and funders from Kickstarter, IndieGoGO and RocketHub about their motivation, and what is important to them in crowdfunding.

To summarize, for the creators the key points of interest and motivation lie in raising funds, establish relationships with the community, receive

⁵Kickstarters official answer to the question of stretch goals: https://www.kickstarter.com/help/faq/creator+questions#faq_50035

validation, replicate successful experiences of others and spreading awareness of their work. The first is obvious from the process, and for many the key point in their use of crowdfunding, but the paper describes how some creators mainly want to use crowdfunding to spread the word about their project. The remaining subject are very much of a social aspect, which is one of the strong points in crowdfunding. The connectedness with the funders is an important aspect, both to give a sense of shared ownership, but also to get feedback, and create a community around your project for future use. The point of replicating successful experiences, is very much a proof of how the social aspect of crowdfunding pulls more people in, but also that it is a trend with a current high rate of success (the success rate of funding on Kickstarter projects is 44%(Kickstarter, 2014)).

The motivation of the funders is found to be in seeking rewards, supporting creators and causes and to engage and contribute to a trusting and creative community. Again, the first point of seeking rewards is evident, but from the study it is worth noting that the funders are more ready to pay more for the reward of a project, than what they would for the same product within general consumption. Furthermore, the anticipation of waiting for the reward is in itself part of the motivation of the funders. The funders fund creators to get a philanthropic feeling of supporting a cause, and gives them a feeling of belonging in a community.

As stated, these are of course motivations found with creators and funders associated with the studied platforms. And then there is the motivation of the platforms themselves. Kickstarter claims that “[their] mission is to help bring creative projects to life. [...] If a project is successfully funded, we apply a 5% fee to the funds collected.” (Kickstarter, 2014). In the spirit of crowdfunding, again the social aspect is presented as the main focus, as it is for most platforms like it. But purely profit oriented, seeing as they take a percentage share, it would be in Kickstarters best interest if larger funding projects succeed. So to help promote nearly funded projects, projects running out of time for funding and projects with large funding goal would seem as a business goal, but that is only an educated guess.

3 General ethics and Computer ethics

The topic of computer ethics, and the ethics of technology in general, is always evolving along with the corresponding technologies. This is one of the core problems of computer ethics, but also why it is so important to discuss. As Moor (1985) puts it:

“Computers provides us with new capabilities and these in turn give us

new choices for action. [...] A central task of computer ethics is to determine what we should do in such cases, i.e., to formulate policies to guide our actions”.

In general, ethics is the study of morality, and within this, moral systems. These systems have many components, but have common features. Bernard Gert (1998) has described the four main features of a moral system. It needs to be; Public, Informal, Rational, Impartial. This means that the rules of the system should be known to all its members, based on logical reason accessible to them, that there are no authorities that enforce them, and that the system does not treat individuals or groups differently. The rules of the system are all bound together on different levels. The first level of the system, that we interact with, is the rules of conduct that it sets for us. These are, as described above, rules that all members agree on, and that everyone is subjected to equally, but can either be guiding individuals' actions or help establish social policies. The rules of conduct are derived from a set of “basic moral values” that are a subset of the core values of a society, important to its flourishing and survival. The rules are then subject to principles of evaluation, that justify the rules. These principles are grounded in one of three schemes; Religion, Law or Ethics. (Tavani, 2003)

The moral system of computer ethics builds on the systems of general ethics, and uses its concepts and categories as base values. But the values in the field of computer ethics change alongside the evolution of the technology, and the new actions arising bring a policy vacuum that can end in new values and changes to existing ones. Even though the actions performed by the computers are equal to tasks formerly performed by human, for which we have certain morals, the implementation of the action for a computer can change the way we view the value it holds and brings. One problem can be described as “the invisibility factor”. The operations of a computer are not seen and therefore it is hard to know if they are unethical. (Moor, 1985)

This problem of invisibility of actions within a computer system, makes it hard to evaluate with ethical principles. But we can also try to look at the promoted uses of a system, and how they make people act. This can then be evaluated. Are the systems designed in a way that promotes unethical behaviour? But there are many ways to actually evaluate the morals of someone's actions, and we need to choose what lens we want to look at them through.

3.1 Utilitarianism

Utilitarianism is a philosophy that can be traced back to the start of the 19th century. In short it can be described as “[t]he ethical theory that holds that

the action that is morally right is one that results in the greatest possible utility (or greatest possible happiness) for the greatest number of people.” (Beck Holm, 2013, p.207)

This theory is based on the assumption that all human beings strive for the same thing, happiness. This happiness is a quite individual matter, and could be represented by many different values and goal, and is therefore often looked at as utility. The morally right action brings as much happiness as possible, to as many people as possible. With utilitarianism the intention of the action is not significant, the quality of the action is “determined solely on the basis of its outcome.” Such a view is called consequentialism. (Beck Holm, 2013, pp.206-211)

There are many different takes on what counts towards the overall utility of the action. Even though utilitarianism takes into account the individuals happiness, because it is summed for all, a single humans unhappiness can drown in the happiness of others. Is it okay to kill a man, if all others benefit? According to Mill “The individual’s concept of happiness can only be accepted insofar as it is not harmful to others.” (Beck Holm, 2013, p.209) Even with this, utilitarianism ends up justifying minor immoral actions, in service of “the greater good”.

3.2 Kant’s ethics of Disposition of Duty

In contrast to utilitarianism, Kant’s ethics of disposition mainly consider the intentions behind the actions when evaluating them morally. Kant’s theories acknowledges the universal rules of morals gained by general ethics, but argues that the circumstances and context of the action should always be considered. The basis of Kant’s theories is that we can prove that when we act, we understand that action to be right in that moment. From this Kant gets his first moral law, the Categorical imperative: “Act only according to that maxim through which you can at the same time will that it becomes a universal law.” (Beck Holm, 2013, p.212) The point of this law is, that we should only act, if we can accept the consequences of everyone doing the same. If you can morally allowed to act in a certain way, everybody are, and what would the consequences be if they did.

From this is derived Kant’s second moral law, the Practical Imperative: “Act that you use humanity in your own person as well as in the person of any other, always at the same time as an end, never merely as a means.” (Beck Holm, 2013, 212). This should be read as an understanding of the categorical imperative, read as never using human beings purely as a means, but always looking at the as an end in themselves. It is not that you can not use people as means to reach a goal, that should just not solely be the case.

The interaction should be an end in itself.

If your actions are motivated by these two laws, your actions can be identified as having a morally right intention, and thereby being morally right actions in the eyes of Kant. Kant is in this way trying to define “a universal moral law based on human reasoning - an ethic no rational being can dispute, and that defines the good will.” By using his two imperatives to try and reason about what is morally right, we should be able to find this. But the problem is, that even though we might be able to find some action that we can all condemn as immoral, we might still be able to find situations and exceptions to these rules. Lying is an immoral action, we can agree on that, but there might be cases where the consequences of not lying would be even more immoral, and we have to take this into consideration. Still, we can use Kant to explore the possibilities of finding moral imperatives in a moral system.

4 Ethics of crowd funding platforms

The actors involved in the crowdfunding process is many and diverse. Using the definitions defined in the previous section, along with the motivations described, we will analyse the actions of the creators, funders and platforms of crowdfunding, and evaluate these actions ethically, both through the lens of utilitarianism as well as the Kant's ethics of disposition.

To analyse the evaluations of the two theories equally, we will set up a couple of scenarios to use as a common starting point.

1. The funding process is successful, and the project reaches its funding goal, and:
 - (a) The creators deliver on time
 - (b) The project is delayed after funding, and the rewards are not delivered on time.
 - (c) The creators add Kickstarter-like stretch goals.
2. The funding process is almost successful, but does not reach its goal.
3. The platform sorts the different projects after popularity, and shows the projects funded by the biggest number of funders

In these scenarios most of the important actions of the three actors (i.e., the creator, the funder and the platform), come into play. We will now try to analyse them within the two theories of ethics described above.

4.1 A utilitarian view of crowdfunding

As described the utilitarian theory of ethics focuses on the outcome of actions, and how they bring utility and happiness to the largest number of people. So how would this view the scenarios above?

If the project was successful we should assume that every actor involved in the system is happy. The creator have achieved the main goal that got them motivated to crowdfund, they have gotten the money they needed, the platform have taken their share of the funds, and the funders are on their way to receiving the reward that they hoped for, hopefully. But what if the project is not finished on time, or the creator in another way does not deliver the reward?

At first it seems like an obviously less desirable outcome, and therefore something not to strive for. But is it? It is clear that the funders are not fully happy. They have not gotten the reward, which was their main motivation for funding, but what about their other motivational factors? They wanted to support the creators, and help their cause. This they have still done, but some might be less happy, because the creator might be failing. But it could help the funders to band together as a community, to support the creators even more. This is actually desirable, and along with the fact that most funders do not mind waiting for their rewards, could actually mean that the utility of the funders evens out. But this is only if the community succeeds, and the creators deliver at some point. If it never happens, the community is unhappy, and this will also hurt the creator, which sought to use crowdfunding to generate relationships, fail to recreate the success of others and wont get the desired validation. Morally, this is one of the worst outcomes, so the creator should never give up.

But looking back to the successful funding, what of the action where the creator adds stretch goals. Is that morally correct in the utilitarian ethics? If they can deliver, clearly it is. The creator can put in features that they cut, and maybe get more funds, by attracting more people. The funders who have already paid gets extra rewards for the same money, which makes them happy, and hopefully again gives a better community for the creator. Stretch goals are mostly good for the utility.

Then there is the second option, where the project does not reach its goal. Here the platform has two options for action, giving the money back to the funders, i.e., the Kickstarter way, or letting the creator keep the money. The utility of the first action is simple. The funders does not get their reward, their community or their chance to support the creator. But they gets their money back, and many funders actually still sees the funding as them “buy-

ing” the reward (Gerber et al., 2012, 6). The funders getting their money back could mean a new opportunity to “buy” some more rewards, thereby still reaching their goal, resetting their utility so to speak. The creators on the other hand get nothing. No funding, no community, no validation, and they fail to recreate success, but they should be somewhat prepared for it. On the other hand, letting the creator keep the funds could be dangerous. If the creator have set their goal for the minimum amount they need, they will get some funding which would raise their utility, but will they be able to deliver? The rest of the motivation and happiness for both funders and creator rest on the delivery of the reward. If the funding is insufficient, the action of the platform have forced the creator into a position, that can only end in the scenario of complete failure described above. The only positive utility comes from the platform itself, as they still get their share this way.

Another choice that falls upon the platform, is how to sort and show the projects to the funders. As previously mentioned, this have a great effect on which project gets funded in the end. If the platform shows the projects that are already supported by a lot of funders, they will help these projects to reach their goal, generating more successful projects. This will help their own utility, both in terms of “bringing projects to life” and getting a better share. In general, this will of course hide less successful projects and minorities, but if it helps more projects reach their goals, this should mean happier creators and funders in general, and therefore a higher utility.

4.2 Crowdfunding viewed through ethics of disposition

In contrast to the views of utilitarianism, we will now look at the intentions of the actions discussed above, through the same scenarios, and evaluate if they are morally correct within Kant’s ethics of disposition.

In the case of the successfully funded project, it is hard to assume that anybody has entered the crowdfunding system with bad intentions. From the motivational section we know that all actors have morally sound motives for entering into the transaction, not acting to hurt anybody. They all respect each other as people that need to get some value in then end, as ends not just means.

But in the case of delaying a project, an act of the creator, what intentions could be in play? The creator could in my opinion have two intentions; trying to hide that they cannot deliver what was described of the project(or will not deliver, if they are trying to scam the funders), or they want to insure that the project is of the quality they promised. The action of delaying work is hard to deem wrong ethically in itself, and even if everyone

did it, if it was not forever, society would not crumble. But what about the intent. The first case can be said to be based on lying, either in the described project or the act of trying to cover it up. Even in the general ethics, to tell the truth is considered a basic moral value and is wrong, also with Kant as it will hurt the funders. The other intention for the same action is the complete opposite. Trying to uphold a promise must be said to be the exact reverse of lying, and therefore being morally correct. So for Kant the problem is, which one is it, and how would we know?

In the case of the creator adding stretch goals, the intent of the creator could again be two-sided. Is the intent to put extra features on the project to keep raising the bar for the funds, making sure more and more new funders are attracted, or trying to add features to the product for the sake of the product and the people who have already funded. The first is an effort to get as much money for their product as possible. This is a common business strategy, but if everybody just kept adding features and pushing the price up on their products, the price of everything would sky rocket. So while not abnormal behaviour, not really morally correct. If we assert that adding features to a product only increases its utility, at least in theory and intention, and everybody did it for the sake of the consumer, this would only do good. The creator knows that there is extra funds coming in, and he wants that to benefit the funders.

Then we reach the actions of the platform. The first being the choice of whether to give a failed project the funds it has earned or not. The consequences of everybody always giving failed projects the money anyway or never doing so, is hard to argue about in the real world. The intentions of the platform on the other hand we can discuss. From our account of the motivation of the platforms, we have two possible intentions, either an intention of giving rise to more projects, or getting their share of the funds. The intent of bring projects to life could both be in play for cutting the funds our letting the creators keep them, the one giving more project a chance, the other making sure only to fund projects that have the funds it needs to survive. The intent of helping others could be said to be morally correct, and in that way justifies having different policies for the transaction of the funding. But the intent of the platform securing a share in the funds by not paying the funders back, would be immoral in the ethics of Kant, as that would just be using the other actors as a mean to an end.

For the action of the platform sorting the projects, the same intentions apply, and mostly the same moral outcomes. The act of sorting so that the projects with most funders get higher priority, could be seen as a way of bringing projects to life, by insuring that the ones that can survive gets a better chance. But not sorting would give all projects an equal chance. Both

morally correct for Kant as described above. But if the intent of sorting is just to maximize the profit margin of the platform, this is again using the other actors and is immoral.

5 Discussion

In the above section I have used both utilitarianism and Kant's ethics of disposition to evaluate the actions present in a generalized crowdfunding platform. Both methods uncover cases in crowdfunding of moral and immoral actions. Both have situations where it is hard to give a clear answer. Some of the key points if you compare the methods are:

- In the utilitarian method, the worst action, is for the creator to give up on a funded project. Kant's ethics dictates that a project may only be delayed if it is to hold the promise of what would be delivered.
- Adding stretch goals can in both theories be seen as a morally correct action, but in Kant's theory only if the creator is not just trying to create extra profit. They need to be added for the sake of the funders.
- If the funding goal of a project is not reached, in utilitarianism it would be best to give the funds back to the funders. This is also the case for Kant's theory. The option of letting the creators keep the funds they have collected, is to uncertain in case of utility, and could be with the intent of maximizing the platforms profit, and using the other actors.
- The two theories collide on the subject of sorting the projects. The highest utility is gained from sorting so that the popular projects get more exposure. But using Kant's theories this could again be with the intent of using the funders to maximize profit.

So does this mean that the most morally correct crowdfunding platform would embrace these facts? And how would it be implemented?

The subject of delaying projects are very controversial in the media. The British video game magazine Edge published an article, stating that: "Only one in three videogames funded on Kickstarter between 2009 and 2012 has launched in its full form to date [april, 2014]. Why?" (Edge, 2014) Even though I have argued that delays can be of value for a project morally, as it can bring the community together, and help the creator hold his promise of quality, it was with a clause that the project should eventually deliver. But when the time frame of delay is suddenly double that of the original time frame, is it still acceptable? Should there be more control from the platform, or would that hinder the social aspect that is such a key value for

both creators and funders?

And what about the scams? Most crowdfunding platforms let go of all responsibility when a project have been funded. Kickstarter has made sure through their “Terms of Use”, that the creators are legally obligated to fulfill the promises of their project⁶, but it is a deal between the creator and funders. The platform is out. But when Kickstarter lets go of a project before it is done, is it fair to claim that their “mission is to help bring creative projects to life” when they only witness the inception. And if they are not doing it for the social value of the projects, their only motivation is profit. Is that morally correct?

But are all ethical problems of crowdfunding to be blamed on the web-platforms? Or are the hype of the trend pushing projects onto the platform that are not fit to go through the challenges of crowdfunding? And are the competition for exposure pushing creators to promise to much? As Moor (1985) states, the computer revolution started with a phase of evaluating if processes could be done more efficiently with computers, and applying them if so. But have the application of the computer as a platform for crowdfunding changed the values of it that much? If a project is fit for crowdfunding, would it not also have been so without the web and the platform? Who are to judge? Maybe we are still on our way through the second phase of the crowdfunding revolution, trying to make the values of web based crowdfunding permeate our understanding of social ethics, so that one day it is just another integral part of funding a project.

⁶https://www.kickstarter.com/help/faq/kickstarter+basics#faq_41860

6 Conclusion

In this paper I have discussed the ethical implications of the current implementations of crowdfunding on web platforms. I have described and defined the core components that play a part in crowdfunding on a web platform, and given examples of how these components play their part in two real platforms. I have accounted for the motivations of the actors in these systems, and applied the ethical theories of utilitarianism and Kant's ethics of disposition of duty to evaluate the morality of these systems as they are today. I found that there are argument for and against many of the current implementations, but that the most important ethical choices of action are presented to the creators of the projects and the platforms themselves. Most notably both theories are ethically in favour of Kickstarters all-or-nothing policy for projects that are not funded, but also agree to not give up on projects that are funded and rather delay them. I then discuss if the responsibility for not delaying the projects into infinity lies with the creator or the platform, and if some of the ethical problems of the crowdfunding platform could stem from the hype of the concept, and that some projects should just never have tried to tap the crowd. Crowdfunding is still a new concept, and it can still be tweaked to fit morally in our society.

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