The Experts in the Crowd:
The Role of Expert Investors in a Crowdfunding Market

Dr Keongtae Kim
College of Business
City University of Hong Kong

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Abstract: Online crowdfunding markets facilitate the unbundling of resources, expertise, and signals—the three important components of a transaction. This study examines whether an early investor’s expertise per se, serves as a credible signal of quality for the other investors in the crowd and if so under what conditions. Using a data set on individual investments in a crowdfunding market for mobile applications, we find that early investors with expertise—particularly, investors with app development expertise and investors with investment expertise—have a disproportionate influence on later investors in the crowd. Investors with app development expertise who are likely to have a better knowledge of the product are found to be more influential for “concept apps” (apps in the pre-release stage), while investors with investment expertise with a better knowledge of market performance are found to be more influential for “live apps” (apps that are already being sold in the market). Our findings show that the majority of investors in this market—the crowd—although inexperienced, are rather sophisticated in their ability to identify and exploit nuanced differences in the underlying expertise of the early investors—informational signals that align well with the specific nature of uncertainty they face. In examining the ex-post performance of apps, we find that apps with “expert” investors are positively associated with ex-post app sales. We also find that these “experts” have the ability to select better apps to invest in, making their investment choices credible signals of quality for the crowd. Contrary to popular perceptions of crowdfunding markets as means for democratizing expertise and as substitutes for traditional expert-dominated mechanisms, our findings indicate that the participation by individuals with expertise can be beneficial to these markets.

Bio: Keongtae Kim is an Assistant Professor at Information Systems department of the College of Business in the City University of Hong Kong. His research interests include: 1) strategic impacts of IT-enabled platforms (e.g., crowdfunding/crowdsourcing) on entrepreneurial and innovation activities; 2) strategic management and the impact of IT resources such as IT investment and IT human capital. He has two papers published at Information Systems Research. He taught courses on business analytics, the introduction to information systems, and e-business & platforms at the undergraduate and Master’s level. He has a B.S. in Engineering from Seoul National University. He received his M.S. and Ph.D. from KAIST Business School and University of Maryland at College Park, respectively.