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Trust is not recognition: an exploration of revolts in crowdfunding

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Abstract: Theoretical frameworks for understanding and analysing the emerging and evolving crowdfunding industry have coalesced around the importance of establishing and maintaining trust in crowdfunding transactions and relationships. Going beyond trust, this study proposes the philosophical concept of recognition as a more complete theory of the nature of crowdfunding. Recognition, or the sphere of solidarity, emphasises the ongoing and reciprocal relationships of mutual respect that are central to how entrepreneurs derive value and project supporters derive meaning through crowdfunding. The paper relies on case studies to show the concept of recognition in action, demonstrating both the presence and the absence of recognition in crowdfunding campaigns. The paper contends that a theory of recognition provides a more accurate and holistic model for crowdfunding than trust alone.

Keywords: recognition; sphere of solidarity; crowdfunding; rewards; equity; strategy; entrepreneurship; Oculus; Facebook; Exploding Kittens; venture capital; investors; Kickstarter; contributors.

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Biographical notes: Jack Wroldsen is an Assistant Professor of Business Law. His research explores intersections between law and entrepreneurship, both in public policy and within entrepreneurial firms, and how law can function as business strategy in both qualitative, relational ways and quantitative, financial ways.

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1 Introduction

In crowdfunding, the classic entrepreneurial story continues to unfold: a formerly fringe idea popularised by musicians and artists goes mainstream to become big business. In the process, the community norms of the pioneers collide with the financial realities of a competitive marketplace. Crowdfunding's quickly-evolving landscape is fertile ground for researchers to investigate the mechanisms through which participants interact and collaborate with each other online, especially in view of the initially counter-intuitive phenomenon of people contributing hard-earned money to support someone else's creative idea over the internet. This *prima facie* paradox has spawned a growing body of literature on numerous aspects of crowdfunding, one strand of which seeks to explain how trust is created and cultivated in crowdfunding (Kaiser and Berger, 2021; Ferreira et al., 2021).

In seeking to build a theory of trust for the still-relatively-novel practice of crowdfunding, it is to be expected that researchers will often rely on inductive study methods, as we do in this paper as well (e.g., Kshetri, 2018; Kang et al., 2016). The aim of using an inductive, *a posteriori*, approach is to start with crowdfunding examples and practices instead of with an existing theory, and then build a new theory that matches the novel phenomenon as natively as possible. Our contention in this paper is that if an analysis starts with the actual practices of crowdfunding, then the matching framework that emerges is one that must offer more than what existing theories of trust can provide. We use trust as our *a priori* starting point because our inductive approach does not occur in a vacuum, and '[a] *priori* specification of constructs can...help to shape the initial design of theory-building research' [Eisenhardt, (1989), p.536].

Accordingly, we arrange existing theories of trust in crowdfunding along a continuum, moving from analyses that consider crowdfunding as a one-off transaction, on the one hand, toward models that consider crowdfunding as a series of ongoing interactions, on the other. On the transactional end of the spectrum, trust in crowdfunding is viewed as necessary for a transitory exchange. On the interactive end of the spectrum, trust in crowdfunding is viewed as the glue for a long-term relationship.

But as helpful as such theories are, the premise of this article is that a more holistic framework for crowdfunding requires an additional component that goes beyond trust: recognition. To the best of our knowledge, current research does not distinguish between trust and recognition. But trust and recognition are different, and incorporating recognition is vital when constructing a more complete theoretical model of crowdfunding.

Recognition grows out of the philosophical concept that people derive meaning and self-worth from mutually-respectful and reciprocal interactions with others. To recognise someone is to view them with dignity and value them as an equal. It is to give importance to their values and interests. Recognition is more than trust. As such, this paper proposes that theoretical models of crowdfunding should account for people's desire for recognition. Specifically, we conceive of recognition as a sphere of solidarity, borrowing from Honneth (1996), in which crowdfunding companies recognise the interests of crowdfunding supporters by cultivating bonds of unity, or a sphere of solidarity.

The remainder of this paper proceeds as follows. We first briefly describe rewards-based crowdfunding (RCF) and equity crowdfunding (ECF) before examining the literature on theoretical frameworks of trust in crowdfunding. Building on this literature, we then present our theoretical contribution of recognition and the sphere of

solidarity. Next, we describe our case study methodology and our case selection criteria. We then review and analyse our selected case studies using a three-part rubric. To conclude, we offer both theoretical observations and practical recommendations for applying recognition and the sphere of solidarity in crowdfunding. We also suggest pathways to further develop the theoretical contribution on recognition that this article aims to make. The results of this study are of interest not only to crowdfunding researchers and practitioners, but also to those involved academically or professionally in the growing two- and multi-sided (post) platform economy and other emerging intersections of finance, technology, management, and strategy.

2 Related literature and conceptual development

Online crowdfunding has been in existence for approximately 15 years, having its origins in campaigns such as Sellaband's 2006 efforts to attract funds from the crowd to support musicians and a 2009 initiative to raise money from the crowd to buy Pabst Beer Company, in addition to earlier roots in microfinance and crowdsourcing (Agrawal et al., 2011; Bradford, 2012; Holzer, 2011). RCF has exploded in popularity through websites such as Kickstarter and many others around the world, with the central idea being that a large number of project supporters can contribute relatively small amounts of money to support the development of creative projects, in exchange for rewards or pre-purchase discounts (Mollick, 2014; Schweinbacher and Larralde, 2010).

On the heels of RCF, ECF has also emerged in multiple countries, allowing investors to receive equity ownership in the companies they support, in addition to or instead of rewards (Blaseg et al., 2021; Belleflamme et al., 2014). One key distinction between RCF and ECF is that in RCF, crowdfunding supporters do not receive an ownership interest in the company; whereas, in ECF, crowdfunding investors own a slice of the company and therefore have the potential to see an increase or decrease in the value of their investment (Mochkadi and Volkmann, 2018; Troise et al., 2020). Apart from RCF and ECF, other crowdfunding models exist, of course, such as peer-to-peer lending, royalty-sharing, and donation crowdfunding (Beaulieu et al., 2015). In this paper, our two case studies involve RCF, and the second case study (Oculus) also suggests some limitations of the RCF model that the ECF model purports to address.

One study that analyses the interplay between the RCF and ECF models finds that for supporters who first back a company in ECF and are then asked to back the same company in RCF, 'the overall motivation is financial/utilitarian' [Cholakova and Clarysse, (2015), p.12]. Beyond that finding, two of the study's additional conclusions are especially applicable to our thesis of recognition and the sphere of solidarity: the study concludes that:

- 1 Participating in ECF 'is a positive predictor of keeping a pledge' to continue supporting the company in an RCF campaign.
- 2 Among the non-financial aspects the study considers, '[t]rust is the only non-financial motivation that plays a role in the decision to pledge' [Cholakova and Clarysse, (2015), p.12].

It is understandable and appropriate, therefore, that crowdfunding researchers have focused their efforts on developing theories of trust, as trust is undoubtedly a fundamental component of crowdfunding success.

2.1 Theories of trust in crowdfunding

Researchers have proffered multiple theoretical frameworks that seek to capture and measure the impact of trust in crowdfunding. For purposes of organisation, below we arrange the frameworks as proceeding from theories that are primarily transaction based to others that are increasingly relationship based. Following our summary, we then proceed to our proposal of recognition and the sphere of solidarity.

A good example of a theory of trust that is primarily transaction based is a study that considers ECF practices in multiple countries (Kshetri, 2018). The study theorises that the lack of ‘thin trust’ impairs ECF success, where ‘thin trust’ means the ‘trust between strangers rather than the thick trust between people that know each other’ [Kshetri, (2018), p.40]. For Kshetri (2018), then, the concept of thin trust shows that in places where the level of trust between strangers is low, ECF practices will face significant obstacles that may limit participation in ECF because people will be reluctant to trust in crowdfunding platforms and offerings.

Another example of a transaction-based theory is a study purporting to be the first to investigate ‘the effect of trust on ... investors’ intention to invest in ECF’ in developing countries [Alharbey and Van Hemmen, (2021), p.3]. That study considers ECF in Saudi Arabia through the lens of ‘two well-known trust theories’, namely ‘swift trust’ (Meyerson, et. al., 1996) and ‘transfer trust’ (Stewart, 2003), two theories that the authors assert ‘fit comfortably in the field of crowdfunding, where trust is original and temporary’ [Alharbey and Van Hemmen, (2021), p.3].

Swift trust refers to situations when trust arises ‘in short-term organisational structures that include quickly formed teams or groups’. Transfer trust, for its part, ‘has been employed notably in e-commerce’, where ‘trust is conveyed from the platform to the vendors’. As the authors also assert, ‘online trust does not rely on a long-term relationship, and it does not require previous experience or past behaviour’ [Alharbey and Van Hemmen, (2021), p.3]. For Alharbey and Hemmen (2021), then, the concepts of swift trust and transfer trust emphasise the short-term nature of some online transactions and interactions.

Another study analyses trust as ‘specific trust’ and ‘general trust’ by evaluating the concept of trust using a three-step ‘antecedents-trust-outcomes’ framework (Chen et al., 2014). That framework states that antecedents lead to trust, and then trust leads to outcomes. To analyse crowdfunding using this framework, the authors equate antecedents with ‘specific trust’, which leads to ‘general trust’, which culminates in the outcome of a person being willing to participate in a crowdfunding transaction or not [Chen et al., (2014), p.242].

The concept of ‘specific trust’ seeks to incorporate the full range of inputs that influence whether a person is inclined toward general trust. As such, the authors break down specific trust into five categories: knowledge-based trust, institution-based trust, cognition-based trust, calculative-based trust, and personality-based trust [Chen et al., (2014), p.243]. However, the authors modify the full model for their study and exclude both personality-based trust and calculative-based trust because they find that neither is

relevant to their study of P2P crowdfunding practices in China [Chen et al., (2014), pp.242–243].

In short, the authors note that personality-based trust ‘is especially important in the initial stages of the relationship’; therefore, the authors find it unhelpful in their study because ‘it can be cultivated neither by borrowers nor by intermediaries’ [Chen et al., (2014), p.243]. The other excluded category, calculative-based trust, ‘is derived from an economic analysis’ and refers to opportunistic behaviour and a cost-benefit analysis of whether a party believes it is beneficial to cheat in an economic relationship [Chen et al., (2014), p.243]. The authors find that calculative-based trust “is not appropriate for China’s P2P context... [because] borrowers on China’s P2P lending platforms do indeed have reason to engage in opportunistic behaviors” [Chen et al., (2014), p.243].

For Chen et al. (2014), then, the concept of specific trust emphasises multiple inputs to whether a person develops trust but views:

- 1 personality-based trust as one-sided, not relational
- 2 calculative-based trust as an economic, cost-benefit decision, not a moral or values-based decision.

Moving toward more relational models of trust, another paper seeks to ‘synthesise viewpoints presented in previous studies’ of trust (Kang et al., 2016). For example, one paper ‘measured two distinct components of trust: goodwill trust and competence trust’ [Kang et al., (2016), p.1801]. Another ‘identified two distinct forms of trust: interpersonal and public’ [Kang et al., (2016), p.1801]. Yet another dualistic framework distinguishes between ‘calculus trust’, or ‘trust from the head’, and ‘relationship trust’, or ‘trust from the heart’ [Kang et al., (2016), p.1801]. Calculus-based trust is ‘based on the conditions of economic exchange [and] is an ongoing market-oriented economic calculation’. In contrast, relationship-based trust grows out of ‘repeated interactions between the funder and fundraiser over time and is due to the funder’s care and concern, which arises from emotional bonds and social identification between the parties’ [Kang et al., (2016), p.1801; Urban et al., 2009].

For Kang et al. (2016), then, trust in crowdfunding entails far more than transaction-based trust and reaches such relational aspects as repeated interactions, emotional bonds, and social identification that goes beyond the terms of economic exchange.

Another framework that moves increasingly toward a relational model of trust was presented in a study specifically focused on RCF (Zheng et al., 2016). The elaboration likelihood model (ELM) was designed to describe ‘how attitudes form and change’ by analysing ‘two mental routes of information processing’ [Zheng et al., (2016), pp.99–100]. The first route is the ‘central route’ and is more focused on objective data, such as an entrepreneur’s creditworthiness. The second route is the ‘peripheral route’ and is more focused on relationship, such as sponsor-entrepreneur interactions [Zheng et al., (2016), p.99]. The authors find that the peripheral route is more influential in establishing trust in RCF, where ‘personal, dynamic interactions [are] more effective’ due to the importance of ‘community and collaboration’ in RCF [Zheng et al., (2016), p.112]. In contrast, the authors note that the central route ‘plays a more important role than the peripheral route in P2P lending’, where ‘lenders care more about monetary return’ [Zheng et al., (2016), p.112].

For Zheng et al. (2016), then, trust in crowdfunding stretches beyond short-term, economic transactions to include relational elements such as personal interactions, community, and collaboration.

2.2 *The commitment-trust theory (CTT)*

A final theoretical framework of trust in crowdfunding that also moves beyond the limited scope of transaction-based trust models was derived from the field of relationship marketing: the CTT (Macht, 2014; Morgan and Hunt, 1994; Yang et al., 2019). Macht applies CTT to the crowdfunding context and shows how the three traditional components of CTT (communication, opportunistic behaviour, and shared values) provide an effective framework for understanding how trust is developed and maintained in crowdfunding, ‘beyond the initial transaction’ [Macht, (2014), pp.447–449].

The essential proposition of CTT is that ‘trust in a relationship creates commitment, as well as cooperation and a long-term relational exchange’ [Macht, (2014), p.446]. For crowdfunding, it is particularly helpful that CTT is a bilateral framework for trust, meaning that even though ‘trust is at the centre of the CTT model, the notion of commitment also plays an important role, as it is at the same time a consequence of trust and a determinant of long-term cooperation’ [Macht, (2014), p.447]. Thus, the commitment side of the CTT model seeks to capture a party’s intention to maintain a long-lasting relationship [Macht, (2014), p.447; Moorman, et. al., 1992] and establish a ‘community of supporters’ through ‘bonding’ [Efrat and Gilboa, (2019), p.906].

An example of how CTT leaves off at precisely the point where recognition and the sphere of solidarity begin is seen through two components of CTT: the dangers of opportunistic behaviour and the benefits of shared values. Macht aptly illustrates ‘the public outcry’ that can result from fund seekers’ opportunistic behaviour, and Macht prescribes as the primary solution greater transparency and communication. Such a solution is appropriate insofar as Macht notes that ‘opportunistic behaviour often derives from asymmetric information’, which hinders a company from ‘building and maintaining trust’ [Macht, (2014), p.451]. But from the perspective of recognition and the sphere of solidarity, as discussed below, opportunistic behaviour in crowdfunding derives from exclusion more than from information asymmetries.

Similarly, regarding shared values, Macht aptly emphasises that “the more a project resonates with prospective funders’ beliefs, the more they will like and ultimately support it” [Macht, (2014), p.453]. However, also as discussed below, as companies seek to maintain shared values with funders over a longer period of time than the initial funding, recognition and the sphere of solidarity become more important than funders’ liking and supporting a project because it resonates with their beliefs.

Accordingly, the categories of opportunistic behaviour and shared values in CTT provide succinct examples of how our proposal of recognition goes beyond, and reveals the limitations of, existing theories of trust in the crowdfunding context. Like CTT, each of the frameworks of analysing trust in crowdfunding adds a helpful theoretical dimension to understanding crowdfunding; however, in the next section we seek to demonstrate that recognition and the sphere of solidarity is a more robust framework than trust-based theories for capturing the long-term, interactive, and cooperative nature of crowdfunding relationships.

2.3 *Trust is not enough: recognition and the sphere of solidarity*

The theoretical premise of this article is that CTT, and other relational models of trust in crowdfunding, should be expanded to include the notion of recognition because successful crowdfunding requires more than trust. Trust is believing that the other party to a relationship will not abuse you or disappoint you. But recognition – and specifically, the sphere of solidarity – involves a reciprocal relationship in which each party recognises the dignity and value of the other. In this way, recognition involves more than each party trusting the other.

It is true that if people do not trust, they do not engage in crowdfunding. But more is needed because, although people might develop trust and therefore decide to participate in crowdfunding, they might then revolt because their values are not recognised, despite their previously-developed trust.

For example, a wife might say to her husband, “You are faithful to me, so I trust you. But you do not recognize my values. For my birthday, you always give me books, because you love books. But you never bring me flowers, because you do not like flowers. I want more than trust in our relationship. I want you to recognize what I value”. Recognition occurs when each party recognises the worth, value, and priorities of the other.

From its philosophical roots, recognition is a concept that seeks to capture the meaning that people find in life through mutually-respectful interactions with others (Haacke, 2005; Soroko, 2014; Honneth, 1996; Fukuyama, 1992; Habermas, 1992). One straightforward definition states that “recognizing persons is inseparable from being obliged to treat them in a certain way: according them respect” (Taylor, 1991). And that respect goes both ways because the concept of recognition is bilateral: recognition refers to both giving and receiving respect. For recognition theorists, recognition means to recognise, (i.e., value and accept) others and also be recognised by them in reciprocal fashion (Pippin, 2000; Habermas, 1992).

Accordingly, the definition of recognition that we adopt is ‘the reciprocal limitation of one’s own egocentric desires for the benefit of the other’ (Honneth, 2012). Recognition means both to seek the interests of others and, simultaneously, to limit one’s own interests. Because of the interconnectedness and mutuality of the concept of recognition, a succinct way to express the idea of recognition is as a ‘sphere of solidarity’, which represents an unbroken and mutually dependent relationship (Honneth, 1996).

Recognition, or the sphere of solidarity, is more than trust. That is, for recognition to exist, trust is necessary but not sufficient. Similarly, trust is necessary for successful crowdfunding, but recognition is what allows crowdfunding relationships to endure and grow. As revealed in the case studies below, recognition explains successful crowdfunding more completely than trust.

One of the case studies illustrates how the absence of recognition – even with the ongoing presence of trust-damages the relationship between a company and its crowdfunding supporters. In contrast, the other case study shows how to implement the concept of recognition effectively in crowdfunding relationships. Together, the two case studies demonstrate that theoretical models of trust in crowdfunding are incomplete without consideration of recognition and the sphere of solidarity.

3 Methodology and method

To propose the usefulness and applicability of recognition in the context of crowdfunding, we use the case study methodology because it is a well-trodden path for theory building (Eisenhardt, 1989). Case study methodology is especially fitting ‘when the phenomenon [being studied] is contemporary or emergent’ [Retolaza and San Jose, 2017), p.896]. Crowdfunding is, of course, both contemporary and emergent.

Furthermore, we rely on an interpretivist analytical lens that gives importance to the meaning people attach to their experiences, rather than a positivist approach that would emphasise objective criteria [Leitch et al., (2010), p.70]. As such, through ‘discourse analysis’ similar to what other crowdfunding researchers have employed [Stasik and Wilczynska, (2018), p.58], we seek to study and interpret what crowdfunding project sponsors and backers actually expressed to each other in their online communications.

In addition, case studies have long been viewed as instrumental in building an overarching theory from the ground up, (i.e., inductively), based on specific, real-world examples (Eisenhardt and Graebner, 2007). This is especially true in a field of ‘nascent theory’, like crowdfunding [Edmondson and McManus, (2007), p.1161]. Our goal in this paper is to propose a theory that is native to the unique dynamics of the nascent practices of crowdfunding. Therefore, we prioritise cases that demonstrate those unique dynamics instead of taking a deductive approach that might be used to prove an existing theory from a representative data sample (Eisenhardt, 1989).

To demonstrate the unique dynamics of crowdfunding, we conducted internet searches to select our case studies on the basis of two criteria. The purpose of our first criteria was to define our population [Eisenhardt, (1989), p.537]. Accordingly, our first criterion defined our population as cases involving at least two rounds of financing, where one of the first rounds was RCF.

The purpose of our second criterion was to locate cases that showed ‘extreme situations and polar types in which the process of interest is ‘transparently observable’ [Eisenhardt, (1989), p.537]. Thus, our second criterion in case selection was to locate cases where the relationship between the company and its crowdfunding supporters or investors was either particularly prized or particularly strained. Relationships are central to the theory of recognition and the sphere of solidarity; thus, we sought cases that highlight situations where project promoters or crowdfunding supporters, or both, express either the premium they place on their relationship to each other or the disappointment they experience when that relationship is broken.

4 Analysis and discussion

To analyse the two case studies, we apply a three-part rubric. For each case study, we first describe the crowdfunding offering itself, summarising such key information as the product offered, the dollar amount raised, the number of crowdfunding supporters participating in the campaign, and other investment rounds (such as venture capital or strategic investment). For part two of the rubric, we describe whether and how the crowdfunding company either cultivated or destroyed recognition and the sphere of solidarity. In part three of the rubric, we show how recognition is different from trust and constitutes a more holistic theoretical model of crowdfunding.

4.1 Exploding Kittens

4.1.1 Part 1: case description

Exploding Kittens is a card game company that aims ‘to inspire people to put down their screens and connect, laugh, and play in the physical world’ (Business Wire, 2021). Exploding Kittens has pursued three funding rounds from three sources: crowdfunding, private equity, and a strategic partner.

The first, in 2015, was a Kickstarter campaign that raised nearly \$9 million from almost 220,000 supporters (Kickstarter, 2015). The second, in 2019, was a \$30 million investment from a private equity firm, TCG capital, which acquired a minority stake in the company (Spangler, 2019). The third, in 2021, was a strategic investment of an undisclosed amount from Asmodee, the company’s European distribution partner since 2016 (Business Wire, 2021).

4.1.2 Part 2: recognition and relationship

The founders of Exploding Kittens are explicit in stating their intention to develop ongoing and reciprocal relationships with Kickstarter supporters. Below we provide quotes from the founders that describe, in their own words, how they view crowdfunding.

In addition to their own statements, an interviewer described the Exploding Kittens’ approach as follows: ‘the relationship between Exploding Kittens and supporters is reciprocal’, and “Exploding Kittens will enlist input [from supporters,] ... and the most enthusiastic supporters will receive samples of raw material to play with and report what they like and don’t like” (Power, 2019). The company is thus seeking to involve and listen to their supporters and incorporate their feedback into the product.

The founders in multiple ways express an interest in a relationship of mutual respect and dependence. They prioritise the ‘community’ and place a heavy emphasis on the word ‘crowd’ over ‘funding’. They want the community to have ‘a genuine voice’ and be ‘collaborators’. The founders recognise the mutual dependence that the company and the supporters have on each other by saying, ‘Give us your ideas’. That is, the supporters cannot make the game themselves, but by the same token, the company cannot make the game by itself. They are mutually dependent.

Table 1 Founders’ statements on community

<i>Quote</i>	<i>Exploding Kittens’ Founders</i>
1	“Community is the most important part of any campaign”.
2	“So many people spend all their focus on ‘funding’ and that really is not the word to pay attention to. The word is ‘crowd’. You are not raising funds. You are raising a crowd, a community of people who will help you start something brand new”.
3	“Give the community a genuine voice, even as collaborators. That means engaging with supporters at every stage of a campaign – even after fundraising has ended – to stoke dialogue on social media platforms, invite suggestions, criticism and feedback, while building exposure for the new product or business across several digital channels”.
4	“We say, ‘Give us your ideas. What should the cards look like? What should the box look like?’”

The founders also note the ongoing nature of this dependent relationship. They state that not only will the community ‘help you start’, but also the company seeks to “engag[e] with supporters at every stage of a campaign – even after fundraising has ended – to stoke dialogue..., invite suggestions, criticism and feedback...” The founders thus intend to remain engaged in a reciprocal and interactive relationship with supporters well beyond the fundraising stage. The founders do not view crowdfunding as a seed round to launch a company; rather, they view it as cultivating a community of collaborators and supporters. Crowdfunding is not about the money. It is about the people.

Evidence of the company’s ongoing relationship with its crowdfunding supporters is also seen in the company’s subsequent rounds of financing. First, the company ran additional Kickstarter campaigns for multiple other card games after the initial success of the Exploding Kittens game. For example, in 2017 the company conducted a Kickstarter campaign for the card game ‘Bears vs. Babies’ and raised over \$3.2 million from 86,000 supporters (Kickstarter, 2017). And in 2019, the company returned to Kickstarter with ‘Throw Throw Burrito’, which raised over \$2.5 million from nearly 54,000 backers (Kickstarter, 2019).

After the company’s success with crowdfunding, Exploding Kittens also raised private equity funds from professional investors and received a strategic investment from the company’s long-time distribution partner. As far as we are aware, there was no outcry from crowdfunding supporters or complaints of betrayal when Exploding Kittens accepted either of these two subsequent investments. In contrast with the Oculus rift example below, the professional and strategic investors in Exploding Kittens took a minority stake and did not acquire the company. In addition, Exploding Kittens delivered the promised card game to its crowdfunding supporters, and presumably the supporters did not see anything inconsistent with the company taking on professional investment as a means of funding future growth.

4.1.3 Part 3: recognition and trust

We also located two quotes from the founders of Exploding Kittens that use the word ‘trust’ (Power, 2019). Both are provided below.

It is revealing that both quotes relating to trust refer to the beginning stages of a crowdfunding relationship. The first quote notes that if trust is broken, the Kickstarter campaign will not even fund in the first place. This is because Kickstarter pledges are not collected unless pre-determined funding amounts are reached. The second quote expresses a similar idea by linking the idea of crowdfunding supporters being, ‘the first people to trust you’, together with the idea of those supporters also being, ‘the first people...to try your product [and] invest in your success’. By their own words, then, the founders associate establishing trust with the initial stages of a crowdfunding relationship.

Table 2 Founders’ statements on trust

<i>Quote</i>	<i>Exploding Kittens’ Founders</i>
1	“Supporters trust a company to make good on its promises. Fail to deliver a reward and confidence is lost, followed by pledges and the whole project collapses because Kickstarter pledges are collected only if the fundraising goal is met”.
2	“Everything must be a celebration of the community. They are the first people to trust you, to try your product, invest in your success”.

Indeed, without establishing trust, a crowdfunding campaign goes nowhere. Trust is vital to convincing people to support a crowdfunding campaign in the first place and helping people overcome their natural reluctance to give money to strangers via the internet in hopes of receiving a new and unproven product. Trust is therefore necessary for successful crowdfunding, but it is not sufficient. Recognition and the sphere of solidarity provide a more complete theoretical understanding of crowdfunding relationships than trust alone.

4.2 *Oculus rift*

4.2.1 *Part 1: case description*

Oculus Rift is a headset for the emerging field of virtual reality (VR). Oculus had three financing events, starting with a RCF campaign. The company next raised venture capital investment from angel investors and professional investors in multiple rounds. Lastly, Oculus was acquired by Facebook less than two years after the initial crowdfunding campaign.

The first round of funding was in 2012, on Kickstarter. Oculus raised nearly \$2.5 million from over 9,500 people (Kickstarter, 2012a). In the remainder of 2012 and into 2013, Oculus raised angel investment, a series A round, and a series B round, totalling over \$90 million and involving leading Silicon Valley firms, such as Andreessen Horowitz and others (Kumparak, 2013; Velazco, 2013). In 2014, Oculus was acquired by Facebook for \$2 billion, plus employee retention and other payments that brought the total closer to \$3 billion (Loizos, 2017).

4.2.2 *Part 2: recognition and relationship*

In contrast to the Exploding Kittens example, the founders of Oculus did not maintain ongoing and reciprocal relationships with their Kickstarter supporters. Below, we first provide quotes from Kickstarter supporters that describe, in their own words, how they felt when Oculus agreed to be acquired by Facebook (Berman, 2014; Makuch, 2014; Stuart, 2014). Afterward, we provide additional quotes from Kickstarter supporters that were posted several years later, when Oculus attempted to patch up the broken relationship with the crowdfunding backers by offering free VR headsets (Hern, 2016).

Table 3 Supporters' statements on Facebook acquisition

<i>Quote</i>	<i>Oculus' crowdfunding supporters (from 2014, when Facebook's acquisition of Oculus was announced)</i>
1	"I cannot put into words how betrayed I feel by this".
2	"The community brought you here, and your disingenuous posts are f... insulting".
3	"F... everything about this".
4	"I backed Oculus Rift on Kickstarter and all I got was this lousy T-shirt".

The Oculus Kickstarter comments page includes approximately 2,500 posts (Kickstarter, 2012b). It is beyond the scope of this paper to analyse the posts in empirical fashion. Our intent in this paper is solely to propose that the concept of recognition is central to explaining crowdfunding relationships from a theoretical perspective. Nonetheless, the

general tenor of many of the comments has been summarised as ‘raging’, with backers ‘flooding the Kickstarter page with negative comments’ (Makuch, 2014).

At one level, the outcry from crowdfunding supporters can be explained by the fact that Oculus did not have a consumer-ready product to send to its early supporters. Exploding Kittens did, and thus promptly fulfilled their promise to crowdfunding supporters. Of course, the Herculean task of inventing VR cannot be compared to creating a novel card game. It was the future promise of VR, not the present reality of VR that fuelled the excitement of Oculus’ successful fundraising on Kickstarter. The crowdfunding supporters knew the Oculus rift was not a present reality, but when Oculus was purchased for billions, it was clear to all that the promise of VR was extremely valuable. That promise had not yet been fulfilled for the crowdfunding backers, but it was immediately fulfilled for the Oculus founders upon the sale to Facebook. The backers were left with only a future, unfulfilled promise.

The crowdfunding supporters desired to be part of a community of VR collaborators, developers, and early adopters. They wanted to be recognised as part of the sphere of solidarity. They believed ‘the community brought you here’, so they felt ‘betrayed’ and thought Oculus’ attempts to explain the transaction were ‘disingenuous’ and ‘insulting’. This is powerful language. It is the language of exclusion of a broken relationship and of non-recognition of value and dignity. The crowdfunding supporters did not want to be part of a one-off transaction; they wanted to be part of a long-term relationship of recognition.

It’s not that the crowdfunding backers expected to become wealthy through their participation in the Kickstarter campaign. It’s not even that they begrudged the Oculus founders becoming wealthy through the sale to Facebook. It’s that the early crowdfunding supporters were left holding onto an unfulfilled promise while those who made the promise had already cashed in on the monetary value of that promise. As a result, the promise-makers were no longer invested in turning the promise into reality for the crowdfunding community, as the founders previously were when they launched the crowdfunding campaign.

The community was left headless once the Oculus founders sold the company. Within a few years, the entire Oculus team had left Facebook, and Oculus was no longer operating as an independent unit (Rubin, 2019). Subsequent developments have continued to confirm that the crowdfunding community is not part of the sphere of solidarity, as Facebook backtracked on multiple promises that the Oculus founders had made. For example, a Facebook account will be required to use Oculus, and Facebook will present advertisements within the Oculus headset, even though the Oculus founders had said “you wouldn’t need a Facebook account to use Oculus” and “Oculus would never ‘flash ads at you’” (O’Flaherty, 2021). The crowdfunding supporters knew the sphere of solidarity was broken when Oculus sold to Facebook. Recognition was gone, even if the promise of a future VR product remained.

We do not condemn the Oculus founders’ decision to cash in on the promise of VR. Most people in their situation would likely do just as they did. Our assertion is solely that the founders’ decision to cash in on the promise of VR destroyed the sphere of solidarity with the crowdfunding supporters. There are worse things. But if the priority in crowdfunding is to recognise supporters and cultivate a sphere of solidarity with them, then the Oculus example shows how not to do that.

Facebook did attempt to reconcile with the crowdfunding supporters, who had been promised the consumer-version of the VR headset once it became available. In 2016,

Facebook provided a limited window of opportunity for crowdfunding supporters to claim the prize of a free headset. As noted below in the quotes from Kickstarter backers, some of the early backers appreciated and were impressed with the new product. Others, though, viewed Facebook's efforts as further proof that Oculus had abandoned them.

Table 4 Supporters' statements on first Oculus product

<i>Quote</i>	<i>Oculus' crowdfunding supporters (when crowdfunding prize of consumer version was announced)</i>
1	Oculus' founder Palmer Luckey left Facebook. And I'm not surprised, given such a sh__ attitude to backers and customers I can imagine what's boiling inside the Facebook.
2	"So, are we officially dumped?"
3	"You guys at oculus are the best thank you for the oculus cv1. I absolutely love this headset. Thank you for really going the extra mile with kickstarter. It was very nice to get the complete product. This was the best kickstarter campaign I have ever backed really looking forward to the future with the motion controller and extra sensors. I can't wait until you release a wireless self contained headset. Good job guys this headset is absolutely amazing thank you again for taking care of us kickstarter backers we really appreciate it",
4	Got my Oculus Rift and now up and running! AWESOME just isn't enough! Great software, got running in less than 15 minutes!!! Avoided the T. rex and up in Elite Dangerous, this is REVOLUTIONARY!
5	"Well, I've got my useless bricks from Oculus.... I'm profoundly disappointed and angry. The campaign made clear promises for Linux support, and rather than advancing it, they've been retracted. Hell, I don't think I even got the copy of Doom 3 BFG my tier allegedly included".
6	"Major disappointment that privacy concerns from a few years back are now being realized. Opt-in data tracking for performance improvement should be the beginning and end of data collection".
7	"The people at Oculus are jerks, if you missed the survey you won't get one even though they promised it, they won't help you, they couldn't care less :/"

Once a company denies recognition to its crowdfunding supporters, merely providing the promised product years after the crowdfunding campaign does not reconstitute the sphere of solidarity. Although the crowdfunding participants may end up loving the product, the community dynamic has been lost. That is the consequence of non-recognition. Therefore, a company that seeks to cultivate a community of supporters must incorporate recognition into its strategy and practices.

4.2.3 Part 3: recognition and trust

The concept of trust does not fully explain the Oculus crowdfunding case. When Facebook purchased Oculus, it is not so much that the crowdfunding backers lost trust in Oculus. After all, crowdfunding supporters still could have trusted that Oculus, with Facebook's help, would fulfil the promise of delivering a high-quality VR product in the future, perhaps even more effectively due to Facebook's extensive resources.

Something more than trust was involved. Our proposal is that the crowdfunding supporters were enraged because they were no longer recognised as participants in the

collaborative, community-based process. Oculus initially created a sphere of solidarity by inviting enthusiastic early-adopters to form part of a collaborative community. But then the sphere was abruptly severed because the community leaders, (i.e., the Oculus founders) gave control of the project to Facebook, thereby excluding the enthusiastic community of early crowdfunding supporters.

One of the most robust trust theories that has been applied to crowdfunding, CTT, posits three crucial elements for maintaining trust in crowdfunding: communication, not engaging in opportunistic behaviour, and shared values. These elements are indeed important and do explain why some companies lose the trust of their crowdfunding supporters. But these elements are insufficient to explain the Oculus case, as none of the three explains why the community of crowdfunding supporters erupted in anger and experienced a deep sense of betrayal.

The first element of the CTT analysis is communication: Oculus did not fail to communicate. More communication would not have prevented the outcry from the crowdfunding community. Information asymmetries certainly can cause crowdfunding backers to be in the dark and lose trust; therefore, greater transparency does lead to more trusting relationships in crowdfunding. But lack of communication does not explain the Oculus outcry.

The second element of CTT is opportunistic behaviour: the Oculus founders did not take advantage of crowdfunding supporters by agreeing to be acquired by Facebook. Oculus promised a future product for crowdfunding supporters, and Oculus later delivered that future product. In fact, Oculus may have delivered the future product more quickly and effectively with Facebook's additional resources than what Oculus could have achieved on its own. Opportunistic behaviour definitely can destroy trust, but it is not the right concept to explain why the Oculus crowdfunding supporters revolted at the sale to Facebook. A more accurate description is that Oculus broke the sphere of solidarity by not recognising the crowdfunding supporters' desire for collaboration and a reciprocal relationship.

The third CTT element is shared values: in one sense, Oculus did not betray its shared values because it remained committed to creating the best VR product possible. And when Oculus did eventually deliver the consumer-ready product, many of the original crowdfunding supporters were ecstatic, saying things like, 'awesome' and 'revolutionary'. With regard to the product, then, Oculus did not betray its shared values.

In another sense, though, Oculus did betray the values it shared with the crowdfunding supporters. When Oculus ceased recognising the community of crowdfunding supporters and excluded them from the sphere of solidarity, the shared value of community and collaboration was violated. So CTT does explain how trust is lost when the shared value of community is violated. But recognition is more than maintaining trust through shared values.

Recognition involves nurturing a reciprocal relationship of mutual respect, not simply maintaining trust through agreeing on shared values or even agreeing to pursue those shared values together. Oculus' crowdfunding relationships were broken, and it's not so much that the crowdfunding supporters lost trust in Oculus. Rather, it's that they were no longer included as part of a community of collaborators, early-adopters, and developers. The sphere of solidarity was broken. The crowdfunding supporters were no longer recognised.

5 Conclusions

As a result of the above analysis, we offer the following theoretical and practical recommendations, and we briefly suggest further research to test our recognition proposal in crowdfunding. From a theoretical perspective, we propose that CTT and all trust theories be expanded to include recognition and the sphere of solidarity when used to analyse crowdfunding offerings. From a practical perspective, we encourage crowdfunding companies to integrate recognition concepts and strategies into their relationships with crowdfunding supporters to cultivate and maintain a sphere of solidarity.

Lastly, as next steps for continued research on the concept of recognition in crowdfunding, we suggest additional studies to further define recognition as a theoretical construct for understanding and analysing crowdfunding. As crowdfunding practices mature and become more settled, empirical studies are likely to become more feasible to examine questions such as the extent to which companies employ, or fail to employ, recognition strategies. Also, through qualitative or quantitative analysis, a compendium and hierarchy of recognition strategies should be developed. Furthermore, additional studies are necessary to examine recognition in other areas of crowdfunding, such as ECF, donation crowdfunding, and peer-to-peer lending.

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