

The Hong Kong Polytechnic University
Department of Logistics and Maritime Studies
Research Seminar

Does crowdfunding benefit entrepreneurs and venture capital investors?

by

Dr Volodymyr BABICH
Associate Professor
McDonough School of Business
Georgetown University

Date: 7 December 2018 (Friday)
Time: 10:30am-11:30am
Venue: R503, Shirley Chan Building
The Hong Kong Polytechnic University

(Conducted in English)

Abstract:

We study how a new form of entrepreneurial finance - crowdfunding - interacts with more traditional financing sources, such as venture capital (VC) and bank financing. We model a multi-stage bargaining game, with a moral-hazard problem between entrepreneurs and banks, and a double-sided moral-hazard problem between entrepreneurs and VCs. We decompose the economic value of crowdfunding into cash gains or losses, costs of bad investments avoided, and project-payoff probability update. This economic value is generally shared between entrepreneurs and VC investors, benefiting both. However, successful crowdfunding can also harm the entrepreneur and the VC by i) exacerbating moral hazard and ii) intensifying investor competition which reduces value to VC investors, who may walk away from the deal entirely. This can hurt entrepreneurs who lose out on valuable VCs' operational expertise (operational support, access to supplier networks, etc.). The model provides a theoretical underpinning for recent empirical observations that some projects lose VC financing after successful crowdfunding campaigns. Our results complement earlier studies by demonstrating that the entrepreneurs' objectives are more complex than simply maximizing the payoffs from crowdfunding campaigns.

Bio:

Volodymyr Babich is the Lapeyre Family Term Associate Professor of Business Administration at the McDonough School of Business, Georgetown University. Prior to joining Georgetown University, he was an Assistant Professor at the University of Michigan, Ann Arbor, and worked for Penske Logistics Engineering. He earned his Ph.D. in Operations Research from Case Western Reserve University, Weatherhead School of Management. He also holds M.S. degrees in Management Science and Mathematics.

Prof. Babich's research interests are the interface of operations and finance, supply risk management, supply chain management, stochastic modeling, and risk management. His research has been supported by the National Science Foundation, and various university and industry grants. His papers have been published in leading Operations Research, Operations Management, and Industrial Engineering journals. Prof. Babich serves as an associate editor for Management Science, M&SOM, and Naval Research Logistics, and as a senior editor for Production and Operations Management. He is an active member of INFORMS and the MSOM society, and has served twice as the Chair of the MSOM Special Interest Group on the Interface of Finance, Operations, and Risk Management (iFORM).

Please email to clare.lau@polyu.edu.hk for enquiries.

All are welcome!