

# MISQ Archivist

## A Potato Salad with a Lemon Twist: Using a Supply-Side Shock to Study the Impact of Opportunistic Behavior on Crowdfunding Platforms

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### Abstract

Crowdfunding platforms are peer-to-peer two-sided markets that enable amateur entrepreneurs to raise money online for their ventures. However, in allowing practically anyone to enter, such platforms enable opportunistic suppliers to flood the market with offerings, many of which are of low quality. This situation creates choice overload for potential backers and may thus influence their investment decisions. To empirically study the implications of this phenomenon for crowdfunding performance, we use a quasi-natural experiment in the form of an exogenous media shock that occurred on Kickstarter.com. The shock was followed by a sharp increase in the number of campaigns, particularly low-quality ones, offered on the supply side of the market; no such increase was observed on the demand side of the market. These unique conditions enable us to estimate how crowdfunding platforms are affected by the presence of an atypically large number of low-quality campaigns, while controlling for fluctuations in demand. We use two identification strategies, which enable us to control for changes in quality, to show that an increase in low-quality supply significantly decreases the performance of the average crowdfunding campaign, manifested in a lower likelihood of success (reaching funding goals) and less money raised per campaign. We also offer a new measure to estimate campaign quality and study the moderating role of campaign quality in the observed effects. We find that high-quality campaigns are less affected than low-quality campaigns by the influx of low-quality offerings. We discuss theoretical implications as well as managerial implications for entrepreneurs and platform designers.

**Keywords:** Crowdfunding, peer-to-peer platforms, peer economy, share economy, supply-side shocks, quasi-natural experiment, exogenous shock, choice overload, market of lemons