

# ***Module 3 Project***

Institutional Trust and Entrepreneurship:

*Evidence from Kickstarter*

LAUNCHING ON  
**KICKSTARTER**

# Key Question:

Motivation:

- Trust: implicit contracting
- Imperfect Legal System
  - lack of monitoring and enforcement
  - incentive to build reputation

How does trust within an institution **affect** entrepreneurial financing?

# Overview of Data

- Universe of Kickstarter Projects, from 2016 to 2018
  - Kickstarter: Crowdfunding platform for “entrepreneurs”
  - Deliveries are not commitments
  - Across 98 countries; Arts, Technology, Entertainment
  - Measuring entrepreneurship crowdfunding:

$$\text{Pledge Rate} = \text{Pledge \$} / \text{Goal \$}$$

- Institutional Trust from a Global Survey (2014):
  - Q: “How much do you trust people?”
    - Brazil: 6.52%
    - US: 38.17%
- US 2012, 2016 Election Data (for experimental design)
  - Red: states that become more “Conservative”
  - Blue: states that become more “Liberal”

# Institutional Trust and Pledge Rate

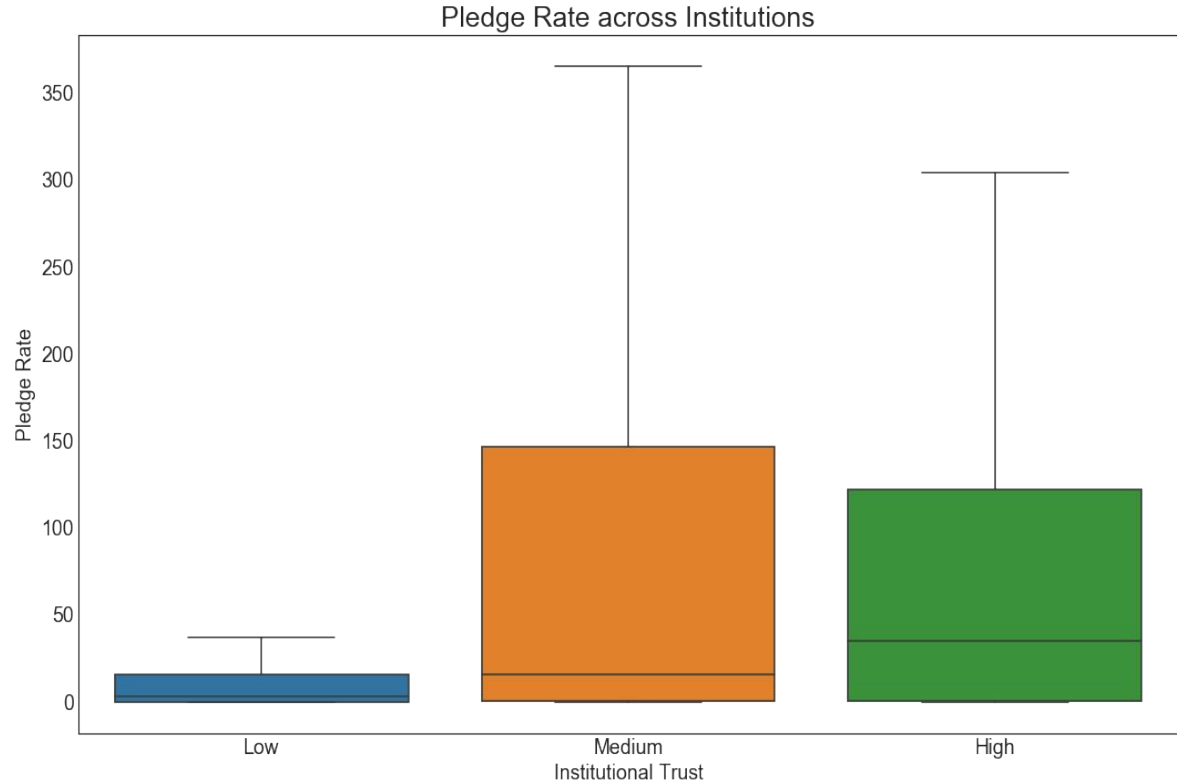
Q: “How much do you trust people around you?”

- Bin the measure
- Distributions of pledge rates

F-test:

H0: Average pledge rates do not vary across institutions

p-value= 6.13 e-142



# Institutional Trust and Reputation

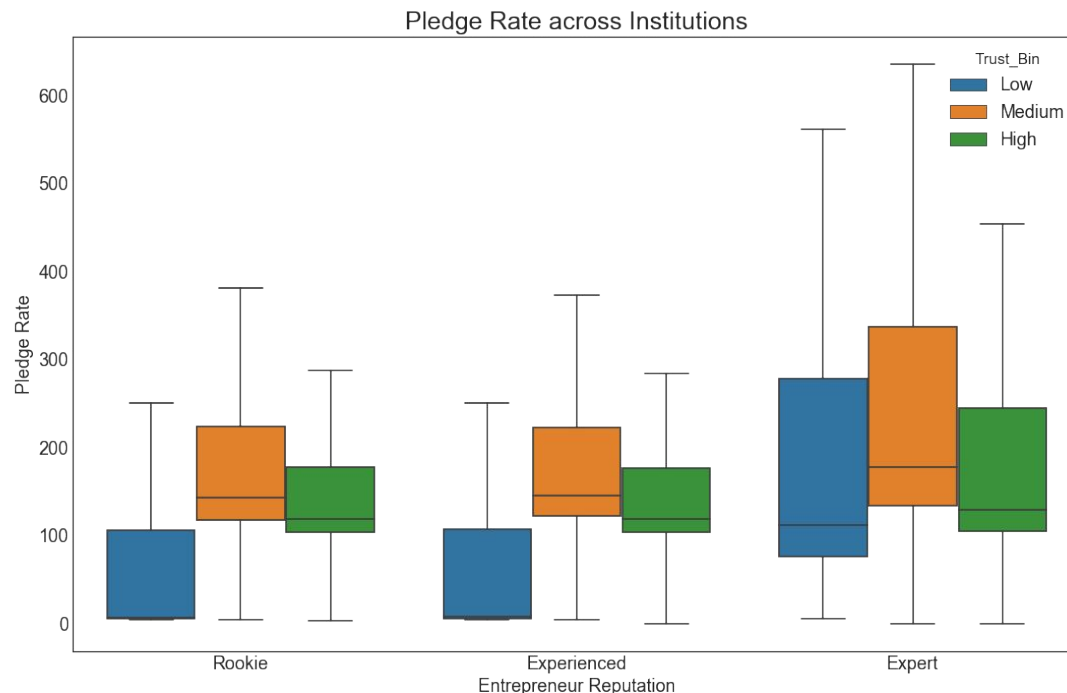
Do reputation alleviate the lack of institutional trusts?

- Serial entrepreneurs
- Bin:
  - Rookie (0)
  - Experienced (1-5)
  - Experts (>5)

Test:

H0: Being an experienced entrepreneur doesn't give you an advantage compared with a rookie

p-value= 0.4493



# Reverse Causality Concern and Experiment Setup

- Question: How does lack of trust affect entrepreneurial financing?
- Criticism: Reverse causality: lack of funding —————> hard to build trust
- Quasi-experiment: Donald Trump's election in 2016
  - Treatment Group: **US**
    - **Negative shock** to institutional trust in **blue states**
    - **Less negative** to **red states**
  - Control Group: **Canada**
  - 3-month windows before and after 11/09/2016

# Treatment Effect vs. Control

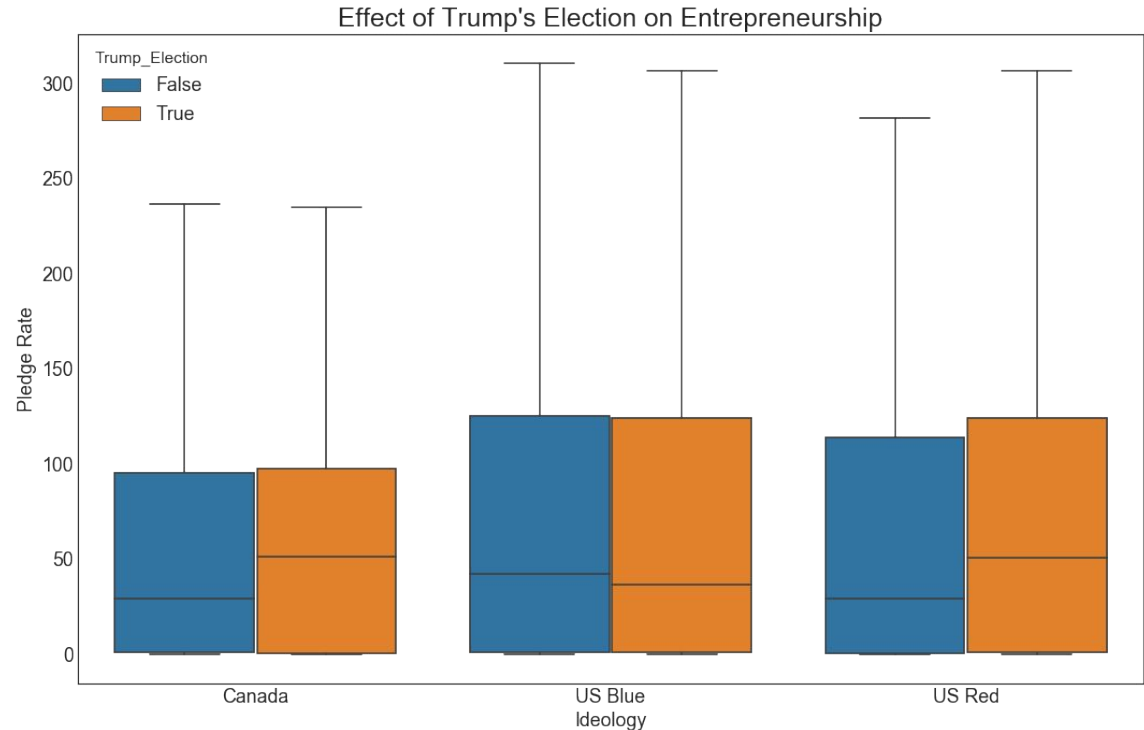
Compared with the control group:

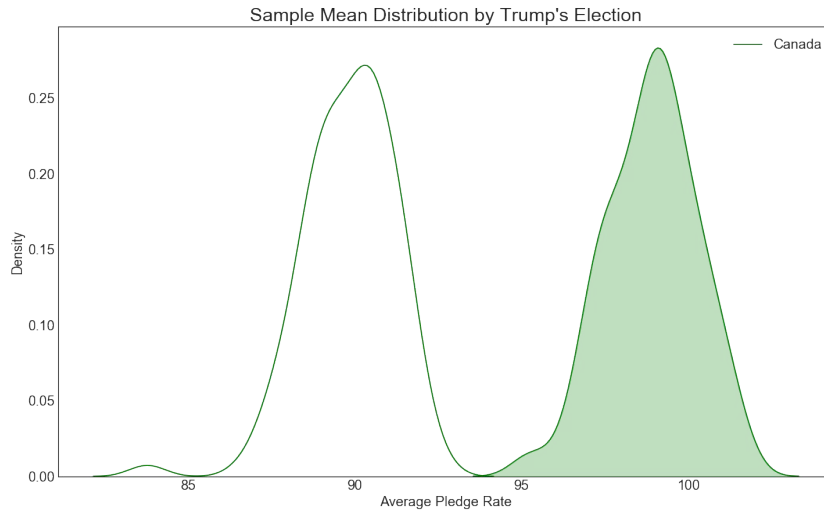
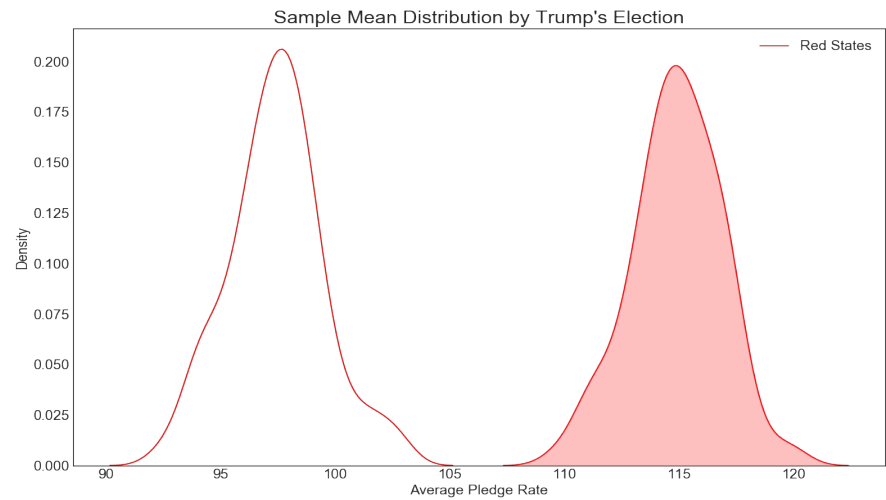
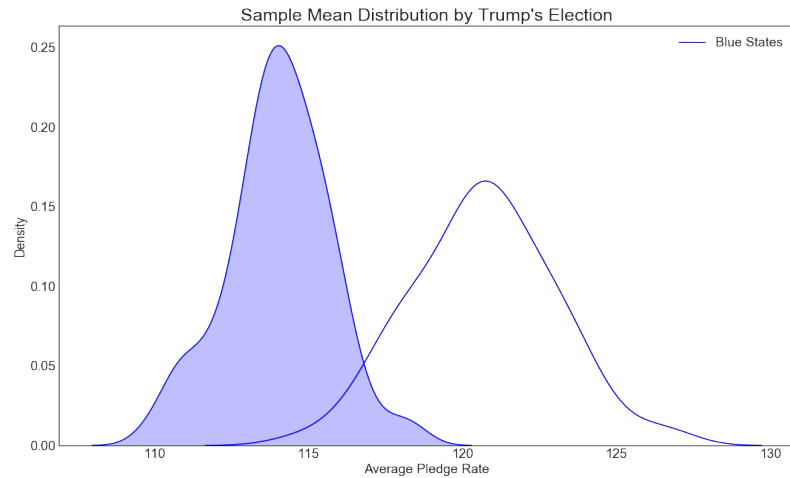
Blue states:

- Arguably caused by lower institutional trust and disbelief
- Upsets entrepreneurship

Red states

- Relatively less effect





Tests1:  $H_0$ : Pledge rate stays in Blue States  
**compared to the control group:**

P-value= 0.002

Test2:  $H_0$ : Pledge rate stays in Red States **compared to the control group**

P-value= 0.133



# Recommendations & Limitations

## Recommendations:

- Policy makers: institutional trust matters
- Entrepreneurs:
  - Start at better institutions
  - Incentive to build reputations

## Assumptions and Limitations:

- The election wasn't anticipated
- Need more control variables

# Further Research and Next Steps

Entrepreneurship: sensitivity to institutional trust

- Industry: Art, Entertainment vs. Technology

Can Entrepreneurship improve institutional trust?