



EXPLORING SMES CROWDFUNDING SOLUTIONS THAT CAN GENERATE TRUST

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ABSTRACT: *In accordance with the sustainable development goals, it is necessary to increase the access of SMEs to financial services. Crowdfunding has been imposed as an alternative to other traditional financial sources, being an “umbrella” covering the financing of projects and initiatives by various individuals (the crowd) through the Internet. Within the concept, four types are included: Donation, Reward-based, Lending and Equity. The concept of “trust” is a key element in online transactions, reducing the information asymmetries and uncertainty. The generation of trust in crowdfunding can be derived from different components that we will analyze: a) The platform used (and the company that supports it); b) The promoter; c) The quality of the information; d) The investor’s disposition and familiarity with the instrument; and e) The network around the promoter and / or the project. In addition, female entrepreneurs generate more trust and would have the opportunity to attract professional local investors (lead investors), through better information on their initiative. That is why, through a content analysis, we will propose the best type and components combination, within the framework of a project based on the SMEs of Bogotá (Colombia).*

KEY WORDS: Crowdfunding; Trust; SMEs; Digital platforms; Investors.

1. INTRODUCTION

In accordance with the sustainable development goals, it is necessary to increase the access of SMEs to financial services (SDG 9, Target 9.3) (United Nations, 2015). Specially in some countries, the lack of credit access can led to look for informal solutions with high interests. New solutions, like crowdfunding, can be an alternative for SMEs to obtain credit, but it would be necessary a trustable environment for its success. The generation of trust in crowdfunding can be derived from different components that we will analyze: the platform used (and the company that supports it), the promoter, the quality of the information, the disposition of the investor and his familiarity with the instrument, and the network around the promoter and / or the project.

How to cite: De-Miguel-Molina, M., De-Miguel-Molina, B., Peiró Signes, Á., and Segarra Oña, M. 2021. Exploring SMEs crowdfunding solutions that can generate trust. In Proc.: 3rd International Conference Business Meets Technology. Valencia, 23rd & 24th September 2021. 119-124. <https://doi.org/10.4995/BMT2021.2021.13288>

In our case, we will focus on Colombian SMEs. Some of the most used crowdfunding platforms in the country are Indiegogo, Kickstarter, Vaki, La Chèvre, Ideame or Help. Collaborative financing in Colombia has been regulated by Decree 1357 of 2018 (Presidencia de Colombia, 2018). This only includes the collaborative financing of loans and shares, not those of donations and rewards that could operate, but with less legal certainty. Collaborative financing companies for P2P or P2B (equity) had to meet certain requirements, the first being created by the Colombian Stock Exchange itself (www.a2censo.com), which can provide more confidence as it is subjected to limitations and a constant control. However, a revision of the regulations was requested to give it greater flexibility and include other crowdfunding options.

Thus, Decree 1235 of 2020 (Presidency of Colombia, 2020), included several reforms. Among others: a) the possibility of creating a system for registering operations on the securities that have been issued within the platform, allowing investors to register operations on their securities. Additionally, it increases the investment amounts; b) the inclusion of collection services; and, c) the possibility of crowdfunding by donation.

In this work we would explore how the literature has analysed the way the different components of trust can influence crowdfunding to propose a model for Colombian SMEs.

2. BACKGROUND

Informal credit was already a recurring problem in many countries (World Bank, 2020) that has been aggravated by the Covid-19 pandemic (Weller, 2020; OIT & CEPAL, 2020). However, working in the informal sector increases uncertainty and the risk of poverty (CEPAL, 2020), so other more affordable formal alternatives are necessary.

Crowdfunding has been imposed as an alternative to other traditional financial sources, being an “umbrella concept” covering the financing of projects and initiatives by various individuals (the crowd) through the Internet (Gierczak et al., 2015). Within the concept, four types are included (Moysidou & Hausberg, 2020):

- Donation (donation), without reward or symbolic.
- Reward-based, non-pecuniary (prototype) or intangible (experience).
- Loan (lending), in exchange for interest.
- P2P or P2B (equity), through shares or benefits.

For Andrikopoulos (2020), crowdfunding allows supporting social projects of companies and is based on the social relationships between the members of a community and their shared values. In addition, this solution can increase financial inclusion, improving the scope of SDGs 5 and 9, by ensuring access to financial resources for women and microenterprises (United Nations, 2015).

3. METHODOLOGY

In Figure 1 we see how crowdfunding has been studied in the business area from different perspectives, but we will focus on the concept of “trust” which is a key element since it presupposes that the person responsible for this initiative will behave in a certain way. This is especially relevant in online transactions, reducing information asymmetries and uncertainty.

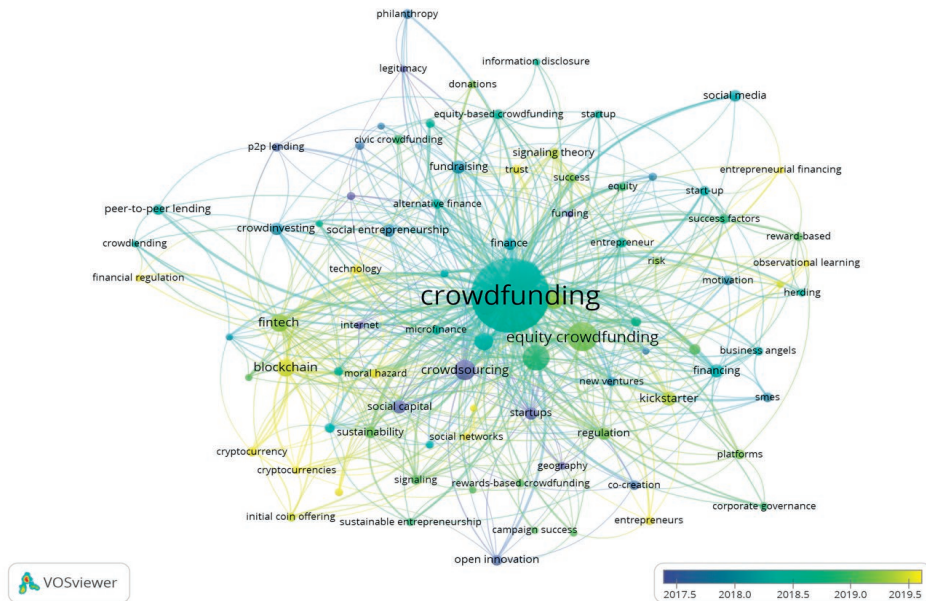


Figure 1. Co-occurrences of “crowdfunding”. Own elaboration based on Van Eck and Waltman (2020).

That is why, through a content analysis, we will explore the best type and components combination, within the framework of a project in the downtown area of Bogotá, for a crowdfunding platform that supports informal companies and micro-SMEs.

Findings

In this first analysis, we have explored some literature around the components of trust in crowdfunding: the platform used (and the company that supports it), the promoter, the quality of the information, the disposition of the investor and his familiarity with the instrument, and the network around the promoter and / or the project.

The platform used, it is the key element in generating trust for most authors. For Strohmaier, Zeng and Hafeez (2019), the success of these platforms depends on the

information they provide throughout the process, before, during and after the crowdfunding campaign.

In the case of the promoter, we want to observe the influence of gender in building trust (SDG 5). For Zhao, Xie & Yang (2020), female entrepreneurs generate more confidence and would have the opportunity to attract professional local investors (lead investors), through better information on their initiative. The information that these platforms collect is one of the main elements that give investors security and confidence. This perspective would also help to contribute to gender equality, ensuring the full and effective participation of women and equal opportunities (SDG 5, Target 5.5) (United Nations, 2015).

In relation with the familiarity with crowdfunding, different authors emphasize that familiarity with the instrument favors trust. In this way, having used previously crowdfunding platforms, having sought information about crowdfunding projects and having contributed money in crowdfunding, predispose to having more confidence to contribute money in a crowdfunding (Strohmaier, Zeng & Hafeez, 2019). Gefen (2000), in the case of ecommerce, demonstrated how familiarity with an online seller and the processes that they follow with their clients, influence trust.

Regarding the network around the promoter and / or the project, Cai, Polzin and Stam (2019) pointed out that trust with the promoters makes investors willing to take the risk of investing in the projects, while those who have already sponsored other projects of the same promoter are motivated mainly by the sense of duty to continue supporting the entrepreneur. In other words, we are not talking about isolated projects but about a network that is woven between promoters and investors, also in crowdfunding.

Research limitations/implications

Our first analysis has been an exploration on the components of trust but we need to check if the literature on the topic can be applied in the case of SMEs in Bogotá. The final objective is to provide an alternative that would allow to improve financial inclusion in countries where there is high informality to obtain credit, as is the case in Colombia, so crowdfunding can be an alternative to access to financial resources that encourage greater formality.

4. CONCLUSION

The use of crowdfunding by Colombian SMEs has not been explored before, therefore we want to analyse which could be the best type of crowdfunding for SMEs in the downtown area of Bogotá and how the different components of crowdfunding can contribute to give trust in this case. In Colombia, crowdfunding could be an alternative to improve financial inclusion and encourage greater formality as there is high informality to obtain credit. This contribution could add value not only to the knowledge around crowdfunding but also to the Colombian SMEs that would access to more formal financial resources.

ACKNOWLEDGMENTS

This work is carried out within the framework of the Adsideo Project, “Needs analysis for the design and implementation of a crowdfunding solution that supports informal companies and micro-SMEs in the downtown area of Bogotá (AD2009)”, coordinated by Professor Blanca de Miguel.

CONFLICT OF INTERESTS

None

AUTHOR CONTRIBUTION

María de Miguel: Conceptualization; Methodology; Formal analysis; Roles/Writing - original draft; Blanca de Miguel: Data curation; Supervision; Funding acquisition; Project administration; Ángel Peiró: Validation; Writing - review & editing; Marival Segarra: Investigation; Resources.

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