WHAT MAKES A CROWDFUNDING PLATFORM TRUSTWORTHY

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Purpose: The purpose of this article is to examine and analyse what it is that makes a crowdfunding platform trustworthy to a funder and an entrepreneur.

Design/methodology/approach: In order to do this analysis, previous collected research has been used together with a previously made survey. The reason for this is because this article has a deeper analysis in the factor of trust than the previous article had.

Findings: The findings made from this article were that trust is based on a variety of things e.g., the structure of the crowdfunding platform, what sort of funding that can be used and how good the project description is.

Keywords: Trust, crowdfunding platforms, analysis

Paper type: Analysing paper

Introduction
Trust is a word with several meanings, but in their paper (Kang, Gao, Wang, & Zheng, 2016) defines trust as “when one party has confidence in an exchange partner’s reliability and integrity”, and this is the same definition that will be used in this article. Since there are different forms of trust it should be narrowed down into the form of the trust relationship between an entrepreneur and funder at a crowdfunding platform.

In order of being able to define what factors it is that makes a crowdfunding platform trustworthy many different trust factors have been considered. This paper is basically an analyse on how to make the funder trust the projects and the platform, since it is the funder that needs to be convinced that their money is being used for what they are supposed to be.

Method
For this analysis, the same sample as a previous assignment is used, since the author has chosen to do a deeper analysis of trust within a crowdfunding platform. This concerns the trust of both parties, the entrepreneur and the funder.
In order to do this form of deeper analysis, the empirical findings gathered for a previous paper has been used together with the same references used in that paper. The question from the survey that will be used in this analytical article has been divided into subcategories of the population, as well as one big result of the entire population.

**Empirical findings**
The underlying idea of crowdfunding is simple. By letting a large number of private investors invest small amount of money into a project online, the entrepreneur gets monetary means to make the funded project go live. The term crowdfunding is a wide term that has subcategories depending on what sort of crowdfunding the entrepreneur is looking for. By using this form of investment for their ideas, entrepreneurs have an alternative for funding their ideas instead of seeking funding at a bank (Kim, Lee, Cho, & Lee, 2016, August).

Since the crowdfunding platforms are depending on the internet technology, the platforms have managed to combine the internet with entrepreneurship and investment (Song, Chen, & Yi, 2016, May).

Just like all other types of investment, crowdfunding comes with a risk to the investor. According to a survey that was sent out, the main reason why Americans does not fund more projects is because they are afraid that their donated money will not be used wisely by the entrepreneur. These concerns are for the funders trust in both the crowdfunding projects and the platforms it selves. Without trust there would not be as many funders and crowdfunding would therefore be an ineffective financing platform, Trust that is based on conditions of economic exchange, is the most vulnerable form of trust since this is an ongoing economic calculation on the market which has its source from creating and sustaining a relationship on the cost of separating it (Kang, Gao, Wang, & Zheng, 2016).

Trust has an important part in economical interactions that involves uncertainty and dependency, crowdfunding is just one example of these kind of interactions. At a crowdfunding website funders have a limitation of information and cognitive resources, and therefore tries to find other mental short cuts to reduces the level of uncertainty and complexity for the online transactions. By understanding how trust is created and how to maintain it, crowdfunding platforms can get an improved rate on the project that needs funding (Kang, Gao, Wang, & Zheng, 2016).

One example of this is that funders might be concerned about the fact that the description of the product does not match the performance of it, or the fact that if the product will be delivered in time or at all. Other factors that reduce a funders trust, is if the upcoming product is intruding in patents or is a fraud. These types of risks are more hidden to the funder. If the funder finds trust in the entrepreneurs’ project s/he is most likely to donate money to the particular project. This kind of commitment is a very important consequence of trust. Previous research has shown that trust and commitment are the two most important factors for a successful customer relationship. Therefore, it is crucial that the funders trust and commitment are established in order to increase the funders interests in investing by crowdfunding (Zhao, Chen, Wang, & Chen, 2016).
When mutual communication, commitment and trust between the funder and entrepreneur is established through the crowdfunding platforms it is easier for both parties to exchange behaviours. In order to maintain a valuable relationship, commitment is a crucial part. Since it is both an emotional link and a belief that being able to maintain a relationship is more beneficial than dismissing it. If the crowdfunding platforms wants their funders to fund other projects, the platforms must establish trust and commitment with the funders, otherwise the funders repurchase intention is lost. Trust can be strengthened through satisfying the funders needs, which leads to a higher intention of funding more projects (Zhao, Chen, Wang, & Chen, 2016).

Crowdfunding projects often involves new sorts of techniques, semi-finished products or services, there a confusion regarding the given information to the funder about the final products and their quality. Therefore, the entrepreneurs must describe their projects as clearly as possible in order to give the funder as much vital information as possible. By doing so the funder can evaluate the project more thoroughly, which increases the confidence for the project and furthermore the funders trust in the product (Zhou, Lu, Fan, & Wang, 2016).

Investors can choose to be a part of a community that strives to gain benefits from funding projects on different crowdfunding platforms, and it is in the description of the project the entrepreneur has the opportunity to convince the investor to trust those benefits (Belleflamme, Lambert, & Schwienbacher, 2014).

If a funder feels like there is no trust for the project or the way the entrepreneur is going use the given funds is one of the largest reasons funders chooses not to invest in projects. By using different models of funding, the investor get a bit of insurance that the money will be used wisely. Gedda, Nilsson, Såthén, and Søilen (2016) displayed the so called all-or-nothing model, which means that the funder only has to invest the promised amount of money if the project manage to raise enough money. This model therefore prevents fraud projects by only giving the money to the entreprenuers when the project has been fully funded. By using this form of crowdfunding investment, the funder is also obliged to pay what is promised by a contract.

In their article, Zhao, et al. (2016) said that a way of building trust is have a form of insurance for the funder. An example was to have a form of money back guarantee. This signals that the investment is safe for the funder and is perceived as a lower risk for them. By doing this more people chose to invest money in crowdfunding projects.

Evidence has shown that the reason why a funder choses to invest by crowdfunding is to be engaged in a community. Crowdfunding platforms are depending on online social communities. Results from social science has come up with regulations on how to start these communities, integrate the new members, encourage the commitment and change the members’ behaviour. When there is a conflict, make sure to motivate for contributions from the conflict and coordinating them into becoming
contributions for the community (Gerber, Hui, & Kuo, 2012).

When deciding of to invest in projects or not, the funder is dependent on the given information about the project. This is what makes the investment uncertain, the funder have to trust a shorter description of the project. This description is the vital part for the funder during the selection process and it is of high importance that these descriptions signals quality (Mollick, 2014).

The mutual trust between an entrepreneur and funder on a crowdfunding platform increases with the maturity and the familiarity of the platform itself. Therefore, projects seeking funding on older, more familiar platforms are most likely to get the wanted funding (Zhou, Lu, Fan, & Wang, 2016).

Findings from the previously conducted survey showed that the majority of the respondents thought that the crowdfunding platform feels safe is the most important factor if using crowdfunding. Figure 2 displays how the different genders thought of these factors in order to see if there is any difference between the genders.

**Analysis**

For his paper the survey that was conducted the overall majority of the respondents thought that the fact that the
crowdfunding platform felt safe was the most important thing. This is also shown when dividing the population into gender groups. 97 women and 81 men thought that the fact that the platform feels safe was one of the most important factors when using a crowdfunding platform. When feeling safe, it is also easier to make a good decision, and when feeling safe the funder is shown to be investing money on projects. This could be because the investor's relaxed and has gained confidence that the money s/he is about to invest is going to be used for a good cause.

It is agreed what Mollick said in his paper. If the entrepreneur shows the funder that s/he has put time and effort into writing a good description of the project, the funder can feel more assured that the project is going to do well. By showing that you are prepared and have thought about the many details that follow when starting up a project, it shows commitment. As said previously, by showing commitment you are gaining trust. If committed to a project that will show in everything that is done with the project and the entrepreneur is most likely to keep the promises that are made to the funders.

If crowdfunding would not be an option for entrepreneurs to seek funding, less products would most likely be on the market. However, due to the people that have faith in other people and are willing to spend money on their ideas, ideas have been brought to life and become real, and sometimes successful products. By using a well-known crowdfunding platform the likelihood of become funded get bigger since the platform has a reputation and a brand image, which wares off to the projects so the investors can feel safe that the projects that are up on that platform hold a high standard.

By getting the funder committed to the idea, they are most likely to fund it as well. This is a result of getting an emotional bond with the entrepreneur and the project which only gives benefits for both parties, since the funder is looking to fund something that goes in line with his or her interest. When finding this project, the funder might have the possibility to choose what form of funding is the most beneficial for the funder him- or herself. By Using their own interests as a way to choose the projects is most likely the best way since then the funder is following instincts that have been based on a level of trust, which is one of the most profound reasons for commitment.

When setting up a crowdfunding platform the managers of the platform must ensure the funders that the fundings are safe. The all-or-nothing model is a good way if ensuring the funders that nothing will happen to their money until it is shown that the funded project will be successful. By using this form of model the platform ensures the funders that their money will be used for the project and nothing else, and that they have to invest in the project since they have promised the entrepreneur a certain amount of money. When using a contract instead of just a promise, the project gets more of a serious touch to it, which drives the entrepreneur to use the money wisely so the funder gets something out from the investment.

By combining internet with the entrepreneurship and investment the crowdfunding platforms has made it possible for an entrepreneur or funder to sit at home and going through information and numbers in their own pace without anyone pressuring them into making a fast decision that would have needed more time to be considered and thought out properly.
This has made the crowdfunding platforms more trustworthy and the fact that everything happens online, funder and entrepreneur never have to meet, they just need to keep their end of the deal.

The fact that the platforms are striving to make both the online community as well as the real-world community better, there has to be a level of trust in the website and the projects on them.

**Conclusion**

Trust is a wide term to define and this article has just touched a fragment of it. In order for a funder to have the willingness to invest in a crowdfunding project s/he has to feel safe that the entrepreneur behind the project will use the money for its purpose.

**Future Studies**

For future research, if doing a survey, the author could ask the respondents what it is that makes a platform feel safe.

**References**


