

Are reward-based crowdfunding platforms fostering cultural democracy?

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Abstract

Artists have been at the forefront of the online crowdfunding movement and have relied heavily on reward-based models (Galuszka & Brzozowska, 2017). This specific type of crowdfunding (De Voldere and Zeqo, 2017) suits their desire to engage directly with audiences, sidelining and challenging traditional gatekeepers in the process, and increasing their income through tighter control of their intellectual property (Rykkja et al., 2020).

Focusing on the publishing sector, this article offers an exploratory discussion of how this technologically enabled form of finance might promote cultural democracy (Evrard, 1997) by diversifying the pool of creatives, but also funding more ‘non mainstream’/atypical arts and cultural projects. Our empirical setting is Ulule, the leading French reward-based crowdfunding platform and our dataset is composed of 499 publishing projects launched between 2011 and 2016.

Keywords

Cultural democracy; Reward-based crowdfunding; Publishing

INTRODUCTION

Over the last 15 years, crowdfunding platforms have become key players in entrepreneurial finance (Block et al., 2018; Drover et al., 2017). It has never been easier for crowds without any financial background to support new projects in a horizontal community-based fashion. Authors in the field of crowdfunding (CF) refer to this phenomenon as the ‘democratizing’ of entrepreneurial finance, strongly contrasting it with the traditional way in which a small group of experts in entrepreneurial finance decides which innovations would earn their support (Mollick and Robb, 2016). CF not only provides a way to promote goods that have not been vetted by traditional intermediaries and experts—who have their own biases (Guo and Yu, 2023)—but also a genuine financial opportunity for newcomers.

Artists have been at the forefront of the online crowdfunding movement (Kappel, 2009) and have relied heavily on reward-based models (Galuszka & Brzozowska, 2017). This specific type of crowdfunding (De Voldere and Zeqo, 2017) suits their desire to engage directly with audiences, sidelining and

challenging traditional gatekeepers in the process, and increasing their income through tighter control of their intellectual property (Rykkja et al., 2020).

Focusing on the publishing sector, this article offers an exploratory discussion of how this technologically enabled form of finance might promote cultural democracy (Evrard, 1997). We suggest that cultural democracy is supported through reward-based CF in two distinct ways. First, CF platforms promote a greater sociological diversity by welcoming entrepreneurs who belong to segments of the population who are underrepresented (and, potentially, discriminated against) owing to their gender, age, ethnicity or location (Cumming et al., 2022). Second, CF allows the initiation and development of non-mainstream cultural projects, not just those championed by experts (Mollick and Nanda, 2016). By allowing the crowd to support and fund projects without the filter of traditional intermediaries, we hypothesize that more niche and diverse projects can emerge and be funded.

Our research aims to address these questions through the study of book projects uploaded on the biggest French all-or-nothing reward-based CF platform, Ulule, between January 2011 and August 2016. Our dataset comprises 499 CF campaigns led by 717 entrepreneurs in the publishing industry and funded by 33,624 individual financial backers.

As demonstrated by Block et al. (2018), the digitalization of entrepreneurial finance and the birth of CF platforms have led to a partial disintermediation between funders and project owners, easing the “demand meets supply”. In addition to a set of “homogenous experts” (Cumming et al., 2019) with money to invest (venture capitalists and business angels), lend (bankers), or grant (public institutions and NGOs), the entrepreneurial finance ecosystem has welcome a larger, more heterogeneous pool of funders composed of private individuals who traditionally were not involved in investment and project funding (Rossi et al., 2019). This new sociology and diversity of funders opens up the question of the crowd’s potential power to fund traditionally underrepresented categories of entrepreneurs and a larger spectrum of less conventional projects.

This, in turn, led us to question the contribution of CF to cultural democracy particularly within a French environment where cultural policy is deeply rooted in the concept of cultural democratization. As explained by Evrard (1997) cultural democratization relies on the dissemination of cultural works regarded as major by experts to audiences who would not have access to them otherwise. In contrast to this rather top down approach where an elite decides on which works should be brought to the masses, cultural democracy promotes individual cultural choices. Belfiore et al (2023) explain that a cultural policy based on cultural democracy will ‘strive for inclusion, diversity and access to the means of both cultural production and distribution, giving the public the possibility of expressing themselves and creating their own culture’ (2023:159).

On reward-based platforms anybody –or so they claim (Rouzé and Matthews, 2018) - can gather funding for their specific creative project and garner support from the crowd. The usual cultural gatekeepers and potential financiers can be by-passed. Crowdfunding is now regularly used by cultural/arts institutions looking for extra funding (Boeuf et al, 2014, Passebois and Puhl, 2015, Guesmi et al 2016). Less is known about the use of the CF platforms by individuals who wish to express themselves. Is there really less discrimination towards the authors who cannot or do not wish to call on more traditional funders? Does the crowd allow for new and potentially more novel works to come to the market contributing to the emergence of different cultures?

In an effort to start addressing these questions, this paper is organized as follows; the first part will embed our research in the CF literature and help us develop our hypotheses. A detailed description of our research protocol and our results will be followed by a discussion.

LITERATURE REVIEW and HYPOTHESES

Does reward-based crowdfunding widens access to entrepreneurship to new (underrepresented) entrepreneurs?

The entrepreneurial finance literature partially fills the gap on the ability of CF to fund discriminated population groups (in terms of gender, ethnicity, geography, and age) mostly in an American context (Catalini et al., 2016; Cumming et al., 2019; Greenberg and Mollick, 2017; Gafni et al., 2020; Younkin and Kuppaswamy, 2018).

Do new investors hold the same prejudices as traditional financial experts? As explained by Younkin and Kuppaswamy (2018; 2019), studies in sociology and psychology have suggested that implicit bias (Greenwald et al., 1998) is the source of discriminatory treatment. People—including investors and funders—act subconsciously. Behavior reflects general and cultural beliefs rather than personal and conscious preferences. As a result, non-white entrepreneurs, female entrepreneurs, very young or very old entrepreneurs, and entrepreneurs living in disadvantaged geographic areas generally face funding discrimination in the West, where the most valued entrepreneurs are still predominantly male, white, middle-aged urbanites.

As a financial tool devoid of anti-discrimination protocols (such as the absence of pictures or the anonymity of entrepreneurs), crowdfunding offers a setting where the effects of implicit bias can be more directly observed. The major published empirical studies highlight that in reward-based CF, female entrepreneurs receive a disproportionately small amount of funding (Gafni et al., 2020; Greenberg and Mollick, 2017; Pronschinske Groza et al., 2020). In terms of age, studies are scant and concern only equity CF data. They diverge in their results with some studies showing that senior entrepreneurs, because of their experience, are more likely to be funded by online investors or receive follow-up funding (Hornuf et al., 2018; Piva and Rossi-Lamastra, 2017). Cumming et al. (2019) found the opposite, with younger entrepreneurs being more likely to successfully complete an equity crowdfunding campaign. The crowd is also influenced by racial stereotypes (Pope and Sydnor, 2011; Younkin and Kuppaswamy, 2018; 2019), even if this new category of funders seems to be less biased than traditional backers (Herzenstein et al., 2008). Preliminary empirical studies mainly confirm that American backers in reward-based CF have a home bias and prefer to fund geographically close projects (Agrawal et al., 2015; Gallemore et al., 2019).

The above arguments lead to Hypotheses 1a to 1d.

H1: Reward-based crowdfunding does not widen access to entrepreneurship because it funds different types of entrepreneurs unequally.

H1a. Female project owners are less likely to complete a reward-based crowdfunding campaign than male project owners.

H1b. Very young or very old project owners are less likely to complete a reward-based crowdfunding campaign than middle-aged project owners.

H1c. Non-White project owners are less likely to complete a reward-based crowdfunding campaign than White project owners.

H1d. Projects that are not located in an urban center are less likely to complete a reward-based crowdfunding campaign than projects located in an urban center.

Does reward-based crowdfunding widens the spectrum of financed projects?

The business literature unanimously invites us to hypothesize that the crowd might back up a wider spectrum of projects than traditional funders. Here, two theoretical streams converge.

According to the Long Tail Theory (Anderson, 2006), niche products can more easily find their respective markets thanks to the Internet, the digitalization of content, and the resulting low production, distribution, and storage costs. Even if many industries, including the publishing industry (Greco, 1997), have been dominated by sales of large volumes of a limited number of successful products (i.e., “hits” or “best-sellers”), Brynjolfsson et al (2011) confirm the existence of a Long Tail and an increased demand for niche products on the Internet. It gives the opportunity to online visitors to access, consume,

finance, and pay for (cultural) products they care for and, as such, can stimulate the production and consumption of products other than “hits” or best-sellers. Although Long Tail Theory has shown its limits in certain industries - such as music or film, where the “superstar effect” is still prominent (Coelho and Mendes, 2019; Elberse, 2008) - there is some empirical evidence that this theory does describe an industrial reality in sectors such as publishing (Pelletier et al., 2016).

The second theoretical stream of relevance is social-class preferences. The usual players in the entrepreneurial finance ecosystem mainly belong to an economic (and cultural) elite class (Hurst and Lusardi, 2004), whose values, beliefs, preferences, and tastes differ from the general population (Lamont, 2012). If Bourdieu (1984) has clearly demonstrated that taste is influenced by educational level and social origin, DiMaggio (1991) has shown how entrepreneurs from the ruling elite fund and promote arts that suit their specific taste.

From an empirical viewpoint, only a few papers indirectly touch on this question. The crowd and its preference remains largely unexplored (Schwienbacher, 2019). Mollick and Nanda (2016), in their seminal work on the funding of theater projects, designed an experimental protocol that highlighted the crowd’s willingness to finance a marginally broader range of works—including more artistically daring ones—in comparison with National Endowment for the Arts experts. The crowd seemed less intimidated by novel and risky endeavors. In a similar vein, Cutolo and Ferriani (2023) show that atypical craft producers on Etsy are even able to overcome the evaluative discounts they ordinarily experience. Davis et al. (2017) show that funders' perceptions of “a product's creativity” may also influence their resource allocation decisions positively—they interpret it as a sign of future success.

The above arguments lead to Hypotheses 2a to 2b.

H2: Reward-based crowdfunding widens the offer of products by equally funding different types of projects.

H2a: Projects that are considered more novel are as likely to complete a reward-based crowdfunding campaign as mainstream ones.

H2b: Projects in subcategories that, in general, are considered either more mainstream or more niche, are as likely to complete a reward-based crowdfunding campaign.

DATA COLLECTION AND SAMPLE

In order to test our hypotheses, we used a sample of campaigns conducted on the reward-based French CF platform Ulule. It is the leading reward-based CF platform in France in terms of the number of funded projects and amount of money collected. It is a generalist platform (<https://fr.ulule.com/stats/>).

The database was made available for research by Ulule. However the platform was not able to share its dataset until 2023 owing to technical difficulties. We selected projects running from January 2011 to August 2016 in the publishing category, irrespective of their funding success.

We focused our analysis on the publishing sector which provides several benefits in relation to our research questions. First, it is notorious for its lack of opportunities for minorities (Kean, 2015). Second, publishing was the largest market for physical cultural goods in our sample period and geographic area (Rouault, 2017). At that time, it was not as disrupted as the music or film industry, having escaped the external economic or technological effects of crowdfunding decisions. Third, publishing projects are generally small in scope but offer a subjective artistic component where novelty plays a role, as in any other area with an artistic dimension (Mollick and Nanda, 2016). Fourth, publishing is an attractive empirical setting that perfectly illustrates the scissor effect i.e., a growing number of creative entrepreneurs and a concomitant shortage of traditional funders for riskier and more alternative projects (Lescure, 2013).

We applied a traditional human selection protocol to the publishing projects advertised on the platform in the “Publishing & Newspapers” category (“*Edition & Journal*” in French). All 1,494 campaigns'

French-language web pages in that category were accessed and read by one of the authors in order to select publishing-only projects. A total of 499 campaigns were selected.

Then, a team of three research assistants analyzed the selected campaigns' web pages. They coded the gender, perceived ethnicity, and age of entrepreneurs visible online. They were also asked to appraise publishing projects according to the criteria used by Mollick and Nanda (2016) in their study of theatre crowdfunding. We randomly submitted all projects to a second research assistant's appraisal. We added two more assessors to each project by inviting Master's degree students in management to appraise the projects. In total every project was randomly rated by four different people.

Variables

The list of all variables used in this study are available on demand. We only provide the main ones below.

Dependent variables

Following the CF literature, we measured the success of online CF campaigns using the following variables: *Number of Backers*, *Completion Ratio*, *Success Dummy* and *Amount Raised*.

Explanatory Variables

To estimate sociological diversification, we used *Female Leader* for gender diversity (Cumming et al., 2019), *Gender Ratio in Team* if several project owners were presented on the CF campaign web page and *At Least One Woman in Team*. To code for gender, our research assistants checked all the entrepreneurs' profiles (including names and pictures).

We generated several age metrics: *Leader from Extreme Age Group* (if at least one of the team members are 18–23 or 60+ years old), *Age Ratio In Team* and *At Least 1 Very Young/Old In Team*. To code for age, we used the information provided by the project owner or (if not available) estimated their age at the time of the campaign by using LinkedIn profiles and the date of their first diploma.

For ethnicity, we used *Leader from Ethnic Minority*, *Ethnicity Ratio in Team* where several project owners co-exist and *At Least One Non-White in Team*. For coding the research assistants opened the selected projects' web pages and looked at the pictures provided. Here, we were dealing with the identity of entrepreneurs as perceived by funders, irrespective of self-identification (Herzenstein et al., 2008). In doing so, we mimicked crowd behavior.

In order to code for geographical diversity, we used the *Paris/IDF dummy* variable.

In order to assess the novelty of projects launched on Ulule, we used two complementary methodological approaches involving several additional variables.

The first approach consisted in classifying projects in terms of book types: from very popular (such as "Novels", 11.04% of our sample) to "niche" (such as "Theatre", 0.4%). We associated each project with one of the seven official categories used by the French National Association of Publishing (Syndicat National de l'Édition, 2020). Thereby, we were able to distinguish between niche projects and more mainstream ones.

The second approach drew on the measurement of project novelty as used by Mollick and Nanda (2016) to assess subjective crowd perception of novelty. They define the "Novelty" dimension as follows: "This project displays a high degree of artistic ingenuity. Assuming it was completed as planned, this project would advance the art form. This project is original" (2016: 1551). The four assessors read the campaign web page, watched the video if one was provided, and used a five-point Likert scale (1 = "strongly disagree" and 5 = "strongly agree"). *Novelty Degree* is the average of their ratings. Our aim was to capture and replicate crowd perceptions.

Control Variables

In order to ensure that the *Novelty* dependent variable would not be confused by assessors with quality characteristics, we also asked them to appraise *Quality* (capturing the perceived quality of CF campaign communication), *Stakeholders and Reach* (capturing the project's quality and potential) and

Feasibility/Realism (capturing perceived feasibility), following the definitions, method, and five-point Likert scale suggested by Mollick and Nanda (2016).

Descriptive statistics

Our final sample consists of 499 reward-based CF campaigns presented on the French platform Ulule in the Publishing section during the period 2011–2016. The success rate in our sample is about 67% (335 projects out of 499), with an average amount raised of €3122 and a maximum amount of €56,996. The average completion ratio is 98% ; the completion ratio distribution is similar to what is found in Mollick (2014) and Cumming et al. (2020).

The amounts are lower than the amounts usually raised in reward-based CF campaigns, but this can be considered normal because publishing is less capital-intensive than some other successful CF categories (cinema or video games, for instance).

Table 1. Summary Statistics

Our final sample consists of 499 reward-based crowdfunding campaigns presented in the Publishing section of the French platform Ulule during the period 2011–2016.

	N	Mean	St.Dev.	Min.	Median	Max.
Success Dummy	499	0.671	0.47	0	1	1
Completion Ratio	499	0.98	0.86	0	1.04	7.15
Amount Raised	499	3122	5495	0	1545	56996
Number of Backers	499	67.4	114	0	35	1245
Previous Experience on Ulule	499	0.124	0.33	0	0	1
Female Leader	499	0.527	0.5	0	1	1
Gender Ratio In Team	499	0.529	0.464	0	0.5	1
At Least One Woman In Team	499	0.603	0.49	0	1	1
Leader from Ethnic Minority	499	0.0481	0.214	0	0	1
Ethnicity Ratio In Team	499	0.0563	0.206	0	0	1
At Least One Non-White In Team	499	0.0842	0.278	0	0	1
Leader from Extreme Age Group	499	0.136	0.343	0	0	1
Age Ratio In Team	499	0.135	0.322	0	0	1
At Least 1 Very Young/Old In Team	499	0.164	0.371	0	0	1
Novelty Degree	499	3.09	0.7	1.4	3.2	5
Quality	499	3.24	0.761	1	3.25	4.8
Feasibility/Realism	499	3.33	0.771	1.2	3.5	4.8
Stakeholders and Reach	499	2.92	0.743	1.2	3	5
Relevance	499	2.96	0.753	1	3	5
Book Publication	499	0.768	0.423	0	1	1

Contrary to average crowdfunded entrepreneurial initiatives, where woman-led projects usually account for around 30%¹ of the total, most projects in our sample (52.7%) are led by a woman. Only 39.7% do not have any woman on the team. A vast majority of projects are led by individuals or teams (92.6%) that are perceived as white. People considered to belong to an “extreme” age group (under 23 or above 60 years old) are involved in 16.4% of projects and constitute 13.6% of initiative leaders in our sample. From a geographical point of view, 16% of projects are located in the “Paris / Île de France” region, which is the most populated region in France (19% of the French population, Insee statistics).

The projects presented on the platform achieved an average novelty degree of 3.09 on a five-point scale (Figure 1). The distribution of novelty degrees is slightly left skewed; 65 projects show a high level of

¹ PWC (2017) “Women unbound — Unleashing female entrepreneurial potential” available at <https://www.pwc.com/qx/en/diversity-inclusion/assets/women-unbound.pdf>

A wider spectrum of entrepreneurs?

To check whether there is any significant difference between the subgroups' campaign outcomes, we conducted a t-test of the difference between the means in each subgroup (gender groups, ethnicity group and age group). Contradicting Hypothesis H1, we observe no differences in campaign outcomes between subgroups.

We subsequently performed a multivariate analysis in order to confirm these first observations.

Our results do not validate Hypothesis H1a, for female leadership, gender ratio, and the presence of women have no significant impact on success.

As was the case with women, leaders belonging to an "extreme age group", the age ratio, or the presence of very young or very old individuals make no significant difference to the campaign's outcome, which does not confirm Hypothesis H1b.

Similarly, non-White leadership, the ethnicity ratio, or the presence of non-Whites do not significantly impact the success of the CF campaign. These results do not confirm Hypothesis H1c.

Lastly, we observe that, contrary to many previous findings, the location of the entrepreneurial initiative in the Paris / *Île de France* region has no significant impact on success.

We performed the same analysis with the amount of money raised and the completion ratio as dependent variables (available on request). The results were similar and confirmed that we do not observe discrimination against minorities.

A wider spectrum of projects?

We performed a multivariate analysis to assess whether the *Novelty* of a project would impact its success. Indeed, if CF does not discriminate according to novelty, we should not see any impact of *Novelty* on campaign *Success* or *Completion* ratio. As expected, following our previous observations relative to the correlation matrix, we find a positive and significant impact of *Novelty* on both *Success* and *Completion Ratio* (Table 6 available on request).

We also observe that *Novelty* is strongly correlated with *Quality* and *Feasibility/Realism*. In our sample, projects that are considered more novel are equally as likely as mainstream ones to complete a reward-based CF campaign (H2a).

Considering that some book categories are less mainstream than others, we tested the propensity of certain categories to lead to more successful outcomes. According to our analysis, no specific book category has a highly significant impact on success or completion ratio, which is in line with Hypothesis H2b.

DISCUSSION OF THE RESULTS

In contrast with the existing empirical literature, our study does not find any discrimination in terms of the sociology of crowdfunded entrepreneurs (in our case, book producers). Our empirical tests do not detect any influence of an entrepreneur's gender, age, ethnicity on their ability to conclude a CF campaign successfully. In terms of geography, our tests similarly point to the non-significance of the location of entrepreneurs for CF success. These findings do not converge with existing literature, which has highlighted some of the challenges for geographically isolated artists or other entrepreneurs making use of CF platforms (Agrawal et al., 2015), suggesting that in (US-based) CF, rural areas achieve lower success rates than urban areas (Gallemore et al., 2019).

Even though our statistical results are inconclusive (we cannot reject the null hypothesis), this is a modest, first piece of new knowledge concerning reward-based CF that seems to contradict our initial hypothesis and starts complementing previous empirical work on (equity) CF (Cumming et al., 2019).

Our differing results can probably be explained by the fact that previous studies have overwhelmingly used an American dataset. The profoundly different approaches to ethnic diversity in the US and in France, for instance, calls for a careful analysis of the source and nature of discriminations in both countries. We can hypothesize that these differences might come from different communitarian practices and homophily biases (Mc Pherson et al 2001).

Similarly, different urbanization and decentralization conditions in France and the US can certainly account for this divergence. The analysis of the geographical distribution of 11,000 projects submitted to Ulule between 2012 and 2015 offers a slightly more nuanced picture for metropolitan France (Le Bécheuc, 2017); if the departments with cities that have populations greater than 100,000 certainly show lively CF activity, projects in less urbanized areas can also attract funding thanks to these areas' specificity. For example, a comic book author crowdfunding in the rural Department of Charente, home to the world-famous annual Angoulême comic book festival, would not find themselves at a disadvantage.

Given the lack of empirical studies on the impact that crowd perception of project novelty might have on the likelihood of receiving funding, we contribute to the literature by providing a clear new insight: CF is likely to finance mainstream and non-mainstream projects in equal measure. Indeed, our two metrics of project diversity (novelty perceived by the crowd, and the seven official categories of books in the publishing sector), together with sets of empirical tests, demonstrate that online backers do not discriminate between projects on the basis of their nature. Backers indiscriminately finance novel projects, projects in more niche categories, and mainstream projects.

Our study confirms the tenets of Long Tail Theory as we show that even niche products can be funded without any discrimination as regards their originality or novelty. Not only “hits” and mainstream goods will find a market on CF platforms. Our findings complement those of Coelho and Mendes (2019), for we highlight that in the absence of a recommendation engine (as on Ulule and most CF platforms), online consumers make their own decisions and, as such, do not discriminate in terms of popularity.

Our findings also suggest that very creative or unusual projects do not put potential backers off if quality is high and the communication strategy well developed (Cutolo and Ferriani, 2023). Digitalization certainly helps niche projects attract fans and connoisseurs wherever they are located. This might be one of the main advantages of the digitalization of this form of entrepreneurial finance. The web gives access to a potentially unlimited community of people interested in supporting quirky publishing ideas.

At this point, it might be worth restating that, as Mollick and Nanda (2016) argued, the crowd can demonstrate a high degree of wisdom in its appraisal of projects. Reward-based CF platforms host a wide variety of cultural projects that are the expression of an individual's creativity. Project content is *de facto* novel since it is the product of a unique voice and interpretation of the medium. It might not always demonstrate radical innovativeness (Chan and Parhankangas, 2017) or radical creativity (Madjar, Greenberg, & Chen, 2011) and may not change the (artistic) field, but certainly embodies personal creativity. The crowd probably takes it as a given that the various projects they will encounter on the platform will be novel. However, any element in the pitch that can reassure them as to the quality of the expected product (and probably its aesthetics in the case of books) as well as to its future delivery will help them in their funding choices.

As explained by Paschen (2017), online crowdfunded projects receive a lot of support, including feedback and comments, and they build up supportive communities of fans, trendsetters, early buyers, and promoters (Buttice and Noonan, 2020). This helps project owners to build formal and informal networks and communities. The web-based nature of platforms leads to interaction with not just traditional publishing houses (with their own biases), but with a larger community that can really become involved in helping develop the project. This is where we believe the concept of cultural democracy might be relevant.

Conclusion

Our paper is embedded in the literature on entrepreneurial finance which is gaining momentum both in the economic and academic worlds (Le Pendeven et al., 2022). However our ambition is to link our results on reward-based crowdfunding to the concept of cultural democracy. Using a rich sample of book publishing projects, we explored the likelihood that the crowd would fund projects led by “diverse” and “traditional” entrepreneurs in equal measure and that it would support non-mainstream and mainstream projects in equal measure.

According to our findings, reward-based CF is a neutral financial solution in terms of gender, age, geography, and ethnicity. We also demonstrate that mainstream and non-mainstream projects are equally likely to be funded by the crowd. This, to us, indicates that CF has the potential to contribute to cultural democracy by enabling individuals to develop a project linked to their own culture and supported by a community of like-minded people.

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