Investment Consensus: How an Important Safeguard in Crowdfunding Could Mislead Investors

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Abstract

Recent regulation allows companies to offer equity securities to the public through crowdfunding portals over the internet without having to comply with the full securities registration normally required of organizations going public. To help safeguard investors, regulators require that these companies create a minimum target offering which allows investors to recoup investments if the company does not meet the minimum funding. Using an experiment, we find that investors’ intentions to invest increase when the funding raised by the company is closer (rather than farther) to the minimum target offering even though only the minimum target offering level differs and not the total dollar amount of funding raised by the company. This result is stronger when the underlying financial performance of the company is weak (rather than strong). We find that investors’ perceptions of the amount of support from other investors mediates the relationship between the distance of the amount of funding and minimum target offering and investor intentions to invest. Finally, we find that investors perceive the information in the company’s disclosure to be more believable and that company management is more credible when the minimum target offering is closer to the amount of funding raised. Our results have implications for both policy and theory.