International Review of Entrepreneurship, Article #1717, 22(2): pp. 197-224.
© 2024, Senate Hall Academic Publishing.

The Only Option or a First Step? Entrepreneur and Banker Perspectives on Start-Up Crowdfunding

Raymond Treacy
Dublin City University, Ireland

Mussa Hussaini
University of Gothenburg, Sweden

Des Laffey[1]
University of Kent, Canterbury, UK

Mark Durkin
The Open University, Milton Keynes, UK

Darryl Cummins
Ulster University, Newtownabbey, UK

Anthony Gandy
London Institute of Banking & Finance, London, UK

Abstract. Research in the small and medium sized enterprises (SME) crowdfunding domain has grown over the last decade. However, the implications of pursuing crowdfunding and seeking follow-up bank finance are not fully understood. Employing unique two-way insights from 22 interviews across the SME and banking sectors, this paper aims to chart and explore the capital market forces which lead entrepreneurs to pursue crowdfunding, whilst also examining the implications of selecting specific types of crowdfunding over the start-up cycle. The implications of crowdfunding for access to future bank finance are also investigated. Accordingly, this study finds that validation building plays a key role in understanding both the pursuit, and use, of crowdfunding. However, the findings also reveal that reward-based crowdfunding is unsuitable for certain types of niche ventures, leaving some start-ups with no option but to pursue equity crowdfunding. Lastly, the views of the bankers in this study adhere to pecking order logic, with bankers arguing that crowdfunding is seen as a last resort of sorts and diverse ownership structures in equity crowdfunding make it difficult to evaluate a venture. However, the banks argued that entrepreneurs can pursue crowdfunding to build market validation and return to banks at a later stage once the venture has generated revenue.
JEL Codes: G21, M13, O33, O35.
Keywords: crowdfunding, start-up cycle, signalling, pecking order, SME finance.

---

1. Des Laffey (corresponding author). University of Kent, Sibson Building, University of Kent, Canterbury, CT2 7FS. Tel: +44 1227 827489. Email: d.j.laffey@kent.ac.uk

Acknowledgement: The authors thank the UK's Institute for Small Business and Entrepreneurship (ISBE) and the Tore Browaldh Foundation in Sweden for the funding support that made this study possible.

1. Introduction

Despite a lull in crowdfunding transactions over the COVID period (Statista, 2023), an ever-increasing number of early-stage start-ups utilise crowdfunding to secure finance (Brown et al., 2018; Walthoff-Borm et al., 2018; Eldridge et al., 2021). Recent crowdfunding data places the UK fourth globally in terms of total crowdfunding transaction value (Statista, 2023). In the past decade, crowdfunding has been heralded as a solution to the disparities in the demand and supply for entrepreneurial finance and, ultimately, the start-up funding gap (Schwienbacher and Larralde, 2012; Eldridge et al., 2021; Colombo, 2021). As a corollary of this, many start-ups have sought crowdfunding at the seed and start-ups stages of their venture, not only to secure finance, but also to enhance the legitimacy of the venture before moving on to traditional sources of funding at a later stage (Kaminski et al., 2019; Chen, 2023). In essence, many start-ups now use crowdfunding (CF) to fund their ventures by combining different types of CF, as well as more traditional sources of finance such as Venture Capital (VC), Business Angels (BA) and Bank Finance (Kaminski et al., 2019; Bessière et al., 2020; Bock et al., 2022; Miglo, 2022a). Although combining different sources of finance is not a new strategy for entrepreneurs (Brown et al., 2018; Bessière et al., 2020), the implications of initially funding a venture using crowdfunding before seeking follow-up bank finance has not been explored in the literature (Block et al., 2018; Cumming et al., 2019; Bock et al., 2022). This is an important observation, as recent research suggests that there is also a growing trend of start-ups seeking both follow-up finance as well as more formalised co-financing agreements with regional banks (Cumming et al., 2019; Bock et al., 2022). Despite this observation, however, the practicalities of such interactions are not fully recognised in the crowdfunding literature (Block et al., 2018; Bock et al., 2022). For instance, points of contention when it comes to follow-up finance may relate to complications surrounding ownership structure when it comes to equity crowdfunding or trust issues between entrepreneurs and banks (Bessière et al., 2020; Saiedi et al., 2022).

This study therefore contributes to the crowdfunding literature in two ways. Firstly, by providing dual insights from both entrepreneur and banker perspectives on the financial market factors (e.g., the funding gap) which lead entrepreneurs to engage with crowdfunding, and secondly, later in the start-up cycle, in terms of exploring the implications of pursuing follow-up bank financing after a crowdfunding campaign. The novelty of this paper therefore is that it examines these interactions at two different stages across the start-up cycle. This study can therefore shed light on issues such as information asymmetry and trust and how these factors influence the prospect of follow-up funding. This represents an important contribution to the crowdfunding literature, as contemporary crowdfunding studies have largely examined follow-up funding in terms of Venture Capital (VC) and Business Angels (BA) (Hornuf et al., 2018). Moreover, these studies have largely taken a quantitative approach, and while such studies are able to establish causal links between crowdfunding and follow-up finance (see Hornuf et al., 2018; Kaminski et al., 2019; Roma et al., 2021), the practical implications of combining different crowdfunding typologies and traditional forms of finance are less understood (Bock et al., 2022, Miglo, 2022a). Hence, deeper insights are therefore needed on the implications of follow-up financing, particularly from more traditional capital market financiers such as banks (Block et al., 2017; Bock et al., 2022). Furthermore, as this paper considers information asymmetry from the perspective of both banks and entrepreneurs, the paper therefore also contributes to the literature on both pecking order theory (Myers and Majluf, 1984), and signalling theory (Spence, 1973) by considering both entrepreneurial and financial market perspectives on access to funding. Hence this paper has both important theoretical and practical implications for start-ups.

2. Literature review

2.1. Crowdfunding and its various forms

Schwienbacher and Larralde (2012, p. 371) cite an early working paper version of Belleflamme et al. (2014) from 2010 in which crowdfunding was defined as "*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*". Accordingly, the four main categories of crowdfunding are reward-based, donation, debt and equity (Datta et al., 2019). Following prior studies, this paper will focus on reward-based and equity crowdfunding, as these forms of crowdfunding are most common among entrepreneurial ventures in the SME literature (see e.g., Belleflamme et al., 2014; Cholakova and Clarysse, 2015; Miglo and Miglo, 2019).

Reward-based crowdfunding is defined by De Luca et al. (2019, p. 1322) as a crowdfunding model where "*individuals donate to a project or business with expectations of receiving in return a non-financial reward, such as goods or services, at a later stage in exchange of their contribution*".

Brown et al. (2018, p. 170), define equity crowdfunding as "*a funding process whereby entrepreneurs sell an equity stake in their venture in return for investment from a disparate range of external investors, both large and small, mediated via online platforms*". Accordingly, individuals are considered as investors who take ownership of a small portion of the project or venture (Cumming and Hornuf, 2018).

2.2. Crowdfunding in start-ups

Due to the inherent uncertainty of start-up ventures, entrepreneurs often struggle initially to attain seed or start-up finance (Brown et al., 2018; Junge et al., 2022). Issues such as information asymmetry, lack of collateral, uncertain future cash flows, and difficulties associated with developing and marketing products, i.e., prototypes, are often cited reasons for firms failing to secure start up finance (Durkin et al., 2013; Silver et al., 2016; Junge et al., 2022). In light of these arguments, several studies provide insights as to why start-ups initially pursue crowdfunding, although results in this domain are mixed. For example, consistent with entrepreneurial bricolage theory, Brown et al. (2018) found that entrepreneurs' improvisational nature in the face of obstacles has led them to combine resources and naturally seek out crowdfunding as a source of finance to overcome the perceived funding gap. On the other hand, in line with pecking order theory, Walthoff-Borm et al. (2018) find that firms listed on equity crowdfunding platforms have an excess amount of debt, inferring that start-ups pursue crowdfunding as a last resort.

A third perspective however lies more in the signalling and validation domain (Spence, 1973) with Agrawal et al. (2014), Belleflamme et al. (2014), and Miglo and Miglo (2019) arguing that the unique investor facing orientation of crowdfunding means that entrepreneurs can utilise additional information and feedback from the crowd (and vice-versa) not available in a traditional finance capacity and this could lead entrepreneurs to strategically pursue crowdfunding. Accordingly, due to the reputational benefits which can be achieved from undertaking a successful crowdfunding campaign, entrepreneurs can pursue crowdfunding from the outset to legitimise the venture and create an early revenue stream (Junge et al., 2022; Chen, 2023). In other words, entrepreneurs pursue crowdfunding as a "first resort" (Junge et al., 2022). Lastly, O'Reilly and Mac an Bhaird (2024) find support for signalling in the equity crowdfunding domain, in that patents help reduce information asymmetries and act as a signal for crowdfunding investors.

As evidenced, many different perspectives have been put forward as to why firms pursue crowdfunding, however a limitation of these studies is that they are often one sided (Block et al., 2018). The perspective of traditional financiers such as banks is also needed alongside entrepreneurs' perspectives to provide a greater understanding of the factors and attitudes which lead entrepreneurs to initially pursue crowdfunding at start-up, and to shed light on the implications this has for accessing bank finance at later stages in the start-up cycle (Bessière et al., 2020; Bock et al., 2022).

2.3. Crowdfunding and follow-up finance

The use of crowdfunding has not been growing evenly across the globe, meaning research in the area was initially quite fragmented and often limited to the study of a single category of crowdfunding in isolation (Stevenson et al., 2019; Colombo, 2021; Junge et al., 2022). For example, in the US, equity crowdfunding was initially restricted. However, amendments were made to the JOBS act in 2012 and 2016 which made it legal for startups to raise funds from any individual without the legal requirements of public offering filings (see Title III of the JOBS Act) (Stevenson et al., 2019). As such, equity crowdfunding research was initially stifled in the US. This also meant that the trajectories for follow-up finance post-crowdfunding were not explored initially (Stevenson et al., 2019; Bessière et al., 2020). As a result, research which examines follow-up finance is still largely European based, despite the rapid growth in equity crowdfunding in the US (Butticè & Vismara, 2022).

European studies which focus on follow-up funding tend to focus on VC and BA funding (see Brown et al., 2018, Bessière et al., 2020; Roma et al., 2021). For example, Kaminski et al. (2019) causally link successful reward-based crowdfunding campaigns in Germany to an increase in venture capital funding, however the study neglects other forms of crowdfunding, as well as bank financing. Similarly, Hornuf et al. (2018) show that German firms that received equity crowdfunding stood a higher chance of obtaining followup funding through business angels or venture capitalists. Conversely, these firms also had a higher likelihood of failure (see also Roma et al., 2021). Bessière et al. (2020) also looks at the trajectory of crowdfunding, this time from a qualitative case-study perspective. The study links crowdfunding (both equity and reward) to follow-up financing using a signalling lens, however the study is again limited to venture capital and business angels. Moreover, the study's generalizability is called into question as it focuses on a single case organisation. Bessière et al. (2020, p. 156) do however note; "*Future studies should help to widen the investigation to different trajectories in the same market landscape*". This would allude to studies which could provide a banking perspective for example.

2.4. The role of banks in start-up crowdfunding

Whilst studies have considered the role of banks in crowdfunding, very few studies have examined the banking perspective when it comes to start-ups pursuing crowdfunding or seeking follow-up funding. Instead, banks have been mentioned only fleetingly in many crowdfunding studies, with entrepreneurs often citing their belief that securing bank finance is problematic at the seed stage (Brown et al., 2018; Junge et al., 2022). More recently, there have been some studies which have incorporated the bank's role in crowdfunding, albeit quantitatively. For example, Miglo (2022a) examines whether crowdfunding and bank finance can be seen as substitutes or complements to one another by modelling financing strategies based on firm quality and market size. Similarly, Chen et al. (2022) develop a game-based model focused on an enterprise's choice between crowdfunding, bank finance and supplier finance as a funding source for new product introductions.

More recently, a survey-based study by Bock et al. (2022) looks at the compatibility of crowdfunding and bank finance in German savings banks through what's known as "participative co-financing arrangements". The core idea behind participative co-financing is that a specific project is financed partially by the crowd and partially by the bank. The authors posit that such an approach is feasible for regional banks and conclude that future research could focus on the relevant risks and obstacles that banks consider when evaluating such opportunities. Hence, a gap emerges in the literature for a qualitative study which combines both entrepreneur and banker perspectives on the implications of pursuing different types of crowdfunding and accessing bank finance (Brown et al., 2018; Block et al., 2018; Salomon, 2019).

2.5. The relevance of the firm life-cycle in crowdfunding

The life-cycle aspects of venture growth and development are also pertinent in the SME-crowdfunding domain and in particular, an enterprise's decision to pursue both crowdfunding and follow-up finance (Paschen, 2017; Junge et al., 2022). From a start-up perspective, Churchill and Lewis (1983) suggest that firms' progress through five phases of growth, i.e., existence, survival, success, take-off and maturity, with each stage having implications for the organisations' structure and resource requirements. For example, Dodge and Robbins (1992) argue that at the "existence" or seed stages, the entrepreneur is focused on converting the idea into reality and building support in terms of financial backing. However, it is acknowledged that bank finance can be difficult to attain at this stage due to a lack of a trading history (Paschen, 2017; Junge et al., 2022). Moreover, the viability of the firm and movement to the start-up stages depends on gaining customer acceptance (Dodge and Robbins, 1992; Sirmon et al., 2011). Conversely, at the start-up or "survival" stages, the firm is concerned with gaining and maintaining customer and supplier support, sustaining cashflows, and increasing valuation (Dodge and Robbins 1992; Filatotchev et al., 2006). At the growth stages in the start-up cycle, the focus may shift to firm expansion both operationally and in terms of entering new markets, thus requiring greater amounts of capital and access to bank finance (debt) (Paschen, 2017).

A conceptual model by Paschen (2017) argues that the choice of crowdfunding category may be influenced by the firm's position in the start-up cycle, i.e., seed, start-up and growth stages. Similarly, Junge et al. (2022) put forward a start-up lifecycle model and outlined a number of propositions based on the idea that start-ups seeking to validate a venture will first seek out reward-based crowdfunding, and more mature start-ups seeking capital will seek out crowd-lending (termed debt crowdfunding at the start of this paper). Hence, previous research suggests that the firm life-cycle has an influence on entrepreneurs' financial decision-making post crowdfunding.

2.6. The implications of crowdfunding: Pecking order theory

From a capital market perspective, pecking order theory offers an alternative perspective to the aforementioned life-cycle models of crowdfunding (i.e., Paschen, 2017; Junge et al., 2022; Miglo, 2022b). Pecking order theory argues that firms will first pursue internal funds, before moving on to debt and lastly equity (Myers and Majluf, 1984). Central to the theory is that the cost of financing increases with informational asymmetry (risk). Hence, equity crowdfunding could be viewed as a last resort of sorts, particularly by traditional financiers such as banks (Walthoff-Borm et al., 2018; Blaseg et al., 2021). This means crowdfunding could potentially work against entrepreneurs in terms of accessing bank finance later in the start-up cycle. Beyond this, little is known about the implications of using different types of crowdfunding at different stages of the start-up cycle and the ramifications this will have for accessing follow-up bank finance. Therefore, this study will aim to delve deeper into the implications of crowdfunding by developing specific, dual sided research questions which address the research gaps identified in this section.

3. Research Questions

3.1. The initial pursuit of crowdfunding

It is argued that the start-up funding gap is fuelled by the risky, ad hoc nature of many start-ups, which in turn stems from informational opacity, the unavailability of collateral and a lack of market validation (Durkin et al., 2013; Wilson et al., 2018). Due to these observations, the finance accessible to entrepreneurs from traditional players such as BAs and VCs is generally quite restricted, with many VCs only willing to invest later in the firm lifecycle (Brown et al., 2018). Moreover, a study by Saiedi et al. (2022) which examined the perceptions of US entrepreneurs on start-up finance finds that there is a distrust in banks generally and this has led to a growth in Peer-to-Peer lending. One explanation put forward by Saiedi et al. (2022) for the lack of trust in the traditional banking system, relates to the fallout from the 2008 financial crisis. Interestingly, Brown et al. (2018) also reported that when pursuing bank finance initially, many entrepreneurs suggested they were discouraged borrowers and not actually rejected borrowers. While the results of these studies are interesting, both the source and accuracy of these underlying assumptions need to be investigated further, as they have ramifications in terms of the entrepreneur's decision to pursue start-up crowdfunding. Moreover, the aforementioned studies largely focus on the entrepreneur's perspective and ignore the capital market perspective (with the exception of a study by Mac an Bhaird et al., 2016). Hence, from a pecking order standpoint, there is a need to explore how the attitudes of both bankers and entrepreneurs to start-up funding influence the pursuit of crowdfunding at start-up.

Accordingly, the study puts forward the following first research question:
RQ1: How do the underlying assumptions of entrepreneurs on access to start-up bank finance influence the decision to pursue crowdfunding?

3.2. The implications of reward-based crowdfunding

Once entrepreneurs have decided to pursue crowdfunding, they must then decide to select a specific category of crowdfunding. Research has shown that a successful reward-based crowdfunding campaign will not only provide seed stage ventures with finance to build prototypes, but will signal to the market that the conceptual product or service is feasible, the entrepreneur is reputable and that there is demand in the marketplace (Kaminski et al., 2019; Roma et al., 2021; Junge et al., 2022). As Agrawal et al. (2014, p. 81) highlights, "reputation can be a powerful antidote to information asymmetry and moral hazard problems". Subsequently, at the start-up stage, when products and services are developed, a successful reward-based campaign can also be of considerable benefit, providing much needed capital and validation, while also sending important signals and feedback to the entrepreneur in terms of market segmentation, market price setting and product lines configurations (Hu et al., 2015; De Luca et al., 2019). Research also highlights the possibility of setting up commercial/distribution deals with backers (i.e., building start-up legitimacy and social capital) (Junge et al., 2022; Chen, 2023).

What is less known however, are the implications of pursuing reward-based crowdfunding and the ramifications for accessing follow-up funding or bank finance (Testa et al., 2020). For instance, recent research by Testa et al. (2020) found that sustainability-based projects targeted at disadvantaged demographic groups were unsuited to reward-based crowdfunding. This raises questions over the feasibility of reward-based crowdfunding for different types of ventures. From a pecking order perspective, this observation also has implications in terms of the selection of crowdfunding categories (i.e., using debt or equity instead of reward-based crowdfunding) and thus has implications for access to follow-on bank finance. In a broader sense, very little is known about the bank's perspective on the use of reward-based crowdfunding by start-ups and what implications it has for accessing bank finance later in the start-up cycle. These questions remain unanswered in the literature to date. Hence the authors pose the question:

RQ2: What are the implications of pursuing reward-based crowdfunding in terms of accessing follow-up bank finance?

3.3. The evolution of crowdfunding and traditional finance within start-ups

Following a successful reward-based campaign at the seed and start-up stages, the firm at a growth stage is more concerned with scaling operations to meet demand, building a staff base and developing both organisational and governance structures (Dodge and Robbins, 1992; Rossi, 2014). As such, firms will often reluctantly sacrifice equity in favour of larger pools of capital (Blaseg et al., 2021). However, in contrast to traditional equity investments, entrepreneurs in the realm of equity crowdfunding can retain autonomy due to the fact there are often many investors, each holding only a small stake in the venture (Brown et al., 2018; Hervé and Schwienbacher, 2018). Accordingly, the pursuit of equity crowdfunding at the growth stage may be an attractive source of finance following a successful reward-based campaign (Paschen, 2017; Bessière et al., 2020). Moreover, successful reward-based campaigns can lead to what is known as legitimacy buffering (Fisher et al., 2016; Chen, 2023), i.e., when high stocks of legitimacy from a previous lifecycle stage translate to subsequent lifecycle stages (Fisher et al., 2016). Accordingly, after a successful reward-based crowdfunding campaign, entrepreneurs can signal to equity crowdfunding investors as well as traditional financiers that the venture has a market following and is able to secure a large amount of capital, without diluting control (Kaminski et al., 2019; Junge et al., 2022).

Conversely, from a pecking order perspective, while a diverse ownership structure in equity crowdfunding may be favourable from an entrepreneurial perspective in terms of retained ownership, this may not be the case when it comes to accessing follow-up bank finance. As such, the perspective of banks in relation to the trajectories of equity crowdfunding has not been fully explored within the literature (Junge et al., 2022). Hence, the authors pose the question:

RQ3: Following a successful reward-based campaign, to what extent will entrepreneurs strategically pursue equity crowdfunding at the growth stages of the start-up cycle, and consequently, what are the implications for accessing bank finance?

4. Methodology

In terms of research strategy this study employs a qualitative, interview-based methodology. The idea is to explore the interactions and relations between entrepreneurs and banks at different stages in the start-up cycle, both in terms of accessing start-up finance and seeking follow-up finance (Cummings et al., 2020). The paper draws on views from the banking sector as this is the most important source of external funding for SMEs in the UK (Department for Business, Innovation and Skills, 2012). Accordingly, dual perspectives from traditional capital market players, i.e., banks and start-ups are vital in terms of exploring the research questions. Hence, the data collected facilitates a qualitative triangulation approach and the exchange of different viewpoints. This approach enhances research validity and reduces participant bias, while also opening up the opportunity for theoretical development (Denzin, 2006; Feldman et al., 2008). In addition to data triangulation, the study also opens the door for theoretical triangulation (Denzin, 2006) as it may be the case that there are considerably different theoretical viewpoints between the two actors in the study, i.e., entrepreneurs and bankers.

This paper adheres to the Gioia Methodology to provide focus in relation to the key emerging constructs and their links to theory (Gioia et al., 2013). The aim is to explore new insights in the SME-crowdfunding process by enabling a process of 'concept discovery' using viewpoints from both entrepreneurs and bankers. However, it is acknowledged that some of the concepts discussed are derived from the literature, i.e., pecking order theory, but joint insights from both start-ups and banks can offer new insights into entrepreneurs' use of crowdfunding and the implications for future finance.

4.1. Data collection

This research formed part of a wider study and in total 22 semi-structured in-depth interviews with both entrepreneurs and participants with experience as business bank managers were drawn on for this paper. The interviews were conducted from 2015 to 2016. Tables 1 and 2 present detailed background information on the entrepreneur and banking sector profiles which form the main data source for this paper. Table 1 highlights that the start-ups came from a wide variety of sectors and were mainly in business-to-consumer markets. The average amount raised on reward-based platforms was £58,907 while the median amount was £37,010 while on equity platforms the average amount raised was £161,253 and the median amount was £150,000.[2]

Table 1: Entrepreneur respondents

Entr. No.	Respondent Role	Company Type	Year est.	Platform	Amount raised
1	Founder	Musical instruments	2011	Reward-based	£15,000
2	Founder	Programmable synths	2013	Reward-based	£65,000
3	Founder	Cycle lights	2013	Reward-based	£35,000
4	Founder	Food manufacturer	2013	Equity-based, 2 rounds of funding	£80,000 Round 1 £25,000 Round 2
5	Founder	Umbrella designer/ manu-facturer	2013	Reward-based	£265,000
6	Founder	Board and card games manufacturer	2012	Reward-based, 3 rounds of funding	£10,000 Round 1 £20,000 Round 2 £10,000 Round 3

2. These averages are based on the exact amounts raised, whilst Table 1 uses rounded figures to protect the anonymity of the participants.

7	Co-Founder	Gaming controller for toothbrushes	2014	Reward-based	£40,000
8	Founder	Aquarium manufacturer	2014	Reward-based	£5,000
9	Founder	Crowdsourced computing power	2015	Equity-based	£150,000
10	Founder	Crowdsourced support for start-ups	2013	Reward-based and equity-based, 4 rounds of funding	£5000 Round 1 (reward) £40,000 Round 2 (equity) £30,000 Round 3 (equity) £35,000 Round 4 (equity)
11	Founder	Biotechnology	2010	Equity-based	£350,000
12	Founder	Craft brewery	2010	Equity-based	£180,000
13	Founder	Aviation	2010	Equity-based	£55,000

Note: Amounts raised are rounded to preserve anonymity.

Firms were recruited by searching on reward-based and equity crowdfunding websites such as Kickstarter and Indiegogo (reward-based) and Seedrs and Crowdcube (Equity). In addition, the research team drew on their personal contacts, help from UK government economic development agencies and also asked those interviewed if they could help with contacting other crowdfunded start-ups, i.e., snowball sampling. This targeting approach allowed the researchers to identify entrepreneurs with considerable experience in using crowdfunding, with 11 participants from different parts of the UK, as well as 2 participants from Europe, one of which operated his business from the UK and the other has many years of start-up experience in the UK. However, the authors cannot claim there was a clear theoretical basis for the sample and it was mainly based around convenience sampling, which is recognised as a limitation of the study.

The nature of crowdfunding meant that the study targeted firms that were in the start-up cycle, comprising the seed, start-up and growth stages of the firm lifecycle (Paschen, 2017). Similar to Brown et al. (2018), the majority of firms in the sample were between 1 to 3 years old and growth oriented when they first used crowdfunding.

The start-up cycle was of particular interest to this study, and the entrepreneurs recalled their start-up experiences in pursuing early-stage funding in capital markets whilst also outlining their crowdfunding experiences over different periods in the start-up cycle. The entrepreneurs in this study can therefore detail their experience with crowdfunding at each stage of the start-up cycle, i.e., seed, start-up and growth, while the sample of bankers can also give their perspective of financing such ventures at different stages in the start-up cycle.

The interviews were scheduled for 1 hour slots. After introductions were made the interviews lasted on average about 45 minutes before the interviews concluded with general discussion. These interviews were a combination of face-to-face and telephone/video-conferencing interviews. Moreover, the interviews were also supplemented by publicly available information which included the entrepreneur's pitch on the crowdfunding platform, material on their websites and news information. The interviews were semi-structured in nature and focused on key themes such as: the background of the entrepreneurs and their firms, entrepreneurs' views on banks and accessing finance, the motivations or factors which led entrepreneurs to pursue crowdfunding, relationships with their funders, i.e., the crowd, and finally, the implications behind selecting different categories of crowdfunding as well as plans for future funding.

This study also sought the views of banks as traditional capital market players. The respondents were identified through convenience sampling, specifically the networks of the researchers, suggestions from professional banking bodies and through referral. Those interviewed had experience as senior bankers with large retail banks involved in small business lending. All bar one of the respondents were based in the UK with the exception to this norm being based in Ireland.

Table 2: Banking respondents

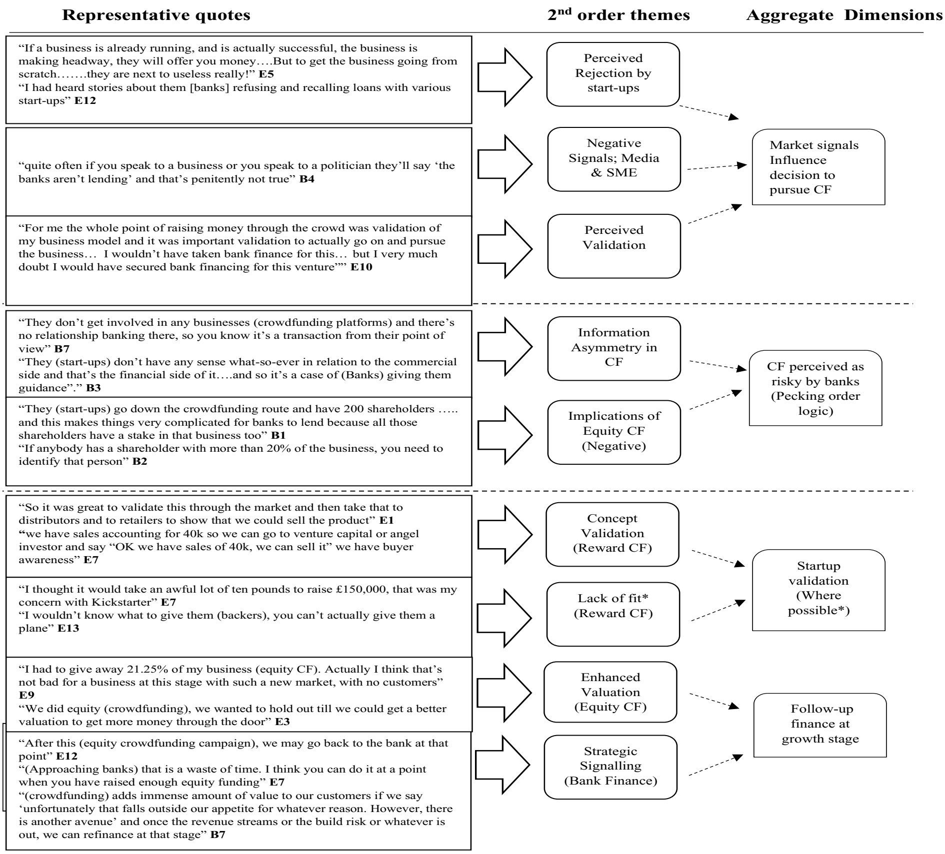
Banker No.	Bank Location	Respondent Role
1	Belfast, Northern Ireland	Senior Lending Manager*
2	Lisburn, Northern Ireland	Commercial Branch Manager*
3	Belfast, Northern Ireland	Retail Bank Manager
4	Armagh, Northern Ireland	Branch manager
5	Dublin, Ireland	Branch Sales Manager – dealing in foreign exchange
6	London, UK	Former Bank employee – now manages a P2P lending organisation
7	London/ West-Midlands, UK	Area Director for Business and Commercial Banking
8	Cambridge, UK	Relationship Director*
9	West Yorkshire, UK	Deputy Area Manager*

* Had assistance from another employee from the same organisation.

In total, 9 interviews were used with a description of the respondents and their roles shown in Table 2. In contrast to the entrepreneur interviews, which were with a single entrepreneur, 4 of the 9 banking interviews involved two different individuals in the bank, identified in Table 2, as an additional member of staff was brought in if any clarification was required from the original respondent, e.g., to check if an answer was correct. The interviews with banking professionals were again scheduled for 1 hour slots and the specific research part of the interviews lasted on average around 45 minutes and were conducted onsite and through telephone/video-conferencing. The interviews were also semi-structured in nature and questions were often derived from the literature. Key themes included the bank perspectives on SME lending, as well as the banks' own views on crowdfunding and the implications of crowdfunding for future bank lending in later stages of the start-up cycle. Second order themes focused on the advantages of using banks for start-up finance and the risks of start-ups using crowdfunding.

4.2. Data analysis

This study employed a grounded approach to data analysis known as the Gioia methodology which helps organise and systemise qualitative data (Gioia et al., 2013). More specifically, data is organised into a series of categories; first order concepts, second order themes and finally, aggregate dimensions. Figure 1 below illustrates how this methodology has been adapted for this paper. Firstly, column one outlines representative quotes from both banks and entrepreneurs on the topic of crowdfunding. Following this, the quotes are organised into integrated second order themes which emerge from the representative quotes. Finally, themes are organised into overarching aggregate dimensions which help facilitate the application to extant theory or the creation of new theories. The Gioia methodology has been applied in numerous studies in this manner (see, e.g., Estrin et al., 2018; Brown et al., 2018).



* Reward crowdfunding was impractibable for some ventures due to their product/business model.

Figure 1: Gioia Methodology applied to entrepreneur and banker interviews

5. Findings

5.1. Entrepreneur and banker assumptions at start-up (RQ1)

This question seeks to explore how the entrepreneur's decision to pursue crowdfunding is influenced by the dynamics of the capital market and the underlying assumptions of both entrepreneurs and bankers on access to start-up finance. As this study examines the perspectives of both entrepreneurs and bankers, it is envisioned that new and diverse insights may come to the forefront which aid the understanding of the pursuit of crowdfunding at start-up (Block et al., 2018). First and foremost, 12 out of 13 entrepreneurs in the sample perceived options for funding at start-up to be severely restricted. Accordingly, 7 respondents cited the SME funding gap and the difficulty of sourcing finance at start-up as a rationale for the pursuit of crowdfunding. For example, a biotechnology entrepreneur stated:

"*We were becoming very aware that we were properly in the funding gap, and I didn't really understand it before, but I certainly do now. Our model said we needed half a million pounds which is too small for the VCs but too large for the business angels*" (Entrepreneur 11).

A second entrepreneur highlighted:

"*I looked at Angels and VCs but I wasn't seen to be high growth enough – I'm too traditional – you need to be in tech or fast growth areas for those guys"* (Entrepreneur 4).

Respondents also had a dismissive view of banks as a source of start-up finance with responses including "*banks and VCs wouldn't touch me, because I am pre-revenue*" (Entrepreneur 9) and "*If a business is already running, and is actually successful, the business is making headway, they will offer you money. But you don't need it as the business is making the money! But to get the business going from scratch, off the ground, especially for something new, they are next to useless really!"* (Entrepreneur 5).

Interestingly, however, when the entrepreneurs were questioned further on the issue of accessing bank finance, many respondents in the sample admitted they did not actually approach banks for funding. Only 3 of the respondents were rejected for bank funding, with 3 being successful and surprisingly, the remaining 7 entrepreneurs had never approached a bank for a loan. There appeared to be a common assumption amongst entrepreneurs that banks were not lending, with interviewees recounting stories of other firms' negative experiences. A second implication related to this observation was that 10 of the entrepreneurs, which included 2 of the entrepreneurs who had received bank finance, feared their business was too specialised or high-risk for banks. As the biotechnology entrepreneur remarked; "*We are the only venom lab in the UK, so there isn't a precedent for us. A bank manager cannot look at another company and go that's a safe bet and it's a benefit when we talk to our customers but it's a problem when we are trying to get credit because people often look for precedent.*"

(Entrepreneur 11). Finally, it should be noted, that the 3 entrepreneurs receiving bank finance in the sample received small amounts, i.e., less than £5,000, with the firms raising much more on crowdfunding platforms.

However, whether officially rejected or not, the entrepreneurs turned to the concept of crowdfunding as a means to secure start-up finance. While 7 of the entrepreneurs viewed crowdfunding as a last resort, crowdfunding was also seen as an opportunity by 9 of the entrepreneurs to validate their idea by showing that demand existed. For example, one entrepreneur remarked:

"*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… but I very much doubt I would have secured bank financing for this venture*" (Entrepreneur 10)

5.1.1. The bankers' view

All of the bankers, on the other hand, were adamant that they were lending, despite entrepreneurs' claims to the contrary. Interestingly, three of the bankers suggested that in the fallout from the financial crisis, politicians, the media, as well as a fear factor within SME networks, may have played a role in facilitating the perception that banks were not lending. The responses to the view they were not lending included:

"*Quite often if you speak to a business or you speak to a politician they'll say 'the banks aren't lending' and that's penitently not true*" (Banker 4)

"*At the end of the day, we're in the business of doing business so we want to lend money. That's what we're here to do. And that's how we make our income, by lending money*" (Banker 2).

Accordingly, based on the findings from both SMEs and banks, there is legitimacy to the claim that negative capital market signals from politicians, the media and wider SME networks may have resulted in many entrepreneurs making the assumption they would not attain bank finance and thus counting themselves out before they even approached banks.

5.2. The selection of crowdfunding at seed and start-up (RQ2)

The second question sought to explore the implications surrounding the use of reward-based crowdfunding at the seed and start-up stages of the venture and, more specifically, the consequences this has for pursuing bank finance at a later stage. Interestingly, the majority of firms, 8 of 13, in the sample opted to pursue reward-based crowdfunding at seed and start-up stages. Six (6) pursued equity crowdfunding (one entrepreneur had used both methods, reward-based initially followed by equity) either because they believed the firm was beyond the seed stage of growth and required greater access to capital or, alternatively, believed reward-based crowdfunding did not fit their business model. These implications will be discussed further in the forthcoming sections.

5.2.1. Crowdfunding at the seed stage

At the seed stage of growth, many entrepreneurs viewed reward-based crowdfunding as a strategic choice given that many firms in the sample were pre-sales and sought proof of concept. For example, an entrepreneur, behind the development of a gaming controller which worked with toothbrushes, describes the logic when they decided to use crowdfunding at the seed stage.

"I think it would have been much easier if we needed 35k, to go to an angel investor and get 35k. But the problem is we have 35k and then we can produce our first batch and still have no money for living costs, still have other real troubles, but then we have to sell it. Now we did it the other way round, we have sales accounting for 40k [as their Kickstarter campaign went above its target] *so we can go to venture capital or angel investor and say "OK we have sales of 40k, we can sell it" we have buyer awareness".* (Entrepreneur 7)

In addition to proof of concept and early sales, many entrepreneurs also referenced the ease, flexibility and reach of using the reward-based crowdfunding model in the early venture stages with entrepreneurs suggesting the model fitted start-ups earlier in their life-cycle as equity models have more regulations and requirements.

On the other hand, whilst 8 of the start-ups in this sample pursued reward-based campaigns as their first crowdfunding campaign, 5 of the start-ups opted for equity crowdfunding (with one using reward-based crowdfunding initially before moving to equity crowdfunding). Interestingly, it's found that a drawback of reward-based crowdfunding is that it is not always suitable for certain start-ups or specific types of products. There were several reasons given by entrepreneurs as to why reward-based crowdfunding did not fit their business model from the outset. Firstly, one of the entrepreneurs in the sample highlighted that as their aim was rapid growth, the firm required greater access to capital than would be available in a reward-based crowdfunding campaign. As the entrepreneur noted, "*I thought it would take an awful lot of ten pounds to raise £150,000, that was my concern with Kickstarter*" (Entrepreneur 12). Other cited reasons for avoiding the reward-based crowdfunding route included the incompatibility or mismatch of certain ventures/products with the reward-based platform or because the start-up was operating in a niche operating space. For example, as the owner of an innovative venom lab start-up jokingly remarked "*you can't give someone venom*!" (Entrepreneur 11), while the owner of an aviation start-up made a similar argument "*I wouldn't know what to give them* (backers), *you can't give them a plane*" (Entrepreneur 13), with similar views expressed by Entrepreneur 9, a crowdsourced computing power start-up. Hence, a cohort of entrepreneurs in the sample viewed their ventures as being too specialised to benefit from reward-based crowdfunding and found that reward-based crowdfunding was effectively off limits to the venture due to a lack of fit. In this sense, equity crowdfunding is the last resort for some start-ups.

5.2.2. Crowdfunding at the start-up stage

At the start-up stage the findings indicate that the validation gained from reward-based crowdfunding takes on a slightly different role as ideas are often transformed into actual ventures/products or services at this stage. Interestingly, the findings suggest that at the start-up stage the focus is not only on signalling market demand, but also on market development and increasing firm valuation and gaining access to follow-on funding. For instance, at the start-up stage, entrepreneurs were particularly interested in reward-based crowdfunding due to the *valuation* benefits which would allow the start-up to access further rounds of equity crowdfunding or bank finance down the line. As one entrepreneur describes:

"If it would have been an angel investment or another equity investment (instead of crowdfunding) *I wouldn't have got the valuation I got now"* (Entrepreneur 2)

Entrepreneurs who pursued crowdfunding at the start-up stage were also focused on market development and were keen to stress the valuable market feedback gained at this stage. For instance, an entrepreneur who developed traditional Irish drums, underlined the strategic importance of market feedback from the crowd and remarked:

"There were lots of people asking me for left-handed bass pedal systems so you can use your left foot and there were even right-handed people who would prefer to use their left foot so I saw there was a need for that" (Entrepreneur 1)

The novelty of reward-based crowdfunding also enabled more sales to be made, with customers attracted by the social media publicity and the time limit which encouraged people to place orders.

"*Sitting here for one month and getting £22,000 plus is really good compared to sitting here for 6 months and getting a couple of orders a week. So you have to weigh it up. That's why Kickstarter is so good, you get this big shot and everyone creates such a buzz around it but in a store no one is interested*" (Entrepreneur 6)

Accordingly, many entrepreneurs in the sample utilised reward-based crowdfunding tactically at both the seed and start-up stages as both a validation and signalling tool for their products or venture as well as to gain access to a much larger market of backers, suppliers, customers and distributors. This in turn allows the start-up to access more follow-on forms of crowdfunding and traditional finance at later stages.

5.2.3. The bankers' view

All the banking respondents viewed start-ups, without a track record, as too risky to fund, though exceptions would be made for experienced business people with funds of their own to put into a new venture. They generally felt that start-ups used crowdfunding due to a lack of choice stating "*If you are looking for money and you can't get it the traditional route but you really, really still want to do what you want to do, then you will try something else* (referring to crowdfunding)" (Banker 3). All the bankers were keen to stress the importance of the traditional banking relationships and due diligence, which they saw as absent in the remote crowdfunding domain, ultimately leading to greater informational asymmetries and risk.

These relational implications were illustrated by the following quotation.

"*They don't get involved in any businesses (the crowdfunding platforms) and there's no relationship banking there, so you know it's a transaction from their point of view*" (Banker 7).

This relationship angle was also noted by an entrepreneur in the sample who stated "*If your project goes wrong (reward-based crowdfunding) you can spend all your money on R&D and end up without a prototype! However, if you had a loan you could go to the bank and say "can I have a little more" but you can't do that (with reward-based crowdfunding)*" (Entrepreneur 6).

Furthermore, the majority of bankers (6 of 9 banking respondents) saw crowdfunding as a means to provide funding for applications that were seen to be too risky for a traditional bank with an illustrative comment as follows:

"*My feelings are we will do our best to fund and if we can't then crowdfunding would be an alternative*" (Banker 9).

The ability of crowdfunded firms to connect to customers, as identified by Entrepreneur 1 above, was also noted by some respondents as illustrated below.

"*Actually using crowdfunding was a way for them to build relationships with their retail customer base. I can't offer them that and I wouldn't try. So I just turn to that customer and say 'wow that's amazing, what a wonderful idea'* " (Banker 8).

5.3. The evolution of crowdfunding and start-up finance within organisations (RQ3)

5.3.1. Equity crowdfunding

After a successful reward-based campaign, publicly available information shows that 3 of the 8 entrepreneurs (Entrepreneurs 2, 3 and 10) in the sample later moved on to use equity crowdfunding whilst Entrepreneur 7 obtained equity-based finance in the form of venture capital funding. Moreover, 6 of the 8 (Entrepreneurs 1, 2, 3, 6, 7, and 10) entrepreneurs who initially pursued reward-based crowdfunding cited the valuation and validation benefits of a successful reward-based campaign in accessing further rounds of funding. As one entrepreneur described:

"You get a lot of exposure, you get pre-orders, you get a lot of validation. That validation can be used to go to raise some equity funding and all of these things through making use of the crowd is just so much more rewarding than the traditional means" (Entrepreneur 2)

Accordingly, at the growth stage, entrepreneurs were particularly interested in equity crowdfunding, not only to access increased pools of capital, but also to engage the strategic benefits of equity crowdfunding. Examples include the potential for increased firm valuation and the possibility of retaining greater control/autonomy in the crowdfunding domain compared to traditional equity investments involving venture capitalists and business angels. As one entrepreneur describes:

"*We did consider equity* (*crowdfunding) but we wanted to hold out till we could get a better valuation to get more money through the door*" (Entrepreneur 3).

Furthermore, in relation to retained ownership dimension, one entrepreneur stated:

"*I had to give away 21.25% of my business (through equity crowdfunding). Actually, I think that's not bad for a business at this stage with such a new market, with no customers*" (Entrepreneur 9).

Accordingly, equity crowdfunding can give the entrepreneur greater leverage as they are dealing with a greater pool of investors each investing a small share as opposed to dealing with one or two private investors with a stronger negotiating position who demand a higher share of the business. Moreover, it is important to highlight that retained equity is a positive market signal of entrepreneurial intentions in capital markets (Leyland and Pile, 1977; Ahlers et al., 2015).

Aside from the valuation and control benefits of equity crowdfunding over traditional finance, 4 out of 6 entrepreneurs took a social capital perspective and argued that equity crowdfunding opened doors to the start-up. An entrepreneur in the brewing industry was quoted as saying:

"I 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. We have got people involved from the drinks trade" (Entrepreneur 12).

Some entrepreneurs also cited the corporate governance benefits of equity crowdfunding at the growth stage, arguing that being responsible to many different shareholders acted as a sort of control mechanism of sorts and ensured the business remained on a sustainable growth path, though these control mechanisms were more informal compared to traditional funders.

It should be noted however, that other respondents who pursued equity crowdfunding had negative experiences. For example, Entrepreneur 4 who pursued equity crowdfunding at the start-up stage, as opposed to growth stage, expressed regret that they gave away too much of their business at an early stage when the firm's bargaining position was much weaker. Moreover, entrepreneurs highlighted that the equity-based platforms, due to their regulatory nature, also have a more demanding and time-consuming application process when compared to reward-based crowdfunding (Entrepreneurs 12 and 13). For example, Entrepreneur 8, an aquarium manufacturer, outlined his experience of using an equity crowdfunding platform; "*you had to submit a business plan with quite a* *complex financial model which had to be approved by their accountant, which you then had to pay for".*

5.3.2. Future bank finance

Many entrepreneurs in the sample viewed both reward-based and equity crowdfunding as a stepping stone to bank finance, and other forms of finance, with one entrepreneur suggesting *"You can do it* [approaching banks] *I think you can do it at a point when you have raised enough equity funding*" (Entrepreneur 7).

A second entrepreneur who had also received reward-based crowdfunding stated "*Interestingly, more recently we are now looking at banks, as providing short term funding because we are a bigger organisation now, we have more need of working capital as we have gone from working with smaller shops who pay us in advance of us sending out the goods, we are now starting to knock on the doors of bigger accounts who require a month plus 30 days or a month plus 60 days*" (Entrepreneur 3).

This aligns with both signalling and market validation perspectives, as a successful crowdfunding campaign is viewed by entrepreneurs as a tactical mechanism to enhance both the validation as well as the valuation of the start-up in order to access bank finance at a later stage. In this sense, a successful campaign is viewed as a signal of sorts not only to investors/customers but also traditional financiers such as banks, that the venture is sustainable.

5.3.3. The bankers' view

The bankers generally had positive views on the use of crowdfunding to access bank finance later in the firms' start-up cycle. More specifically, 6 of the 9 bankers stated that crowdfunding was something they could suggest to entrepreneurs seen as too risky for the bank to lend to, with an example being the following comment "[crowdfunding] *adds an immense amount of value to our customers if we say 'unfortunately that falls outside our appetite for whatever reason. However, there is another avenue' and once the revenue streams or the build risk or whatever is out, we can refinance at that stage*" (Banker 7). However, it should be acknowledged that two of the bankers diverged from this perspective and raised the point that equity crowdfunding could make things difficult for future bank lending. For example, one of the respondents stated:

"*They* (start-ups) *go down the crowdfunding route and have 200 shareholders and then at the next stage want to fund through the bank... well it's got 200 shareholders, and this makes things very complicated for banks to lend because all those shareholders have a stake in that business too."* (Banker 1).

On the other hand, a banker highlighted that investor transparency and verification issues can also arise in situations where a shareholder has a large stake in the business;

"*If anybody has a shareholder with more than 20% of the business, you need to identify that person. So it's ok if somebody's got 1% or 2% or something small.*

But a business needs to have a list of all the shareholding and then once it reaches over 20% shareholding you need to actually ID and verify." (Banker 2).

Finally, 8 of the bankers in the sample highlighted the lack of regulation in crowdfunding, for instance, Banker 3 commented "*It* (equity crowdfunding) *needs to be regulated in some way…. and to gain I suppose security.*" (Banker 3).

In reality, this shows that equity crowdfunding could become a complication from a banking perspective, particularly in the case of Banker 1, where the venture has a dispersed ownership structure, which adds extra complexities when applying for loans, and in theory, could send negative signals to banks, though these comments were not expressed by other participants.

6. Discussion

6.1. The entrepreneurial view

Exploration of the dynamics of the capital market illustrates that the start-ups in the sample viewed their financing options to be bleak as the majority of entrepreneurs interviewed did not approach banks to begin with. Nevertheless, the bankers were adamant they were in fact lending and highlighted that signals from the media, politicians, SME networks as well as other financial institutions post financial crisis has led to a fear factor among start-ups that they will be rejected. This finding therefore extends recent quantitative research by Saiedi et al. (2022) who postulated the fallout from the economic downturn has led to a negative outlook in relation to banks. Thus, many entrepreneurs in this study pursued other avenues and saw crowdfunding as a fast and flexible way to raise funds while simultaneously building market validation (Brown et al., 2018; Junge et al., 2022).

At the seed and start-up stages, the majority of the firms in the sample chose reward-based crowdfunding, as opposed to equity crowdfunding, as the former was seen to have a more aligned strategic impact at the outset when organisations were pre-sales, or at an early stage of development, while equity crowdfunding was seen as more important at later stages in the start-up cycle (Paschen, 2017; Bessière et al., 2020). The findings therefore indicate that legitimacy building is a key strategic consideration at the seed and start up stages where entrepreneurs are interested in building validation (i.e., pre-orders, etc.) to gain a market following and access further rounds of funding/finance down the line (Kaminski et al., 2019; Bessière et al., 2020). The entrepreneur findings are therefore in line with the legitimacy buffering perspective put forward by Fisher et al. (2016) who argue that high stocks of legitimacy from a previous lifecycle stage carry over and enable entrepreneurs to adapt in later stages of the firm lifecycle.

An important implication which concerns reward-based crowdfunding however, and one which is often overlooked in previous studies, relates to the observation that some entrepreneurs in the sample highlighted that reward-based crowdfunding did not fit their business model. It was highlighted in this study that this can occur due to start-ups operating in a niche market (i.e., a venom lab) meaning that the firm's products do not lend themselves to the allocation of rewards, or because start-ups require more capital than could be raised through a small or medium scale reward-based campaign.

At the growth stage, many entrepreneurs in the sample used equity crowdfunding to raise a greater amount of funding and further build firm validation (through social capital, etc.) (Junge et al., 2022). Interestingly however, the focus was also on enhancing the firm's valuation as much as possible, before pursuing equity crowdfunding (Brown et al., 2018). Moreover, start-ups who pursued equity crowdfunding found the option quite attractive from a retained ownership perspective as a diverse set of investors meant each equity provider only owned a very small portion of the business. Lastly, entrepreneurs in the sample lamented the red-tape and complexities involved in dealing with equity crowdfunding platforms as opposed to reward-based platforms.

6.2. The bankers' view

The banks' logic on the other hand, is largely in line with pecking order theory (Myers and Majluf, 1984). The banking sector viewed crowdfunding as a last resort when all sources of finance are unavailable to start-ups. Interestingly, however, the bankers in the sample stated they would recommend crowdfunding to start-up ventures who fall outside their risk appetite or are perhaps operating in specialised markets, and once they have built market validation, they can return to the bank at a later stage which is consistent with signalling theory (Spence, 1973). However, it should be noted that a small cohort of bankers in the sample expressed concerns with the ownership structure after equity crowdfunding campaigns, as it makes it difficult for banks to keep track of dispersed shareholders structures and this, in theory, may act as a negative signal of sorts for the banking sector (Walthoff-Borm et al., 2018; Blaseg et al., 2021). Almost all the bankers also had issue with the lack of peer relationships (informational asymmetry) when entrepreneurs engage with crowdfunding platforms. Many bankers argued that the guidance provided to firms at start-up from banks is invaluable, and this is often missing in crowdfunding settings.

7. Conclusion

Existing studies on crowdfunding have been rather one-dimensional and ignored the banking perspective on crowdfunding. This has led to a poor understanding of the implications of pursuing crowdfunding (Block et al., 2018). Thus, by considering both entrepreneur and banker perspectives on crowdfunding and their interactions across two different stages of the start-up cycle, the following contributions are made.

Firstly, in line with signalling theory (Spence, 1973), entrepreneurs in the study perceived the chances of start-up funding from bankers and venture capitalists to be severely restricted. The implication of this was that many entrepreneurs in the study never approached banks, as opposed to being outright rejected. This observation supports the results of Brown et al. (2018) who found that many entrepreneurs were discouraged borrowers, not rejected borrowers. However, this study provides new insights into why this occurs. The bankers in this study argued that negative market signals from the media in light of the financial crisis as well as within SME and political networks, have created a long-term negative view of banks and led entrepreneurs to assume they will not obtain finance from traditional sources. This study therefore supports related research by (Saiedi et al., 2022) who proposed that a distrust in banks has led to start-ups seeking peer-to-peer lending. Despite this, the banks in this study maintain they are in fact lending as it is their business model to do so.

Secondly, the research has shown that entrepreneurs strategically pursue reward-based crowdfunding to build legitimacy and validate the venture at the seed and start-up stages. This finding therefore aligns with previous work by Kaminski et al. (2019) and Junge et al. (2022).

However, the substantial contribution of this paper relates to pecking order theory (Myers and Majiuf, 1984). For instance, bankers in the sample largely viewed crowdfunding as a last resort, thus underlining the findings of research by Walthoff-Borm et al. (2018) and Blaseg et al. (2021) who found ventures listed on equity crowdfunding platforms were both low-quality and financially perilous. This study adds new insights as to why banks view equity crowdfunding with caution, with bankers citing the implications of dispersed ownership structure, poor regulation, and the need to evaluate investors with larger equity stakes. The bankers also argued that the actual process of crowdfunding (both reward-based and equity) was risky in nature for both entrepreneurs and the crowd due to increased informational asymmetries stemming from a lack of traditional financial relationships and due diligence such as those often seen between banks and start-ups. This led bankers to question the legitimacy of ventures using crowdfunding. Nevertheless, the bankers argued that the revenue streams from a successful crowdfunding campaigns were a signal that the product has a demand and helped to establish venture viability, thereby possibly allowing the venture to access bank finance at later stages in the start-up cycle.

In terms of practical implications*,* this study highlights that crowdfunding can be used as a mechanism to build legitimacy and secure vital start-up capital. However, entrepreneurs should be aware that not all products or services are suited to reward-based crowdfunding especially niche ventures where rewards to the crowd, both tangible and intangible, are not feasible. In this scenario, entrepreneurs have no choice but to pursue equity crowdfunding and face the complexities inherent with equity crowdfunding at an earlier stage of the start-up cycle. In effect, equity crowdfunding becomes a last resort.

7.1. Limitations and future research

A limitation of this study was the relatively small sample size and the use of convenience sampling. Interviews also have the potential for bias. Such limitations can be overcome through pursuing large-scale surveys which address the findings of this research. A second limitation of this study relates to the theoretical lens taken, namely Pecking order theory. Pecking order theory assumes that SMEs have the capability and leverage to freely issue debt or equity, however as Miglo (2022b) argues, this is rarely ever the case in reality. Additionally, while the results of this study offered an in-depth look at the implications of crowdfunding, the interviews were conducted in 2015 and 2016. In terms of future research, there is an opportunity to revisit the implications of crowdfunding particularly in the aftermath of COVID. Some questions also remain over the juxtapositions inherent within equity crowdfunding, particularly in relation to complex and diverse ownership structures which appear to pose problems for banks in terms of financial lending. Hence, there is a gap for a study which delves deeper into the ownership issue. Lastly, some of the implications discussed in this paper in terms of seeking follow-up bank finance will also be relevant to the study of more formalised co-financing arrangements, whereby both crowdfunding and bank finance are used to fund start-ups (Bock et al., 2022). Hence, future research could focus on the governance or regulatory implications of co-financing agreements for both entrepreneurs and the banking sector.

References:

Agrawal, A., Catalini, C. and Goldfarb, A. (2014), "Some simple economics of crowdfunding", *Innovation Policy and the Economy*, 14(1): 63-97.

Ahlers, G.K., Cumming, D., Günther, C. and Schweizer, D. (2015), "Signalling in equity crowdfunding", *Entrepreneurship Theory and Practice*, 39(4): 955-980.

Belleflamme, P., Lambert, T. and Schwienbacher, A. (2014), "Crowdfunding: Tapping the right crowd", *Journal of Business Venturing*, 29(5): 585-609.

Bessière, V., Stéphany, E. and Wirtz, P. (2020), "Crowdfunding, business angels, and venture capital: An exploratory study of the concept of the funding trajectory", *Venture Capital*, 22(2): 135-160.

Blaseg, D., Cumming, D. and Koetter, M. (2021), "Equity crowdfunding: High-quality or low-quality entrepreneurs?", *Entrepreneurship Theory and Practice*, 45(3): 505-530.

Block, J.H., Cumming, D.J. and Vismara, S. (2017), "International perspectives on venture capital and bank finance for entrepreneurial firms", *Economia e Politica Industriale*, 44(1): 3-22.

Block, J.H., Colombo, M.G., Cumming, D.J. and Vismara, S. (2018), "New players in entrepreneurial finance", *Small Business Economics*, 50(2): 239-250.

Bock, C., Siebeneicher, S. and Rockel, J. (2022), "The "C" in crowdfunding is for co-financing: Exploring participative co-financing, a complement of novel and traditional bank financing", *Journal of Business Economics*, 92(9): 1559-1602.

Brown, R., Mawson, S., Rowe, A. and Mason, C. (2018), "Working the crowd: Improvisational entrepreneurship and equity crowdfunding in nascent entrepreneurial ventures", *International Small Business Journal*, 36(2): 169-193.

Butticè, V. and Vismara, S. (2022), "Inclusive digital finance: The industry of equity crowdfunding", *Journal of Technology Transfer*, 47(4): 1224-1241.

Chen, W.D. (2023), "Crowdfunding: Different types of legitimacy", *Small Business Economics*, 60(1): 245-263.

Chen, Y., Zhang, R. and Liu, B. (2022), "New product financing decision: Crowdfunding, bank or supply chain?", *International Journal of Production Economics*, 249: article 108536.

Cholakova, M. and Clarysse, B. (2015), "Does the possibility to make equity investments in crowdfunding projects crowd out reward-based investments?", *Entrepreneurship Theory and Practice*, 39(1): 145-172.

Churchill, N.C. and Lewis, V.L. (1983), "The five stages of small business growth", *Harvard Business Review*, 61(3): 30-50.

Colombo, O. (2021), "The use of signals in new-venture financing: A review and research agenda", *Journal of Management*, 47(1): 237-259.

Cumming, D. and Hornuf, L. (Eds.) (2018), *The Economics of Crowdfunding: Startups, Portals, and Investor Behavior*. Cham, Switzerland: Palgrave Macmillan.

Cumming, D., Deloof, M., Manigart, S., and Wright, M. (2019), "New directions in entrepreneurial finance", *Journal of Banking & Finance*, 100: 252-260.

Cummings, M.E., Rawhouser, H., Vismara, S. and Hamilton, E.L. (2020), "An equity crowdfunding research agenda: Evidence from stakeholder participation in the rulemaking process", *Small Business Economics*, 54(4): 907-932.

Datta, A., Sahaym, A. and Brooks, S. (2019), "Unpacking the antecedents of crowdfunding campaign's success: The effects of social media and innovation orientation", *Journal of Small Business Management*, 57: 462-488.

De Luca, V.V., Margherita, A. and Passiante, G. (2019), "Crowdfunding: A systemic framework of benefits", *International Journal of Entrepreneurial Behavior & Research*, 25(6): 1321-1339.

Denzin, N.K. (Ed.) (2006), *Sociological Methods: A Sourcebook*. New York: Routledge.

Department for Business, Innovation and Skills (2012), *SME Access to External Finance*, BIS Economics Paper No. 16. London: Department for Business, Innovation and Skills. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/32263/12-539-sme-access-external-finance.pdf. Accessed 13th October 2022.

Dodge, H. and Robbins, J.E. (1992), "An empirical investigational of the organization life cycle model for small business development and survival", *Journal of Small Business Management*, 30(1): 27-37.

Durkin, M., McGowan, P. and Babb, C. (2013), "Banking support for entrepreneurial new ventures: Toward greater mutual understanding", *Journal of Small Business and Enterprise Development*, 20(2): 420-433.

Eldridge, D., Nisar, T.M. and Torchia, M. (2021), "What impact does equity crowdfunding have on SME innovation and growth? An empirical study", *Small Business Economics*, 56(1): 105-120.

Estrin, S., Gozman, D. and Khavul, S. (2018), "The evolution and adoption of equity crowdfunding: Entrepreneur and investor entry into a new market", *Small Business Economics*, 51(2): 425-439.

Feldman, A., Altrichter, H., Posch, P. and Somekh, B. (2008), *Teachers Investigate Their Work: An introduction to action research across the professions* (2nd Edn.). London: Routledge.

Filatotchev, I., Toms, S. and Wright, M. (2006), "The firm's strategic dynamics and corporate governance life-cycle", *International Journal of Managerial Finance*, 2(4): 256-279.

Fisher, G., Kotha, S. and Lahiri, A. (2016), "Changing with the times: An integrated view of identity, legitimacy, and new venture life cycles", *Academy of Management Review*, 41(3): 383-409.

Gioia, D.A., Corley, K.G. and Hamilton A.L. (2013), "Seeking qualitative rigor in inductive research notes on the Gioia methodology", *Organizational Research Methods*, 15(1): 15-31.

Hervé, F. and Schwienbacher, A. (2018), "Crowdfunding and innovation", *Journal of Economic Surveys*, 32(5): 1514-1530.

Hornuf, L., Schmitt, M. and Stenzhorn, E. (2018), "Equity crowdfunding in Germany and the United Kingdom: Followup funding and firm failure", *Corporate Governance: An International Review*, 26(5): 331-354.

Hu, M., Li, X. and Shi, M. (2015), "Product and pricing decisions in crowdfunding", *Marketing Science*, 34(3): 331-345.

Junge, L.B., Cleveland Laursen, I. and Nielsen, K.R. (2022), "Choosing crowdfunding: Why do entrepreneurs choose to engage in crowdfunding?", *Technovation*, 111: article 102385.

Kaminski, J., Hopp, C. and Tykvová, T. (2019), "New technology assessment in entrepreneurial financing — does crowdfunding predict venture capital investments?", *Technological Forecasting and Social Change*, 139: 287-302.

Leyland, H. and Pile, D.H. (1977), "Informational asymmetries, financial structure, and financial intermediation", *Journal of Finance*, 32(2): 371-387.

Mac an Bhaird, C., Sanchez Vidal, J. and Lucey, B. (2016), "Discouraged borrowers: Evidence for Eurozone SMEs", *Journal of International Financial Markets, Institutions and Money*, 44: 46-55.

Miglo, A. (2022a), "Crowdfunding and bank financing: Substitutes or complements?", *Small Business Economics*, 59(3): 1115-1142.

Miglo, A. (2022b), "Theories of financing for entrepreneurial firms: A review", *International Review of Entrepreneurship*, 20(2): 301-330.

Miglo, A. and Miglo, V. (2019), "Market imperfections and crowdfunding", *Small Business Economics*, 53(1): 51-79.

Myers, S. and Majluf, N. (1984), "Corporate financing and investment decisions when firms have information that investors do not have", *Journal of Financial Economics*, 13(2): 187-221.

O'Reilly, S. and Mac an Bhaird, C. (2024), "Equity crowdfunding as a source of finance for early-stage cleantech firms: Exploring the role of patents", *International Review of Entrepreneurship*, 22(1): 77-110.

Paschen, J. (2017), "Choose wisely: Crowdfunding through the stages of the startup life cycle", *Business Horizons*, 60(2): 179-188.

Roma, P., Vasi, M. and Kolympiris, C. (2021), "On the signaling effect of reward-based crowdfunding: (When) do later stage venture capitalists rely more on the crowd than their peers?", *Research Policy*, 50(6): article 104267.

Rossi, M. (2014), "The new ways to raise capital: An exploratory study of crowdfunding", *International Journal of Financial Research*, 5(2): 8-18.

Saiedi, E., Mohammadi, A., Broström, A. and Shafi, K. (2022), "Distrust in banks and fintech participation: The case of peer-to-peer lending", *Entrepreneurship Theory and Practice*, 46(5): 1170-1197.

Salomon, V. (2019), "Evolving crowdfunding models", In: H. Landström, A. Parhankangas, and C. Mason (Eds.), *Handbook of Research on Crowdfunding*, pp. 357-384. Cheltenham, UK: Edward Elgar Publishing.

Schwienbacher, A. and Larralde, B. (2012), "Crowdfunding of small entrepreneurial ventures", In: D. Cumming (Ed.), *The Oxford Handbook of Entrepreneurial Finance*, pp. 369-391. New York: Oxford University Press.

Silver, L., Berggren, B. and Fili, A. (2016), "The role of crowdfunding in entrepreneurial ventures: An analysis of recent trends in Sweden", *Investment Management and Financial Innovations*, 13(1): 221-229.

Sirmon, D.G., Hitt, M.A., Ireland, R.D. and Gilbert, B.A. (2011), "Resource orchestration to create competitive advantage: Breadth, depth, and life cycle effects", *Journal of Management*, 37(5): 1390-1412.

Spence, M. (1973), "Job market signalling", *Quarterly Journal of Economics*, 87(3): 355–374.

Statista (2023), "Crowdfunding: United Kingdom". (Online) Available: https://www.statista.com/outlook/dmo/fintech/digital-capital-raising/crowdfunding/united-kingdom#global-comparison, Accessed 01/09/2023.

Stevenson, R.M., Kuratko, D.F. and Eutsler, J. (2019), "Unleashing main street entrepreneurship: Crowdfunding, venture capital, and the democratization of new venture investments", *Small Business Economics*, 52(2): 375-393.

Testa, S., Roma, P., Vasi, M., and Cincotti, S. (2020), "Crowdfunding as a tool to support sustainabilityoriented initiatives: Preliminary insights into the role of product/service attributes", *Business Strategy and the Environment*, 29(2): 530-546.

Walthoff-Borm, X., Schwienbacher, A. and Vanacker, T. (2018), "Equity crowdfunding: First resort or last resort?", *Journal of Business Venturing*, 33(4): 513-533.

Wilson, N., Wright, M. and Kacer, M. (2018), "The equity gap and knowledge-based firms", *Journal of Corporate Finance*, 50: 626-649.