Paradoxes in Reward-Based Crowdfunding

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Reward-based crowdfunding creates a contradiction-laden context where paradoxical tensions occur. We apply the concept of paradox to analyze the funders-founder relation in this context. We expand on research on hybrid business models by studying a context where consumers buy into products when they still are ideas.

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**EXTENDED ABSTRACT**

In this paper we expand on recent research on hybrid business models (Scaraboto 2015) as we study a context where consumers buy into products and services when they still are ideas. In doing so we conduct a revelatory case-study to explore types of commercial-social paradoxes that emerge when consumers participate in the creation of future market offerings via reward-based crowdfunding.

In a way, funders in a reward-based crowdfunding project invest in a promise of a desired future market offering. The project call must sell this future promise to the crowd. In the beginning crowdfunding projects were typically run by artists who found it difficult to finance their projects through traditional ways of financing. With the introduction of reward-based crowdfunding platforms and even more commercialized equity-based crowdfunding platforms, crowdfunding as a phenomenon has evolved from being a movement by artists in opposition to big music labels into a popular mainstream business model. The blend of rebel ideology and commercial logics complicates the funders-founder relation very. Funders provide finance for a commercially oriented project while they typically contribute on a social/communal shared rebel vision or idea.

We therefore introduce the concept of paradox to analyze the funders-founder relation that at the same time is economically and socially founded.

**THEORY**

Lewis defines paradoxes as contradictory yet interrelated elements – ‘elements that seem logical in isolation but absurd and irrational when appearing simultaneously in an organization’ (2000, p. 760). Paradox theory offers a framework for understanding the complexity of the hybrid context. Lewis (2000) suggests that the paradox framework consists of three dynamic elements: tensions, reinforcing cycles, and management. Tensions are cognitive and/or socially constructed polarities that obscure the interrelatedness if the contradictions. Reinforcing cycles are paralyzing defenses, which initially reduce discomfort and anxiety, yet eventually intensify tensions. Management is attempts to explore tensions and thereby tap the potential energy, insight, and power of paradox that enable dramatic change. The paradoxes in and of themselves are not negative and can have potential for change and innovation if managed.

**Oculus Rift – a Revelatory Case Study**

We conduct an in-depth case study of a seminal crowdfunding project - the case of Oculus Rift. Oculus Rift is a virtual reality head-mounted display headset used in video games and in industries that need this technology to create virtual reality experiences. Oculus Rift was successfully crowdfunded on the Kickstarter platform in 2012 and raised $ 2.5 million. A short time after the project start in 2013 Facebook acquired Oculus Rift for $ 2 billion. This created a major stir among the funders in the crowdfunding community. In the course of the study, we analyze 2505 comments from the projects’ commentary starting from August 2012 until December 2016. 2475 out of 9522 funders participated in the commentary. In analyzing online and printed media discourses, we rely on the premise that paradoxes are both recognizable and socially constructed through actors’ rhetoric and conversation. In this study, we focus specifically on tensions and paradoxes signified by contradictory definitions of success and purpose of the project. In doing so we identified three paradox themes: the strategic paradox; the paradox of ownership; and the paradox of performance.

**FINDINGS**

The commercialization of crowdfunding platforms is an ongoing process. In equity-based crowdfunding all relations between the main actors (funders and founders) are purely commercial in nature. Reward-based crowdfunding platforms, on the other hand, build on a blend of social and commercial logics. Such a blend of different or contradictory logics can be defined as a paradox. In this paper we explore three types of paradoxes that can emerge in reward-based crowdfunding: a strategic paradox, a paradox of performing, and a paradox of ownership. A strategic paradox can be defined as inherent contradictions in the objectives of an organization (Lewis, 2000). The paradox of performing is the ambiguity about whether certain organizational outcomes represent success or failure (Jay, 2013). The paradox of ownership reflects contradictions regarding who owns the project.

**DISCUSSION**

In reward-based crowdfunding social tensions and voice are likely to arise during reformatory stages, such a commercial takeovers of a project. These social tensions can evolve into reinforcing cycles that give power to the crowd and hurt the project brand, which requires a response from the funders. In this way, the social and commercial become a certain type of intertwined marketplace logic that is worth unpacking. In many cases of reward-based crowdfunding, funders are engaged consumers who want to help to bring the technology they desire to the market place. Thus, managing of the performance paradox within the consumers seems to be important step for the project’s development.

In the next part of the work, we will focus on the exploration of reinforcing cycles and managing of the paradox in the context of reward-based crowdfunding.

**REFERENCES**

