

**ROOTING FOR THE UNDERDOG: THE
INFLUENCE OF SOCIAL STATUS ON CAPITAL
ALLOCATION DECISIONS IN CROWDFUNDING**

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Submitted to the Faculty of the
Graduate College of the
Oklahoma State University
in partial fulfillment of
the requirements for
the Degree of
DOCTOR OF PHILOSOPHY
May, 2015

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ACKNOWLEDGEMENTS

Admittedly, this dissertation felt like somewhat of an afterthought. However, its completion marks a truly meaningful event in the meandering journey of my life. Indeed, it is at this point that my professional career (i.e., ‘real life’) officially begins and all vestiges of college life (which has lasted over a decade!) may finally be laid to rest. That being said, I would have never made to this glowing moment were it not for the support of countless others and an array of blessings from the good Lord. Mom and Dad, I would like to begin by thanking you for your endless love and support. Although neither of you were able to obtain a college degree, you both made immense sacrifices to ensure that Charlea and I would. I love you both more that words can express, and dedicate the enclosed dissertation (and my life’s work, which it represents) to you. Charlea, I am very proud of the woman you have become and am excited about your (prospective) decision to follow in my footsteps by pursuing your PhD. However, regardless of the path that you ultimately chose, I know you will do great things.

Justin, I would like to begin by saying that I am forever grateful for the patience, guidance, and friendship that you have provided over the last four years. Indeed, I am truly blessed to have had you as my advisor and feel that I owe you a tremendous debt that (despite my best efforts) may never be fully repaid. That being said, it would shortsighted (and perhaps even rude) of me to suggest that I was not positively influenced by a variety of other faculty, friends, and family members. As such, I would like to sincerely thank the rest of my committee, the faculty in the school of entrepreneurship, and all of my friends and family- both at OSU and at large. Further, I would like to offer a special thank you to Robert Baron for graciously acting as my advisor in Justin’s absence. In closing, I would again like to express my gratitude to everyone who has had a hand in making my dreams come true. No one knows exactly what the future holds, but I can’t wait to sit back and watch it unfold!

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Date of Degree: May 2015

Title of Study: ROOTING FOR THE UNDERDOG: THE INFLUENCE OF SOCIAL
STATUS ON CAPITAL ALLOCATION DECISIONS IN
CROWDFUNDING

Major Field: Entrepreneurship

Abstract: Crowdfunding represents a relatively new and increasingly popular source of financial capital for entrepreneurs. In recent years, crowdfunding has become increasingly viewed as a potential boon for otherwise excluded underdog groups, such as women or minorities. This unique contextual nuance raises the question of how status indicators, such as gender, influence funding performance of traditionally excluded underdog entrepreneurs and/or ventures on crowdfunding platforms. I draw upon extant research on underdog psychology, social exclusion, and social status to examine the effectiveness of various underdog status indicators communicated by 300 ventures seeking crowdfunding. Support was found for the underdog effect on the basis of entrepreneur gender and ethnicity, industry affiliation, and underdog language use in the entrepreneurial narrative.

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CHAPTER I

INTRODUCTION

Entrepreneurs often lack the financial resources needed to effectively exploit opportunities (Aldrich & Ruef, 2006). To support their startup and growth needs, entrepreneurs have traditionally sought additional capital from external sources such as financial institutions, angel investors, or venture capital. In attempting to understand how entrepreneurs may access external financial capital, past research has often focused on network attributes. For example, a number of studies have examined how entrepreneurs communicate social capital (e.g., Cohen & Dean, 2005) and how social capital may facilitate access to funds (e.g., Zimmerman, 2008). However, this approach often overlooks the extent to which some individuals or ventures may face social biases, discrimination, marginalization, or other forms of social exclusion (e.g., Bask, 2005; Wetterberg, 2007). Indeed, it is widely documented that some groups may have less access to resources, such as financial capital, as compared to others (e.g., Blackburn & Ram, 2006; Buvinić, Mazza, & Deutsch, 2004).

At its root, social exclusion emphasizes how benefits are inequitably distributed (Buvinić et al., 2004). Social exclusion may reflect voluntary choices of individuals, interests or relationships between actors, or system distortions such as discrimination

(Bhalla & Lapeyre, 1997). At the level of the individual, social exclusion may arise due to readily visible or known social status indicators such as ethnicity, gender, or perhaps even education (e.g., Bhalla & Lapeyre, 1997; Marlow & Patton, 2005). For example, cultural biases may cause resource providers to view individuals that possess low-levels of formal education as ‘poor investments,’ and, in turn, become less likely to provide them with needed funds (e.g., Coleman, 2004). Similarly, when they are able to obtain external capital, women and ethnic-minority entrepreneurs often receive lower levels of funding as compared to their male and/or ethnic-majority counterparts (e.g., Blackburn & Ram, 2006; Buvinić et al., 2004).

Representing a relatively new source of external financial capital, crowdfunding refers to an open call, through an internet-based platform, for the allocation of financial capital to support of a specific purpose (Davis & Webb, 2012). Unlike traditional funding conduits, which are generally dominated by a relatively small number of professional investors, crowdfunding platforms are ‘democratic’ funding conduits, which enable laypersons from the general public to act as investors (i.e., henceforth, funders). In general, crowdfunding platforms are viewed as an alternative source of funding (Dapp, 2013), which are guided by the mission of helping others and fostering creativity (e.g., Indiegogo, 2014a; Kickstarter, 2014b). As such, many view crowdfunding as a potential boon for entrepreneurs, such as women, that might otherwise be excluded from accessing external funds (Overly, 2013; Thorpe, 2014). However, to date, no research has been conducted to understand how status indicators, such as gender, influence funding performance of traditionally excluded entrepreneurs and/or ventures on crowdfunding platforms.

Drawing on past research on underdog psychology (Vandello, Goldschmied, & Richards, 2007), social exclusion (Buvinić et al., 2004) and social status (Bitektine, 2011). I develop a model of funder decision-making which suggests that funders are more likely to provide capital to entrepreneurs than are members of traditionally excluded groups. Similar to socially excluded groups, underdogs refer to individuals or groups that are at a disadvantage, which may be due to some level of injustice or power imbalance, and expected to lose (Merriam-Webster, 2014). Due to a number of psychological factors, such as a need for fairness (Folger & Kass, 2000), individuals are often motivated to support disadvantaged others in underdog situations (Vandello et al., 2007). The likelihood that this motivation will materialize through action is increased in contexts where potential costs or risks to the supporter are low (Kim et al., 2008), such as in crowdfunding. Indeed, unlike traditional investment contexts, resource providers in crowdfunding generally provide low levels of capital and, in turn, assume relatively low levels of risk. To test this theory, I employ a random sample of 300 ventures that sought crowdfunding during a four-year period between January of 2009 and December of 2012.

This research seeks to make a number of important contributions to both theory and research. First, existing research has primarily examined the extent to which entrepreneurs' membership in an excluded (underdog) group may hinder their ability to successfully garner needed resources (e.g., Coleman, 2004; Lerner, Brush, & Hisrich, 1997). However, in the current study, I suggest that membership in an excluded (underdog) group may actually enhance entrepreneurs' ability to successfully garner financial capital through crowdfunding. In doing so, I extend previous research on underdog psychology within exchange-based situations (c.f., Batson et al., 1997). Next,

while previous research has typically viewed one's membership in an excluded group as carrying a consistently negative value, I suggest that the value assigned to a given status indicator is influenced by the decision environment. In doing so, I advance theoretical understanding of how the norms and/or mission of a given funding context may influence the decisions of resource providers. Finally, by suggesting that entrepreneurs may experience social exclusion due to industry affiliation (i.e., vis-a-vis funding requirements), I highlight a potential source of social exclusion, which has thus far been overlooked.

CHAPTER II

LITERATURE REVIEW

Section 1: The Crowdfunding Context

Section 1.1: Rise and history of crowdfunding

Crowdfunding refers to the issuance of an open call, through an internet-based platform, for the allocation of financial capital to support a specific purpose (Davis & Webb, 2012). Crowdfunding is not a new phenomenon, but rather a new take on a relatively old idea. Artists, inventors, composers, and others have long relied on funding from various backers to produce new goods and services (Steinberg, 2012). In this same spirit, internet-based crowdfunding platforms are generally viewed as an alternative source of funding (Dapp, 2013), guided by the mission of helping others and fostering creativity (e.g., Indiegogo, 2014a; Kickstarter, 2014b). Unlike many traditional sources of funding, crowdfunding platforms are ‘democratic’ funding conduits, which enable laypersons from the general public to act as funders, with each individual providing as little as \$1. As such, crowdfunding platforms generally provide entrepreneurs with a relatively low level of funding (i.e., a few thousand dollars) from a relatively large number of funders (Davis & Webb, 2012).

The emergence of crowdfunding has been supported by a confluence of trends. Most notably, the advent and widespread use of the internet, particularly in the areas of communication (e.g., Subrahmanyam, Reich, Waechter, & Espinoza, 2008), online commerce (e.g., Li, Srinivasn, and Baohong, 2009), and advertising (Goldfarb and Tucker, 2011), has facilitated increased consumer comfort and confidence in transacting online without being able to see and experience final products. Additionally, In the U.S. and elsewhere, a vibrant entrepreneurial culture supported by popular media (e.g., Dragon's Den, Shark Tank) has increased interest in entrepreneurs' activities and the desire to support entrepreneurs (e.g., Spinelli and Adams, 2012). Reflecting this desire, a recent report by Crowdsourcing.org and the World Bank, states that crowdfunding generated \$5.1 billion in funding in 2013 and suggests that it will surpass \$300 billion in funding transactions by 2025. Further, both the number of platforms and the level of funding activity have consistently grown at rates of 200% to 500% per year (EquityNet, 2014).

Given the tremendous growth experienced by the crowdfunding industry, and a general lack of governmental oversight (i.e., as compared to traditional contexts such as venture capital), industry leaders have also taken steps to manage user confidence and create some level of industry-wide formality. Specifically, crowdsourcing.org, which is a neutral professional organization dedicated to crowdfunding, recently implemented the Crowdfunding Accreditation for Platform Standards (CAPS) program (Crowdsourcing, 2014). The program is supported by a council of leading platform operators and industry experts who conduct annual reviews of crowdfunding platforms with the hopes of fostering high standards of performance as the nascent industry continues to develop

(Crowdsourcing, 2014).

Section 1.2: Crowdfunding: The process

In general, crowdfunding begins through the production of information that is to be made available to prospective funders. While crowdfunding platforms provide templates, the crowdfunding entrepreneur is given relative autonomy in determining the general content and presentation of the ‘informal prospectus’ that is to be presented to prospective funders. The informal prospectus consists of information, such as a general synopsis of the venture itself, the background of the management team, the funding goal, and the investment-reward structure. This information is then overlaid into a ‘venture-funding page’ within the online crowdfunding platform. This page serves as a virtual road show that is open to the general public, and is the central point of communication between the entrepreneur and prospective funders. During this ‘virtual roadshow,’ prospective funders can evaluate the venture-relevant information prior to making a funding decision. Crowdfunding entrepreneurs are limited to communicating through non-financial mechanisms, and funders are rewarded through various extrinsic tangible rewards (i.e., a limited version of the venture’s product) or intrinsic ‘gifts’ (i.e., a thank you).

There currently exist a wide array of crowdfunding platforms. As of 2013, it was estimated that over 500 crowdfunding platforms were in current operation, and there existed over 9,000 registered domain names related to crowdfunding (Caldbeck, 2013). Given that rewards-based platforms do not allow entrepreneurs and funders to engage in equity-based exchange, they do not face the myriad of regulatory pressures typical of traditional investment conduits. As such, the rules associated with crowdfunding (i.e.,

both for entrepreneurs and funders) often vary by platform. Given the potential implications associated with variation in rules governing factors such as pricing or fund allocation, differences between platforms may represent an important area of concern for both entrepreneurs and funders alike.

Perhaps two of the most well-known, and largest, crowdfunding platforms are Kickstarter.com and Indiegogo.com (e.g., Hullinger, 2014). While each platform shares a similar purpose, the rules governing the two platforms differ in many areas; thus, making them an excellent case comparison. To begin, one of the most salient differences can be observed in the rules governing platform access. Kickstarter requires that entrepreneurs create something that can be ‘shared with the world’ (Kickstarter, 2014c). In other words, individuals cannot employ Kickstarter as a way to fund a project meant only for personal enjoyment. Further, the platform does not enable entrepreneurs to seek funds for charity, to offer potential funders financial incentives, or to support ventures involving prohibited products, services, or rewards. Prohibited items include: products or services that are illegal, heavily regulated, or potentially dangerous to funders, and rewards that are not created by the entrepreneur seeking funds (Kickstarter, 2014d). Alternatively, Indiegogo enables entrepreneurs to seek funds for a wide variety of ventures; generally only excluding those associated with illegal activities, heavily regulated industries (e.g., alcohol, tobacco, or firearms), or those seeking to provide funders with financial rewards (Indiegogo, 2014c).

Next, variation also exists in terms of rules governing the funding process itself, as well as the cost of fundraising. Kickstarter operates on an ‘all or nothing’ model, such that entrepreneurs who fail to meet their requested funding goal receive nothing. Further,

Kickstarter charges a platform fee equivalent to 5% of the funds raised and the third-party payment company Amazon charges entrepreneurs an additional credit card processing fee of 3-5% (Kickstarter, 2014f). However, if fundraising is not successful, no charges are incurred. Alternatively, Indiegogo offers entrepreneurs two funding options: a fixed funding model and a flexible funding model (Indiegogo, 2014b). While the fixed funding model closely mirrors Kickstarter, in that it is ‘all or nothing,’ the flexible funding model allows entrepreneurs to retain the capital raised irrespective of funding goal. With both models, Indiegogo charges entrepreneurs a platform fee equivalent to 4% of capital raised when the funding goal is met. Alternatively, when the funding goal is not met, this fee increases to 9% under the flexible funding model and is eliminated under the fixed funding model (Indiegogo, 2014b). Similar to Kickstarter, Indiegogo also uses a third-party payment processor. Here, PayPal charges 3-5% for PayPal or credit card payments and a \$25 wire fee for international-based campaigns that raise funds in USD (Indiegogo, 2014b).

Finally, despite the variety of differences between the two platforms, they are quite similar in their approach to liability. Specifically, neither Kickstarter nor Indiegogo are liable for losses incurred by funders (e.g., in terms of rewards), entrepreneurs, or other users (Indiegogo, 2014c; Kickstarter, 2014e). However, in an attempt to avoid problems the platforms require entrepreneurs to be honest (i.e., provide a pitch which is based in facts) and present their plans clearly. For example, when a tangible product is being funded, Kickstarter requires that entrepreneurs provide some type of prototype (Kickstarter, 2014c). As a second example, Indiegogo states in their ‘terms and conditions’ that entrepreneurs are legally bound to fulfill any rewards, and if disputes

arise, the platform may provide funders with the entrepreneur's contact information so that the two parties may resolve their dispute (Indiegogo, 2014c).

Section 1.3: What's next for crowdfunding?

While crowdfunding began as a rewards-based conduit, recent support from U.S.-regulatory agencies, such as the SEC, are beginning to transform the industry landscape (Economist, 2012; Quinn, 2014). With the passage of the 2012 JOBS act, the ability to engage in equity-based investment through crowdfunding became reality. While equity-based investment within the context is currently only open to accredited investors, legislation is currently in the works to open equity-based platforms to the layperson public (e.g., Quinn, 2014). Although such platforms have taken stronger hold abroad, the number and overall impact of equity-based platforms in the U.S. is quickly growing and include Crowdfunder, EquityNet, and StartupValley just to name a few. For example, since its initial conception, EquityNet has provided entrepreneurs across North America with over \$240 million in equity, debt, and royalty-based capital (EquityNet, 2014).

Section 2: Review of Scholarly Research

Section 2.1: Entrepreneurial finance

Entrepreneurs often lack the resources needed to effectively exploit opportunities (Aldrich & Ruef, 2006), and instead look to external sources of financial capital. While entrepreneurship theory often centers on the opportunity (Shane & Venkataraman, 2000), the call to gain a deeper understanding of why some individuals, but not others, are able to recognize and exploit opportunities clearly suggests the importance of locating, acquiring, and directing resources (e.g., Alvarez & Busenitz, 2001). Reflecting this general importance, the area of entrepreneurial finance has long represented an important

area of scholarly inquiry (e.g., Connelly et al., 2011). To provide an initial foundation for the ensuing examination of this research stream, I begin this section by first discussing a number of traditional sources of financial capital and how those differ from crowdfunding. Afterwards, I provide an in-depth review of extant research examining entrepreneurs' ability to access funding through those traditional sources.

Sources of funding. Traditionally, entrepreneurs have sought out additional financial capital through external sources such as equity investors, debt-based lenders such as banks, or individuals within their social network. Yet, of these sources, there are four, which typically dominate extant research: debt-based funding, initial public offerings (IPO), angel investment, and venture capital (VC). In each of the aforementioned contexts, with the exception of debt-based funding, the institutional setting is generally dominated by a small number of investors who provide relatively large levels of financial capital in exchange for equity ownership in entrepreneurs' ventures. However, each context also differs from the others in areas such as the level of standardization, the capital allocation process, and the types of ventures that are served. In the following, I provide a brief discussion of each (i.e., debt-based funding, VC, angel investment, and IPO), and then discuss the ways in which entrepreneurs' ability to access funding through each may be influenced by a variety of common factors.

To begin, debt-based funding generally refers to private or public financial institutions, which provide debt capital to entrepreneurial ventures in the form of loans. Unlike equity-based contexts (e.g., VC, angel, & IPO), entrepreneurs do not give up any level of ownership in their ventures in exchange for the capital provided. Instead, entrepreneurs are required to pay back the principle amount of capital which was initial

provided along with an agreed upon level of interest. Similar to many equity-based contexts, the financial institutions that serve as resource providers in the debt capital industry are often subject to relatively strong contractual, financial, and regulatory constraints (e.g., Barth, Caprio, & Levine, 2008; LaPorta et al., 1997). These constraints stem not only from governmental regulatory agencies, but also from the financial institutions' business models, as even many government-backed institutions operate on a for-profit basis.

Scholars and practitioners alike generally view debt-based lenders as representing a key component of the entrepreneurial finance landscape (Berger & Udell, 1998). Indeed, debt-based capital is often the first type of external funding that entrepreneurs seek (Carter et al., 2003). Additionally, given the variety of private and public financial institutions which offer debt-based capital, it also represents a much more accessible source of funding when compared to equity-based outlets, such as angel investment. While equity-based outlets often cater to specific types of ventures (e.g., knowledge-based industries, high-growth, etc.), debt-based lenders may cater to a variety of different types of ventures. For example, the United States Small Business Administration, a government backed financial institution, provides loans which range anywhere from \$0 to \$1 million dollars (SBA, 2013).

While differences may exist, debt-capital providers generally evaluate entrepreneurs on the basis of the 'standard 5 Cs model,' which refers to: capacity, capital, character, conditions, and collateral (Orser & Foster, 1994). In general, the lending process begins by filling out an application, which is often tailored to the specific offerings of a given financial institution (for a more detailed review on the lending

process, see Carter et al., 2007). Applications for debt capital are initially screened by a loan officer, and the screening process (if positive) generally results in a meeting between the loan officer and the entrepreneur(s). If the loan officer deems the entrepreneur's case to be worthy, a loan proposal is then submitted to the bank's office of credit control. It is at this point that the outcome of the application is determined and terms are set forth if a loan is to be made. That being said, the ability to access debt capital is often tied to current economic conditions. As such, debt capital may be viewed as a less reliable (or accessible) form of external funding during times of economic downturn, such as the conditions currently being experienced in the U.S. and abroad (Ferro, 2015).

Next, venture capitalists refer to professional investors that provide private equity investment to entrepreneurial ventures (e.g., Denis, 2004; Gompers, 1995). Venture capital firms are often subject to relatively strong contractual, reputational, and financial constraints from the partners that VC firms obtain money from (Alperovych, Hübner, & Lobet, 2015; Florin, 2005). These constraints stem not only from the strong regulatory environment of the industry, but also from the compensation structure of VC firms, which are generally tied closely to the financial performance of the firm's portfolio (Metrick & Yasuda, 2010).

Scholars generally view the reason for VC firms' existence to stem from their ability to reduce the costs associated with informational asymmetries within the investment market (Li & Mahoney, 2011). As such, VC firms are often concentrated in industries where information concerns are paramount and where VCs have an advantage over other types of investors (e.g., individuals) in terms of effectively selecting and monitoring investments (Gompers, 1995). Due to this, VC firms are generally viewed as

active, rather than passive, investors. Indeed, past research suggests that VCs visit the ventures in their portfolios roughly 19 times per year on average (Gorman & Sahlman, 1989). Through this active investor approach, VCs provide ventures with help in areas such as management team composition and compensation systems (Kaplan & Stromberg, 2003; Sapienza, 1992), professionalization and headhunting (Hellmann & Puri, 2002), or operations and strategic management (Hellman & Puri, 2000).

While variations may exist, it has been suggested that the process through which VCs decide (not) to provide capital to a given venture can be broken into four basic stages: origination, screening, evaluation, and closing (Fried & Hisrich, 1994). The VC investment process begins through origination, which refers to the time at which a potential investment (i.e., venture) is located. The number of potential ventures is then reduced through screening, and the remaining ventures then go through a lengthy vetting process during evaluation. If the VCs deem a venture to be a ‘good’ investment through the evaluation process, they move on to the final closing stage (i.e., structuring and post investment activities). Unlike many other investment contexts, VCs generally provide ventures with financial capital in stages. In doing so, this enables VCs to not only reduce their financial risk on the front end, but also in the long term by allowing for the VCs’ active involvement and ongoing evaluation of ventures in their portfolio between investment stages. That being said, it is not uncommon for VCs to refuse to provide later stages of funding if negative information about the venture is uncovered (Gompers, 1995).

In order to maximize their effectiveness, both in terms of identifying new investments and empowering existing ones, VCs often draw heavily upon their networks

(Davila, Foster, & Gupta, 2003; Hochberg, Ljungqvist, & Lu, 2007). However, these networks are often based around geography or industry, and thus the information which flows from them tends to contribute to localization of investment (Sorenson & Stuart, 2001). As such, the availability of VC money is rather dispersed, and thus difficult to access by entrepreneurs in many geographic areas or industries (Mason & Harrison, 1995). To alleviate issues stemming from the dispersion of VC funding, many have suggested that entrepreneurs may instead look to sources of informal venture capital, such as angel investors (Mason & Harrison, 1995).

Angel investors generally refer to private (wealthy) individuals or groups who provide capital to relatively new or growing ventures (Gompers, 1995). Given the relatively informal and often individual nature of the angel investment industry, investors often have investment objectives beyond mere profitability. For example, angels may consider objectives such as potential income, capital growth, time commitments (e.g., full time or part time), or other personal goals (Paul, Whittam, & Wyper, 2007). As compared to formal venture capital, angel investors are generally more willing to provide capital to early-stage ventures and, as such, are increasingly viewed as an important component of the equity investment landscape (Becker-Blease & Sohl, 2007; Maxwell, Jeffrey, & Levesque, 2011). Indeed, data suggests that angels invest up to 16 times as often in nascent ventures as compared to venture capitalists (Sohl, 2007).

As of 2000, it was estimated that the size of the venture capital market to be roughly \$48 billion USD (not counting corporate venture capital, as those figures are not generally made public), while the market for angel investment was estimated to be at roughly \$100 billion USD (Denis, 2004). That being said, the average level of capital

provided by angel investors is significantly lower as compared to VCs (Denis, 2004; Maula, Autio, & Arenius, 2005). As such, it can easily be seen that the number of angel investors far exceeds the number of VCs within the market. Yet despite their relatively large numbers, the ability of entrepreneurs to access capital through angels has been often cited as necessarily limited (Riding et al., 1997). Perhaps contributing to this, is the often informal nature of angel investment which has lead to the relatively ‘invisible nature’ of the industry (Mason & Harrison, 2008). That being said, scholars have noted that the market is becoming increasingly visible as it moves away from one dominated purely by individuals and towards a more professional model of organized syndicates (May, 2002; May & O’Halloran, 2003).

Despite its relative informality, angel investment shares a number of commonalities with formal venture capital. For example, after investment occurs angel investors actively monitor their investments and often take a hands-on role in the venture in an attempt to provide value through their personal skills and experience (Harrison & Mason, 1992; Madill, Haines, & Riding, 2005). Additionally, angels also often follow a sequential pattern of investment that may be split into five stages: familiarization stage, screening stage, bargaining stage, managing stage, and harvesting stage (Paul et al., 2007). Thus, just as in the VC context, angel investors first screen ventures, then go through a vetting process, and finally fund / continue a relationship with the ventures deemed to be a ‘good investment.’ In sum, both venture capital and angel investment play important roles in the private equity landscape. While each differs in areas such as formality and investment preferences, both types of investor may provide entrepreneurs

with valuable resources and enable ventures to more easily reach the next type of equity financing known as the initial public offering (IPO).

Unlike angel investment and venture capital, which are both private, the initial public offering (IPO) context refers to the public sale of venture ownership in return for relatively high levels of financial capital. For example, between the years of 2011 and 2013 median IPO deal was roughly \$114 million USD (WilmerHale, 2014). While the impact of such large capital outlays should not be dismissed, it is important to note that IPOs represent one of the rarest forms of external funding for entrepreneurial ventures. Highlighting this rarity, there were only 178 IPOs in the United States during 2013, a figure which was the largest seen since 2007 (WilmerHale, 2014). While the general rarity of IPOs may be explained by a number of factors, it may at least in part due to issues such as high levels of governmental oversight, the tendency of investment banks to target high growth ventures (as with the case of venture capitalists), and the relatively high levels of complexity and costs associated with the process.

Ventures hoping to undertake an IPO must adhere to a lengthy, standardized process (for a detailed review of the IPO process, see Certo, 2003; Ellis, Michaely, & O'Hara, 1999). The process begins by preparing a formal registration statement, which includes a prospectus, with the assistance of an investment bank. Once this is completed, the investment banker then arranges for the venture's management team to market the offering to potential investors through a series of roadshows. Importantly, these roadshows are attended only by the market's most influential institutional investors (Edy, 2000). At the culmination of each roadshow, institutional investors evaluate the venture's prospectus and decide whether or not to invest in the venture by purchasing shares of

ownership. Collectively, this description highlights some of the largest differences between debt-based funding, public (IPO) equity, and private (VC, angel) equity. Indeed, IPOs involve a highly complex process, which involve a number of different parties aside from the entrepreneur and investor, and the way in which entrepreneurs ‘connect’ with potential investors is unique to the context. That being said, the ability of entrepreneurs to employ various tactics, such as communication, to engender investment remains relatively constant across contexts. In the following section I provide an extensive review of past research on factors which may influence funding outcomes in traditional contexts such as those that I have just discussed.

How funding is accessed. While the research stream related to entrepreneurial finance is quite broad, a large portion of these efforts have been devoted to examining characteristics or qualities of entrepreneurs and ventures which may influence resource allocation efforts. In many instances, entrepreneurs may chose to purposefully communicate aspects of their ventures (or themselves) to prospective investors in an attempt to attract funding. For example, entrepreneurs may attempt to engender investment by purposefully highlighting their level of educational attainment (Spence, 1973) or perhaps even by issuing a press release to highlight a new prestigious alliance partner (e.g., Gulati & Higgins, 2003). However, not all factors that may influence funding are under the entrepreneur’s control. That being said, while entrepreneurs may or may not choose to communicate uncontrollable factors such as gender or location, those factors may continue to wield influence over the funding decisions of prospective investors due to their visibility. In the following, I provide an overview of extant research examining the impact of both controllable and uncontrollable factors on funding

outcomes. Collectively, the studies below highlight the ability of entrepreneurs to influence funding outcomes through communicating (or potentially withholding) information about themselves or their ventures to potential investors.

To begin, a number of scholars have examined the role played by homophile, which refers to the propensity of similar entities to be attracted to one another. Within this vein, scholars have explored homophile in a number of dimensions and at numerous levels of analysis. For example, at the level of the venture, Huberman (2001) found that investors tend to favor ventures that lie within the same geographic location.

Complementing this research, Coval and Moskowitz (1999) found that U.S. investors tend to have a local preference in their domestic equity portfolios. Further, when geographic location between investors and a company increases (e.g., perhaps due to a move by either party), the likelihood that the investor's portfolio composition changes tends to increase (Bodnaruk, 2009). However, such findings are not only limited to typical investment scenarios. Indeed, past research even suggests that geographic proximity may even have negative impacts on the interest rates paid by entrepreneurs on bank loans (Degryse & Ongena, 2005). Collectively, these studies and others suggest that geographic proximity between investors and entrepreneurs may play a relatively important role in determining investment outcomes. However, discussing homophile only as it relates to geographic proximity provides but only a limited view into a complex phenomenon. For example, while I have already established that investment preference may be influenced by geographic location, past research suggests that similarity in language and culture between entrepreneurs and investors may play a role (Grinblatt & Keloharju, 2001). The influence of such similarities may also exist at a much higher

level, as evidenced by past research on diaspora networks. For example, Leblang (2010) found that diaspora networks, or connections between migrants (living in an investing country) and their home country, are positively and significantly related to foreign investment. While the current discussion on homophile and investment is by no means exhaustive, its purpose is to illustrate the role played by similarities between entrepreneurs and resource providers on investment outcomes. That being said, as a closing point on the topic, it is also important to note that homophile does not necessarily refer to static scenarios, but rather to relatively dynamic states of being. Indeed, past research has found that as subjects become increasingly familiar with one another (i.e., through subsequent interactions), the likelihood that they will invest larger levels of financial capital also increases (Keller & Reeve, 1998).

In addition to homophile, other scholars have looked to more malleable characteristics of entrepreneurs. Of these characteristics, perhaps one of the most widely noted and readily visible is that of passion. Entrepreneurial passion refers to “an entrepreneur’s [own] intense *affective* state accompanied by *cognitive* and *behavioral* manifestations of high personal value” (Chen, Yao, & Kotha, 2009: 201). Increasingly, scholars have begun to emphasize the importance of entrepreneurs’ passion in motivating their own actions as well as the actions of their stakeholders (Cardon et al., 2013; Mitteness, Sudek, & Cardon, 2012). Yet despite this increasing emphasis, the examination of how passion influences funding outcomes has been relatively limited. Perhaps one of the earliest examples of work within this stream was conducted by Sudek (2006), who found that angel investors are more likely to perceive passionate entrepreneurs as engaging and interesting. This work was further extended by findings,

which suggest that entrepreneurial passion may have a direct influence on the funding decisions of potential investors (Cardon, Sudek, & Mitteness, 2009; Chen et al., 2009). While work continues in this area (e.g., Cardon et al., 2013; Davis et al., 2015), there remain a number of unanswered questions with regards to entrepreneurial passion.

Yet another intriguing, yet relatively underdeveloped, area of research deals with the tactic of impression management. In traditional contexts, the process of obtaining financial capital generally involves a number of social interactions, many of which may be face-to-face between entrepreneurs and investors. As such, scholars have begun to recognize the importance of social skills, and particularly impression management, in influencing the way in which potential resource providers perceive both entrepreneurs and ventures (Baron & Markman, 2000). In general, impression management (IM) refers to any behavior that is undertaken by individuals to purposefully influence the way in which they are perceived by others (Bolino, 1999). Stated differently, IM may simply be viewed as ‘the packaging of information in order to lead target audiences to desired conclusions’ (Gardner and Avolio, 1998, p. 33).

Given the extent to which IM represents ‘the packaging of information,’ a number of scholars have suggested that it may represent an effective tactic for entrepreneurs seeking to overcome perceptions of illegitimacy or unfavorability in the eyes of investors. Indeed, Carter, Gartner, and Reynolds (1996) suggest that entrepreneurs can enhance the likelihood of organizational survival by engaging in IM through acting ‘as if’ their ventures were fully operational. For example, Starr and MacMillan (1990) describe a Cuban American entrepreneur who created the impression that his business was legitimate and operational by utilizing borrowed tools, computers, and a delivery van.

Similarly, others have suggested the use of IM through entrepreneurial narratives which frame the venture in a way that is unique yet familiar (Lounsbury and Glynn, 2001). Although each represents a different IM strategy, both are based on the logic that individuals make sense of new products or organizations by drawing upon existing knowledge within the environment (Pollack, Rutherford, and Nagy, 2012). Drawing upon similar logic, others have suggested that entrepreneurs' funding performance may be enhanced by IM through the use of symbolic actions or characteristics. For example, when presenting a funding pitch to potential investors, entrepreneurs may engage in symbolic IM through the use of visual props, dress, or perhaps even emotional expressiveness (Clarke, 2011). Alternatively, outside of the pitch setting, entrepreneurs may engage in IM by creating a website, as it may serve to increase venture legitimacy and visibility in the eyes of potential investors (Zott & Huy, 2007).

In a closely related vein, researchers have also examined the influence of entrepreneurs' social competence, or the ability of one to effectively interact with others through the use of discrete social skills (Baron & Markman, 2003). While IM is generally viewed as a potential component, social competence may also be influenced by tactics such as political skill, or 'the ability to effectively understand others...and to use such knowledge to influence others to act in ways that enhance one's personal and/or organizational objectives (Ferris et al., 2005: 127). Given the variety of tactics and skills that influence one's level of social competence, researchers have looked for interaction effects. For example, Treadway and colleagues (2007) found that individuals' use of IM via ingratiation may be more effective when they possess a high level of political skill. That being said, social competence as a direct influence certainly represents an important

area of promise within entrepreneurship. For example, Baron and Markman (2003) found entrepreneurs' social skills, including the use of IM, to be significantly related to venture financial performance across a number of different industries. Similarly, at the organizational level, others have found leaders' social skills to have a significant influence on group performance. Taken together, despite its relatively scant application to the area of entrepreneurial finance, research generally suggests that IM and, more generally, social/political skills represent valuable tools for entrepreneurs hoping to obtain external funding.

Finally, perhaps the most developed stream of venture finance research is built upon signaling theory. Initially developed in economics (Spence, 1973), signaling has become a widely popular lens of exploration within venture finance (For a detailed review, see Connelly et al., [2011]). Although quite broad, research within this area can generally be classified in terms of signals pertaining to the entrepreneur, signals pertaining to the venture, and signals pertaining to external connections.

Entrepreneurs and their ventures represent tightly intertwined components of the funding pitch. As such, signals providing insight into the underlying quality or potential of the lead entrepreneur and/or top management team are generally viewed as key areas of interest to potential investors. In terms of the individual entrepreneur, past research suggest that CEO shareholdings and external directorships are positively related to abnormal stock market returns for IPO ventures (Zhang & Wiersema, 2009). Similarly, others have examined how founder ownership enhances the extent to which the venture is viewed as attractive by venture capitalists (Busenitz, Fiet, & Moesel, 2005). This work has also been extended to the IPO context where past research suggests that insider

ownership & management quality influences potential investors (Jain, Jayaraman, & Kini, 2008). While the importance of individual entrepreneurs should not be underplayed, it is quite common for ventures to be led by a team of entrepreneurs. Given this distinction, a number of studies have examined entrepreneur-based signals at the level of the top management team (TMT). For example, Filatotchev and Bishop (2002) found that board diversity is negatively related to underpricing in IPO ventures. Similarly, it has also been found that TMT functional heterogeneity & educational heterogeneity are both significantly related to IPO value (Zimmerman, 2008). In addition, others have found that role legitimacy and diversity of previous employment affiliations amongst TMT members may also influence investor decisions (Higgins & Gulati, 2006). Aside from diversity related signals, scholars have also examined signals associated with legitimacy and prestige. Specifically, past research suggests that board prestige is negatively associated with underpricing in IPO ventures, such that it signals organizational legitimacy to potential investors (Certo, 2003). Similar studies have found that, through a similar process, TMT legitimacy has a negative relationship with underpricing of IPO ventures (Cohen & Dean, 2005).

Similar to entrepreneur-related signals, a number of studies have also explored the influence of venture-related signals on funding outcomes. Given the importance of past experience and/or actions in serving as an indicator of future performance, a number of studies suggest that experience/action-based signals carry a high level of value. For example, the acquisition of private equity placements in a venture's early stages of development may positively influence future investors (Janney & Folta, 2003; 2006). However, entrepreneurial ventures often lack an established track record of performance.

As such, investors are often forced to evaluate ventures on the basis of signals produced by existing actions or characteristics. For example, investors may look to characteristics such as board structure (Certo, Daily, & Dalton, 2001), corporate governance characteristics (Ndofor & Levitas, 2004), or other firm-level characteristics listed in the prospectus (Daily, Certo, & Dalton, 2005) when making their investment decisions. Alternatively, investors may be influenced by signals pertaining to the venture's resources or perhaps even venture ownership. For example, a longer lockup period (Arthurs, Buseenitz, Hoskisson, & Johnson, 2008), varying levels of retained ownership (Bruton, Chahine, & Filatotchev, 2009), or perhaps even the venture's strategic flexibility and resource endowments (Ndofor & Levitas, 2004) may influence investment performance.

Entrepreneurship does not happen in a vacuum. Rather, the entrepreneurial process, at all stages, is influenced by a number of factors stemming from the external environment. Recognizing this, a number of scholars have also explored signals stemming from relationships that extend beyond the boundaries of the venture. For example Gulati & Higgins (2003) found that both endorsement relationships and alliances may influence potential investors. Similarly, others have found that mere announcement of a new alliance may also positively impact investment performance (Park & Mezas, 2005). However, the signaling power of external relationships is not only limited to later stage alliances. Rather, even an underwriter's prestige may positively influence potential investors during the IPO process (Higgins & Gulati, 2006). Similarly, the association memberships, past investments, or prior divestments of private equity operators may influence potential investors (Balboa & Marti, 2007). Taken together, this

research suggests that signals produced by relationships extending beyond the boundaries of the venture represent important considerations across investment contexts.

Section 2.2: Crowdfunding

In recent years, both practitioners and scholars alike have begun to develop a keen interest in the phenomenon of crowdfunding. However, given the relative nascence of the crowdfunding industry as a whole (e.g., Kickstarter was founded in 2009), researchers have only begun to scratch the surface, in terms of both theoretical and practical implications. Further, given that crowdfunding, as a method of delivery, may be used for a variety of funding purposes, existing research has focused on both rewards-based and prosocial contexts.

The research stream surrounding crowdfunding-based capital exchange initially began in the context of crowdfunded microlending. In microlending, or the allocation of relatively small loans at low interest rates, the focus is generally on the conduit's ability to serve as a tool for poverty alleviation (Ibrahim, 2012). To this end, scholars have explored funding outcomes both in terms of entrepreneurs' actions and lenders' decision-making processes (e.g., Meer, 2014). A key component of crowdfunding-based microlending is the entrepreneurial narrative. Highlighting the general importance of this text, Allison and colleagues found traditional business language, such as that found in traditional business plans, to be negatively related to funding performance (Allison, Davis, Short, & Webb, 2015). Similarly, taking a signaling theory perspective, Moss, Neubaum, and Meyskens (2015) examined the extent to which entrepreneurial narratives might signal entrepreneurs' behavioral intentions and characteristics to potential lenders. Not only did these studies shed light on the influence of rhetoric in shaping microlenders'

perceptions of entrepreneurs, they also extended past research suggesting that microlenders have relatively diverse motivations (e.g., Allison, McKenny, & Short, 2013; Galak, Small, & Stephen, 2011).

Similarly, in the context of rewards-based crowdfunding, researchers have also begun to examine the phenomenon from a variety of lenses. For example, in exploring the ways in which entrepreneurs communicate with prospective funders, past research has examined the influence of costly signals (e.g., Davis & Webb, 2012), costless signals (Davis & Allison, 2013), product creativity, and entrepreneurial passion (Davis, Webb, Hmieleski, & Coombs, 2014). Further, in a recent exploratory study, Mollick (2014) examined the influence of factors such as geographic location of the venture, funding period duration, and the number of Facebook friends possessed by the entrepreneur on funding performance within the Kickstarter platform. Collectively, these studies have contributed to the literature by highlighting the ability of factors (drawn from research in traditional investment contexts) to impact the ability of entrepreneurs to garner capital through crowdfunding. Additionally, these studies, and others, highlight the uniqueness of crowdfunding as a distinct phenomenon, and point to the need for future research to examine the influence of non-objective factors, such as emotion, on crowdfunding performance.

While rewards-based platforms certainly represent an increasingly viable source of financial capital, recent support from congress and the Securities and Exchange Commission has enabled entrepreneurs to obtain equity financing through crowdfunding (Stemler, 2013). In attempting to uncover entrepreneurs' motivation to seek funds through one conduit over another, Lambert and Schwienbacher (2014) found that

entrepreneurs are more likely to engage in rewards-based crowdfunding (i.e., offering funders a product) when startup capital requirements are relatively small compared to the market size, but more likely to prefer profit-sharing (i.e., equity-based crowdfunding) otherwise. As such, crowdfunding is increasingly able to serve a much broader population of entrepreneurs.

Given the unique nature of rewards-based crowdfunding, the underlying motivation of resource providers within context represents a key point of interest. For example, a recent case study of customer-based crowdfunding initiatives suggests that funders may be motivated by: the ability to be actively involved in bringing a venture or product to life, financial incentives stemming from early-stage equity, or simply the intrinsic motivation of helping another person (Ordanini et al., 2011). The existence of non-financial/non-rewards based motivation in funders is further supported by findings which suggest that ventures presented as a non-profit are more likely to achieve their funding goals as compared to for-profit ventures (Belleflamme, Lambert, & Schwienbacher, 2013). Yet while these studies and others have advanced the field's knowledge of funder decision-making and motivation, they have only begun to scratch the surface.

In order to glean deeper insight into the phenomenon of crowdfunding, additional research is needed in the area of funder decision making. The lack of non-financial rewards associated with the context, coupled with nuances such as the existence of for-profit (rather than prosocial) ventures, suggests that funder motivation is distinct- not only from traditional investment contexts, but also from prosocial contexts as well. Additionally, crowdfunding's unique environment, which generally emphasizes not only

helping others, but also providing funding for entrepreneurs that may otherwise be excluded in traditional contexts, creates yet another point of diversion from traditional funding models. To adequately address the impact of the context on individual funders, and in turn on resource allocation decisions, future research might be fruitfully enriched through the use of more psychology-based approaches, such as in the current study. Additionally, this research may also be enriched by looking to the context's environment for cues pertaining to how value is assigned to certain qualities or characteristics, as I have done in the current study with social exclusion and other forms of social status.

Section 2.3: Social exclusion

Social exclusion refers to situations in which benefits are inequitably distributed between individuals or groups (Buvinić et al., 2004). Social exclusion, as a phenomenon, may reflect voluntary individual choices, interests or relationships between actors, or perhaps even structural issues such as discrimination (Bhalla & Lapeyre, 1997). As such, social exclusion may occur on the basis of factors such as race, gender, group affiliation, geography, or perhaps even education (e.g., Bhalla & Lapeyre, 1997; Coleman, 2000, 2004). For example, the introduction of new, innovative agricultural practices may displace existing farming competencies, and thus, reinforce the social exclusion of less-educated sustenance farmers (Hall, Matos, & Langford, 2008). As a second example, the presence of gender biases may cause moneylenders to be less likely to provide female entrepreneurs with needed capital, as compared to male entrepreneurs (Alsos, Isaksen, & Ljunggren, 2006).

Social exclusion may occur in a variety of contexts and often results in highly visible problems in society (e.g., Hall et al., 2008). As such, much of the existing research

in the area has predominantly been development-related in nature. Indeed, the creation of a more inclusive society represents an important objective for governments worldwide (c.f., Lee & Drever, 2014). To this end, many governments have looked to develop policies geared towards enhancing entrepreneurial activity, which is often viewed as a key driver of social and economic change (Schumpeter, 1934). For example, in an effort to reduce unemployment rates, the Dutch have promoted entrepreneurship for immigrant groups since the 1980s (Kloosterman, 2003). However, while such change may lead to increased levels of inclusive growth through the empowerment of individual entrepreneurs and their communities (e.g., Hall et al., 2012), they may also lead to exclusion if the benefits of such change are distributed unequally. Given that such exclusionary dynamics may lead to increased social ills such as corruption and crime, it has been suggested that a central issue facing countries attempting to develop a globally competitive economy is to avoid excluding members of its society (Hall et al., 2008).

While the fostering of entrepreneurship certainly represents a key topic in the discussion of social exclusion, scholars within the development-related research stream have also examined a number of other factors. For example, social exclusion may arise when individuals possess inadequate access to needed infrastructure, such as transportation or communication (Cass, Shove, & Urry, 2005). Given that a lack of virtual-mobility represents a potential source of social exclusion (e.g., Grimalda, 1999; Kenyon, Lyons, & Rafferty, 2002), many countries have begun to implement internet communication technology-based programs in an attempt to ensure that their citizens do not become excluded from the 'global information economy' (Selwyn, 2002). However, not all laws within a country reduce exclusion. For example, governmental actions such

as the criminalization of hiring illegal immigrants in Europe (Jones et al., 2006), or the implementation of neoliberal models of capitalist development in Latin America (Veltmeyer, 2002) have contributed to social exclusion. Additionally, such exclusionary pressures may be heightened by informal institutions that exist within a given society. For example, the 'taste' of a given social strata may lead to exclusion, such that high-status individuals may dislike low-status people or culture and, in turn, reject them (Bryson, 1996). Similarly, factors such as discrimination (e.g., Bask, 2005; Blackburn & Ram, 2006) or rising xenophobia (Mora & Davila, 2005) may explain the disproportionate number of ethnic minorities and limited English language proficient individuals that engage in self-employment activities within the United States.

The examination of social exclusion has not been limited to development-related works. For example, in the area of psychology, scholars have found that socially excluded individuals may be more likely to experience negative emotions (Blackhart et al., 2009) or to perceive life as less meaningful (Stillman et al., 2009). The impact of social exclusion on humans' psychological and physiological wellbeing is further highlighted by findings which suggest that individuals may in fact experience physical pain as a result of being excluded (Eisenberger, Lieberman, & Williams, 2003; MacDonald & Leary, 2005). Given such findings, both the importance of social inclusion and the reason as to why individuals may be motivated to obtain inclusive membership becomes quite clear.

Given the vast psychological impacts of social exclusion, scholars have also become increasingly interested in the corresponding actions of socially excluded individuals. By definition, social exclusion refers to a situation in which individuals lack

membership in a community that would otherwise provide trust, support, or mutuality (Twenge et al., 2007). As such, social exclusion has been measured as ‘deprivation’ from access, as compared to others (Bossert, D’ambrosio, & Peragine, 2007). Past research in psychology suggests that deprivation may result in outcomes such as a decreased likelihood that one will engage in prosocial activities (Twenge et al., 2007) or an increased likelihood that one will exhibit aggressive behaviors toward non-excluded individuals (DeWall et al., 2009).

In a more distinct vein, scholars have also focused on actions undertaken by individuals in pursuit of social inclusion. Research in marketing suggests that as a result of being excluded, consumers may consciously choose certain products as a way of differentiating themselves from the majority of others (Wan, Xu, & Ding, 2014). Alternatively, others have found that socially excluded individuals are more likely to sacrifice financial and personal well-being in order to enhance their social well-being (e.g., Duclos, Wan, & Jiang, 2013; Mead et al., 2011). For example, one may be more willing to try illegal drugs if they believe it will help them obtain in-group membership (Mead et al., 2011). Similarly, the interpersonal rejection of social exclusion may enhance financial risk-taking by increasing the instrumentality of money as a tool for obtaining social benefits (Duclos et al., 2013).

Finally, scholars have also examined the role played by social capital within the phenomenon of social exclusion. Many have suggested that social capital may represent a tool for overcoming social exclusion. For example, in examining poverty-based social exclusion in Europe, scholars have often viewed social exclusion as being based in a lack of social ties to family, friends, the state, or more generally society (Adato, Carter, &

May, 2006; Bhalla and Lapeyre, 1997). However, others suggest that factors such as collective action, social relationships, and local institutions may structurally reinforce the social exclusion of individuals (Cleaver, 2005). For example, in the case of Swedish immigrants, past research suggests that the most probable explanation for social exclusion appears to be discrimination, even after controlling for various demographic and socioeconomic indicators (Bask, 2005). As a second example, in the case of Sri Lankan micro credit markets, individuals facing credit constraints often reduce their investments in social capital, thus suggesting reverse causality between social capital and access to informal credit (Shoji et al., 2012). Similarly, in their study of Indonesian households, Wetterberg (2007) found that while certain social ties may represent a mechanism for improving the welfare of impoverished families, the distribution of various ties varies by socio-economic class. Thus, despite the ability of social capital to improve a given family's welfare, those most in need of improvement (i.e., the most impoverished) may have less access to valuable social ties.

Section 2.4: Psychology of the underdog

Mirroring the definition of social exclusion, the concept of an underdog refers to individuals or groups that are at a disadvantage, which may be due to some level of injustice or power imbalance, and expected to lose (Merriam-Webster, 2014).

Throughout human history, people have often revered underdog stories such as David & Goliath, the fictional 'Mighty Ducks,' and the brave Texans at the Alamo. Indeed, such stories often appeal to individuals' need for fairness and provide a glimmer of hope that they, too, can succeed when faced with difficult circumstances (Kim et al., 2008; McGinnis & Gentry, 2009). However, despite the general importance of such cultural

narratives, relatively little research has specifically examined the underlying psychology of underdogs (Vandello et al., 2007).

Research on the psychology of underdogs, although relatively sparse, generally supports two common premises. First, in competitive scenarios, individuals are more likely to root for an underdog as opposed to a top dog (Ceci & Kain, 1982; Frazier & Snyder, 1991; Kim et al., 2008). Second, even in the absence of prior affiliation, individuals are more likely to identify, support, and sympathize with underdogs (Kim et al., 2008). Given these two premises, the underdog effect may best be described as the tendency of people to support or root for an individual or organization that is perceived to be embarking on a difficult task or competition and not expected to succeed due to explicit or implicit disadvantage(s) (Kim et al., 2008; Pollack & Bosse, 2014).

A number of psychological explanations have been provided for the inclination of individuals to support underdogs. In some cases, supporting an underdog may be perceived as going against the norm, and, thus, doing so may fulfill individuals' need for uniqueness (Lynn & Snyder, 2002; Tian, Bearden, & Hunter, 2001). Alternatively, others may perceive supporting an underdog as the right thing to do, and doing so may fulfill their need for equity or fairness (Allison & Messick, 1985; Folger & Kass, 2000). Finally, some may lend their support because witnessing the success of an underdog may provide them with the hope that they, too, can succeed when faced with difficult circumstances (Kim et al., 2008).

Despite the general proclivity of individuals to root for and support underdogs, recent research suggests that there may be some limits. Specifically, Kim and colleagues (2008) found that individuals may become less likely to support underdogs when

consequences are high. For example, individuals may be more likely to contract to a well-known company (as opposed to an underdog startup) when their own community's water supply is suspected to contain cancer-causing chemicals. In terms of entrepreneurship, this limitation may provide some explanation as to why underdogs are often excluded by investors in traditional contexts. Indeed, traditional investors generally provide entrepreneurs with relatively high levels of financial capital in the hope of receiving future financial gains. As such, the decision to invest in a given venture may carry (potentially) large consequences. Further, the likelihood of negative consequences materializing (e.g., loss of an investment) are quite large in some contexts given that roughly one-third of all new ventures fail within the first two years (Headd, 2003; Knaup, 2005). Taken together, while it is quite clear that individuals generally support underdogs for a variety of reasons, that tendency may be overridden by concerns of self-preservation in some contexts. However, in the case of crowdfunding underdogs may prove to be attractive investments with broad appeal; particularly given the existence of relatively low investment thresholds (e.g., \$1 to \$5) which may enable funders to decrease any perceived or actual consequence associated with providing funds.

CHAPTER III

THEORY AND HYPOTHESES

Section 1: Identifying Socially Excluded Underdogs

Social exclusion refers to situations in which benefits are inequitably distributed between individuals or groups (Buvinić et al., 2004). Thus, from an economic perspective, social exclusion may best be defined as the extent to which individuals are excluded from accessing assets such as financial capital (Adato et al., 2006). Given the difficulty experienced by socially excluded groups in such situations, they may be generally perceived as underdogs. Social exclusion, and in turn underdog status, may reflect voluntary individual choices, interests or relationships between actors, or even discrimination (Bhalla & Lapeyre, 1997). As such, underdog status may stem from factors such as ethnicity, gender, group affiliation, or perhaps even education (e.g., Bhalla & Lapeyre, 1997; Coleman, 2000, 2004). While such factors may seem somewhat disparate in nature, all share a common characteristic in that each represents an indicator of social status.

Social status may broadly be defined as the degree to which one is accepted by others in a particular group (Zeleny, 1940). The level of acceptance that one attains is contingent upon the shared status beliefs of a given group and the degree to which those

beliefs place value on certain characterizes or qualities (e.g., Ridgeway & Erickson, 2000). Individuals attain status beliefs through interactions with others in the environment. For example, in internet-based communities, community members look to publicly available social references when evaluating a focal actor's reputation, which in turn determines that actor's status within the community (Stewart, 2005). However, one's status beliefs are not static. Instead, one's status beliefs may be altered or replaced through the same process of social interaction (Mark, Smith-Lovin, & Ridgeway, 2009).

When assigning social status, individuals may evaluate a variety of indicators attached to the focal agent. Perhaps the most widely used measures of social status are those related to one's occupation (Chan & Goldthorpe, 2007; Faunce, 1989; Kalmijn, 1994) and socioeconomic status (Camfield & Esposito, 2014; Campbell & Henretta, 1980; Liverpool-Tasie & Winter-Nelso, 2012). From this perspective, individuals that possess higher levels of financial worth or hold prestigious occupational positions are said to be afforded higher levels of social status. While the importance of occupation and socioeconomic wealth in determining one's social status should not be overlooked, it must also be noted that there exists a plethora of other possible status indicators. Indeed, individuals that are physically attractive (Webster & Driskell, 1983), possess a high level of formal education (Belliveau, O'Reilly, & Wade, 1996), hold a central position in their network (Dimov & Milanov, 2010; Pollock et al., 2010), or are part of the ethnic majority (Park & Westphal, 2013; Umphress et al., 2007) generally occupy the upper levels of a status hierarchy. Additionally, individuals may take actions such as regularly attending church (Dillingham, 1965), being generous (Flynn, 2003), or even engaging in violent behavior (Papachristos, 2009) to increase their social status.

The general importance of social status lies within the power (or lack thereof) that it affords the holder. At the industry level, high-status new entrants are more likely to be viewed positively by existing competitors, and, in turn, less likely to be preyed upon (Podolny & Morton, 1999). Alternatively, at the organizational level, high status CEO's may hold a higher level of influence over the compensation chair, and, in turn, receive higher salaries (Belliveau et al., 1996). Taken together, these two examples highlight the power social status may afford. Additionally, they illustrate how social status may be applied to both individuals and organizations. This is important when examining the influence of social status indicators within the context of entrepreneurial finance, given that both individual entrepreneurs and ventures are involved. I discuss these implications at greater length in the following sections.

Section 2: Crowdfunding and Support for Underdogs

In traditional funding contexts, such as angel investment and venture capital, investors generally provide entrepreneurs with relatively high levels of funds. For example, between the years of 1995 and 2003, the average venture capital deal in the United States was \$7 million (NVCA, 2013). Despite the existence of such large capital outlays, the investment landscape is dominated by a relatively small number of professional investors (e.g., Benjamin & Margulis, 2001; Gamba & Kleiner, 2001) who provide capital with the hopes of reaping future financial rewards. As such, traditional investment environments are often viewed through a lens of risk and reward. Indeed, the existence of large capital outlays typically provided by investors, coupled with their desire to achieve profitability through future financial returns, highlights the potential consequence associated with acting as an investor.

In stark contrast, crowdfunding platforms generally provide entrepreneurs with low levels of funds to support a specific purpose (Davis & Webb, 2012). For example, on the popular crowdfunding platform Kickstarter, the majority of entrepreneurs receive less than \$10 thousand (Kickstarter, 2014a). Similar to the aggregate funding levels, the average amount of capital provided by each funder is also quite low. Indeed, crowdfunding platforms are ‘democratic’ funding conduits, which enable laypersons from the general public to act as funders, with each individual providing as little as \$1. Such an arrangement is made possible due to the absence of equity stakes and financial reward. Instead, funders provide entrepreneurs with financial capital in exchange for some level of extrinsic reward (e.g., the product being funded), intrinsic gift (e.g., a simple ‘thank you’), or sometimes, for nothing at all.

Despite the growing relevance of crowdfunding, relatively little is known about why funders might support some entrepreneurs and ventures but not others. However, the unique nature of the funding environment suggests that funders may be motivated, at least in part, by the need to serve otherwise excluded groups (i.e., underdogs). Indeed, given that funders generally provide low levels of financial capital and rewards are known ex-ante, it would seem that the potential consequence of providing capital is quite low. As such, past research suggests that the propensity of individual funders to support or sympathize with underdog entrepreneurs is likely to translate into action through the provision of funds (Kim et al., 2008).

The likelihood that funders will support and sympathize with underdog entrepreneurs is further reinforced by the culture that has developed around crowdfunding. Indeed, crowdfunding has been cited as a potential boon for otherwise

excluded underdog groups, such as women and minority entrepreneurs (Overly, 2013; Thorpe, 2014). Additionally, media outlets have recently noted the increasing role played by women in the crowdfunding industry (Thorpe, 2014), the emergence of ethnic-minority-specific platforms (Overly, 2013), and a backlash against celebrity figures attempting to engage in crowdfunding, despite their ability to access capital through traditional means (Zara, 2013). The potential impact of crowdfunding's highly visible culture may best explained through past research on social influence, which suggests that witnessing the actions of others may have a powerful influence on one's behavior (For a review, see Cialdini & Goldstein, 2004). In other words, the pervasive and widespread knowledge of crowdfunding's culture, coupled with the visible actions of others acting in accordance with that culture (i.e., supporting otherwise excluded groups), may increase the likelihood that funders will not only sympathize with underdog entrepreneurs, but also support them by providing funds.

The classification of an individual or venture as part of a socially excluded group, and thus an underdog, may be a factor of numerous dimensions (Bhalla & Lapeyre, 1997). Yet, in a virtual environment such as crowdfunding, only a limited set of readily visible and/or salient social indicators may be available for identifying potential underdogs. For example, although socioeconomic status represents one of the most common indicators of status (Camfield & Esposito, 2014), such information is generally not available or relevant to potential funders due to rewards-based (i.e., non-equity) nature of the context. That being said, a number of widely acknowledged indicators of social status, such as entrepreneur gender (Alsos et al., 2006), ethnicity (Park &

Westphal, 2013), or education (Belliveau et al., 1996), are likely to be both available and highly visible to potential funders.

In the following, I examine the extent to which entrepreneurs and ventures that are often excluded by investors in traditional contexts, and thus represent underdogs, are supported within the context of crowdfunding. Drawing on past research on underdog psychology (Kim et al., 2008), social exclusion (Bhalla & Lapeyre, 1997), and social status (Bitektine, 2011), I test my theory by examining various social status indicators associated with entrepreneurs and their ventures, which may influence the extent to which they are perceived as underdogs by potential funders. Specifically, I examine: (1) entrepreneurs' ethnicity; (2) entrepreneurs' gender; (3) entrepreneurs' level of formal education; (4) entrepreneurs' level of functional experience; (5) venture industry affiliation; and (6) use of underdog rhetoric in the entrepreneurial narrative. I begin by examining characteristics pertaining to the individual, which include the presence of a lead-entrepreneur who is: a female, an ethnic minority, or one that possesses a low-level of formal education or past functional experience. I then examine the venture-level characteristic: the typical funding requirement associated with ventures in a given industry classification. Finally, I explore the role played by narrative text in shaping funders' underdog perceptions.

Section 3: Underdog status: the entrepreneur

Section 3.1: Minority-led ventures

Minority owned businesses represent a fast-growing segment of the United States economy (Young, 2002). Reflecting this growth, minority-owned businesses created 5.9 million jobs in 2007 alone (Small Business Administration, 2011). While the

classification of a given ethnic group as a minority is contingent upon the country context, in the United States one is considered a minority if they are a member of the following ethnic groups: American Indian or Alaska Native, Asian or Native Hawaiian or Pacific Islander, Black, or Latino (Lowrey, 2007; Shelton, 2010). Minorities are often excluded, either directly or indirectly, from high paying positions within the labor market, and, as such, are more likely to engage in start-up activities as compared to their Caucasian counterparts (e.g., Bogan & Darity, 2008; Edelman et al., 2010). Perhaps due to this proclivity, roughly 50% of all small businesses in the United States are now owned by minorities or women (Asiedu, Freeman, & Nti-Addae, 2012). Yet despite the growing importance of minority-owned ventures, these entrepreneurs often face great difficulty when accessing needed financial capital through external sources (Blanchard, Zhao, & Yinger, 2008; Edelman et al., 2010; Young, 2002).

The ability of entrepreneurs to access necessary financial capital represents an important area of concern. While a weak financial structure can lead to problems in all areas of the venture (Timmons, 1999), the possession of adequate financial stocks may enhance venture viability and serve as a buffer against liabilities of newness (Cooper, Gimeno-Gascon, & Woo, 1994; Manolovavet al., 2006). When unable to access adequate levels of financial capital, entrepreneurial ventures often fail (Coleman, 2000; Neeley & Van Auken, 2012), or are skewed towards labor-intensive activities and unrewarding sectors of the economy (Edelman et al., 2010; Ram et al., 2003). In order to overcome various structural, cultural, and discriminatory barriers, minority entrepreneurs have long cooperated with one another by engaging in activities such as sharing financial resources (e.g., Bates, 1997b) or forming groups to heighten business visibility and leverage (e.g.,

Pearson, Fawcett, & Cooper, 1994). However, such efforts generally fail to serve as an adequate replacement for traditional investment or lending conduits (e.g., Pessar, 1995).

Past research examining minority-owned ventures' access to external sources of financial capital generally agree that barriers exist (Asiedu et al., 2012; Cavalluzzo & Wolken, 2005). Even when controlling for factors such as personal net worth and credit score (Blanchflower, Levine, & Zimmerman, 2003), minority entrepreneurs are more likely to be denied debt-financing as compared to their Caucasian counterparts (Asiedu et al., 2012). For example, in their study of the small business loan market, Cavalluzzo and Woken (2005) found that while Caucasian owned ventures had a 26% probability of being turned down by lenders, the same probability for Asians was 44%, 51% for Blacks, and 42% for Latinos. Further, when access is obtained, minorities generally receive less favorable terms and pay higher interest rates (e.g., Asiedu et al., 2012; Blanchflower et al., 2003).

Minority entrepreneurs' inability to easily access external sources of financial capital, as compared to their Caucasian counterparts, suggests that they may generally be viewed as underdogs. While funders and entrepreneurs generally do not meet face-to-face, the highly visible nature of an entrepreneur's ethnicity within the funding pitch makes underdog identification possible. This is important, because even in the absence of prior affiliation, individuals are more likely to identify and root for underdogs (Kim et al., 2008). Within crowdfunding, there exists a widespread culture that advocates the support of otherwise excluded groups (Overly, 2013; Thorpe, 2014), which, in turn, suggests that potential funders will value an entrepreneur's ethnic minority status (e.g., Bitektine, 2011). However, the extent to which funders support ethnic underdogs may not

be driven by crowdfunding culture alone. For example, given an increasing cultural emphasis on racial equality (Klotz, 1995), supporting minority underdogs may be perceived as the ‘right thing’ to do and, thus, providing financial capital may fulfill funders’ need for equity or fairness (Allison & Messick, 1985; Foger & Kass, 2000). As a second example, given the various difficulties faced by minority underdogs, some may lend their support because witnessing the entrepreneurs’ success may provide funders with the hope that they, too, can succeed when faced with difficult circumstances (Kim et al., 2008). Taken together, this suggests that funders will lend support towards ethnic-minority entrepreneurs. Additionally, given the relatively low levels of consequence associated with providing capital through crowdfunding, the extent of funder support and accompanying action may be heightened. Thus, I hypothesize:

Hypothesis 1: In the crowdfunding context, the existence of a lead-entrepreneur who is an ethnic-minority will be positively related to funding performance.

Section 3.2: Women-led ventures

Similar to minorities, women owned ventures also represent an important and growing component of the entrepreneurial engine, which drives the U.S. economy (Becker-Blease & Sohl, 2007; Neeley & Van Auken, 2010). As of 2002, there were roughly 6.2 million women-owned ventures in the United States, which together generated \$1.5 trillion in sales and employed roughly 9.2 million people (Amatucci & Sohl, 2004). Further, between 1997 and 2002, the number of women-owned ventures in the United States increased 19.8%, or almost twice the rate of all U.S. businesses (Coleman & Robb, 2009). Yet despite this tremendous growth, past research generally suggests that women entrepreneurs often receive considerably lower levels of financial

capital as compared to men (e.g., Coleman, 2000, 2004; Constantinidis, Cornet, & Asandei, 2006).

The exclusion of women entrepreneurs from traditional sources of financial capital has been noted in multiple country contexts and found to persist across ethnicities. While Caucasian women often have lower denial rates as compared to ethnic minorities, they continue to be significantly higher than those of Caucasian males (Asiedu et al., 2012). For example, between 1953 and 1998, less than five percent of venture capital funding in the United States went to women entrepreneurs (Brush et al., 2001). As a second example, in their study of Canadian entrepreneurs, Riding and Swift (1990) found that women-led ventures receive less favorable financing terms than do men. Not only were women found to be less likely to be approved for loans, but also more likely to require a cosigner, to put up collateral, and to be charged higher interest rates.

There exist a number of potential factors that may contribute to the difficulty experienced by women entrepreneurs attempting to garner financial capital through traditional means. First, given that investors, such as venture capitalists or angels, are often men (e.g., Brush et al., 2001; Brush et al., 2004), homophile may explain some variation. However, past research examining homophile amongst male and female angel investors (Becker-Blease & Sohl, 2007) suggests that the phenomenon is much more complex. Next, given the existence of various social and cultural norms, gender biases may also play a role. Supporting this view, both Fay and Williams (1993) and Buttner and Rosen (1988) found that lenders often attribute more characteristics associated with successful entrepreneurs to men as compared to women. Such biases may prevent women from securing needed certifications or conforming to various industry norms, which

might otherwise make them more attractive to resource providers. For example, given that women entrepreneurs often have restricted access to business clients (Bates, 2002) and are more likely to experience reliability issues with suppliers (Weiler & Bernasek, 2001), they may be viewed as riskier ‘investments’ as compared to men (Becker-Blease & Sohl, 2007). Further, given the difficulty associated with garnering external resources (Amatucci & Sohl, 2004), women are more likely to depend on internal sources of equity, which, in turn, may hamper their ability to grow and introduce new products or services (Chaganti, DeCarolis, & Deeds, 1995).

Taken together, past research examining the difficulty experienced by women entrepreneurs attempting to garner funding suggests that they generally represent prototypical underdogs. The extent to which prospective funders are likely to view women as underdogs is highlighted by not only extant research but also by popular media which often suggests it to be a ‘well-known fact’ that women entrepreneurs face a number of barriers (Berenson, 2014), particularly in the context of venture financing (Stengel, 2015), and that women entrepreneurs often feel ostracized (Overly, 2013). In the crowdfunding context, entrepreneurs’ gender is often highly visible within the funding pitch, thus making it possible for funders to easily identify the exclusionary underdog status of a given entrepreneur. This is important, as past research suggests that individuals often identify and root for underdogs, even in the absence of prior affiliation (Kim et al., 2008). In the case of gender-based discrimination, supporting the underdog may be perceived as the ‘right thing’ to do and, in turn, fulfill funders’ need for equity or fairness (Allison & Messick, 1985; Foger & Kass, 2000). The likelihood for such support is strengthened by the contextually embedded value of social status (Bitektine, 2011), as

the mission and image of crowdfunding generally suggest that status indicators traditionally indicative of underdogs will be valued in the crowdfunding context. Thus, given that the relatively low level of consequence associated with providing capital through crowdfunding suggests that funders' psychological support for underdogs will translate into action (Kim et al., 2008), I hypothesize the following:

Hypothesis 2: In the crowdfunding context, the existence of a female lead-entrepreneur will be positively related to funding performance.

Section 3.3: Entrepreneur education and functional experience

Education represents one of the most common proxies of human capital (Bates, 1997a), and the acquisition of an advanced degree (i.e., Master's degree or above) signifies an individual's attainment of human capital (Almus & Nerlinger, 1999; Becker, 1962; Colombo, Delmastro, & Grilli, 2004). In the context of entrepreneurship, increasing levels of formal education have been linked to venture financial performance (Carpenter, 2002; Higgins and Gulati, 2006), and may also serve as a point of distinction given the time and monetary costs associated with their attainment (e.g., Spence, 1973). For this reason, the educational background of a venture's management team represents an important area of concern for prospective investors in traditional contexts (e.g., Kirsch, Goldfarb, & Gera, 2009; Zimmerman, 2008), and may influence the extent to which the venture is viewed as legitimate and worthy of investment (Cohen and Dean, 2005).

While some suggest that groups such as women or minorities may often lack needed educational credentials (e.g., Hisrich & Brush, 1985), others have found the opposite to be true (Birley, Moss, & Saunders, 1987). Further, in recent decades, the educational gap which once existed between Caucasian males and women / minorities

has increasingly dissipated (e.g., Baker, & Velez, 1996; Gurin et al., 2002). As such, the legitimizing power of an advanced degree may function independently from other characteristics of the individual in possession. Supporting this view, past research suggests that the possession of an advanced degree may even increase the likelihood that otherwise excluded groups, such as ethnic minorities, will be able to access financial capital through traditional means (e.g., Bates, 1985).

Similar to education, increasing levels of functional experience also serve as a relatively common proxy for human capital and ability (Zimmerman, 2008). By enabling entrepreneurs to absorb, process, and interpret information, knowledge can contribute to a venture's ability to successfully navigate complex task environments (Zimmerman, 2008), enact strategic change (Wiersema and Bantel, 1992), and innovate (Bantel and Jackson, 1989). As such, the specialized knowledge embedded within entrepreneurs' skill sets may influence not only the financial performance of the venture (e.g., Higgins and Gulati, 2006) but also the way prospective funders perceive the potential of a new venture (Cohen and Dean, 2005).

Taken together, the previous discussion highlights the level of importance placed on both formal education and functional experience in traditional investment contexts. Indeed, the level of importance placed on educational attainment and functional experience by traditional investors (e.g., Cohen and Dean, 2005; Kirsch et al., 2009) suggests that entrepreneurs lacking these qualities may be at a disadvantage and, thus, be considered underdogs. Although not required in crowdfunding, it is quite common for entrepreneurs to follow the norms of traditional contexts by providing details related to their education and past functional experience. However, doing so is likely to have the

opposite effect. Specifically, in environments where one or more entities are in competition (e.g., for financial resources), individuals typically root for an underdog (Ceci & Kain, 1982; Kim et al., 2008). Additionally, the relatively low consequences associated with providing capital within the context suggests that funders' psychological support for underdogs will transmit into tangible action (e.g., Kim et al., 2008), by providing funding. Thus, given the disadvantaged state typically experienced by entrepreneurs who lack high-levels of formal education or functional experience, and the propensity of funders to both value (e.g., Bitektine, 2011) and support underdogs (Frazier & Snyder, 1991), I hypothesize the following:

Hypothesis 3a: The lead-entrepreneur's lack of an advanced level of formal educational attainment will be positively related to funding performance within the crowdfunding context.

Hypothesis 3b: The lead-entrepreneur's lack of past functional experience in the same or related industry as the current venture will be positively related to funding performance within the crowdfunding context

Section 4: Underdog Status: The Venture & the Pitch

Section 4.1: Underdog industry affiliation

Investors in equity-based contexts, such as angel investment and venture capital, provide ventures with relatively high-levels of funds. For example, between 1995 and 2003, the average venture capital deal in the United States was \$7 million (NVCA, 2013). Given such large capital outlays, these conduits generally cater to ventures that operate within industries that require relatively high levels of start-up and follow-on capital, such as those based around technology or consumer goods. For example, during 2013 roughly 41% of all venture capital investment dollars in the United States were concentrated in Silicon Valley (PricewaterhouseCoopers, 2014). While such industries represent a

sizable number of ventures, there remain a relatively large swath of industries that may be excluded traditional funding conduits due to their lower capital needs (c.f., Brush, 1997). Reflecting the exclusive nature of these conduits, a recent survey by Sage (2013) found that more than half of U.S.-based businesses feel the need to look for alternative sources of capital.

Given that the level of funding a venture requires represents a key factor in determining the type or source of funding available, it would seem that funding requirements represent an indicator of status. In other words, resource providers may be more likely to view ventures as appropriate or right (Aldrich & Fiol, 1994) when their funding needs align with the typical investment norms of the investment conduit. For example, given relatively high startup-costs and a need for organizational support, ventures seeking to design, develop, produce, and commercialize new consumer goods are likely to be viewed as acceptable by traditional investors (e.g., VCs). Alternatively, given potentially low capital requirements and individual nature of the work, the opposite is likely to be true for a venture seeking to produce works of art.

In the crowdfunding context, and specifically on Kickstarter, ventures are differentiated by both industry affiliation and requested funding level. This information enables funders to easily identify ventures that are likely to be provided access to alternative sources of financial capital and those that are not. For example, given that traditional investment conduits heavily cater to ventures engaging in activities related to technology development and product design (e.g., PricewaterhouseCoopers, 2014), funders may perceive other industry classifications as an indicator of underdog status. As a second example, ventures with increasingly low requested funding levels might suggest

the entrepreneur(s) is at a financial disadvantage (e.g., impoverished to some degree) and, thus, indicate underdog status. While being perceived as an underdog is generally troublesome in traditional investment contexts (c.f., Kim et al., 2008), it may be advantageous in crowdfunding. Indeed, crowdfunding is often billed as an ‘alternative’ source of capital (Dapp, 2013). This cultural norm implies that underdog status is something to be valued (Bitektine, 2011) and, thus, may increase funder motivation to ‘root’ for underdogs. Further, funder motivation to support underdog entrepreneurs on the basis of industry affiliation may also be derived from factors such as a need for uniqueness (e.g., Lynn & Snyder, 2002) or a need for equity (Allison & Messick, 1985; Foger & Kass, 2000). Thus, given the visibility of ventures’ industry affiliations and requested funding levels, coupled with the natural propensity of individuals to support entities that they perceive to be underdogs, I hypothesize:

Hypothesis 4a: Belonging to an underdog industry that is likely to be excluded by traditional investors, will be positively related to funding performance in the crowdfunding context.

Section 4.2: Underdog narrative

In rewards-based crowdfunding, and particularly with the Kickstarter platform, a written entrepreneurial narrative anchors each entrepreneur’s funding pitch. These narratives generally describe the entrepreneur(s), the venture, what the funds will be used for, and other personal or venture related details (e.g., Martens, Jennings, & Jennings, 2007). However, the words used to construct each entrepreneurial narrative vary across entrepreneurs, and the presence of certain words has been shown to have both social and psychological significance (Bligh, Kohles, & Meindl, 2004). Specifically, the fact that crowdfunding allows traditionally excluded groups to easily solicit funding (Overly,

2013; Thorpe, 2014), suggests some entrepreneurial narratives may use words depicting entrepreneurs and/or ventures as excluded underdogs. A narrative constructed in this manner suggests the presence of an underdog by drawing attention to exclusionary pressures and/or disadvantages experienced by the entity in question. Indeed, an underdog by definition is an entity that is at a disadvantage, which may be due to some level of injustice or power imbalance, and expected to lose (Merriam-Webster, 2014).

In examining the role of entrepreneurial narratives in funding environments, a number of recent studies suggest that narratives enable resource providers to form beliefs about entrepreneurs and, in turn, influence their investment decisions (e.g., Allison et al., 2015; Allison et al., 2013; Herzenstein, Sonenshein, & Dholakia, 2011). Similarly, in the context of marketing past research suggests that the use of underdog narratives in the construction of organizational biographies may increase consumers' purchase intentions and brand loyalty (Paharia et al., 2011). Indeed, individuals are more likely to support and sympathize with an entity that is believed to be an underdog (Kim et al., 2008; Ceci & Kain, 1982). As such, the ability of entrepreneurial narratives to influence funder beliefs raises the question of: can it be assumed that funders will react positively to entrepreneurial narratives which use words depicting entrepreneurs and/or ventures as underdogs?

In general, this hypothesis is supported by research in fields such as political science, communication, and marketing. For example, in their experiment, Ceci and Kain (1982) found that after reading a short narrative describing two presidential candidates, participants were more likely to favor the candidate who was framed as an underdog. Similarly, Vandello and colleagues (2007) found that, after being primed with a short

narrative describing two basketball teams, participants were more likely to support the team depicted as an underdog (e.g., fewer past wins, lower payroll, lower odds for a win). While these two studies examined the underdog effect within a laboratory setting, data on brand perception within the United States generally mirrors these results. Indeed, a recent poll by Gallup (2011) suggests that consumers are becoming increasingly wary of large corporations and brands. This finding may provide explanation as to why organizations employing an underdog narrative are viewed so favorably by consumers; particularly given that the influence of underdog narratives on shaping outsider beliefs and actions may be heightened in cultures where underdog narratives are part of the national identity (Paharia et al., 2011).

Taken together, these studies suggest that underdog-relevant words within an entrepreneurial narrative may increase the likelihood that funders will sympathize with and support the entrepreneur in question. While some appeals may be constructed in a way that indirectly frames the venture or entrepreneur as an underdog (e.g., simply using words which invoke a feeling of disadvantage: weakness, independent, discriminated, etc.), others may take a more direct approach. For example, the founders behind Hardcore Indie highlighted their underdog status by stating, “we are offering a unique insight into two filmmakers lives as they try to kickstart the birth of an independent studio.” Alternatively, Guy Richards took a more direct approach to highlighting his underdog status by describing his experience with Kioky as “a David and Goliath story.” As can be seen, despite taking a different approach to narrative construction, each narrative effectively conveys the entrepreneur’s status as an underdog. Further, given the prominent role assigned to underdog narratives within the national identity, the influence

of such narratives may be heightened in U.S.-based funding environments, such as Kickstarter (e.g., Paharia et al., 2011). Indeed, the culture of the United States has long revered underdogs, as illustrated through stories such as David and Goliath, the brave Texans at the Alamo, or newly arrived immigrants seeking the “American dream.” Thus, I hypothesize:

Hypothesis 5: The use of underdog language in the entrepreneurial narrative will be positively related to funding performance

CHAPTER IV

METHODOLOGY

Section 1: Sample and Data Collection

The current study focused on U.S.-based ventures that completed their funding efforts between 2009 and 2012 on the crowdfunding platform Kickstarter.com.

Kickstarter has been noted as the world's largest rewards-based crowdfunding platform, both in terms of entrepreneur utilization and capital outlays (Zou, 2014). Crowdfunding represents a growing and increasingly viable alternative source of capital for early-stage entrepreneurs. According to the World Bank, the crowdfunding industry is projected to reach between \$90 billion and \$95 billion by 2025, or almost twice the size of the global venture capital industry (Noyes, 2014). Reflecting this potential, a recent survey found that while the majority of U.S. businesses have a positive perception of crowdfunding, only 4% have used it (Sage, 2013). Since its inception in early 2009, Kickstarter alone has provided entrepreneurs with over \$1 billion and reported a success rate of 43.34% (Kickstarter, 2014a), which closely mirrors that of the open market (e.g., Spinelli and Adams, 2012).

Data from Kickstarter has been used in prior crowdfunding research in entrepreneurship (e.g., Davis & Webb, 2012; Mollick, 2014; Belleflamme, Lambert,

& Schwienbacher, 2014). Importantly, Kickstarter maintains the pages associated with each funding attempt since the platform's inception. An initial random sample of 310 ventures was collected from the Kickstarter platform. However, given the important role played by digital video (Mollick, 2014) and the need to maintain consistency within the sample frame, 10 ventures were dropped due to the absence of a digital video within their pitch. The study's sample consists of 300 ventures that were based throughout the United States. The industries represented in the sample included: art, comics, crafts, dance, design, fashion, film, food, games, journalism, music, photography, publishing, technology, and theater. The ventures sought funding for an average amount of U.S. \$10,380.74, with a standard deviation of U.S. \$14,434.96. Alternatively, the amount of funding actually received by the ventures, on average, accounted for 91% of their stated funding goals, with a standard deviation of 113.55. Further, in terms of venture and entrepreneur characteristics: 237 (79.0%) ventures classified (by the researcher) as 'underdog industries,' 79 (26.3%) of the ventures were led by female entrepreneurs, 67 (22.3%) were led by ethnic minorities, 52 (17.3%) were led by entrepreneurs with no stated past functional experience, and 278 (92.7%) ventures were led by entrepreneurs with a stated formal educational attainment level of a bachelor's degree or lower.

Section 2: Measures

Data for the independent, dependent, and control variables were obtained directly from the Kickstarter platform. Following previous work (e.g., Deeds et al., 1997; Zimmerman, 2008), data for the study were coded, by the author, directly from the venture funding pages within the crowdfunding platform. In general, crowdfunding platforms enable entrepreneurs to communicate with prospective funders through both

digital video and written text (e.g., Mollick, 2014; Davis & Webb, 2012). Due to the general autonomy provided to entrepreneurs in determining the content of the funding pitch, information communicated through digital video may differ from content found in the written text, and vice versa. As such, data was coded from both sources in each funding page when applicable or possible. A detailed description of each measure follows.

Section 2.1: Independent variables

According to the U.S. Census bureau and the Small Business Association, ethnic minorities consist of individuals belonging to one of the following groups: Latino, Black, American Indian or Alaska Native, Asian or Native Hawaiian or Pacific Islander (Lowrey, 2007; Shelton, 2010). Following Blanchard and colleagues (2008), I first classified the lead-entrepreneur into four mutually exclusive groups: Asian/Native – American /Pacific Islander, Black, Hispanic, and Caucasian. Afterwards, I operationalized *lead-entrepreneur underdog ethnicity* (H1) through the use of four dummy variables coded for: Asian, African American, Caucasian, and Hispanic. Caucasian was used as the contrast variable in the analysis. Next, to operationalize *lead-entrepreneur underdog gender* (H2), I employed a dichotomous variable, which was coded 1 when the lead entrepreneur was a woman, and 0 otherwise.

The acquisition of an advanced degree (i.e., Master's degree or above) signifies an individual's attainment of human capital (Colombo et al., 2004; Becker, 1962). As such, I operationalized underdog *lead-entrepreneur underdog education* (H3a) as a dichotomous variable, which was coded as a 0 when the lead entrepreneur stated that he or she possessed a masters degree or higher, and 1 otherwise. Similar to education, the

acquisition of functional experience also signifies an individual's attainment of human capital (e.g., Cohen and Dean, 2005). I operationalized *lead-entrepreneur underdog functional experience (H3b)* as a dichotomous variable, which was coded as a 0 when the lead entrepreneur stated that he or she possessed functional experienced in the same (or related) industry as the current venture, and 1 otherwise.

Investors in equity-based contexts, such as angel investment and venture capital, provide ventures with relatively high-levels of funds. The average venture capital deal in the United States was \$7 million between 1995 and 2013 (NVCA, 2013). As such, these conduits generally cater to ventures that operate within industries that require high levels of start-up and follow on funds, such as technology. For example, during 2013 roughly 41% of all venture capital investment dollars in the United States were concentrated in Silicon Valley (PricewaterhouseCoopers, 2014). While capital-intensive industries such as technology, product design, consumer goods, and manufacturing represent sizable industries, there remains a large swath of industries, which may be excluded from accessing equity-based conduits due to their lower capital needs. Reflecting these excluded groups, a recent survey by Sage (2013) found that more than half of U.S.-based businesses feel the need to look for alternative sources of capital. Thus, to operationalize *underdog industry affiliation (H4)*, I employed a dichotomous variable that was coded 0 for ventures classified as operating within the technology industry and product design industry (i.e., non-underdog industries), and 1 for all others (e.g., art, music, publishing, etc.).

To capture entrepreneurs' use of narratives to influence the extent to which they are perceived as 'underdogs' by funders, I operationalized one content analysis variable-

underdog-language (H5). Specifically, I created a custom dictionary by drawing upon both extant literature examining underdog psychology and validated dictionaries developed by DICTION (Hart, 2000). *Underdog-language* includes terms referring to realized or potential disadvantage such as: discriminated, overwhelmed, injustice, impoverished, discourage, hardship, uphill, small, setbacks, and failure (See Table 1 for a complete listing of terms). Using computer aided text analysis (CATA), dictionaries can be run against a set of narratives to assess the presence of the focal constructs (Short & Palmer, 2008). In the current study, I examined the entrepreneurial narratives included within each crowdfunding request (e.g., Martens et al., 2007), which typically describe the venture, the entrepreneurs' plans, and the entrepreneurs' expectations. To compare the dictionaries against the narratives, I followed the approach of Allison and colleagues (2015) by using the DICTION 7 computer-aided textual analysis program. Afterwards, to ensure that each word measured by DICTION was used in a way that carried the intended meaning, I manually checked each narrative for accuracy. The result of the computer-aided text analysis is a continuous measurement based on the number of times underdog words from the dictionaries occur within the text (i.e., word count). Below are several examples of crowdfunding entrepreneurial narratives, which contain underdog-language. All three appeals highlight the underdog status of the entrepreneurs and/or their ventures:

Theatre is Easy: "Unfortunately, the world of websites is a *poor*, underfunded world. Unless you are a non-profit (we're not) or affiliated with a larger organization (we're not), it's hard to be financially stable"

PressurePen: "Large imprints are unwilling to take a *risk* on me as an unknown author"

By This Time Next Year: “Yes, I have terrible timing. Kickstarter was going to be my first stop once I had a working prototype, but I was put in contact with a potential investor and manufacturer last year who ultimately backed out. This *set me back* by about six months, and in that time the jaja project had stolen my thunder as ‘first’ pressure-sensitive iPad stylus”

Section 2.2: Control variables

Given a lack of research within the crowdfunding context, and a general diversity within the population of both the entrepreneurs seeking financial capital and the prospective funders, I drew upon past research in both crowdfunding (e.g., Mollick, 2014) and traditional investment contexts (e.g., Huberman, 2001)¹. Accordingly, I controlled for: (1) geographic location; (2) year of funding; (3) top management team size; and (4) funder commentary. First, although crowd funding takes place through the internet, the physical location of the entrepreneur(s) is made available to prospective funders. Thus, in order to protect against geographical bias, I controlled for *geographic location* (e.g., Huberman, 2001). Given that the ventures in the sample were widely dispersed throughout the United States, I chose to employ coding based on the U.S. Census Bureau’s nine census regions: New England, Mid Atlantic, East North Central, West North Central, South Atlantic, East South Central, West South Central, Mountain, and Pacific (US Census Bureau, 2015). Dummy variables were used for coding this measure. Region 9 (i.e., Pacific) was used as the contrast variable.

Kickstarter has experienced increasingly large levels of annual growth, both in terms of entrepreneur usage and capital outlays (Kickstarter, 2014a). Given that my

¹ Prior to reporting the final model, the following impotent control variables were dropped from the analysis: video length, narrative word count, funding levels, updates, and reward-structure.

sample covers multiple years, I controlled for *year of funding* through the use of four dummy variables (i.e., 2009, 2010, 2011, 2012). The year 2012 was used as the contrast variable. Third, larger top management teams (TMT) represent an important resource for ventures, in that they are likely to possess higher levels of knowledge and creativity (e.g., Walters, Kroll, and Wright, 2010). As such, ventures led by a team, as opposed to an individual, may be viewed as more capable or attractive by potential resource providers. Thus, I controlled for *TMT size* through the use of a scaled variable, which was a numeric count of the number of team members present. Finally, past research suggests that individuals not directly involved in a venture may also shape the way others perceive the venture (e.g., Westphal et al., 2012). As such, the feedback left by funders on an entrepreneur's page may influence the way that others perceive the venture. To control for the influence of *funder commentary*, I employed a scaled variable in my analysis, which was a numeric count of the number of comments left on each page. Similarly, the extent to which an entrepreneur provides regular updates to their funding page may shape the extent to which they are perceived as dedicated by prospective funders (e.g., Mollick, 2014).

Section 2.3: Dependent variable

Past research on entrepreneurial finance has often examined funding outcomes in relation to the venture's initial funding goals or needs (e.g., Filatotchev & Bishop, 2002; Daily, Certo, Dalton, & Roengpitya, 2003). Importantly, this approach provides an indication as to whether or not the venture and/or the management team was viewed as legitimate, and thus worth of investment, by prospective investors (e.g., Certo, 2003; Cohen & Dean, 2005). Further, weak financial structure may lead to problems throughout

a venture (Timmons, 1999), but the possession of adequate levels of financial capital may enhance venture performance and buffer against liabilities of newness (Cooper et al., 1994; Manolva et al., 2006). As such, when venture fail to obtain adequate levels of financial capital, the likelihood of failure increases (Coleman, 2000; Neeley & Van Auken, 2012).

In the crowdfunding context, the importance of reaching the venture's requested level of funding is often heightened. Kickstarter operates on an 'all or nothing' model, which means that ventures only receive capital pledged by funders when the funding goal is met or exceeded. For example, two ventures might receive pledges from funders of \$2,000 and \$1,000 respectively. However, if the first venture's goal was \$5,000, and the second's was \$1,000, only the latter will receive any money. Due to this, the use of 'funding amount received' as the dependent variable, while controlling for 'funding goal requested,' suppresses significant variance about investor preference. Therefore, in crowdfunding we must view the pledged amount of funds in reference to the amount of funds requested. I accomplish this in my analysis through a ratio variable used as the DV. Specifically, I operationalized *funding performance* as: $(DV) = Af / Rf$. Where Rf represents the amount requested by the entrepreneur and Af equals the amount received at the culmination of funding efforts.

CHAPTER V

FINDINGS

Section 1: Analysis and Result

To analyze the hypothesized relationships, I used the statistical program SPSS to perform multiple linear regression. Prior to running the analysis, I checked for multicollinearity. The results showed that the highest condition index was 13.581, which is, as recommended, well below the value of 30 (Tabachnick & Fidell, 2001). Furthermore, the largest variance inflation factor was 1.434, which is below the value of 10 that is generally viewed as problematic (Neter, Kutner, Nachtsheim, & Wasserman, 1996). As such, multicollinearity does not represent a major threat to the overall integrity of the study's results.

Table 2 presents descriptive statistics for the independent and dependent variables. Table 3 presents the results of my regression models. Model 1 includes only the control variables, Model 2 the entrepreneur-based social status indicators, Model 3 the venture-based social status indicators, and Model 4 includes all predictors. The increase in variance explained by each model is statistically significant, and the F change associated with each model is provided at the bottom of the table.

‘Insert Tables 2 and 3 here’

Hypothesis 1 predicted that the existence of a lead-entrepreneur who is an ethnic-minority would be positively related to funding performance. As can be seen in Table 3 (Model 4), the effect of ethnicity on funding performance is both positive and statistically significant for entrepreneurs of Asian descent ($b = 0.102$; $p < .05$). However, neither African American ($b = -0.070$) or Hispanic ($b = -0.017$) was found to have a statistically significant effect on funding performance. Thus, only partial support was found for Hypothesis 1. Next, Hypothesis 2 predicted that, for crowdfunding ventures, the presence of a female lead-entrepreneur would be positively related to funding performance. As can be seen in Table 3 (Model 4), underdog gender (i.e., female) is both positive and statistically significant ($b = 0.112$; $p < .05$), thus providing full support for Hypothesis 2.

Hypothesis 3a predicted that the presence of a lead-entrepreneur who lacks an advanced college degree would be positively related to funding performance. However, as can be seen in Table 3 (Model 4), no support was found for this hypothesis ($b = -0.021$). Similarly, I also failed to find support for Hypothesis 3b (Model 4; $b = -0.058$), which predicted that the presence of a lead-entrepreneur who lacks past functional experience would be positively related to funding performance.

At the venture-level, Hypothesis 4 predicted that belonging to an underdog industry (i.e., an industry other than technology or product design) would be positively related to funding performance. As can be seen in Table 3 (Model 4), underdog industry is both positive and significantly related to funding performance ($b = 0.126$; $p < .05$), thus providing full support for Hypothesis 4. Finally, Hypothesis 5 predicted that the use of underdog language in entrepreneurial narratives would be positively related to funding

performance. In line with this prediction, the coefficient for underdog language was found to be both positive and significant ($b = 0.080$; $p < .10$), thus supporting Hypothesis 5.

Section 2: Post-Hoc Analyses

There exists a substantial stream of literature examining the influence of gender in entrepreneurship (e.g., Asiedu et al., 2012; Brush et al., 2001, 2004). Similarly, popular media has become increasingly interested in the ability of crowdfunding to essentially ‘close the gender gap’ between women and men entrepreneurs in the context of venture funding (e.g., Berenson, 2014; Overly, 2013). The results of the current study suggest that, in crowdfunding, women-led ventures may outperform those led by men. However, the funding success of women-led ventures may be influenced by factors beyond gender. For example, a female entrepreneur who lacks (possess) a master’s degree might be perceived as more (less) of an underdog by potential funders. To explore this possibility, I examined a series of interactions with lead-entrepreneur gender (female): underdog education, underdog experience, underdog ethnicity, underdog industry, and underdog language. All variables were mean-centered prior to the analysis. The results of the analysis produced only one (albeit interesting) statistically significant relationship. Specifically, I found the interaction effect of gender (female) and ethnicity (African American) to have both a negative and significant ($b = -1.908$; $p = 0.057$) relationship with funding performance. While this finding may suggest the existence of racial bias within crowdfunding, it may also simply be due to small sample size.

Next, given that Kickstarter launched in the first year of the study's sample (i.e., 2009), it is possible that the decision norms of prospective funders may have changed in subsequent years (Axelrod 1986; Bettenhausen & Murnighan, 1985). To examine this possibility, I ran a regression on a subset of the data consisting only of ventures which sought funding during 2012. The results of this analysis were quite different from those obtained using the multi-year data set. Specifically, I found only underdog-language ($b = 0.161$; $p = 0.037$) and entrepreneur (female) gender ($b = 0.171$; $p = 0.037$) to be significantly related to funding performance. That being said, the lack of statistical significance in this single-year model may be explained by the small sample size, which consisted of only 125 ventures.

CHAPTER VI

CONCLUSION

Section 1: Discussion of Findings

Crowdfunding platforms represent relatively new and important internet-based conduits through which entrepreneurs can access start-up funds. According to the World Bank, the crowdfunding industry is projected to reach between \$90 billion and \$95 billion by 2025, or almost twice the size of the global venture capital industry (Massolution, 2013; Noyes, 2014). Herein, I attempted to gain an understanding of how entrepreneurs' social status- in terms of identifying one as an underdog- shapes funder behavior on crowdfunding platforms. The extent to which underdog status is viewed negatively by traditional investors is highlighted by a plethora of research (c.f., Connelly et al., 2011; Coleman, 2000; Blanchflower et al., 2003). However, the potential for investment environments, such as crowdfunding, in which resource providers view underdog status positively, represents an important, yet under-studied phenomenon.

My findings represent a more comprehensive understanding of how social status may influence the ability of entrepreneurs to garner funding. Guided by past research on underdog psychology (Vandello et al., 2007), social exclusion (Buvinić et al., 2004) and social status (Bitektine, 2011) I find that entrepreneurs in crowdfunding benefit from

some forms of underdog status. While research has pointed to the propensity of individuals to support underdogs in competitive scenarios (Ceci & Kain, 1982; Frazier & Snyder, 1991), we know less about individuals' support for underdogs in transaction-based environments, such as crowdfunding (e.g. Vandello et al., 2007). By drawing on underdog psychology and suggesting that acting as a funder generally represents an activity of low consequence (Kim et al., 2008), I develop a model of funder decision-making which suggests funders are more likely to provide capital to entrepreneurs that possess qualities typically indicative of underdog status. My findings indicate that in crowdfunding, entrepreneurs who possess underdog status indicators, which may be perceived negatively by traditional investors, are more likely to attain and surpass their funding goals.

While underdog psychology has been studied in areas such as marketing, psychology, and political science (Fleitas, 1971; McGinnis & Gentry, 2009; Paharia et al., 2011; Simon, 1954) it has yet to gain any traction amongst entrepreneurship scholars. Further, extant research on social status has generally focused on how certain status indicators, such as possessing a low level of formal education or perhaps even being a woman, may cause entrepreneurs to be excluded from accessing financial capital (Constantinidis et al., 2006; Cohen and Dean, 2005). This study takes a different approach by examining the role of underdog status in terms facilitating resource exchange between entrepreneurs and prospective funders through the process of underdog psychology. In particular, enhancing funding performance via the communication of underdog status is a novel idea that has rarely, if ever, been visited in past entrepreneurial research. However, it offers the potential for important insights,

particularly given that underdog entrepreneurs (e.g., socially excluded groups) are often excluded from accessing financial capital through more traditional outlets.

Social indicators that signal an entrepreneur's underdog status to potential funders enable entrepreneurs to more effectively obtain their funding goals. In traditional funding contexts, a breadth of research highlights the difficulty often faced by female entrepreneurs when attempting to garner financial capital (Brush, 1997; Brush et al., 2001; Riding and Swift, 1990). However, the results seem to suggest the opposite to be true in the context of crowdfunding. In line with my expectations, I find that the presence of a lead female entrepreneur has both a positive and significant effect on funding performance. At the same time, this suggests that a venture led by an all-male team may be at a disadvantage. Thus, from a theoretical standpoint, this finding not only suggests the existence of an underdog effect, but also highlights the importance of the context in determining the value of a given status indicator (e.g., Bitektine, 2011).

At the venture and pitch levels of analysis, I found more consistent results. Data examining equity investment within the United States suggests that traditional investors tend to favor industries related to technology and product design (Pricewaterhouse-Coopers, 2014). Further, a number of industries may be excluded from traditional conduits given that they require comparatively lower levels of capital (c.f., Brush, 1997). Given such industry level distinctions, I expected that industry classification would represent an important indicator of status. In line with this logic, the findings suggest that belonging to an industry other than technology or product design (i.e., an underdog industry) has both a significant and positive effect on funding performance. Similarly, at the level of the pitch I found support for the benefit of underdog language within the

entrepreneurial narrative. While past research generally supports the ability of underdog narratives to engender external support (Paharia et al., 2011), it has yet to be applied in a funding environment. While extant research examining the influence of narratives in investment contexts generally suggests that negative tone (which seems prototypical of underdog rhetoric) instills negative feelings in prospective investors (e.g., Dillard and Peck, 2000; Nan, 2008) and, in turn, decreases the likelihood that they will cooperate through providing capital (Hecht and LaFrance, 1995). That being said, the positive association between underdog language and funding performance found in the current study seems to support the role of potential consequence in determining underdog support. Indeed, as suggested previously, investors in traditional contexts often face much higher potential consequences (e.g., in terms of potential financial loss) as compared to funders.

Finally, a particularly interesting finding from this study is that social status indicators in the form of experience and educational attainment did not play the relatively prominent role suggested by existing research (Blanchflower et al., 2003; Higgins and Gulati, 2006). Indeed, neither of the two status indicators were found to have a significant effect on funding performance. Similarly, the heavily examined status indicator of ethnicity (Asiedu et al., 2012; Cavalluzzo & Wolken, 2005) was only found to be significant for entrepreneurs of Asian descent. One interpretation of these findings may be related to the timing of the sample. My sample frame began in 2009, which also represents the first year of operation for the Kickstarter platform (Kickstarter, 2014b). As of 2015, the support of underdog entrepreneurs appears to be a dominant norm within crowdfunding currently (e.g., Overly, 2013; Thorpe, 2014). However, the development of

norms, and in turn the value assigned to a given status (Bitektine, 2011), occur over time rather than instantaneously (Axelrod 1986; Bettenhausen & Murnighan, 1985). Because of this, funders in my sample may not have placed the same level of value on certain indicators of underdog status as compared to funders in the current day. Alternatively, it may also be possible that funders identify (and support) underdogs on the basis of more individualized indicators, as opposed to relatively broad characteristics such as experience or education. Taken together, my findings highlight the nuanced value of social indicators and their impact on the ability of nascent entrepreneurs to garner funding.

My findings suggest that indicators of underdog social status, particularly in the forms of gender, ethnicity, industry affiliation, and narrative text may alter resource allocation outcomes within crowdfunding. My focus on underdog psychology complements extant research that highlights entrepreneurs' social status as facilitating their relationships with individuals outside of the venture. For example, Asiedu and colleagues (2012) examined the role played by gender in loan denial rates and found that women entrepreneurs were significantly more likely to be denied access to financial capital as compared to their male counterparts. I extend this research by showing how entrepreneurs can actually draw upon their underdog status, such as being a woman, to attract funding more effectively. Moreover, the existence of underdog status seems to enable entrepreneurs to attract funding more effectively than the existence of 'top dog' status alone (e.g., past functional experience). An opportunity for future research may be to examine possible interaction effects between indicators of 'underdog' and 'top dog' social status. For example, potential funders may become increasingly likely to support

underdog entrepreneurs with low-levels of formal education if they possess an extensive track record of success.

Section 2: Limitations

At this point, I would like to point out a few limitations of my study. First, due to privacy concerns, Kickstarter does not share data with researchers, thus making it difficult to construct a methodologically sound sample. To overcome this issue, I instead drew upon a public database, which provides the web address for all of the funding pages that were active on Kickstarter between 2009 and 2013. While this strategy enabled me to construct a random sample, it also created a unique limitation. Kickstarter launched in April of 2009 (Kickstarter, 2014b), which is also the first year of my sample frame. Past research on the emergence of decision norms within groups suggests that when uncertainty exists with regards to appropriate behavior, individuals often look to existing social scripts to guide their behavior in the current situation (Bettenhausen & Murnighan, 1985). As such, in the early years of rewards-based crowdfunding, prospective funders may have drawn upon the norms of traditional investment activity. However, in recent years, rewards-based crowdfunding has grown significantly both in terms of usage and prominence. For example, the increased cultural pervasiveness of Kickstarter may be highlighted by a news search using Google, which as of January 2015 returned over four million hits. This is important, because as new groups begin to solidify and their members continue to interact, new decision norms emerge and existing norms are often revised (Axelrod 1986; Bettenhausen & Murnighan, 1985). As such, while popular media's cultural narrative of underdog support in crowdfunding (e.g., Overly, 2013; Thorpe, 2014) may be reflective of funders' current decision norms, the same may not

have been as strongly established for the funders in my study's sample frame, which ran from 2009 to 2012.

A second limitation of the current study is due to the type of content analysis I employed. Computer-aided textual analysis (CATA) employs a summation of the number of times construct words appear in a given narrative. This means that computer-aided textual analysis can be susceptible to words used out of context. In addition, some facility in understanding the rich meaning of narratives is given up so that many narratives can be evaluated with perfect reliability (Duriu, Reger, and Pfarrer, 2007). However, these limitations enable researchers to assess the tone of narratives without being distracted by the information content of the message (e.g., Hart, 2000). Next, a related limitation deals with the content that was analyzed using CATA. In rewards-based crowdfunding, and Kickstarter in particular, entrepreneurs generally convey information to prospective funders through both digital video and written text (Davis & Webb, 2012). However, in the current study, only the written narratives from each pitch were analyzed for the examination of underdog language. This limitation potentially limits my findings, in that the information communicated through the two conduits (i.e., text and video) is not necessarily the same. For example, an entrepreneur may choose to focus on the product in the narrative, but focus on his or her person experience (e.g., underdog narrative) in the video. Thus, while existing research provides a basis for only examining the written portion of entrepreneurial narratives (e.g., Allison et al., 2015), doing so in the context of crowdfunding may limit potential findings of both the current study and future research.

Next, the study relies on data from a single crowdfunding platform. There are a number of crowdfunding platforms, such as Indiegogo, Fundable, and Pledgemusic, and

each is tailored towards a specific mission. Also, crowdfunding platforms may vary in terms of both usage guidelines (e.g., some platforms require funding goals to be met for ventures to receive money, while others do not) and the overall cost of usage for entrepreneurs (e.g., platform and fund-processing fees). However, I believe that the similarities between platforms enable my results to be generalizable, particularly in terms of the underlying platform mission and funder-entrepreneur arrangements, both of which are generally standard across rewards-based platforms. Finally, I drew upon existing research to discern what status indicators might be relevant to the crowdfunding context. An examination of other possible status indicators may provide additional insights into how status influences entrepreneurs' ability to obtain funding.

Section 3: Implications and Future Research

Limitations notwithstanding, my findings have valuable implications for both research and practice. Future research might expand on the current study by examining how social status and venture type may interact to influence funders' support of underdogs. For example, funders may feel more confident in providing capital to a relatively uneducated entrepreneur operating within an industry that might require low-levels of specific knowledge, such as art, as compared to a knowledge intensive industry such as technology. In a related vein, scholars might also examine the underdog effect at varying investment levels and reward types. Past research has found that individuals often 'abandon' underdogs in scenarios where consequence are high (Kim et al., 2008). While it would seem that both factors are generally low in crowdfunding, both could potentially increase at higher investment levels. For example, the consequence of losing a \$500 investment (e.g., if the entrepreneur fails to deliver on a promised reward) is likely

much larger than the consequence of providing (and potentially losing) \$5. To examine this, scholars might test funders' degree of underdog support at varying reward levels for the same venture.

Given the central role played by entrepreneurial narratives in crowdfunding, future research might explore how the overall tone of the entrepreneurial narrative influences the underdog effect. Given that underdogs are, by definition, at a disadvantage and expected to lose, it seems likely that an underdog narrative may often take on a negative tone. Extant research suggests that negative tone may decrease the likelihood that others will cooperate (Hecht and LaFrance, 1995) and lead others to develop a negative perception of the speaker (Dillard and Peck, 2000; Nan, 2008). Alternatively, positive tone use is generally associated with positive outcomes. For example, positive tone in an entrepreneur's communication may reflect optimism in areas such as future earnings, and, in turn, increase the willingness of investors to provide money (e.g., Davis, Piger, & Sedor, 2012; Loughran & McDonald, 2011). Taken together, it seems possible that an overall negative tone may reduce underdog support in funders, while an overall positive tone may increase the likelihood of underdog support. Researchers might examine this in an experimental setting by having participants read, and evaluate, underdog entrepreneurial narratives that contain varying levels of positive and negative tone.

Next, researchers might extend the current study by examining other forms of underdog status indicators. Further, this work might also take a qualitative approach to garner a more 'fine grained' picture of status. For example, when pitching the venture Kioky, founder Guy Richards described his efforts as "what we have here is a David and Goliath story....we really want to bring this product to market." Such a statement may

resonate with potential funders and perhaps increase their likelihood to provide support. However, given its relative complexity, this influence may not be accounted for in studies that employ other methods of analysis such as CATA (as in the current study).

Finally, given the lack of financial rewards and repayment expectations in both crowdfunding and grant-based funding, future research might examine the role of social status in determining entrepreneur success in government-backed programs such as SBIR. The Small Business Innovation Research Program (SBIR) is a public/private partnership in the United States which provides financial grants to fund R&D conducted by private organizations. In line with this function, the stated purpose of the SBIR program is to promote R&D in the private sector and aid in the commercialization of federally funded research (Link & Scott, 2012). Unlike many traditional funding conduits (as well as crowdfunding), SBIR provides grants at a relatively large variety of funding levels. For example, as of 2010 the maximum funding levels for stage one and stage two grant awards were \$150, 000 and \$1,000,000 respectively. Due to this flexibility, SBIR provides capital to a relatively large number of ventures in the United States, a fact which is highlighted by the program's yearly funding totals which equaled roughly \$2 billion in 2005 alone (Link & Scott, 2012). Despite the relatively large capital outlays provided by the SBIR, the conduit may be ripe for the existence of the underdog effect given both the non-profit nature of the program and the separation of ownership between the investors and grant capital.

From a practical standpoint, the inability of some entrepreneurs to access sufficient levels of external capital has long represented a key area of concern for both scholars and practitioners alike (e.g., Blanchard et al., 2008; Sage, 2013). My results

suggest that entrepreneurs attempting to garner capital through crowdfunding will tend to achieve higher levels of funding performance (in relation to their funding goals) when they belong to certain underdog status groups. Further, my research also suggests that entrepreneurs who often face lower barriers in traditional funding contexts, such as Caucasian males, are likely to obtain lower levels of support from prospective funders. Moreover, my findings underscore the potential importance of crowdfunding platforms in fostering entrepreneurial growth amongst traditionally excluded groups. Entrepreneurship represents the engine that drives the global economy; and, as such, the inability of some entrepreneurs to successfully access needed funds may have far reaching economic implications. Indeed, insufficient levels of capitalization during the startup phase may lead to relatively low-levels of venture growth and performance (Alsos et al., 2006).

My research also suggests the need for ‘fit’ between entrepreneurs/ventures and crowdfunding platforms. Popular media has highlighted the growing role of women and ethnic minorities within crowdfunding in recent years (Overly, 2013; Thorpe, 2014). However, the cultural norms of a given context, such as underdog support in crowdfunding, are created over time and often evolve through subsequent iterations (Axelrod 1986; Bettenhausen & Murnighan, 1985). Given that crowdfunding platforms often vary both in terms of mission and funder demographic, the extent to which certain underdog entrepreneurs are supported may vary by platform. For example, entrepreneurs involved in an underdog industry such as art may benefit from using the Kickstarter platform due to its focus on creativity. Alternatively, entrepreneurs who are not underdogs may be better served by a platform such as Indiegogo given its more general focus on supporting entrepreneurship.

Social exclusion and the influence of underdog psychology represent valuable, yet relatively understudied areas of interest within the context of entrepreneurship and specifically entrepreneurial finance. While past research has generally focused on how the communication of ‘top dog’ status influences the resource allocation decisions of traditional investors, I find that in some instances, resource providers respond favorably to underdog social status. I believe that these results should broaden the perspectives of both scholars and practitioners alike regarding the value resource providers place on a given social status in various funding contexts.

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LIST OF TABLES

TABLE 1
Summary of Words Used for Computer Aided Text Analysis (CATA)

<i>Underdog-language:</i>	amateur, burden, burdens, burdensome, cheat, cheated, corrupt, corruption, deny, denied, desperation, desperate, difficulty, difficulties, difficult, disadvantage, disadvantaged, disadvantages, discourage, discouraging, discouraged, discriminate, discriminated, discriminating, discrimination, distress, distressed, excluded, exclude, exclusion, exclusionary, fail, fails, failure, failed, failures, hardship, hardships, helpless, hostile, hostility, impoverished, improbable, improbability, inadequate, inadequacies, incapable, indie, independent, independently, inexperienced, longshot, meager, minority, minorities, obstacle, obstacles, oppressed, oppress, oppression, poor, poverty, racism, racist, racists, repression, repress, repressed, risk, risks, risky, risked, risking, self-finance, self-financing, self-financed, self-fund, self-funded, setback, setbacks, sexism, sexist, small, smallest, smaller, struggle, threat, threatened, threatening, threaten, uncontrollable, underdog, underdogs, unexpected, unfairness, unfair, unjust, unknown, unlikely, unlikelihood, uphill, weak, weakness
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TABLE 2
Descriptive Statistics and Variable Intercorrelations

Variable	Mean	SD	1	2	3	4	5	6	7	8
1. Funding Performance	91.17	113.55								
2. Gender (female)	0.26	0.44	.10							
3. Ethnicity: African Americ.	0.7	0.25	-.09	.02						
4. Ethnicity: Hispanic	0.05	0.22	-.02	.11	-.06					
5. Ethnicity: Asian	0.09	0.29	.15**	.04	-.09	-.07				
6. Educational Attainment	0.93	0.26	.02	-.03	.02	.06	-.04			
7. Functional Experience	0.17	0.38	-.09	-.01	.02	-.02	-.06	.03		
8. Underdog Industry	0.79	0.41	.02	.08	.07	.04	-.06	.11	-.05	
9. Underdog Language	0.26	0.63	.12*	-.03	-.07	.03	-.04	.10	.01	.10

N= 300; ** = $p < .01$, * = $p < .05$

Table 3**Hierarchical Linear Regression Results for Entrepreneurs' Underdog Social Status and Funding Performance**

Variables	Model 1	Model 2	Model 3	Model 4
<i>Control Variables</i>				
Census region 1	0.049	0.053	0.030	0.034
Census region 2	0.127*	0.100 [‡]	0.131*	0.106 [‡]
Census region 3	0.005	0.018	0.004	0.017
Census region 4	0.134**	0.132*	0.148**	0.149**
Census region 5	0.029	0.048	0.023	0.043
Census region 6	0.008	0.014	0.008	0.014
Census region 7	0.038	0.032	0.026	0.022
Census region 8	-0.045	-0.034	-0.051	-0.039
Funded 2009	-0.005	-0.003	-0.021	-0.008
Funded 2010	-0.036	-0.028	-0.040	-0.032
Funded2011	-0.007	0.002	-0.009	0.001
Team size	0.160**	0.168**	0.143**	0.153**
Commentary	0.488**	0.492**	0.513**	0.512**
<i>Independent Variables</i>				
Underdog education		0.001		-0.021
Underdog experience		-0.066		-0.058
Underdog gender		0.121*		0.112*
Underdog ethnicity:				
African American		-0.067		-0.070
Hispanic		-0.012		-0.017
Asian		0.097 [‡]		0.102*
Underdog industry			0.133**	0.126*
Underdog language			0.080	0.080 [‡]
F-Ration	9.944**	8.013**	9.805**	7.917**
R ²	0.312	0.353	0.336	0.375
Adjusted R ²	0.281	0.309	0.301	0.328
Δ Adjusted R ² (F Change)	--	2.427*	5.202**	4.890**

N=300 **p < .01, *p < .05, [‡]p < .10

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