

How Do Late Donors Respond to Early Donors in Crowdfunding?

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Abstract

The application of crowdfunding to philanthropy has not yet been studied extensively. In this paper, we focus on the sequential nature of giving on crowdfunding platforms. On the one hand, this feature exacerbates late donors' incentives to free-ride on early donors' contributions. On the other hand, sequential giving provides an opportunity for leadership giving by early donors. Economic theory states that lead donors can signal their information about the quality of the public good to downstream donors leading to a positive response to early donations by downstream donors. Moreover, late donors' conditional cooperation due to moral obligation, reciprocity, social pressure, social norm-compliance, inequality aversion, or self-image concerns can also induce a similar positive response. To understand the impact of leadership and donor behavior in the context of crowdfunding, we use data from a prominent crowdfunding platform to estimate early donations' effect on later donations to verify which one of these forces is the main driver of donor behavior in crowdfunding platforms. Our findings mainly support the dominance of free-riding.

Keywords: public goods, philanthropy, fundraising, crowdfunding

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