Introduction to the special issue on Crowdfunding and FinTech

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EDITORIAL

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Introduction to the special issue on Crowdfunding and FinTech

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Over the past 10 years, crowdfunding, which allows a large number of individuals to collectively finance a new business venture through a technology platform, has risen rapidly as a popular way of financing a wide range of activities including business ventures, personal loans, and charity projects. The modern crowdfunding business mode consists of three types of players: the project proposers who provide the original idea/blueprint/project that requires external finance, potential investors who are interested in the idea, and an internet platform that brings all parties alongside to kick-start the new business venture. According to crowdexpert.com, the global crowdfunding industry raised an estimate total of $34 billion in 2015.[1] Amidst the take-off of crowdfunding around 2010 (Fig. 1),[2] technology-based innovations also emerged in other sectors of the financial industry.

Around 2014, the term "FinTech", an abbreviation of "Financial Technology", started being used broadly to refer to the influx of technology tools, platforms, and ecosystems that make financial services or products more accessible, efficient, and affordable. The crowdfunding activity is just one of many aspects of FinTech. Though the use of the term "FinTech" is fairly recent (Fig. 1), it is clear that the financial industry has experienced influx of other financial technologies in the history, such as the introduction of Automatic Teller Machine (ATM) in 1967. FinTech today refers to not one, but a host of technologies that broadly impact the way financial payment, funding, lending, investing, financial services, and currencies are conducted. These include, for instance, digital payments, crowdfunding, Robo-advisors, cryptocurrencies and markets/services enabled by cryptocurrencies.

Because the revolution brought by FinTech is so new and still ongoing, it is not surprising to find that the 'top' academic journals have yet caught up with the latest developments in FinTech. Top Finance and Accounting journals, in particular, have published very limited number of papers on FinTech. A review paper on Internet big data and capital markets by Minjian Ye and Guangzhong Li in this special issue finds that only four papers from the top-3 finance journals - three from *Journal of Finance*, one from *Review of Financial Studies*, and none from *Journal of Financial Economics* – focus on the issues of big data in capital markets. Similarly, only three papers from the top-3 accounting journals do the same. Although the editors of the top tier finance and accounting journals are realizing the increasing importance of FinTech for academic research and are catching up, many interesting and pressing FinTech issues that require academic treatises have not received much attention in academic journals.

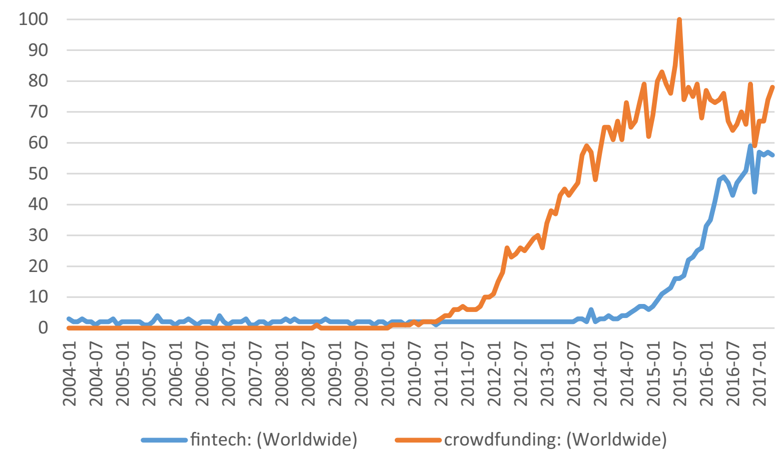

Fig. 1 Google Trends on 'FinTech' and 'Crowdfunding'

The special issue on Crowdfunding and FinTech is the sixth issue of Financial Innovation (FIN), Volume 3, NO.1 (2017). It aims to invigorate academic research on FinTech by presenting some timely new findings and novel research opportunities, on FinTech topics such as cryptocurrency, crowdfunding, and big data. In this special issue, we collect seven papers by 18 academic scholars from China, Hong Kong, Switzerland, the UK, and the US, including a bundle of three papers on crowdfunding, and a bundle of four papers on other aspects of FinTech such as cryptocurrency and big data finance. We discuss them in turn.

The first paper in the crowdfunding bundle, entitled "Team rivalry and lending on crowdfunding platforms: an empirical analysis", by Ling Ge and Xuechen Luo, discusses the 'unintended' consequence of team-based challenges in prosocial crowdfunding. Although team-based challenges are frequently used, and individuals who identify with one team tend to lend when facing competitive pressure from rival teams, lending to the same project as the rival team, however, creates an implicit 'cooperation' with the rival team. Ge and Luo examine this issue empirically using Kiva data and find lending by a rival team could lead to reduced lending - thus a cautionary tale for crowdfunding platform designers.

The second crowdfunding paper, entitled "Pure and hybrid crowds in crowdfunding markets", by Liang Chen, Zihong Huang, and De Liu, examines the limitation of "crowd of wisdom", and the issue of how to design the "crowds" in crowdfunding to avoid some of these limitations. The authors document and contrast two crowd designs: a "pure crowd", where members participate as equals, and a "hybrid crowd", where average investors follow a lead investor who conduct many intermediary functions such as due diligence, reporting, promoting, and monitoring. The outcomes of this research are a series of theoretically argued propositions regarding when a hybrid crowd design is more advantageous, as well as some challenges in managing lead investors. Because the issues of crowd design and hybrid crowd have not received much attention in the academic literature, this paper calls for more attention to such important issues.

The third crowdfunding paper, entitled "government-incentivized crowdfunding for one-belt, one-road enterprises: design and research issues", by Chang Heon Lee, J. Leon Zhao and Ghazwan Hassna, explores a novel use of crowdfunding for government-incentivized projects, particularly the multi-national project incentivized by the Chinese government called "One Belt One Road (OBOR)." This paper conjectures three key benefits of using crowdfunding for government-incentivized projects: it encourages participatory budgeting, increases the transparency in public project, and facilitates a new way of public-private collaboration. It further proposes that such crowdfunding may come in four formats: government-initiated, private funded projects; government-initiated, public-and-private funded projects (i.e. private funds with matching public funds); private-initiated, and private-funded projects; private-initiated and public-and-private funded projects. The paper further discusses special challenges associated with designing crowdfunding platforms for OBOR - including designing for culture sensitivity, and cross-border transactions.

There are four papers in the FinTech bundle published in this special issue.

The first paper in the FinTech bundle, entitled "Analysis on the Influence Factors of Bitcoin's Price Based on VEC Model", by Yechen Zhu, David Dickinson, and Jianjun Li, analyzes the determinants of the price of the digital currency Bitcoin. They build a Vector Error Correction (VEC) model and apply the Granger causality tests to determine relationship between the Bitcoin price and other variables such as Consumer Price Index of the US (CPI), Dow Jones Industrial Average (DJIA), US dollar Index (USDI), Effective Federal Funds Rate (FFR), and the gold price. They found that US dollar index has the biggest influence on the Bitcoin price while the gold price has the least.

The second FinTech paper, entitled "Internet big data and capital markets: A literature review", by Minjian Ye and Guangzhong Li, conducts a literature review on the academic publications that are related to the internet big data. Not surprisingly, they found that research on internet big data and capital markets has achieved some results but their conclusions are inconsistent.

The third FinTech paper, entitled "The FinTech phenomenon: Antecedents of financial innovation perceived by the popular press", by Liudmila Zavolokina, Mateusz Dolata, and Gerhard Schwabe, applies a content analysis from the natural language research method to find out who, where and which organizations were mentioned in the newspaper articles that contained the keyword of FinTech. They focused their study on some influential newspapers from English-speaking and German-speaking regions. They found that the popularity of the FinTech keyword appeared in the media is not only limited to its technological aspects. Its popularity is a result of its multifaceted nature related to regulatory issues, technological advances, information asymmetries between market participants, economic instabilities, and market incompleteness stimulates innovation at the crossroads of finance and technology.

The final FinTech paper, entitled "FinTech in Taiwan: A case study of a Bank's strategic planning for an investment in a FinTech company", by Jui-Long Hung and Binjie Luo, focuses their research on a case study of one of the top-5 banks in Taiwan. They identify this bank's strategic considerations in the process of its FinTech investment to face the challenge of financial digitalization.

In conclusion, we hope that through the findings and insights of the seven papers in this special issue, we have bridged some gaps between FinTech/crowdfunding industry development and academic research, and at the same time bring attention to many more pressing and novel issues that are worthy of further academic research.

Endnotes

[1]http://crowdexpert.com/crowdfunding-industry-statistics/

[2]According to google trends, the interest in the term "crowdfunding" took off in early 2011.

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