

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

**Reward-based Crowdfunding Campaigns: Informational Value and Access to Venture Capital**

by

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**Date: 10 August 2017 (Thursday)  
Time: 11:00am-12:00nn  
Venue: M714, Li Ka Shing Tower  
The Hong Kong Polytechnic University  
(Conducted in English)**

**Abstract:**

Consider an entrepreneur who designs a reward-based crowdfunding campaign when the campaign provides a signal about the future demand for the product and subsequent Venture Capital (VC) is needed. Her design entails choosing both the goal that has to be reached for the campaign to be successful, and the pledge level that entitles campaign backers to the product if it becomes available. While failure to reach the goal sends a negative signal likely to eliminate the entrepreneur's access to VC funding, succeeding does not guarantee subsequent VC funding either because the signal obtained in the campaign is not necessarily accurate. The prospect of lack of VC funding following a successful campaign creates concerns for backers, as they lose their pledges without receiving anything in return in this case. We find that both the informativeness of the campaign and considerations related to gaining access to VC funding affect the choice of campaign instruments, as well as the decision of whether to run a campaign. When the extent of informativeness of the campaign is very low so that the number of campaign backers has no impact on the VC's decision, the entrepreneur prefers to launch a campaign. She is also in favor of running a campaign when informativeness is relatively high. When informativeness is relatively low but the VC does take into account the number of backers in his decision, circumstances may arise under which the entrepreneur prefers approaching the VC directly without running a campaign. Finally, we show that the VC is less likely to prefer crowdfunding than the entrepreneur.

**Bio:**

Rachel R. Chen is a Professor at the Graduate School of Management at University of California at Davis. She received her Ph.D. from the Johnson Graduate School of Management at Cornell University in 2003. Her research focuses on e-procurement and distribution in supply chains and the pricing of service operations. She has been a member of INFORMS since 1999.

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**All are welcome!**