

The SME – Bank Relationship: Exploring the Impact of Crowdfunding at Start-up

A research study by Ulster University Business School, Kent Business School and the London Institute of Banking and Finance

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The Start-up Business - Bank Relationship: Exploring the Implications of Crowdfunding

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Contents

Acknowledgements	3
About the Authors	4
Executive Summary	5
Aims of Study	6
Towards a Sharing-Economy	7
Context for the Study	8
Alternative Finance Market	10
Issues of Penetration in Alt Fin (Alternative Finance)	13
Methodology	14
Findings: SME	14
Findings: Bank	18
Relationship Implications	26
Potential Strategies for Banks	27
Potential Strategies for SMEs	29
Conclusion	30
Implications for Policy and Practice	32
Achievement of Aims and Objectives	33
Further Research	33
References	34
Appendices	36

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Executive summary

1. Relationships between small businesses and banks have entered a new phase of decline over the years of the financial crisis and its aftermath.
2. Perceptions that banks 'are not lending' abound within SME networks despite evidence to the contrary.
3. Crowdfunding presents a possible solution to some of the funding challenges facing SMEs.
4. Lending bankers appear to celebrate a sense of reassurance in a renewed emphasis on tradition and a reliance on perceived robust measures such as that provided in business plans and forecasting tools.
5. Crowdfunding was seen to have its place in the market but lending bankers feel its primary use is in funding projects that are more niche and higher risk than traditional lending could support.
6. Start-up SMEs shared a generally withering view as to the usefulness of banks in the start-up space,
7. Learning about alternative finance for startup entrepreneurs comes through an experiential, or 'learning by doing' approach, rather than any prior understanding of these issues or formal training / education processes.
8. Three opportunities exist to enhance the value of crowdfunding at the level of the SME segment:
 - improving the education of the small business community and lending bankers around alternative finance platforms and their operation
 - creating a more specific understanding around the appropriateness of various platforms at different stages of small business growth
 - improving the communication as to the relative advantages of both new and existing funding platforms in order that small businesses interested in finance options for their business can avail of a more coherent suite of choices appropriate for their needs at a particular time and stage of growth.
9. There is a requirement for the education of retail and business bankers in the area of alternative finance generally, and of crowdfunding in particular, so they can incorporate it more effectively into their offering to the SME community and potentially act as a channel through which the small business community may be able to access the 'crowd' with increased confidence.

1.0 Aim of study

Economic growth is increasingly reliant on the growing sharing economy, and the imperative to use SME growth as the bedrock for future economic development. This combination drives new possibilities presented by alternative finance and tech-enabled financial solutions. The aim of this study is to examine the perceptions of both lending bankers and SME owner-managers with respect to the potential of crowdfunding solutions in funding start-up SMEs.

1.1 Objectives

1. To examine the different forms of crowdfunding and establish the most appropriate framework through which SMEs could potentially engage with the new crowdfunding medium
2. To examine the views of lending bankers with respect to the potential of crowdfunding in start-up SME funding and the relationship to traditional funding models
3. To consider which types of start-up would be most attracted to the various types of crowdfunding solutions
4. To explore the barriers and enablers around SMEs potentially engaging with such crowd-funding platforms in their start-up funding phase.

The extent to which each of these objectives was met is evidenced in Section 14.1.

2.0 Towards a sharing-economy

The “sharing-economy” is a socio-economic ecosystem built around the sharing of human, physical and intellectual resources. It includes the shared creation, production, distribution, trade and consumption of goods and services by different people and organisations. Sharing-economy business models are hosted through digital platforms that enable a more precise, realtime measurement of spare capacity and the ability to dynamically connect that capacity with those who need it. For example, Airbnb matches spare rooms and apartments with travellers in need of lodging, while Zipcar matches spare cars with local demand. People have always bartered and traded services, but the recent adoption and usability of this process is unprecedented thanks to the growing number of digital devices that make the matching of demand and supply easier than ever. Consumers who use sharing-economy business models are often more comfortable with transactions that involve deeper social interactions than those associated with traditional methods of exchange: for example, Airbnb and CouchSurfing provide travellers with the ability to connect with local hosts and receive travel tips in a personalised fashion while ride-sharing services such as RelayRides and Lyft depend on users being comfortable in trusting strangers to complete their journey safely (PWC, 2015).

As may be expected, many traditional industries are being disrupted by the sharing-economy as established firms are increasingly displaced by breakthrough technology-enabled companies facilitating connections between suppliers and consumers through new technology and applications.

The opportunities within the sharing-economy have the potential to turn the UK public into a nation of micro-entrepreneurs – making money through the assets and skills that they already have, and saving money by accessing goods and services rather than buying them outright. Examples of sharing-business models which have successfully disrupted traditional industries can be found in taxi-/car-related sectors and in travel and tourism (PWC, 2015).

Reflecting the UK’s financial technology, or “fintech” community, 10 of the UK’s sharing-economy companies are peer-to-peer lending or financing start-ups, including Crowdcube, Seeders and Funding Circle. In 2015, the UK Alternative Finance sector transacted £3.2 billion of business, up 84% on the previous year, while over 1 million people invested, donated or loaned via online alternative finance platforms in the UK (Zhang et al, 2016).

In the EU, the positive economic impact of the sharing-economy has been estimated at €572 billion, or over €1,000 per EU citizen. The benefits and costs of the sharing-economy are principally distributed among three distinct groups:

- consumers of goods and services offered in the sharing economy have a broader range of options from which to choose, and at cheaper prices
- providers benefit from flexible working arrangements and new ways to supplement their incomes; in particular, groups previously excluded from formal employment – migrants, single parents, older individuals, the long-term unemployed – are likely to gain from the increased opportunities for self-employment offered by the sharing economy
- incumbents in markets entered by sharing-economy providers will face pressure on price, quality and customer service. Such pressures will be particularly felt in sectors where long-standing government regulation previously prevented effective competition.

The sharing-economy will have limited impact on market incumbents over the next five years, however in the medium to longer term it is likely to start having a significant impact, and established market players will need to find new ways to create value for customers (EPC, 2016).

3.0 Context of the study

The SME market for current accounts in GB and in NI is concentrated, with that in NI concentrated to an even greater degree. The combined market shares of active current accounts of the four largest providers in NI (Ulster, Danske, BoI and AIB) was 86% in 2015. Their combined shares have declined by only 2 percentage points in NI between 2012 and 2015 (Competition and Markets Authority, 2016).

Gaining finance for start-up new ventures has always been challenging and the enablement of that financing decision has usually revolved around the dyadic relationship between the small business borrower and lending banker.

That dyadic relationship, however, is potentially disrupted with the advent of the sharing-economy model where online-based alternative finance platforms are presented.

Entrepreneurs seeking capital from traditional sources such as bank loans, often find that the prudent, risk-averse nature of the banking sector does not chime with the culture of the smaller firm and the identification and transformation of opportunity that is characteristic of entrepreneurs populating that more dynamic sector (Butler and Durkin, 1995; Durkin et al, 2013b).

Over these last twenty years, at the levels of both policy and practice, the relationship between small firms and their banks has been under particular scrutiny. This scrutiny has been pan-European and has been evidenced in reviews by, among others, the EU (1994), the UK's Competition Commission (2002), the UK Independent Commission on Banking (2011), and most recently the Competition and Markets Authority (2016), which concluded that greater banking transparency for personal customers and SMEs could be achieved through the 'Open Banking' model where customers would be better able to establish the best deal for themselves, having shared their financial needs data through a phone-based application or "app".

Despite these government-initiated reviews, the impact of policy findings on banking practices and lending activity

has been limited. In the UK market, governmental stimulus schemes appear to have had a limited impact. For example, it has been observed that banks used only 6% of the cheap funds made available by government between 2010 and 2012. In attempting to understand what is happening in the market, there have been efforts to get to grips with supply-side issues (the banks) rather than focusing on understanding issues of demand (the SME) (Cowling et al., 2012; Tsuruta, 2015).

There has also been, very understandably, a prevailing focus on the consummation of the SME-Bank marriage – that is the period when the lending decision is made – and related issues around access to finance (Durkin et al., 2013a; Ibbotson & Moran, 2003). Following a very constrained lending environment, due to both demand- and supply-side factors, things appear to be easing. According to the Bank of England, credit availability for SMEs improved over the year 2015, consistent with the recent rise in net lending.

Improvements in loan availability in recent quarters appear to have been less pronounced among smaller micro-SMEs. The SME Finance Monitor suggested that very small firms continued to experience higher rejection rates than larger SMEs over the year 2015, and those planning to apply remained less confident in their ability to access bank finance than their larger counterparts, though this gap had narrowed in 2015 Q3. There was also limited evidence of an improvement in demand for credit from SMEs through 2015. Of course, the many complexities of 2016 created a strong headwind against these improvements.

So, despite a general easing of the credit environment, there has been little apparent improvement in SME-Bank relationships over recent years, especially in regard to start-ups and micro-businesses. This must be an ongoing concern for banks as, in addition to making a significant contribution to the UK economy, small firms also make an equally important contribution to bank profits. It has been estimated, for example, that four of the main UK banks service approximately 80% of small firms in the UK, and that these firms are more profitable than the average retail customer,

	Regularly %	Rarely %	Only in exceptional cases %	Never
Bank	55.0	16.3	9.7	19.0
Credit card	45.1	15.9	12.2	26.8
Equity from private investors	2.5	5.8	5.2	86.5
Family	11.8	8.5	30.9	48.8
Friends	3.1	3.1	5.9	87.9

Table 1: (Durkin, McGowan and McCartan, 2013a)

with margins approaching 20% (Vickers, 2011). It is therefore important that assistance is provided to strengthen the channels of finance for start-up companies and in particular SMEs.

While loan availability and access to credit has been a focus for media commentators and economists, recent analysis for the Federation of Small Businesses (2013), conducted through Ulster University Business School¹, revealed that over 50% of SME respondents in Northern Ireland had not actually applied for loan funding over the last 36 months, but for those that did, there had been a 75% success rate in securing the funding requested. This is interesting and speaks to the general lack of clarity in the market around the causes of the funding gap – is it mainly a function of supply-side issues (i.e. the banks are not lending; stimulus schemes like the Funding for Lending Scheme (FLS) are having a delayed impact), or to what extent are primarily demand-side issues playing a part (i.e. low customer demand for lending, lack of confidence of borrowers, self-financing appearing more preferable)? At this time it would seem that the funding gap is a function of both supply- and demand-side issues (Brancati, 2015; Bruton et al, 2015).

Table 1 above summarises the findings of the research related to “source of funds” by smaller SMEs in Northern Ireland in 2013.

Respondents were asked to indicate the frequency with which they used various sources of finance.

The dominance of traditional finance options through bank and credit card is stark when contrasted with the percentage of respondents who have never considered equity from private investors. This again indicates the relative infancy of alternative finance within the overall finance landscape.

¹ Durkin, M.; McGowan, P and McCartan, A. (2013b)

4.0 Alternative finance market

Alternative Finance through the internet is the 21st century alternative to traditional bank finance. There appear to be plenty of opportunities for investors to profit from the shake-up of the market. While these forms of saving/investing may carry more risk than some other forms of investing, the potential returns are substantial. From 2014 to 2015 the alternative finance (AltFin) market grew from £1.74 billion to £3.2 billion, which represented a year-on-year growth rate of 83.91% (Zhang et al, 2016). Almost 12% of SME lending and 16% of start-up equity finance is now provided through alternative finance platforms (Zhang et al, 2016). The Financial Conduct Authority (FCA) regulates loan-based crowdfunding where investors lend to companies for a rate of return as well as equity crowdfunding, which is where investors buy shares in companies in the hope of capital growth. All other crowdfunding platforms are at this time largely unregulated.

4.1 Crowdfunding

Crowdfunding is “an open call, essentially through the internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes” (Schwienbacher & Larralde, 2010).

Crowdfunding builds on the idea of crowdsourcing (Schwienbacher and Larralde, 2010), which uses the internet for idea generation and feedback from users. This online platform benefits from the participation of large numbers of individuals, known as “the crowd”, who contribute to advancing thinking, funding, and collaboration through the widespread network they constitute. With crowdfunding, each individual member of the crowd provides a small amount of funding to a firm (Belleflamme et al., 2014; Manchanda and Muralidharan, 2014) in order to assist the company in reaching its overall funding target. This differs from the traditional borrowing model where one bank would be asked to finance the full amount, with bank-led syndicated lending only being used for the largest funding projects. Due to the success of many crowdfunding campaigns, the crowd has been viewed as an “answer to the lack of appetite for risk among traditional finance institutions” (Dawson, 2014).

Crowdfunding is not a revolutionary concept (Hemer, 2011; Mollick, 2014); however the evolution of the internet and the development of greater interactive and collaborative online behaviours has resulted in crowdfunding becoming more widespread. Funding is collected online through a crowdfunding website, often known as a platform. These platforms are a new type of online intermediary used to connect investors or donors with start-ups. After registration with a platform, entrepreneurs can make a request for funding on the crowdfunding website - of which there are many - detailing relevant information on the project and its team; in so doing potential borrowers can bypass traditional sources of finance.

The popularity of crowdfunding has increased dramatically and over the last number of years has grown globally at rapid rates of up to 250% p.a. (Williams-Grut, 2014). Damage within the SME/Bank relationship has been suggested as a potential cause for this growth and research aimed at examining relationships between small firms and banks found that the organisational differences between them are what give rise to many of the interaction difficulties that exist in attempting to develop and manage meaningful relationships. In Mintzberg’s (1981) classic categorisation of organisation structures, the bank is a “machine bureaucracy”, wherein rules and regulations tend to supersede managerial discretion. In contrast to this, decision-making within the typical entrepreneurial small firm is essentially organic and informal in character (Nutt, 1989). Therefore, a faster-paced decision-based process such as crowdfunding may be seen as more appealing to entrepreneurs than the traditional sources with which they are used to dealing.

Figure 1: The distribution of surveyed online alternative finance platforms in the UK

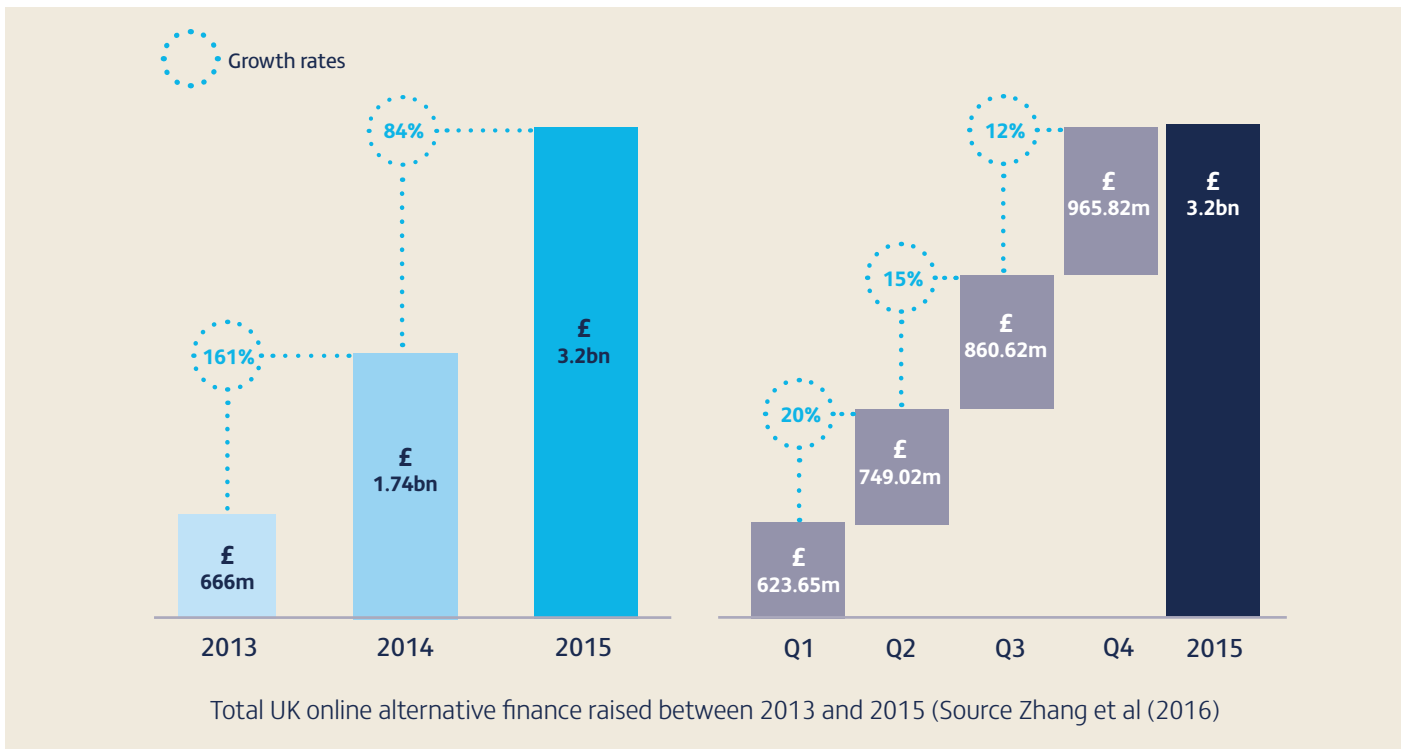


Several variations of crowdfunding exist (see Appendix 1); however crowdfunding websites can be largely divided into two groups - donation/reward-based and equity/investment-based.

Reward-based platforms such as Kickstarter allow firms seeking finance to offer non-monetary rewards to investors, such as invitations to product launches or early availability of the product. These platforms allow firms to seek finance without equity sharing. Sometimes they simply allow nothing more than providing investors with the opportunity to feel as though they are part of a community and are helping a creative initiative (Agrawal et al., 2011).

In contrast, investment-based crowdfunding offers the option of funding for equity (for example, CrowdCube and Seedr) or as a conventional loan (for example, Money&Co). With this model however, returns are not guaranteed, as investors face the inherent risks involved in start-ups.

The distribution of alternative finance platforms across the UK is shown in Figure 1, although given the virtual nature of the engagement between the prospective borrower and the online crowd, physical location is largely irrelevant.



4.2 Types of crowdfunding

Crowdfunding websites can be mainly divided into donation-/reward-based websites such as Kickstarter and Indiegogo; investment platforms where investors take an equity stake such as Seedrs and Crowdcube and debt-based platforms that offer peer-to-peer lending (e.g. Lend Invest, Trillion Fund); invoice trading (e.g. Platform Black, Market Invoice), and debt-based crowdfunding (e.g. Triodos Bank).

With donation-based crowdfunding, non-monetary rewards are available such as the provision of invitations to product launches or the early availability of the product, or simply allowing the investor to feel they are part of a community, helping a creative initiative. With investment-based crowdfunding, a distinction can be made between funding for equity (for example, CrowdCube and Seedrs), or as a conventional loan (for example, Money&Co). In this model however, returns are not guaranteed, as investors face the inherent risks involved in start-ups.

Zhang et al. (2016) explain the UK growth of the three types of crowdfunding platform - donation-based, reward-based, and investment-based:

- donation-based crowdfunding grew the fastest amongst all alternative finance models in 2015, with a 507% year-on-year growth rate and £12 million distributed. Although it was growing from a relatively low base (i.e. just £2 million in 2014), its development over the last twelve months is still noteworthy
- reward-based crowdfunding is taking hold in the UK with both national and overseas-based platforms growing fast in transaction volume and popularity. In 2015, £42 million was facilitated through reward-based crowdfunding platforms, with a 62% year-on-year growth rate
- investment or equity-based crowdfunding is one of this year's (2015) fastest growing models, up by 295% to £332 million raised, compared to £84 million in 2014.

From a definitional perspective, Peer to Peer (P2P) lending cannot strictly be considered a crowdfunding platform, given that it does not involve a 'crowd', but is rather more binary and facilitates discrete relationships between peers. For this reason it was not focused on within this study.

Despite the rapid growth in alternative finance, the AltFin market currently accounts for a very small share of SME lending (less than 2% of overall SME lending²). That said, on-line alternative business finance has become an increasingly important channel of financing for entrepreneurs, start-ups and SMEs in the UK, promoting economic growth, creating jobs and fostering innovation. Frydrych et al. (2014) explain that crowdfunding creates legitimacy for the start-up entrepreneur's business at a strategic level where interactive group dynamics create a shared dynamism around communication of the company's appeal.

In 2015, £2.2 billion of business finance was raised through online alternative finance platforms, providing venture,

working, growth and expansion capital for around 20,000 SMEs in the United Kingdom. Year-on-year, the total online alternative business funding rose by 120% from 2014, and the total number of SMEs served, increased by 185.71% (Zhang et al, 2016).

Comparing this to the £53 billion which the Bank of England estimates was lent by national banks to SMEs in 2014, it is estimated that the total online alternative business lending in 2015 was 3.34% of gross national lending to SMEs (Zhang et al., 2016). Alternative business lending in the gathered data included peer-to-peer business lending, invoice trading and debt-based securities. If the peer-to-peer business lending volume (including real estate lending) is compared with the British Banks' Association's (BBA) annual data in new loans lent to SMEs, the percentage of alternative business lending has increased steadily from just 0.3% in 2012 to 0.9% in 2013 and to 3.3% in 2014 (Zhang et al, 2016).

5.0 Issues of penetration in alternative finance

It has been consistently the case that very few SME clients compare bank offerings prior to opening a current account and 36% do so without searching for alternative finance at all.

Indeed, recent CMA (2016) research indicates that only 2.6% of SMEs in NI had switched and that just over three-quarters in NI that had been in business for over ten years have been with their main bank for at least ten years. Almost 80% of SMEs that had been in business for between two and five years confirmed that they never compared the costs of their

BCA with other providers, and 67% of SMEs did not consider switching at the end of the free banking period.

Given this prevailing inertia and the relative infancy of the alternative finance domain, the aim of this study is to examine the perceptions of lending bankers and start-up SME owner-managers towards one particular source of alternative finance - crowdfunding.

² includes start-up and all other SME loans

6.0 Methodology

The following research is focused on “how” and “why” crowdfunding, in the context of the sharing-economy model, can help SMEs with start-up funding. Addressing such questions was most effectively done through a qualitative approach (Yin, 2016). After reviewing available literature on crowdfunding, from academic and practitioner sources, 27 in-depth semi-structured interviews were carried out, 13 of these with crowdfunded SMEs and 14 with lending bankers who have responsibility for decisions related to SME

lending. For the SMEs, the interviews were supplemented by publicly available information which included the pitch on the crowdfunding platform, material on their websites and news information.

The interviews lasted approximately 60-90 minutes and were a combination of face-to-face and telephone or Skype interviews.

7.0 SME research findings

Issues explored in the interviews relating to the SME respondents were derived from the literature in order to develop an interview guide based on the aims of the study. The SME sample is detailed in Appendix 2. The interview guide was initially piloted on 2 SMEs, refined, and then used for the remaining core eleven interviews, with the guide developed and refined as the interviews progressed.

The discussion themes were:

- Attitudes to retail banks generally and any experiences of bank lending situations
- Motivations for the use of alternative funding platforms
- Perceptions as to the experience of crowdfunding engagement, both personally and professionally.

Findings relating to each of these key themes are now presented.

7.1 Attitudes to retail banks generally and any experiences of bank lending situations

Most of the firms interviewed which had used crowdfunding were very recently established and there was a predominance of reward-based crowdfunding platforms (particularly Kickstarter), rather than equity-based platforms.

Respondents generally shared an enthusiasm for the ease of their engagement with their particular platform, with issues like speed of response and low administration being mentioned in the context of how different this was from traditional banking models.

Respondents shared the view that banks, even where they would have liked to provide support, were unable to largely because of inflexible evidence-based lending processes or because the entrepreneur in question was perceived to be “too risky”. One respondent commented, “They said - don’t even bother, you would be wasting your time”, while another non-seeker of bank finance reflected, “We are too small, it is too risky, we didn’t even think about getting a bank loan.”

This theme of risk was shared by other respondents. One start-up had decided to go down the crowdfunding route and did not feel they would have been given bank finance had they applied for it: “If they had looked at it they would have said ‘you’re having a laugh.’”

Interestingly, many respondents also felt that banks did not really understand the financial needs of new start-up firms: “We’re with XX bank – located in the back end of the country and they are backward in how they look at business. People in the bank hadn’t even heard of Kickstarter – they didn’t know what that was. Even the term crowdfunding – they didn’t really know what that was.”

Another respondent shared their frustration at the centralisation of decision-making and decisions being made by “someone who has no idea of what we are doing. They are looking at figures they don’t understand the context of”.

There was generally a negative view towards the availability of bank finance, and only five of the respondents had actually approached their bank for finance, with one being successful, although the loan of £10,000 “was tiny in business terms” and their business required much greater investment. This

non-seeking behaviour was also found to be a common factor in the Northern Ireland market in 2013 through Federation of Small Businesses research, (Durkin et al, 2013b).

One respondent spoke of the “traditional, very calculated” approach of banks, which was not something that fitted the “start-up world” and shared the view that “banks are not in the right space, nor are development/grant support agencies. There is futility in banks seeking to support start-ups in today’s society – they should focus on providing working capital solutions for more growth businesses which have more of a track record and use crowdfunding validation as evidence.”

7.2 Motivations for the use of crowdfunding platforms

Motivations for engaging in crowdfunding varied amongst the respondents. Related to the previous theme, it was interesting to find that 2 respondents had come to crowdfunding after having no success in securing a bank loan at start-up, while a third had also been drawn to crowdfunding after being told bank finance would not be available and failing to get funding from angels and venture capitalists.

Additionally, one respondent had found the bank lending process too complex. One had initially approached their bank, even though they thought it would be unsuccessful, but had decided to go down the crowdfunding route before a formal application was made.

The remaining respondents had taken the view that the banks would not have been able to support them and did not even approach to investigate or assess the extent that this suspicion was true: “For the start-up world it’s all so quick and constantly changing and you don’t really know what happens, so I think the traditional approach to bank loans doesn’t fit that world...(so) I think there are better ways to get some finance into a company or a project than going to a bank”.

Respondents generally shared a view that they may as well give crowdfunding a try: “I was going to launch anyway but I thought - ‘why don’t I try crowdfunding to see if I can get a bit of money to help?’”.

Similarly with respect to another interviewee who said, “I had my own savings and no anticipation of requiring any additional funding at the start. I did Kickstarter as it seemed

an easy way of launching the product rather than needing to use my own finance.”

Apart from raising money, a point that was made by several respondents was the validation that crowdfunding brought to their business idea. One respondent whose business was actually about crowdsourced support for start-ups, felt that “for me the whole point of raising money through the crowd was validation of my business model and it was important validation to actually go on and pursue the business. I wouldn’t have taken bank finance for this.”

Another commented that “(he) was impressed by the idea that suddenly you have got 200 people batting for you, people who have invested and that has proven to be the case, not all huge investors but they are investing in us being successful which is pretty important.”

However, one of the respondents queried how reliable crowdfunding was as proof of demand: “I don’t necessarily think that observing demand on Kickstarter is an accurate picture of the entire market. The demand on Kickstarter may be very limited and the demand in society may be much higher, it may be something they want now and not wait 6-8 months, it depends on the type of product”.

7.3 Perceptions as to the experience of crowdfunding engagement both personally and professionally

Experience of the platforms

Positive perceptions of the engagement with crowdfunding platforms centred around the speed with which funding could be secured, the sense of validation from the market/ investors (as noted above, when the campaign was successful), a feeling of closeness to the market/crowd, and the low volume of paperwork and the fewer “hoops one had to jump through”.

Most respondents found their engagement with their respective crowdfunding platforms to be a positive experience, bar one respondent, with three going back for additional funding. However, the disaffected respondent felt that Kickstarter “offered virtually zero value, it is basically a webpage. Kickstarter are not the type of darling of the press that they were, they have done Kickstarter to death, it has gone now”.

Related to this, several respondents made the point that crowdfunding platforms are very competitive; in the words of one, “Crowdfunding is very much a popularity contest. We would probably have looked more carefully at the companies we were up against and chosen the timing, because the timing of your deal really has an impact into the amount you fund”, and a successful campaign needs to be planned and managed.

The equity-based platforms, due to their regulatory nature, have a more demanding application process, as illustrated by the two respondents who undertook this approach.

As one respondent noted, “Based on our pitch I think there were about 147 points that were picked up in due diligence where we had to verify our claims.”

Similar views were expressed in another interview; “The bureaucracy behind the pitch was immense and I wasn’t able to put in vital information.”

Progression from reward to equity

Interestingly, there appeared to be a progression from reward-based crowdfunding being selected at the beginning, with a move towards more equity-based models as the company began to grow. This was true in the case of two respondents who indicated that having used Kickstarter to get started, they are now looking at the more equity-based models.

In contrast to this view, another respondent stated, “a lot of people who do it the other way round, for example there are start-ups that got an equity round first and then they do Kickstarter which helps you to raise way more”, and a further respondent moved on to peer-to-peer lending. It is also noted that some businesses are not suited to reward-based crowdfunding, due to the nature of the products (e.g. scale and regulatory reasons).

Friends and family

Momentum, from the initial interest to achieving the funding target, was seen as important. All respondents made the point that early funding had to be evident. The views expressed in two of the interviews below illustrate this:

“One of the things that I am told was very important was initial momentum, so if a campaign launches and it has nothing in it people tend to go ‘Huh I am not going first.’”

“I guess going through the process I knew you had to bring money with you to build momentum so I brought some money with me, my business partner brought some money in and between friends and family there was 30 to 50 grand to build momentum at the start”.

Interestingly, one respondent failed to build such momentum and was an anomaly in this sample, raising their funds through one dominant investor who represented 80% of the raise. In this case crowdfunding was the method but the investment did not really come from a crowd.

This early momentum was generated through encouraging, or actively managing, contributions from the network of family and friends as illustrated by the following statements: “It is important to realise that it is not just a ready and waiting crowd of people willing to give you money. It is a crowd you bring to your business”, and “Yes, so what you do is in the first days you just bring your family and friends, for us it was mainly our testers on the platform” and “Basically the approach was you contact as many family and friends as you can to give the initial push and I think that even if it’s 10%, or just 7% of your target if you can actually get people to move it up to 10% within the first day or so that movement generates interest elsewhere....as well”.

The nature of such appeals to the firm’s network is intriguing, in terms of what it is based on. One respondent illustrated this by the initial appeal to his network: “Something cool is coming out. You know it’s me, you can trust me”. Another went on to make a salient point around the variety of motivations which drive Kickstarter backers: “There are several different types of Kickstarter backer. There are backers who like to follow the process and support people and those who just want the product. You have got to appeal to both of these people.”

However, such initial priming and exploitation of human capital can only go so far, and one respondent expressed his surprise at “running out (really fast) of friends, family and network contacts” who would donate to his Kickstarter campaign after launch. This all requires continuous management to ensure momentum is maintained, which was supported by statements from most respondents, including this one: “Momentum plays a huge role in crowdfunding. When you reach a tipping point and people think everyone else is investing and they think they have to get in as well. I see campaigns with good companies and good products but (they) have not reached the tipping point.”

Social media

All respondents bar one noted the role of social media, with some giving it more importance than others. These respondents placed a great deal of importance on its role:

“On Facebook there is a group run by the world’s largest dice collector. He and his friends put in a decent amount. I said ‘the world’s largest dice collector has backed us’ and that helps. People liked that.”

“I was already active on a lot of social media and I was reaching out on IndieGoGo and gaining a following.”

“I promoted the hell out of it on my Twitter, LinkedIn and Facebook stuff”; “We did have leads from Facebook saying I’d like to invest - how do I do it?”

Other respondents placed less emphasis on the importance of social media: “You have to do it but it doesn’t really affect it. So basically you do it because of the people that already know you, let’s say if you read about it in the Guardian or Financial Times you then, if you are potentially interested, you Google it or you type it into Facebook or Twitter - you have to see, you have to find something, you need to see something that is updated regularly but it is not that we get new people” and “It was quite important. The picture of the tank got retweeted and shared around and a YouTube video was passed around as well. A buzz spread around the social networks. It was not a driving force but a facilitation.”

Video and public relations

The importance of the pitch’s own video was cited often as being pivotal to the success of the pitch. One respondent stated, “My biggest learning there was that I realised the video is very, very important...Some people fail because they think they’ll just make a video and put it on Kickstarter”, views which chimed with the comments of another respondent: “The really important thing I think is the video. I don’t think our video was good enough for the third round compared to the previous two, we rushed it slightly so I would have perhaps made that better at the start.”

Another saw the video as generating a lot of interest for their campaign: “We were very pleased with it. The video they showed picked up 45,000 views.”

An extreme case of the importance of the video was illustrated by the experience of one respondent: “He [the investor who represented 80% of the funding target]

watched the video then pledged to invest and then requested our business plan. Even when he invested there was a certain doubt as he had not even read our business plan and had invested £45,000”.

Respondents also generally noted the importance of public relations. One said, “I needed PR quickly – it was a wakeup call. Reviews of journalists drove traffic to my campaign. You literally need dozens of press releases – by far the biggest reach is traditional broadsheets not your online bloggers. There is very poor organic find of your campaign. You need to generate the traffic. Crowdfunding is a numbers game, you need to get thousands to your site and then convert them.”

Interviews with other respondents supported this view, as illustrated by the following comments: “And really then we got into Kickstarter, we wrote - my wife and daughter wrote press releases and sent (them) to many publications and in the beginning no-one picked it up. Then a well-known international design magazine, Dezeen - primarily online, but they have got a printed magazine and a large subscriber list - became interested and they printed us and mentioned our Kickstarter and they showed our video as well on their website.”

8.0 Banker findings

The themes under discussion with the bankers were:

- Bank finance and alternative finance in the context of SMEs
- Bank awareness of crowdfunding and alternative finance
- Bank attitudes around, and perceived impacts of crowdfunding on SME-Bank relationship

8.1 Bank finance and alternative finance in the context of SMEs

Many of the banking respondents acknowledged that while they had difficulties in servicing the needs of the SME market, they have two key strengths which they hope will overcome their challenged position in the market; local presence and depth of service.

There was a strong hope among the bankers interviewed, that effective relationship management and “local management presence” were a “key strength” over crowdfunding platforms. However, it is notable that P2P models, such as Funding Circle, have networks of local agents through partner financial broking agencies.

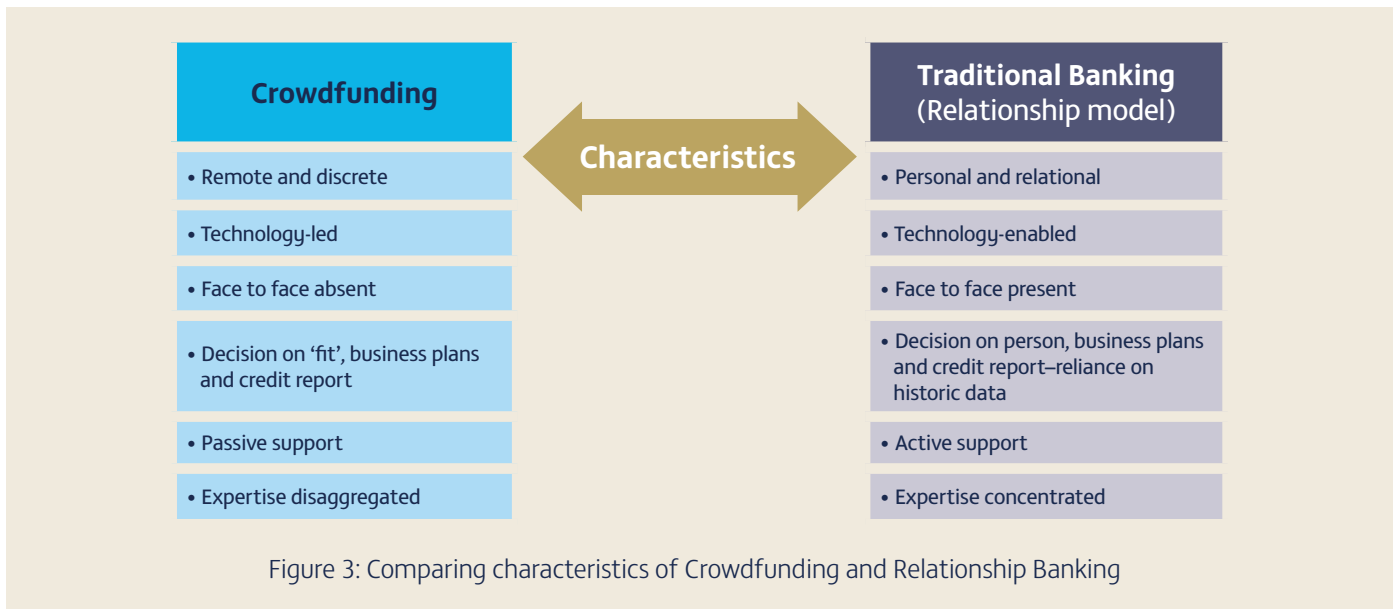
One respondent noted that SMEs “rely on the support of a bank” more than for finance and she believes she, in herself, is a “source of invaluable guidance” during a company’s early stage; thus a bank’s local community presence gives SMEs a depth of knowledge and service. While this style of advice service would be something that cannot be provided by a pure crowdfunding platform, these platforms are now adept at providing online-based general advice backed by forums and other online environments for more specific, if not formal, advice. Interesting too is recent research from the FSB in Northern Ireland (Durkin et al, 2013b) which indicated that advice and guidance was considered important by the SME respondents, but was not perceived to be meaningfully available through their banks at that time.

However, while location and advice are the cornerstones of the banks (Martin et al., 2013), one banking respondent described the relationship between banks and SMEs as “tarnished” by negative media attention, the UK’s Payment Protection Insurance scandal, and most notably for small businesses, the scandal surrounding the mis-selling of interest rate swaps to small and micro businesses. He felt this has left customers with a “jaundiced view” of banks and therefore SMEs are “naturally suspicious”.

One can argue that such attitudes to banks reflect a very real concern that banks faced a moral hazard when developing relationships with SMEs. Existing research has outlined the dangers of moral hazard and adverse selection. Historically this has been applied to point-in-time sales but banking is different in that it is a more relational offering. In the context of this long-term relationship, incentivising the selling of a non-optimal product to customers will potentially undermine long-term relationships and do more damage than good to the performance of the bank.

However the “relationship” operates as more than a sales channel for banks and is an advantage for banks in making better lending decisions. It has previously been claimed that companies are at a disadvantage when seeking finance from a bank with which they do not have a relationship. This is supported by a respondent who stated, “It’s harder for somebody who’s not got a relationship with you to get the funds simply because you don’t know them as well”. This may therefore be a disadvantage to crowdfunding investors who are at a distance and unable to develop the face-to-face relationships that respondents feel are a key factor in building this style of strong relationship. In such circumstances the bank and the crowdfunding community are reduced to the same tools; assessing credit reports from third parties and evaluating the entrepreneurs’ business proposals. For banks this is often not enough and “kicking the tyres” of the proposition usually requires face-to-face and onsite meetings. Interestingly, Frydrych et al. (2014) propose that, while not offering a face-to-face model, crowdfunding is still inherently social and that social dynamics in the online ecosystem create funding-influencing variables for capital exchange through the crowd – they state that “crowdfunding is constructed around the relationships of social networks” (p.28). Therefore, there may be a discontinuity between the concept of “relationship” between bankers (who would base their understanding of customers on hard cashflows) and the more emotionally-driven intuition and intelligence of the crowd.

Banks can use their “on the ground” capability to show they are “being supportive” to customers; as one respondent explains, “everything we do is about the customer and the needs of the customer”. Many banks enhance this local knowledge and local support with specialist relationship management (RM) teams for specific customers, in order to effectively meet their needs such as franchising, agriculture and healthcare.



Literature suggests banks have failed to build on their customer relationship capabilities in recent years and are no longer perceived as doing enough to support SMEs (Irwin & Scott, 2010; Durkin, McGowan & Babb, 2013; Tyler, 2011). Not only that, but some of the bank respondents felt the system was under pressure, and some banking respondents felt the RM was not “cost effective”. However, this research implies it is a major advantage in competing against the rise of alternative finance, as RM services cannot be easily replicated to the same extent by any online service or crowdfunding platform, and if they were, the crowdfunding platforms would be a very different economic proposition with greater transactional costs imbedded in them.

Key characteristics and differences between crowdfunding platforms and traditional banking platforms are captured in Figure 3.

When dealing with financial institutions, many SMEs felt banks do not understand the needs of start-up firms and portrayed a lack of “fit” between banks and start-ups. One respondent describes the start-up world as “quick and constantly changing”. He therefore felt “the traditional, very calculated approach to bank loans doesn’t necessarily fit that world”. Most SME respondents did however indicate a willingness to deal with banks as their company grows, but feel the “inflexible” and “overly-cautious” approach of the banking model needs to change first. Even after a successful crowdfunding campaign, SMEs described issues raising finance with banks, describing them as “reluctant to lend”. Many felt this was as a result of a negative perception caused by not having previously gone down the “traditional” channels.

This same view was supported by one banking respondent who explained that if a funding proposal used crowdfunding, “the perception was that it was under distress and couldn’t get funding conventionally”. Similarly an SME describes that “now we approach banks, we’re profitable now and we need some financing to allow us to finance our growth and to help us spend grant-based income that we have also. It seems low risk for the banks, but we have found it incredibly difficult. We’ve approached 3 or 4 banks, they want personal guarantees, none of them will lend us money. We find it pretty incredible. What I put this down to is a credit process which is inflexible and I think we’re falling foul of that lack of personal perspective, it’s box ticking. There is no latitude to think about the potential of the business that would allow for a more informed decision”.

Within the SME respondents in this research, the majority in GB did not initially approach the banks for finance. In Northern Ireland however, many of the respondents did, but found banks were unable, or unwilling, to assist. One respondent explains how banks were interested in his idea but “the risk was perceived to be too high”. There also appears to be a perceived barrier with regard to their age, with one respondent stating, “I did consider banks but the banks didn’t like me as I had no experience of business and was so young”.

There is a dilemma for banks. Research by Blazy and Weill (2013)³ shows that taking collateral charges over an SME loan will indeed reduce the losses of a loan default for a bank. However, there is a positive correlation between taking a collateral charge and adverse selection, i.e. the banker may take comfort in the collateral and lend where they should not, and sadly there is no impact on the moral hazard associated with the lender misrepresenting their borrowing needs. Overall, where there is clearly an asymmetry of information, collateral serves to mitigate losses, if not prevent them in the first place, a structure which crowdfunding cannot really emulate (Deakins and Hussain, 1994).

Equally, with little collateral available with true start-ups, especially those who do not wish to provide personal guarantees, there seems little advantage to banks providing loans subject to adverse selection, moral hazard and collateral cover. There thus seems to be a natural division between where banks and crowdfunding should locate themselves in the market.

8.2 Technology enablement

Technology is a key component in the strategy of crowdfunding and it has been argued that the growth of the industry has been influenced by developments in technology and social media (Saxton & Wang, 2014; Belleflamme et al., 2014; Bruton et al., 2015).

A number of technological issues were raised by banking respondents. Respondents within both Northern Ireland and northern England believe that customer preference is “radically changing, moving towards online and digital” and that customers “are now willing to do everything by the internet”.

Many banks have therefore internally addressed their use of technology to meet customer needs. For example, consumer demands for Relationship Managers to be “available” and “contactable” has been met through the use of email, mobile phones and tablets.

Also banks are offering “more and more products online” with many introducing automated self-service machines within branches. The advantages of technology are argued to be enabling more meaningful relationship cultivation, with one respondent stating, “it means you have more time for people. So we don’t spend our time now transacting business. We spend it dealing with people”. However it is important though that they develop the correct “mixture of brick and click” in order meet the requirements of all their customers (Durkin et al, 2013a). Thus, while many people may see crowdfunding as a naturally “digital native” concept, banks too are looking at digital to reinforce their RM-based offer through both real and virtual “emulated” relationship contacts, and also through using digital, to enhance the product mix available for customers to manage for themselves.

Many of the banking respondents also discussed the issues faced when dealing with high tech companies and the difficulties faced in financing these. One respondent explains, “a lot of bank managers maybe don’t even understand what they’re funding” and another admits to having “no idea” how to fund these types of businesses. It is therefore argued that crowdfunding is better suited to these companies than traditional bank funding. However, although this may point to crowdfunding posing a threat to banks in this area, it has

³ Blazy, R., & Weill, L. (2013). Why do banks ask for collateral in SME lending?. *Applied Financial Economics*, 23(13), 1109-1122

been suggested by respondents that banks do not have an appetite for high tech companies and therefore this is not a cause for concern. Another respondent feels that these types of companies naturally prefer to use crowdfunding as a source of finance due to their innovative, fast-paced nature. However, as the Telecommunications, Media and Technology (TMT) market expands and incorporates more of our economy, it may be short-sighted for banks to remain comfortable with potentially losing market share in this area, and as our research shows, crowdfunding is spreading much further than the area of TMT.

It has also been argued that customers are “frustrated and disappointed with the conventional route that banks take” and that this could be addressed with the ability to offer fully online lending. One respondent explains, “no established bank that I know, certainly in Ireland, has that capacity” and although customers can now apply for services online, respondents explain that this is purely an initial application and behind the scenes the usual manual process takes place. It is argued that banks are “just not tech savvy enough at the moment [...] to run that kind of facility” and this therefore provides a competitive advantage to new challenger banks and crowdfunding platforms. Of course, such views are in direct opposition to the bankers’ perceived advantages of having RMs on the ground for both sales generation and risk assessment purposes.

SME respondents also discussed the difficulties faced, describing social media marketing as “very time-consuming” and another explaining that “we don’t really have the manpower or the experience to use it super-well for campaigns or something like that.” Not all respondents felt this way however, with one stating that “traditional media played a more important role”. Therefore, similar to the digitisation of banking, this ‘new’ marketing may require a mix of “brick and click”, something which the P2P market is adapting to through the use of local financial brokers to help introduce clients, such as, again, with Funding Circle. Early research in the adoption of virtual and digitised solutions within value chains (e.g. Rayport and Sviokla, 1995, 1996) had an expectation that there would be a move away from physical towards virtual, but more recent thinking accepts movement of adoption in both directions. Recent research from Murray et al. (2015) has identified a competency gap and a lack of strategic thinking in how social media is being deployed by banks in the south of Ireland.

8.3 Banks’ awareness of crowdfunding and alternative finance

None of the respondents is aware of experienced direct competition from crowdfunding and therefore the alternative finance platform was not viewed as a threat. Indeed, many of our banking respondents were not aware of crowdfunding. Of the 14 banking respondents, five had strong awareness of crowdfunding, seven had some and two had no knowledge.

Respondents with knowledge of crowdfunding often gained this through personal interest, with one explaining, “in the job that you are in you tend to keep an interest in that type of thing”. It would seem however that the crowdfunding trend is still something which is not being discussed within banks and there appeared to be limited awareness of policies in place within companies. One respondent suggested “I would suspect if you [...] ask ten RMs, you would be lucky if one of them has heard of it and if they have heard of it, they don’t really know how it works”.

When discussing perceptions of crowdfunding among respondents, mixed opinions existed towards the concept. Some respondents raised serious concerns towards potential issues with this market and in particular the potential to aid money laundering. It is felt that the crowdfunding industry would not be “hard to defraud”, as when attempting to make money at such a fast pace, respondents feel there are “ways in which it could be manipulated, very easily and very quickly”. As a result respondents fear the damage potentially caused to a bank if their name was to be associated with crowdfunding platforms. Respondents also raise issues with the information flow in a crowdfunding process, feeling it would be “easy to manipulate and window dress your accounts”. Some respondents therefore feel that there are currently not enough regulations within the crowdfunding market. However, others feel that it would “not be fair” to regulate these industries in the same respect as banks and that “regulations are trying to not get in the way” of the growth of this market. One respondent explains that regulation is particularly tricky within his company as they draw no jurisdiction between the UK and Ireland and the regulation is currently so different in both countries.

Fear of crowdfunding fraud is clearly evidenced in reality. A number of sites track the most unlikely or clearly fraudulent

campaigns, and the US Securities and Exchange Commission (SEC) brought its first action, filing a civil action on 13th October 2015 to freeze the assets of Ascenergy LLC and its founders. It had been selling participation in the drilling of oil from wells it had leases on; it had used 4 different platforms raising \$5 million. The wells, the SEC found, did not exist (SEC Litigation Release No. 23394 / October 28, 2015). In the related area of P2P lending, whole schemes have been accused of being fraudulent, by far the biggest to date being the Ezubao scheme in China, which the authorities claim has been a \$7.6 million Ponzi scheme (Miller and Zhang, 2016)⁴. fraudulent campaigns, and the US Securities and Exchange Commission (SEC) brought its first action, filing a civil action on 13th October 2015 to freeze the assets of Ascenergy LLC and its founders. It had been selling participation in drilling of oil from wells it had leases on, it had used 4 different platforms raising \$5m. The wells, the SEC found, did not exist (SEC Litigation Release No. 23394 /October 28, 2015). In the related area of P2P lending, whole schemes have been accused of being fraudulent, by far the biggest to this stage being the Ezubao scheme in China which the authorities claim has been a \$7.6m Ponzi scheme (Miller and Zhang, 2016)⁵

One respondent described the industry as “a bit legless and a bit vague” and others address the disadvantage of providing all services online, describing it as “distant”. Other respondents also raise issues towards the “bandwagon” mindset of crowdfunding and compare it to other issues, explaining, “It sounds exactly like the mortgage market issues but with a different asset”. It is also felt the return is not enough to compensate investors for the risks taken and although investors should be able to perceive the risks with these investments, there is a concern they are not actually fully understood. One respondent also raises confidentiality issues for his customers, explaining, “If you apply to a crowdfunding, you put your wares right up on a public space. In Ireland in particular [...] people are very hyper about confidentiality so you’re only going to attract a certain type of customer up to a crowdfunding platform”.

That said, some respondents discussed the positive elements of crowdfunding. SME respondents who bypassed banks in

preference for crowdfunding platforms did so for a variety of reasons. For many it was perceived financial rejection from banks. However others felt a validation of their products was available from crowdfunding, either from investors or from pre-orders. This assisted in the product launch and provided a stronger negotiating position when looking for further finance. It also presented more credibility in the eyes of potentially large customers. One respondent explains, “we did crowdfunding as an easy way of launching the product rather than needing the finance”. Some appreciate the ability to “build relationships with their retail customer base” through crowdfunding and others prefer the “speed” compared to the drawn-out process of applying for bank finance. Respondents felt crowdfunding was seen as a safe environment allowing businesses to take a risk anonymously, rather than facing the potential rejection of traditional finance by a local/ community-based bank. They also discussed the market’s ability to play on the current “ill feeling” toward banks within their advertising.

8.4 Bank attitudes around, and perceived impacts of crowdfunding on SME-bank relationship

The opinions raised assist towards examining the potential threat posed to the banking industry by crowdfunding. Here the challenge that crowdfunding could present to banks is explored from the view point of the banking respondents.

Some of these respondents welcome crowdfunding from a challenger perspective as they feel “banks need to change”. However the overall consensus among banking respondents is that crowdfunding does not pose a threat to traditional banking services.

Some respondents believe crowdfunding has “stepped in” to areas that banks previously monopolised and the nimble nature of the industry is seen as a key advantage where applicants can “get approval within 24 hours and funding within maybe a week”. It is therefore viewed by some as “a big threat” to the “unwieldy and cumbersome” established

⁴ Miller, M and Zhang, S (2016) China’s \$7.6 billion Ponzi scam highlights growing online risks. Reuters, 2/2/16. [reuters.com/article/us-china-fraud-idUSKCN0VB201](https://www.reuters.com/article/us-china-fraud-idUSKCN0VB201)

banks. Some respondents also discuss the “excitement” provided to investors who are not able to receive high interest rates in savings accounts due to base rate restrictions. One respondent however feels that it is on the liabilities side of the balance sheet where crowdfunding is not competition, as they do not protect depositors in the same way a bank can. However he feels that this is not understood by customers: “I don’t think people understand that with the protection that they’re getting from the deposit protection schemes, whilst they may not be paying the best rates, there’s a good chance that your money will still be there in the morning.” Beyond this, banks protect depositors through very large portfolios of assets widely spreading their risks, whereas crowdfunding would not naturally create such diversity in a portfolio.

Some respondents feel that, given the choice, businesses would select the conventional banking model and therefore see crowdfunding as a “last resort”, only to be used if traditional funding is not an option. However another respondent is concerned at “customers going directly to crowdfunding platforms for finance maybe because they perceive the banks are not open for money”. It is also argued that although customers are now “more open to looking at other streams”, crowdfunding platforms are only suited to a certain “very savvy and very alternative” type of business.

Another banking respondent feels that although some businesses would “relish” crowdfunding, this is a “small percentage of our marketplace”. That is not to say there are not advantages to the crowdfunding approach. For example, one respondent explains how customers can now access finance online at any time of day and “through a company that you’ve never heard of”. However, this also represents part of the difficulty for the model, as she feels her customers are “more conservative than that and they don’t want to do that”.

Some of the banking respondents question the sustainability of the crowdfunding industry, believing it to be too heavily reliant on the “risk appetite” of the crowd and therefore that the industry’s growth is limited. Respondents also questioned

whether platforms can “keep up the pace with what they have” as the market grows at such a rapid rate, and discussed the difficulties banks faced during the ‘boom’ years. It is felt that “bankers still have the advantage [where] they have the wider package and relationship” and therefore “as the banks become stronger and they rebound from these fines, legacy issues” there is a chance that banks pose a bigger risk to crowdfunding than the threat posed by crowdfunding to the banks.

The overall threat to banks is limited not only by the crowdfunding model as described above, but also by the scale of the current crowdfunding market. Although the crowdfunding market has boomed in recent years, some feel its size is still very small “from a high street bank’s perspective”. However, one respondent discusses other alternatives that banks have previously fought in the market, stating, “there are always different channels of funding available but I think that there’s always going to be room for the traditional bank amidst all of that”.

Other respondents suggest that there it is not really a bank versus crowdfunding issue, as the crowdfunding provides funding at a different stage in a firm’s development, and that there is an argument that crowdfunding and the SME services offered by banks may be most suitable as complementary products. One respondent explains, “it should help businesses get to the stage that they need to be, where we’re able to help them”; another describes it as a “collaborative mechanism as opposed to a true competitor”. Another bank respondent, while playing down collaboration, still noted that crowdfunding can do “one part of banking really well” and therefore it would only “displace certain parts of start-up lending”.

A number of banks have moved toward the collaboration route with P2P and crowdfunding providers, either as part of their product offering to SMEs or as a “fall-back” offer if initial funding is not provided. At the institutional level, Santander led this model in 2014 forming a partnership with Funding Circle, offering clients a fall-back option. Santander introduces

funding opportunities to the P2P market if it initially turns the SME down (Savage, 2014⁵). In return, Funding Circle would promote the other banking services offered by Santander. However, one of the respondents with regional authority for SMEs and with a degree of autonomy from his bank, has a regional arrangement with one of the leading crowdfunding providers to provide a funding option for his regional customers.

Another of the banking respondents was nonetheless very dubious about the scope for collaboration. Firstly, they noted that crowdfunding and P2P cannot offer a large section of SME banking and funding requirements; “I run their bank account, right? There’s no crowdfunding out there or P2P network that’s going to do their money transmission... international payments or do their letters of credit ... I can’t see them doing, you know, a revolving credit facility... I’d also love to see them try to do a 20-year commercial mortgage. It’s going to be pretty tough to do that.” However, the real issue with collaboration is around ethics, with for example the bank sending a lending opportunity which it has already turned down, to a market where the funding customers have little or no protection. One bank lender noted that in 2015-16 lending collars had been loosened at banks and they were lending again, “I wouldn’t go as far as to say we’re in boom at the moment but lending has relaxed... So if you can lend the money, you will lend the money”. However, to him that means if the bank cannot lend to a customer, knowingly sending a failed applicant into a near unregulated market with few lender protections is potentially unethical. They say, “So if you can’t do it [offer the loan] then it’s cr-p credit, it’s poor credit and the rationale doesn’t stack up. And as much as the banks get flack, [banks] do have a lot of people who spend a large number of years underwriting loans. So they kind of do know what they’re doing. Or at least I think they do”.

8.5 Love hate

Thus banks have a love-hate relationship with crowdfunding and the related P2P market for SME debt. It does not represent a large threat at the moment; the crowdfunding end is dealing with equity-like start-up funding which banks do not usually offer; there is thus the opportunity for banks to collaborate with crowdfunders to offer customers alternative routes to funding, although they are potentially passing less creditworthy customers into a less regulated and protected funding market. How will this threaten the traditional industry? With the crowdfunding industry in its infancy it is difficult for the respondents to predict an outcome. One respondent explains, “we haven’t been through an industry cycle on this, so we haven’t seen what the pitfalls are”. Therefore there are a number of issues respondents perceive with crowdfunding which could affect their ability to compete with banks on a large scale, as “it will only take a few losses and a few issues and a few scandals and it could well damage potentially the whole ethos”.

⁵ managementtoday.co.uk/go/news/article/1299405/finally-banks-embrace-p2p-lending-santander-gets-bed-funding-circle

8.6 Motivations for alternatives

One of the key issues raised by the respondents within this section is the perception that the recession has made banks less willing to lend. It is believed banks' appetite has changed and they are now "too risk-averse" and "more cautious". Therefore respondents feel "it is becoming increasingly difficult for businesses to get funding". Most banking respondents however argued this is a misguided perception and although they admit that the recession previously caused difficulties for companies raising finance, they believe this has now changed. One respondent describes the perception that banks never lend to startups as "just not true". Respondents referred to the revenue generated through lending and the ability to achieve this through SME credit. One respondent explains, "quite often if you speak to a business or you speak to politicians, they'll say 'the banks aren't lending' and that's definitely not true. If we don't lend money, we don't make money so that doesn't make sense".

One respondent feels there is a "perception that banks are the monster", however another feels that banks "will do absolutely anything within their power to lend to somebody". Start-up financing has been described as having "forever been an issue" and therefore one respondent "can't see it ever changing". However as previously discussed, SMEs are essential to the growth of our economy and it has been argued that the pace of economic recovery has been hampered by the lack of available finance to SMEs. Therefore if our respondents are accurately portraying the levels of available finance, they need to ensure this is effectively marketed in order to counteract customer perception. This will not only aid economic growth but may also prevent start-ups from bypassing banks to approach alternative finance and therefore reduce the risk posed by crowdfunding.

A number of requirements affect the availability of funding for companies through banks. However, although security is often presumed to be a key factor, respondents feel that banks are more interested in "demonstrable evidence, than in a business which is viable". Some respondents discuss the importance of a strong business plan when approaching a bank for finance and explain the challenge in obtaining "quality" information from customers. Therefore many of our banking respondents work with start-ups in the creation of business plans and provide templates on their websites. This type of support is a strength for banks, but crowdfunding platforms are increasingly providing pitch support to their customers also. Others see the characteristics and experience of customers as key factors when considering an application and explain that investment "starts with the person" and advise that they lend on the "character" and "integrity" of the person. Investment of own funds is also described as "the biggest issue for start-ups for us". However this is not a requirement in the crowdfunding market.

Respondents also discussed sector segmentation and outline the areas they are "conservative in lending to", and others they wish to "diversify into". These sector preferences differ between banks; however some examples for expansion included agriculture, manufacturing and engineering. Other sectors seen as less desirable include renewable energy.

9.0 Implications for the relationship between lending bankers and SME owner-managers

The aim of this study was to examine the perceptions of both lending bankers and SME owner-managers with the potential of crowdfunding solutions in funding start-up SMEs.

From this research it has been established that mixed opinions exist towards crowdfunding both within the banking and SME communities. However, it is difficult to establish the true effect of crowdfunding on the existing market until it withstands various economic cycles.

However, as banks come to terms with the Small Business, Enterprise and Employment Act 2015 which requires banks to share data on their SME customers with other prospective lenders through credit reference agencies, the environment is becoming more liberated. Add to this the advent of the Open Banking Standard where customer data must now be portable in order to facilitate switching, and the increasing pressures on banks to be more responsive to the needs of customers are obvious.

9.1 Issues of fit

A number of advantages and disadvantages to crowdfunding solutions were presented in this research.

Crowdfunding is seen as an appealing funding method and praised for its quick, nimble processes in contrast to the cumbersome nature of the bank processes.

Indeed there seems to be a more natural ‘fit’ between the nature and character of the online platform and the fit with the start-up culture in SMEs. It could be argued that this fit is less evident in the case of banks. Elaborating on these issues of fit, the research findings point to distinct differences between the structure, systems and processes, and culture of start-up small firms and those of their banking counterparts. These differences are presented in more detail in Figure 4 which illustrates how these differences are manifest in the context of traditional and alternative finance models.

The largely network-driven start-up SME has an inherent openness and opportunity-focused flexibility that is also found in the virtual network of crowdfunding platforms, but

Structure and Process in Bank Financing versus AltFin (CF)	
Traditional Bank Finance <i>Characteristics</i>	Finance through CF <i>Characteristics</i>
• Formal and sequential in process	• Informal and organic in process
• Few decision makers/slow and deliberate	• Many decision makers (the Crowd)
• Higher loan amount	• Lower loan amount
• Admin/paper heavy	• Admin/paper light
• Predictive model	• Effectual model
• Rational over emotional	• Emotional over rational

Figure 4: Comparing characteristics of Crowdfunding and Relationship Banking

which does not characterise banking. The ability to connect quickly, present a business case for funding and capitalise on faster and often more emotionally-driven decision-making processes are all attractive characteristics for SMEs. Minimal paperwork relative to bank approval processes make for added advantages within the crowdfunding model, especially in attempting to secure smaller loan amounts at start-up.

9.2 Issues of regulation

The regulatory risks associated with this source of finance are concerning and the industry currently has limited regulations in comparison with other financial services. Therefore the potential to manipulate accounts and/or use a platform to aid money laundering is a major issue, and governments may need to work with the crowdfunding market to address this.

Research also suggests investors are attracted to crowdfunding investment due to the current base rate and poor return on savings accounts. This higher return, however, may not compensate for the risks taken, and a lack of understanding from investors could present a major threat if significant losses are made. It is also possible that as the base rate rises and interest rates improve, this resource pool investing for greater returns on their investments may be lost. This therefore questions the sustainability of the crowdfunding market and its reliance on the risk appetite of investors.

Literature demonstrates the fast-paced development of the crowdfunding sector and suggests a large number of SMEs using crowdfunding as a source of finance. However, research also suggests that many bankers are largely unaware of the growing trend of crowdfunding and do not directly recommend it or examine the risks faced.

10.0 Potential strategies for banks

Respondents had varied opinions on whether banks would have buy-in in the crowdfunding market and on which strategy should be adopted.

Some respondents feel that the banking industry's desire to be innovative provides motivation to enter the crowdfunding market. However others discuss the issues within the industry where many believe their companies will not look to this market unless it "expands", is "tested" and "stands up to scrutiny".

Generally respondents feel that the risky nature of the market means it would not be possible for their companies to set up their own crowdfunding division. One explains, "There are enough people providing crowdfunding with a sufficient level of expertise that we don't need to be adding to it at the moment". Another believes that if his company was to develop a crowdfunding platform, it would most likely be created as a separate element of the bank, with the bank purely providing capital; however he feels that the risk-reward ratios would be too high and the costs too great for them to be considering this.

The most popular consensus however was that crowdfunding platforms and banks should work together, with one banking respondent explaining that "you have all these different

things that can all complement when you take them together to help a business". However others raise concerns that partnership with an existing platform could dilute their company brand. Therefore the most popular suggestion is a signposting arrangement to a range of crowdfunding platforms which customers can choose to avail of if the bank is unable to provide funding. Some respondents express this as a "moral obligation" for banks as it "aids the wider economy". It is argued that "banks have got to take on more responsibility for helping businesses". However although it is felt that crowdfunding should "be able to work in partnership with traditional banking arrangements", bankers would prefer that the risk element of this was not placed with them. Others however feel a signposting arrangement could be reputation-damaging, describing it as a "strange dichotomy", where customers are refused by one department of the bank but receive approval from another.

One respondent expressed personal difficulties in rejecting applications for credit; however the government now wants banks that refuse finance to a customer to signpost them to alternatives. Some of the bankers discussed this process and one respondent outlined the resources his company has invested in providing training for business advisors in this area. Currently a range of alternative sources are suggested

to customers, such as government schemes, friends and family, other banks, local councils and Invest NI; however crowdfunding platforms are currently rarely suggested. Respondents state they will work with customers to reshape deals in order to provide finance internally and they only signpost alternatives as a last resort. Similarly decline letters now detail “a suite of firms and companies” which can provide alternative finance, and bankers will work with a customer explaining why their application was not approved, together with steps which should be taken to reapply for finance at a later stage. Respondents feel this signposting is an “obligation” which banks have to society; however, others see this as a strategic advantage which could help towards healing the SME/bank relationship. Some respondents however admit that convincing customers to “think away from the traditional overdraft or term loan internally, can be a challenge”.

So, from a bank perspective, it appears that crowdfunding does not pose a threat to traditional banking services. Crowdfunding is often seen as a last resort, only used if traditional banking methods are not available. Indeed, there is something of a celebration of being traditional in seeking robust and evidence-based information around prospective borrowers’ business plans and market data. This appeared in the interviews almost as an over-compensation to the financial crisis. The service of relationship management is a major advantage to banks as it is highly valued by customers and without the ability to offer a similar service it may be difficult for crowdfunding to truly compete. However, this relationship has been damaged by the effects of the recession and although banks feel their support and guidance is invaluable to customers, many SMEs feel banks do not understand their needs. SMEs have become frustrated by the prudent approach to lending now viewed as overcautious. However for many SMEs there is a range of advantages to using crowdfunding other than finance, including increased product awareness and communication with customers. Crowdfunding is however more easily adopted in certain sectors and economies. Customers in NI for example are considered too traditional to have an interest in crowdfunding on a large scale. In contrast, the high tech industry would be more suited to this type of finance due to their interest in technology and their need for quick processes. Currently banks seem comfortable losing share within the high tech market; however as this market expands, this may cause difficulties for banks.

Although banks feel crowdfunding is not being discussed to any great extent by customers, many SMEs feel frustrated at the lack of bank awareness about the topic and aversion to lend to companies previously funded in this way. It may therefore be beneficial for bank officials, especially those dealing with business lending, to gain an increased awareness of the crowdfunding market. Although their bank may not wish to implement a crowdfunding policy, nonetheless in order to deliver a high level of customer service, it is imperative that their staff are knowledgeable enough to address the needs of all their customers.

Within this research, it cannot be confirmed with absolute certainty whether crowdfunding poses any definite risk to banking services. Market perception, but not the reality, that banks are not lending may have aided the growth of crowdfunding. However, although there has been fast-paced growth in the crowdfunding market, the size of the industry still remains very minor in comparison to the established banking industry. As banks recover from the effects of the latest recession and become competitive again, it may be possible that they pose a greater threat to the developing crowdfunding industry than crowdfunding does to them. Ultimately, the sustainability of the crowdfunding market can only really be predicted, and will only be fully understood, once it has been tested through a number of economic cycles.

Nonetheless, the growth of the crowdfunding market is recognised, as well as the potential it possesses. Therefore although there are issues involved with providing a signposting service, banks should consider those issues and the risks associated with the crowdfunding industry and take the time to develop safe policies with which they are comfortable and which allow them to work alongside crowdfunding platforms.

In addition it may be beneficial for banks to examine the trends of their sector more closely and in this new, innovative marketplace to recognise the importance of monitoring threats posed by substitute offerings as well as those posed by their traditional competitors.

11.0 Potential strategies for SMEs

Many of the SME respondents had positive perceptions around crowdfunding and in particular the speed with which funding could be secured, describing it as “fantastic for getting funds fast”. Another respondent described the process as “much more rewarding than the traditional means”, while others approved of the low volume of paperwork and the fewer number of “hoops one had to jump through”. Other respondents however felt there was “a lot of admin” and “interaction required”. Many SMEs admitted to enjoying the excitement associated with running a campaign, describing the “buzz” they felt. However some described crowdfunding platforms as very competitive and viewed the “the lack of support” as a disadvantage.

Among the respondents there appeared to be a trend towards reward-based crowdfunding at the beginning and equity-based models as the company began to grow, due to the inherent differences of these and associated regulatory and fee structures. These issues of sequencing around the fit of different types of crowdfunding at different stages of business growth is important, as are the positioning of these alternative platforms in the context of the broader, more traditional funding landscape. One respondent explains that equity-based crowdfunding was not suitable for him at start-up as “there was a high barrier to entry”, as was the requirement for a “business plan with quite a complex financial model”. However it is also noted that this is not the case for all companies and that many businesses are not suited to reward-based crowdfunding due to the nature of the products (e.g. scale and regulatory reasons).

The concept of momentum during a crowdfunding campaign was also seen as important. Respondents explained how the evidence of early funding was key to creating this; as one respondent explains, “if a campaign launches and it has nothing in it, people tend to go - “Huh I am not going first”.

Another states that “if you reach 30% funded you’re 90% more likely to reach 100% funded”. Therefore, in order to achieve this early momentum, companies encouraged and actively managed contributions from a network of family

and friends. However, such initial priming can only go so far and respondents describe “running out of friends, family and network contacts really fast” and “exhausting our reach in a matter of days”. It is therefore vital to ensure momentum is maintained through continuous management and it was interesting to see an emphasis on the power of traditional communications and PR channels (e.g. broadsheets, press interviews and opinion pieces, local magazines, radio), as well as the new media alternatives (e.g. bloggers). One respondent illustrated this, stating: “Momentum plays a huge role in crowdfunding. When you reach a tipping point and people think everyone else is investing and they think they have to get in as well. I see campaigns with good companies and good products but they have not reached the tipping point”.

Another respondent highlights the importance of cultivating a personal appeal. He explains: “I wasn’t selling anything tangible at that stage. So investors had to buy into the business plan and they were also buying ‘me’ to a great extent”. Another respondent explains that in addition to investors who “just want the product”, a lot “like to follow the process and support people”. He therefore explains the need to appeal to both groups. Respondents therefore noted the need to actively engage their potential funders in order to achieve a “loyal following”.

The importance of an impactful video has been frequently cited as being pivotal to the success of a pitch. One respondent explains how one investor “watched the video, then pledged to invest and then requested our business plan. Even when he invested, there was a certain doubt, as he had not even read our business plan”.

Tellingly, the SME respondents who have obtained finance through crowdfunding were not in agreement as to whether they would again in the future. One respondent explains: “crowdfunding is great for start-up, especially for validation, but other funding sources are needed as you grow”. However another feels crowdfunding is not “exclusively at start-up; it is something to return to as your business grows.”

12.0 Conclusion

Within the context of the SME-Bank relationship, key areas of interest emerge around how that relationship may evolve in an increasingly digitised and sharing economy. While traditional ways of doing business, and personalised relationships remain important, this is especially true for the bankers in our sample. The bankers interviewed, especially those in the Northern Ireland group, celebrated a sense of reassurance in the renewed emphasis on tradition and on a reliance upon perceived robust measures such as those provided in business plans and forecasting tools.

Little credence was given by bankers to pre-orders being secured through crowdfunded start-ups, as this was generally not felt to necessarily represent the way the broader market may behave. So the general view was that, given the still innovative nature of crowdfunding platforms, this adopting group may at best represent 16% of the market but the bulk of the population (say the early and late majority comprising 68%) were not anticipated to behave in the same ways as the innovators, so little credence could be given, in the eyes of bankers, to pre-orders secured through new crowdfunding platforms. Crowdfunding was seen to have its place but bankers felt this was probably more in funding projects that were more niche and higher risk; almost as many bankers were not able to convey with any confidence that their bank had a position on crowdfunding either as potential threat or complement in start-up financing.

The SME respondents shared a generally withering view as to the usefulness of banks in the start-up space, with one respondent stating that banks 'had no place there'. Banks were considered by the majority of small business representatives to be conservative, risk-averse, myopic and uninformed. There should perhaps not be too much surprise at the strength of this view given that, as has been established previously, the informal and network-driven nature of the online crowd-based platform is much more in keeping with the character of the organic SME than it is with the much more bureaucratised and cautious bank. Also it must be remembered that all the SME respondents were crowdfunded at start-up, so there would be an inherent bias towards that platform.

However, this all raises an interesting issue in relation to the SME-Bank relationship and the growth of crowdfunding as a platform (Ordanini et al., 2011). Naturally as businesses move from start-up into growth they become more complex and the financial requirements of growing businesses differ from those more embryonic enterprises. This complexity brings

with it a need for financial solutions that go beyond that which is provided by crowdfunding – for example, letters of credit, international trade and foreign exchange.

This realisation and the acknowledgment from all small business respondents that crowdfunding has a potential role in SME finance, especially at start-up, led the research team to consider issues of (i) the sequencing of funding solutions, both alternative and traditional and (ii) the way in which such issues of sequencing are understood by the market and how the relative advantages as to the appropriateness of traditional and/or alternative finance propositions are communicated to the market and disseminated.

Figure 5 shows the traditional growth curve of businesses from start-up to death/rebirth (Churchill and Lewis, 1983).

Based on these findings, the relative contribution of reward- and equity-based crowdfunding and traditional bank finance to those growth stages has been mapped. From the interviews, most crowdfunded start-up entrepreneurs began through a reward-based platform (mostly Kickstarter). The start-ups which had initially entered through an equity-based platform expressed some level of retrospective concern about their ability to judge, at that time, how much of their business to give away. Equally, more mature businesses which had started through a reward-based platform and which were seeking perhaps a second round of funding, seemed to see this lying more in equity-based platforms than in a reward-based model again.

Finally, it was clear to the research team that the learning for these start-up entrepreneurs had come through an experiential, or 'learning by doing' approach rather than any prior understanding of these issues. This latter point is important and highlights the need for greater signposting and signalling in the public domain and in economic development/support agencies, in order to have a way of conveying the complementary benefits of alternative finance and traditional finance in the context of the stages of business growth.

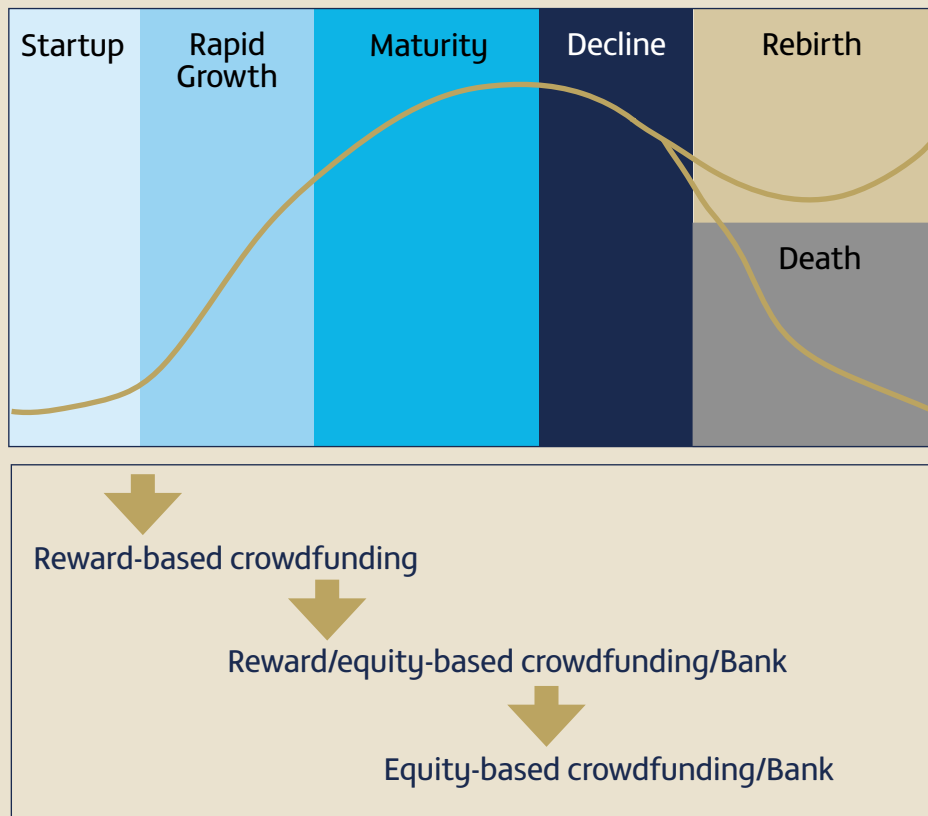


Figure 5: Traditional growth curve of businesses from start-up to death/rebirth (Churchill and Lewis, 1983)

13.0 Implications for policy and practice

One opportunity lies in the need for market education and signposting of alternative finance solutions. Those best placed to capitalise on this and effect the necessary changes around market awareness and more importantly, market understanding, are: development agencies, local government (e.g. Councils, LEAs), academic institutions (e.g. FE and HE) and professional bodies affiliated with and representing SMEs (e.g. FSB). Accordingly, there is a research gap in the area of generating a coherent understanding around the ecosystem for financial support for SMEs at various stages of growth. In that context, and being mindful of a more traditional lending and borrowing approach in the Northern Irish market, there may be an opportunity for Northern Ireland in creating a local crowdfunding platform which could be focused at a community level and would allow for the connection of local communities with local growth businesses. As traditional bank providers continue to right-size their retail branch networks across Northern Ireland, impacting in particular upon the rural communities, such a platform may provide a more localised funding support mechanism.

More immediately, it seems that three opportunities exist at the level of the SME segment: firstly, education of SMEs in relation to alternative finance platforms and their operation; secondly, the appropriateness of various platforms at different stages of SME growth and thirdly, the communication of the relative advantage of both new and indeed existing platforms, as this seems especially needed, given the clear inertia within the SME market toward switching, or indeed any effort to actually compare existing providers to seek out improved deals or terms.

At the level of the banks there is certainly an opportunity around the education of retail and business bankers in the area of alternative finance and of crowdfunding in particular. As the requirement for banks to refer declined SME borrowers to alternative finance solutions becomes increasingly operationalised, there is an accompanying need for such bankers to be more conversant with non-traditional platforms and for banks to be more aware of the alternative funding landscape generally.

14.0 Achievement of set aim and objectives

In the context of both SMEs and banks the study has addressed the overall aim of examining the perceptions of both lending bankers and SME owner-managers with respect to the potential of crowdfunding solutions in funding start-up SMEs.

14.1 Objectives

With respect to the study's specific objectives, the extent to which these have been achieved is indicated below each objective:

1. To examine the different forms of crowdfunding and establish the most appropriate framework through which SMEs could potentially engage with the new crowdfunding medium.

In Full: When set, it was anticipated that there would be a more definitive outcome to this objective. The research revealed however that there really was no one 'appropriate framework' and that the successful adoption of crowdfunding platforms by SMEs depended on various factors; inter alia, the nature of the business and value proposition, the nature of the prospective customer base, and the type of funding required (e.g. equity, reward, loan).

2. To examine the views of lending bankers with respect to the potential of crowdfunding in start-up SME funding provision generally.

In Full: The exploration of this objective was more clean-cut than that of Objective 1. The bankers were more uniform in character and working practices and in general had a lack of knowledge of crowdfunding generally, at their own level as lending bankers; simultaneously they also had an appreciation that there was room for all and there would be start-ups for which crowdfunding was an ideal solution. These were seen by the bankers as occupying a more high tech, and correspondingly, higher risk profile.

3. To consider which types of start-up would be most attracted to the various types of crowdfunding solutions.

In Part: The sample was too small to really be able to explore this (see agenda for future research below).

4. To explore the barriers and enablers around SMEs potentially engaging with such crowdfunding platforms in their start-up funding phase.

In Full: The qualitative nature of the study provided a rich understanding of the barriers and enablers surrounding the adoption of crowdfunding as detailed.

15.0 Further research opportunities the study has highlighted

As may have been expected in a study of this nature, many more issues have emerged that warrant further investigation. In particular, the research team has been very interested in SME perceptions regarding issues of sequencing and fit around alternative finance more generally, alongside traditional finance as provided by banks. There is a need for a greater appreciation not just of the range of funding options available but more importantly, the ways these options might fit together at various stages of the business lifecycle, how

they could and should be sequenced, and the best ways as to how this sequencing can be communicated to prospective businesses. In the context of SME-Bank relationships there is a clear need for greater research focused on the banks, in order to better understand their approach to the world of alternative finance in terms of both policy and practice.

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Appendices

Appendix 1: Taxonomy for Alternative Finance (NESTA, 2016)

Working taxonomy for UK online alternative finance with 2015 total volumes		
Model name	Definition	Volume in 2015
Peer-to-Peer Business Lending	Secured and unsecured debt-based transactions between individuals/institutions and businesses with trading history; most of which are SMEs	£1,490m (£881m excluding real estate lending)
Peer-to-Peer Business Lending (Real Estate)	Property-based debt transactions between individuals/institutions to businesses; most of which are property developers	£609m
Peer-to-Peer Consumer Lending	Debt-based transactions between individuals/institutions to an individual; most are unsecured personal loans	£909m
Invoice Trading	Businesses sell their invoices or receivables to a pool of primarily high net worth individuals or institutional investors	£325m
Equity-based Crowdfunding	Sale of registered securities, by mostly early stage firms, to both retail, sophisticated and institutional investors	£332m (£245m excluding real estate crowdfunding)
Equity-based Crowdfunding (Real Estate)	Direct investment into a property by individuals, usually through the sale of a registered security in a special purpose vehicle (SPV)	£87m
Community Shares	Withdrawable share capital which can only be issued by co-operative societies, community benefit societies and community-based charitable organisations	£61m
Reward-based Crowdfunding	Donors have an expectation that fund recipients will provide a tangible but non-financial reward of product in exchange for their contributions	£42m
Pension-led Funding	Mainly allows SME owners/directors to use their accumulated pension funds in order to re-invest in their own businesses. Intellectual properties are often used as collateral	£23m
Donation-based Crowdfunding	Non-investment model in which no legally binding financial obligation is incurred by fund recipients to donors; no financial or material returns are expected by the donor	£12m
Debt-based Securities	Individuals purchase debt-based securities (typically a bond or debenture) at a fixed interest rate. Lenders receive full repayment plus interest paid at full maturity	£6.2m

Appendix 2: SME Sample Profile

Sample firm profiles	Respondent role	Company type	Year established	Platform	Amount raised
R1	Founder	Musical instruments	2011	Reward based	£14,237
R2	Founder	Programmable synths	2013	Reward based	£67,090
R3	Founder	Cycle lights	2013	Reward based	£33,826
R4	Founder	Food manufacturer	2013	Equity based	£80,000 R1; £26,400 R2
R5	Founder	Umbrella designer/ manufacturer	2013	Reward based	£265,000
R6	Founder	Board and card games manufacturer	2012	Reward based	£9,602 R1; £21,893 R2; £12,292 R3
R7	Co-Founder	Gaming controller for toothbrushes	2014	Reward based	£40,192
R8	Founder	Aquarium manufacturer	2014	Reward based and peer-to-peer	£4,125 (reward); £26,790 (peer- to-peer)
R9	Founder	Crowdsourced computing power	2015	Equity based	£150,000
R10	Founder	Crowdsourced support for start-ups	2013	Reward based and equity based	£3,002 (reward); £41,100 R1; £28,895 R2; £37,220 R3
R11	Founder	Biotechnology	2010	Equity based	£353,296

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