What is the Crowd Worth?
The Role of Social Influence in Crowdfunding

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June 2015

Abstract

This study provides causal evidence of social influence in contributions to crowdfunding projects. We show that the size of previous contributions to a project affects subsequent funding decisions. The canonical model of social learning suggests that individuals learn from the actions of previous agents, and that these actions converge over time. However, this has been difficult to establish empirically. The study of social influence is plagued with identification problems such as homophily and correlated shocks. In order to causally estimate the effect of previous contributions, we rely on a feature of the Indiegogo platform which allows only a set number of previous contributions to be easily seen, such that every new contribution displaces the oldest one in the set. We find that larger (smaller) previous contributions significantly increase (decrease) subsequent contributions. This effect is much larger in business projects, where the contributor receives utility from expecting to own a product, than in art and community projects, where the contributor gives due to social preferences. We also examine two possible mechanisms through which social influence acts: information signaling, whereby an individual learns about the quality of a project through others' decisions; and anchoring, whereby an individual uses prior contributions as a basis for her own contribution but doesn't take into account the information about quality these contributions contain. We find that the effect operates through contagion for both large and small previous contributions.