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# Interactive Value Formation: Types of Crowdfunding and Exchanged Resources' Characteristics

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**Resumo**

Crowdfunding é uma forma de interação entre pessoas que desenvolvem projetos e aqueles que querem apoiar tais iniciativas. Este artigo estabelece uma relação entre os tipos de crowdfunding e as características dos recursos utilizados para a formação de valores interativos na interface torcedor-criador de projetos de crowdfunding. A perspectiva da Teoria dos Recursos Sociais é usada para definir e classificar recursos (amor, status, informação, dinheiro, bens e serviços) e tipos de crowdfunding (recompensa, doação, capital e dívida). No crowdfunding de doação, os recursos trocados têm significados mais particularistas e simbólicos; recompensa, mais concreta e não-particularista; dívida, mais particularista e concreta; e equidade, mais não-particularista e simbólica. O referencial teórico proposto auxilia na seleção dos recursos adequados para favorecer o alcance das metas do projeto.

**Palavras-chave:** Formação De Valor Interativo; Recurso; Crowdfunding.

***Abstract***

*Crowdfunding is a form of interaction between people who develop projects and those who want to support such initiatives. This paper establishes a relationship between the types of crowdfunding and the characteristics of utilized resources for interactive value formation in the supporter-creator interface of crowdfunding projects. The Social Resource Theory perspective is used to define and classify resources (love, status, information, money, goods, and service) and types of crowdfunding (reward, donation, equity, and debt). In donation crowdfunding, the resources exchanged have more particularistic and symbolic meanings; reward, more concrete and non-particularistic; debt, more particularistic and concrete; and equity, more non-particularistic and symbolic. The proposed theoretical framework helps in selecting the resources appropriate to favor the achievement of project goals.*

***Keywords: Interactive Value Formation; Resource; Crowdfunding.***

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## Introduction

Crowdfunding uses the virtual environment to promote interaction between people who disseminate and develop particular or organizational initiatives, and those who invest in these projects. There are four types of crowdfunding: reward, donation, equity, and debt (Mollick, 2014; Meyskens, & Bird, 2015).

All interactions involve giving and receiving one or more resources (Foa, & Foa, 2012). Each interaction is dependent on its objectives and meanings; therefore, the characteristics of the resources used between project supporters-creators are related to the types of crowdfunding. The Social Resource Theory (SRT) states that all resources used in interpersonal experiences can be classified into six classes of resources: love, status, information, money, goods, and services (Foa, & Foa, 2012). These classes of resources are systematized according to their degree of particularity and concreteness. Exemplifying the cognitive structure formed by these classes, the resource love is more particular than money, and goods are more concrete than information.

In reward crowdfunding, a supporter invests an amount of money in exchange for a good or experience of interest. In donation crowdfunding, the type of return expected by the supporter is more emotional (Ordanini *et al.*, 2011). In equity crowdfunding, one has a more economic interest, and debt crowdfunding mainly attracts users who do not have access to traditional financial institutions. This paper theoretically analyzes the relationship between the types of crowdfunding and the characteristics of the resources used by project supporters-creators in interactive value formation.

Interactive value formation is not simply related to positive results and connotations, as most research points out, but also to the value co-destruction (Echeverri, & Skålén, 2011). The adequacy or inadequacy of the resources used in interpersonal interactions is decisive in the interactive value formation (Plé, & Cáceres, 2010). Using varying approaches, the literature discusses characteristics of the process of value creation in crowdfunding and its positive consequences (Ordanini *et al.*, 2011;



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Lu *et al.*, 2014; Meyskens, & Bird, 2015; Ryu, & Kim, 2016; Xu *et al.*, 2016), as well as revealing the potential risks of co-created services (Heidenreich *et al.*, 2015).

Social Beers is a Brazilian crowdfunding platform in which projects are launched for the production and distribution of craft beer. In the "Jacqueline IPA" project, a supporter complimented the project creators on the platform, who were happy to receive her reward. However, a post on the project's Facebook page had several criticisms from the creators, which was classified as offensive since it represented a form of objectification or sexualization of the female body. This situation verifies that the construction and destruction of value are present in the interactive value formation.

This paper provides a better understanding of the process of interactive value formation in each type of crowdfunding. In Brazil, there is a greater number of reward and donation platforms, and fewer debt and equity platforms, which were only recently regulated in Brazil. Like Europe, where crowdfunding shows itself as an attractive alternative to capital funds and other credit tools, the growth rate in Brazil is high (Mendes-Da-Silva *et al.*, 2015), which also increases the interest and desire to understand crowdfunding operations in Brazil.

## Value Co-Creation and Co-Destruction

Value co-creation requires the joint participation of consumers and producers (Vargo, & Lusch, 2004, 2008), through personalized interactions based on how each individual wants to interact (Prahalad, & Ramaswamy, 2004). This process is part of the philosophical reorientation of the service-dominant logic (S-D logic), which is based on the shift from a traditional firm-centric system to a process in which stakeholders co-create value (Frow, & Payne, 2011).

Value co-creation occurs when two service systems have congruent expectations about how the available resources should be used in the course of their interactions (Plé, & Cáceres, 2010). However, the process of value formation between client and company can also be destructive (Cova, Dalli, & Zwick, 2011). The value co-destruction is a result of misuse of resources during interactions between different

service systems (Plé, & Cáceres, 2010) and may occur accidentally or intentionally (Harris & Ogbonna, 2002, 2006).

The inappropriate or unexpected use of the available resources in an interaction will result in a value co-destruction for at least one of the parties (Plé, & Cáceres, 2010). In the Jacqueline IPA project, information was inadequately conceptualized; some of the supporters expected a different posture in relation to how generally the messages are transmitted by beers produced on a large scale. The value was subjectively judged, and for some supporters, or future supporters, the value was diminished. The creator needs to check the congruence of all posts with the expectations of the supporters; in addition to the subjective judgment of a supporter, the same behavior can be triggered in other supporters. In addition to clarifying value co-creation in a service system, it is essential to consider where, how, and to what extent co-destruction can occur before implementing a strategy based on S-D logic (Plé, & Cáceres, 2010).

## Interactive Value Formation in Crowdfunding

The notion of interactive value formation is also associated with value destruction (Echeverri, & Skålén, 2011). From this perspective, value is contextual and personal, resides in the experience of consumption, and is not measured in terms of money, but subjectively valued by the points of view of customers or suppliers (Echeverri, & Skålén, 2011). The authors complement that value as a function of attitudes, affections, satisfaction, or judgments based on behavior. Therefore, value is produced collectively, but experienced subjectively (Holbrook, 2006).

Value co-creation and co-destruction requires two interrelated service systems, such as crowdfunding supporters (system 1) and creators (system 2), each having its own specific resources. The resources used in interactions are defined as “anything that can be transmitted from one person to another” (Fo,a & Foa, 2012, p. 16). In the case of crowdfunding, this resource definition includes a wide variety of items, such as “likes” and shares on social networks, physical rewards, and money.



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When there is proper use of these resources, there is value co-creation; otherwise, there is value co-destruction.

The resources become fundamental in the process of interactive value formation, since its availability and/or form of use characterizes the increase or decrease of the value. The resources present in some types of interactions are more evident, such as the delivery of money in exchange for a commodity. However, in other types of interactions, the resources exchanged may be more obscure, such as the resources present in a praise posted on a supporter's social network to a crowdfunding project. In this case, the sympathy for the project reflects an enhancement of the creator's personal and technical characteristics, having a meaning of admiration for his work. In response, the creator can acknowledge the compliment and feel more intimate with that supporter.

When interacting in the crowdfunding system, supporters aim to invest, sponsor, or participate socially (Ordanini *et al.*, 2011). Supporters of the American platforms Kickstarter, RocketHub, and IndieGoGo want to obtain rewards, help others, be part of a community, and support a cause. Project creators are motivated to participate in crowdfunding to raise funds, expand work awareness, connect with others, and gain approval (Gerber, & Hui, 2013). There are also factors that prevent supporters-creators from participating in the interactive value formation process (Gerber, & Hui, 2013). Mistrust about the use of money by creators is a deterrent to supporters, and creators cite the inability to attract supporters, fear of failure and public exposure, and high commitment of time and resource as deterrents (Gerber, & Hui, 2013).

The supporters' motivation is another important factor for interactive value formation in crowdfunding. When considering investment motivations - interest, fun, philanthropy, reward, relationship, and recognition - supporters can be classified as angelic backer, reward hunter, avid fan, and tasteful hermit (Ryu, & Kim, 2016). Angelic backers have a greater motivation for philanthropy and a smaller one for reward; on the contrary, reward hunters have a higher motivation for reward and less for philanthropy; avid fans present high values for most motivations (they present smaller values only in reward motivation, ranking second); and tasteful hermits, who actively



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support the projects of their interest as avid fans, have little interest in relationship and recognition.

Recognizing that there are different motivations and characteristics of supporters and creators, different interactions occur in the possible interpersonal experiences among participants of the crowdfunding system. Thus, the main question relates to what resources are appropriate in the interactions between those involved in the co-creation process, and their relationship with the different types of crowdfunding. The classification of the types of resources used in all interpersonal experiences is presented by SRT, which is explained in the next section.

## Social Resource Theory

According to SRT, resources exchanged at interpersonal meetings are grouped into six classes: love, status, information, money, goods, and service (Foa, & Foa, 2012). These are further grouped into classes of economic (goods, services, money) and non-economic (love, status, information) resources (Binning, & Huo, 2012). Love refers to the expression of affectionate respect, kindness, or comfort; information includes advice, knowledge, opinions, instructions, or clarification; status is referred to as a judgment that lends prestige, respect, or esteem; money consists of any unit of exchange that has a standardized value; goods comprise tangible products, objects, or materials; and services involve activities performed on the body or belongings of an individual (Foa, 1971).

Concreteness and particularism are characteristics by which the similarities between the resource classes are judged. Particularism indicates the extent to which the value of a given resource is influenced by the people involved in the exchange, and by their relationship, ranging from particular to universal. Concreteness suggests the form or type of expressed characteristic of the various resources, ranging from symbolic to concrete. The structure of Figure 1 represents the disposition of resource classes in terms of the degree of particularism and concreteness.

It is noteworthy that "classes represent the meaning of interpersonal behavior, rather than the actual musculoskeletal pattern of movement or the verbal



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manifestations involved in such behavior" (Foa, & Foa, 2012, p. 19). Investing an amount of money in a donation or equity project involves a similar action, but the meaning is different. Alternatively, "liking" and sharing a post on a donation crowdfunding project's social networks, and investing in the project, are distinct behaviors, but with the same meaning that is, affection for the cause it advocates.

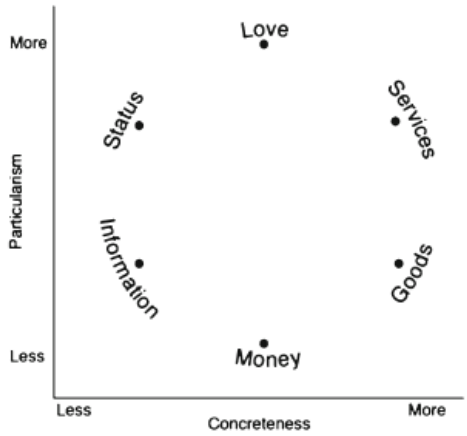


**Figure 1.** Cognitive structure of resource classes (Foa, 1971, p. 347).

## Types of Crowdfunding and Characteristics of the Resources Exchanged

At the beginning of the projects (friend-funding "phase"), the people close to the project's creator will be the funders of the project (Ordanini *et al.*, 2011). Therefore, the resources exchanged have a more particularistic connotation. However, it is necessary to involve people who are not close to the creator and who have objectives that do not relate specifically to the creator, but rather to the idea or cause advocated by it. These people should have a real interest in the rewards, whether they are more concrete or symbolic. Therefore, considering the investors who do not have an intimate social relationship with the creator, but who have real objectives related to the type of crowdfunding, one can infer which resources are most exchanged in the interactions between supporter-creator.

In donation crowdfunding, supporters are not expected to receive anything material in exchange for the amount donated. In this case, project supporters are like philanthropists who do not expect a direct return on their donations (Mollick, 2014).



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This model is primarily used by charities and individuals who solicit donations for their causes (Meyskens, & Bird, 2015). A supporter with a higher motivation for crowdfunding philanthropy is called an angelic backer, who participates with generous intentions (Ryu & Kim, 2016). The payoff for this type of project is more emotional than material (Ordanini *et al.*, 2011). It is important to emphasize that according to SRT, those who give love almost always receive love (Foa & Foa, 2012), justifying the low intensity of risk and return (Ordanini *et al.*, 2011). The resources exchanged have more particularistic and symbolic meanings. For example, the amount donated to an animal cause due to affection makes the supporter feel good about their action, in addition to receiving greater prestige in the donor community. The amount donated is not the real sense of exchange, but rather affection and status. In addition, the supporter and their intention are important, as it highlights the particularism character.

In reward crowdfunding, something is explicitly expected in exchange for support. The more elaborate the reward, the greater the financial amount to be invested. Therefore, the investor clearly has a notion that he is exchanging a financial amount to match the reward he desires. Reward hunters tend to support smaller projects; the chance of actually being able to receive the reward is increased when they are close to being finalized (Ryu & Kim, 2016). The resources exchanged are more concrete and the particularity is lower than those observed in donation crowdfunding.

In equity crowdfunding, investors become shareholders in ventures hoping to receive dividends or a return on their initial investment (Futko, 2014). Shareholders have interests in exchanging information, in addition to money. For example, the Brazilian Edseed platform enables direct contact with company partners and quarterly post-investment performance reports. There is no interest in investing in a startup that has no prospect of growth. In addition, the investor needs to prove his investment ability. The information resource is positioned in the left and lower part of the structure of the resource classes of the SRT; that is, of less concreteness and particularism. Considering this analysis, it can be inferred that the resources exchanged in crowdfunding equity are more non-particularistic and symbolic.

Finally, in debt crowdfunding, the remuneration of the supporters is given by the interest incurred from the loans and payments of the principal of the debts. This



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model of crowdfunding tends to be used as a way to fill institutional gaps in which traditional financial institutions do not operate, and offers alternative financial aid, rather than as a direct way of raising capital (Allison *et al.*, 2013; Moss, Neubaum, & Meyskens, 2014). By filling this gap, debt crowdfunding presents itself as a form of service (right side and top in the resource classes). On the other hand, it can also develop a spirit of community, as in the case of the American platform Puddle (Meyskens, & Bird, 2015), which also refers to the exchange of more particularistic resources. In the case of debt crowdfunding, there are more particularistic and concrete resources.

Figure 2 shows the scheme between the types of crowdfunding and the attributes or characteristics of the resources most frequently exchanged.

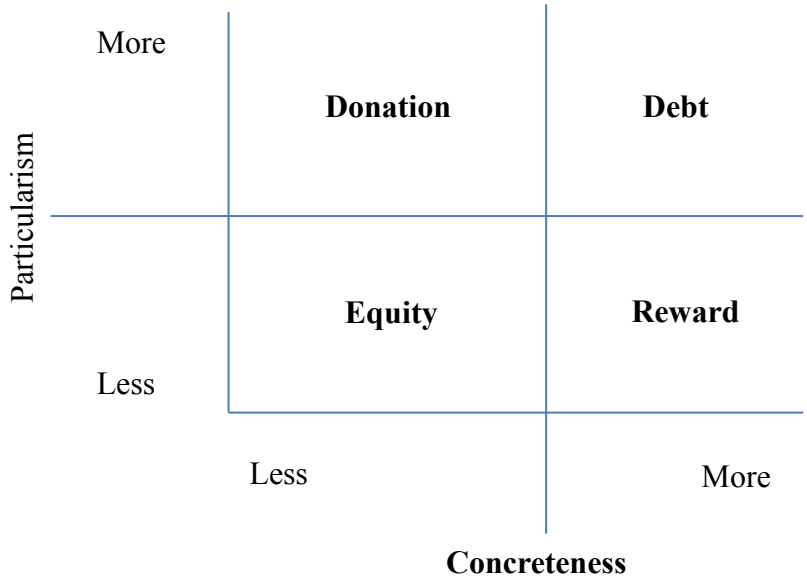


**Figure 2.** Crowdfunding types and characteristics of the resources exchanged.

## Final Considerations

This is an initial work and should be tested in the field. A qualitative study will help to expand the possibility of understanding the process of interactive value formation in crowdfunding, having positive results (co-creation) and/or negative results (co-destruction). As discussed, there is still resistance expressed by supporters-



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creators related to the development process of projects to be supported by crowdfunding (Gerber, & Hui, 2013). Future studies relating resources that contribute to the co-destruction and co-creation of value in each type of crowdfunding will help in defining better business strategies of those interested in this form of interaction.

Value is a social construction and is embedded in social structures (Edvardsson, Tronvoll, & Gruber, 2011). As such, future research may be based on social constructivism, which presents the world view that social reality is a construction of social interaction between individuals in society. Socio-constructional studies focus on everyday processes; that is, how people talk, perceive, and experience the world in which they live (Gergen, 1985). The main challenge is to expand the possibilities of understanding, not to prove or convince the correct interpretation of the phenomenon (Camardo-Borges, & Rasera, 2013). A purposeful sampling strategy can be used to include supporters-creators of crowdfunding projects that have used at least one crowdfunding type. In addition to in-depth interviews, the observation of the use of platforms, social networks of supporters and investors, and other media is shown as an important research technique for this case.

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