The Small Predicts Large Effect in Crowdfunding

ABSTRACT

Entrepreneurs are increasingly relying on online crowdfunding — the use of online platforms to raise money from a large number of people — to finance their ventures. This research explores the proposition that the amounts contributed by the majority of funders in the early stages of a crowdfunding campaign may have a counterintuitive influence on follow-up contributions and on the campaign's fundraising success. Findings from an analysis of real-world large-scale crowdfunding data and five experiments show that potential funders are more (vs. less) likely to contribute to a newly launched project when early contributions consist mainly of relatively *small* (vs. *large*) amounts. We further show that this *Small Predicts Large* effect is driven by people's relationship inferences: when contributions made at the early stages of a crowdfunding campaign mainly comprise relatively large amounts, consumers tend to infer that those large contributions were made by the entrepreneur's friends or relatives. Because of this relationship inference, prospective funders perceive larger contributions as being less diagnostic of others' true opinions of the project, and this perception negatively affects their willingness to contribute. However, if a crowdfunding campaign provides sufficient justification for the early-stage large contributions, this *Small Predicts Large* effect will be eliminated.

Keywords: *crowdfunding; social influence; relationship inferences; contextual signaling; money giving*