The dawn of the crowd: Crowdfunding and the disruption of the trillion-dollar bank lending industry.

Kanayo Ogwu*

Department of Commerce, London School of Chaucer House, London, United Kingdom

Abstract

Crowd funding innovations and practices will eventually usher in the worlds next financial revolution. As more people get on the crowd funding bandwagon, the concept will evolve to cater to the needs of a wider spectrum of fundraisers irrespective of their geographical locations and or credit worthiness. The rise of a new category of funders and or quasi-investors; "millennials", are at the verge of disrupting the once profitable trillion-dollar bank lending industry. The collusion of radical and creative entrepreneurs alongside the force of the crowd, could easily bring about an actual democratization of access to capital on a global and unprecedented scale. This revolution will mark the death of the trillion-dollar bank lending industry. The findings from the study indicates that the financial revolution that crowd funding promises, will most likely start from a developing context where entrepreneurs and SMEs operating in such less credit attractive environments, have faced the most horrific forms of discrimination from traditional and or institutional lenders whilst attempting to raise funds for their businesses. Crowd funding as a concept was born in America and there are indications that as the concept grows to replace the trillion-dollar bank lending industry, the first victims will be already established American banks who have their tentacles spread across the world.

Keywords: Crowd funding, Bank based lending, Entrepreneurs, Millennials, Funding-Gap, SMEs.

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Introduction

Crowd funding will experience certain innovations that will see the concept emerge as a disruptor of the traditional methodologies of accessing and distributing finance/funding. The dawn of the crowd vs the collusion of creative entrepreneurs will eventually spell the death of bank-based financing and pave way for an entirely new financial ecosystem. Managers and or stakeholders in financial institutions must understand that crowd funding is a game-changer and the redistribution of finances and or funding channels is currently witnessing a paradigm shift. Whilst the average fundraiser/project backer views crowd funding as an outlet for small businesses to secure funding for their almost unknown idea, the smart manager should look beyond the horizon and see crowd funding as a disruptors disruptor set to change the way finances are redistributed [1]. Early studies into the crowd funding phenomena indicates that there is a potential for crowd funding to disrupt the trillion-dollar bank lending industry. Banks and other recognised institutional lenders will eventually find themselves at a dichotomy; should they change the mind-set of risk taking in relation to funding small businesses who do not have adequate collateral and thus suffer potential losses if such startups cannot repay the loans? or should they take a gamble that crowd funding is a fad and if they are wrong, watch a trillion-dollar bank lending industry go right down the drain as it gets replaced with crowd funding based innovations [2].

The "Kanayo Disruption Curve" explained in this paper shows the tipping point at which the funding gap meets with the disruptive force of the crowd. This is a perfect elasticity and the point at which a crowd enabled financial revolution kicks off. The author boldly claims that this revolution will bring about the death of bank-based lending. Managers who do not get a grasp of crowd funding and its potential to radicalize and disrupt monetary distribution, may soon become obsolete in a fast changing, technology powered world, all driven by the vehicle of access to financing [3]. The funding gap created by traditional financial institutions is a key driver of crowd funding practices as the concept and practice is helping to fund categories of small businesses that the big banks and other traditional financial institutions have refused to fund. Crowd funding is currently helping to bridge this gap, whilst simultaneously garnering growing support that will eventually propel the industry into a dimension where it not only becomes an alternative to accessing capital for entrepreneurs and small and medium enterprises, but it becomes the disruptors disruptor and the new means of wealth creation and distribution.

The funding gap

Managers, financial experts, governments of nations and thought leaders, have greatly underestimated the extent to which bank lending towards small businesses has degenerated. Lamented that SME's are closing shops on a daily basis due to a shortage of funding drew the attention of the research community to the death of entrepreneurship globally, specifically in developing countries as a result of a complete lack of financing of small businesses by financial institutions and institutional lenders [4]. Further confirms that SMEs are generally very susceptible with a large number shutting down due to difficulty in accessing credit facility and or loans from banks and other traditional financial institutions. The

Organisation for Economic Co-operation and Development (OECD) report, only re-confirms the fact that SMEs are still struggling to access funding from institutional lenders attributed this funding gap to the reluctance and unwillingness of banks to lend to SMEs, startups or indigenous entrepreneurs in developing countries while, accuse the financial gatekeepers of discrimination against most SMEs and indigenous entrepreneurs due to their inability to provide collaterals to source for bank loans. What makes the situation worse, is the fact that fundraisers operating in less credit attractive environments do not have the privilege and access to venture capitalists or influential and affluent family members [5].

The depth of this problem by concluding that bank lending for numerous types of entrepreneurial activities that crowd funding is currently helping to finance has virtually dried up. He concludes his analogy by insinuating that direct finance relationships are definitely taking the place of traditional borrowing or funding sources and ultimately the side effect of this trend could be the death of the once profitable category of bank lending. Crowd funding has been prescribed by experts in alternative financing as the only viable alternative fundraising instrument for fundraisers operating in less credit worthy environments. Crowd funding is the practice of raising small amounts of capital by many people, usually over the internet. The practice of crowd funding is helping bridge the funding gap in many ramifications, however this is not the ultimate goal of the concept, but most likely its earliest steps towards creating a global financial revolution. While academics have described the concept of crowd funding as a key driver of social capital for entrepreneurs and SMEs in the developed world, contemporary crowd funding and or alternative financing literature does not discuss the efficacy of crowd funding as a fundraising instrument for SMEs and entrepreneurs in the developing world [6].

This gap in contemporary crowd funding literature where the existing models of crowd funding do not address their application in the context of the developing world, is largely based on the presumption that the existing models of crowd funding practiced in the west cannot be translated to a developing context because of certain factors that are predominant in such markets. factors such as; low internet penetration, low social media penetration, poverty of wide strata of population, high costs associated with access to the internet, lack of ICT infrastructure, lack of online payment options, fraud concerns and associated risks and digital literacy and language proficiency. These factors are further compounded by counter-productive government policies towards online fundraising, low incomes and affordability, high cost of internet enabled devices etc., that are predominant in developing markets. Whilst stakeholders in such setting continue to work hard in an attempt to combat these challenges mitigating against the concept and practices of crowd funding in such business environments, research into new crowd funding models that will leapfrog crowd funding in developing countries into a fundraising powerhouse despite the presence of the identified factors have proved successful funding bright ideas in the dark continent [7].

Indications from the adoption of the proposed model and the pace at which developing countries are known to radically adopt new technology when it hits home, raises early signs that the financial revolution crowd funding promises is most likely to begin from such setting. However, there is currently a massive funding gap for startups and small businesses globally, but predominantly in developing countries. This funding gap is what instigated the partnership of the world bank to carry out an extensive research where they summarized their findings, boldly stating that 'there is great potential for crowd funding in developing countries'. However, what they left out of the discussion is the fact that there is potential for crowd funding to also create a financial revolution on a global scale starting from developing countries whose fundraisers have suffered the most in terms of discrimination from financial institutions. This financial revolution will affect the global banking system where American banks and financial institutions are most likely to become the first victims [8].

The dawn of the crowd

While all our ancient beliefs are tottering and disappearing, while the old pillars of society are giving way one by one, the power of the crowd is the only force that nothing menaces, and of which the prestige is continually on the increase. The age we are about to enter will in truth be the era of crowds observed that entrepreneurs and SMEs are constantly struggling to access funding required to help them start and or scale their businesses. However, such funding is almost impossible to secure in less credit attractive environments. They pointed out that ideas are what produces development and the level of bright ideas in the world today, most especially in developing settings, is not reflective of the current state of the world, but indicates that there is potential for development, ecommerce, global trade, poverty alleviation, economic progress and stability, etc., if a minute percentage of these bright ideas ever get to see the light of day. Take Africa as an example, over the past four decades, the continent has struggled to put economic policies in place to foster development in every ramification.

The continent continues to struggle with regressive factors such as poverty of wide strata of population, youth unemployment, corruption, technology immaturity and the cannibalization of whole industries. In many parts of the African continent, entire populations rely on a single source of economic resource for the sustainance of the very fabrics of society. In Nigeria it is oil, in Ghana it is gold, etc. While in more developed nations, one can argue that ideas executed brilliantly with technology has leveraged the dependence on national economic resources and has fostered a mind-set of independence. The dawn of the crowd will upend this trend in many ramifications and access to funding will in truth become global and accessable to all, irrespective of geographical location. The millennials who will pave this path have no patience with bureaucratic bottlenecks, they do not respect the old and almost cultic laws and procedures of financial institutions, they live almost entirely online, they move money across countries without ever having to step into a physical banking hall and they are connected to millions of other like-minds via mobile apps, social networks and virtual worlds [9].

It is the dawn of this crowd that brings new hope for entrepreneurs operating in less credit worthy environments. Entrepreneurs who did not attend Harvard or Stanford but believe they can change the world, entrepreneurs who come from geographically challenged locations but believe they have an idea to change the balance of nature, entrepreneurs who come from financially unstable and deficit backgrounds but who are suddenly beginning to realize that they do not need to have influential family backers behind them; all they need is the power of the crowd. The collusion of such radical and creative entrepreneurs alongside the force of the crowd, could easily bring about an actual democratization of access to capital on a global and unprecedented scale. This is the next financial revolution in human history. Early studies into the reasons why the developing world is yet to encounter, embrace, practice and or benefit from "Crowd funding" as a concept, reveals that certain factors are the usual suspects. These factors are predominant in developing markets [10].

However, due to the recent broad diffusion of social networks and the rapidly growing interest in online fundraising, energised by the web-high outreach potential, more fundraisers and companies are increasingly integrating social media into their fundraising efforts. The underlying perspective of this school of thought is the fact that crowd funding activities have demonstrated to have a truly global presence through the means of specialized social media fundraising platforms like Kickstarter and Indiegogo. At the early stages of the concept of crowd funding, the widespread internet access energised by fundraising social networking platforms and largely driven by the emancipation of the crowd, propose new opportunities and avenues for entrepreneurs operating in less credit attractive environments to gain startup capital via a crowd funding process.

The above situations and analogies are generally acceptable realities, which led to conclude that the popular practice of crowd funding has drawn the attention of the research community. Crowd funding will thus become the instrument of change that the new crowd of millennials will use in transforming the status-quo globally. There are already indications to this effect. who referenced a report from the world bank, explained that while the debate regarding the origin of crowd funding continues to exist, the reality is that crowd funding as a concept has proved to be pragmatic and one of the world's fastest growing industries having raised approximately $34 billion for project creators in the first 9 years of its existence with a forecast to raise approximately $90 billion. This line of thought was previously put forth in a research paper presentation by where they emphasized that an aspect of crowd funding that has gained large interest in recent times, is the ability of crowd funding to actually democratize access to capital. One can argue that when access to capital is truly democratized, geographical location will be irrelevant. It is thus important to understand what the democratization of access to capital will look like.

Democratizing access to capital

Whilst scholers and authorities in the field of crowd funding lay claim that the concept has "democratized access to capital" on a global scale, as emphasized the real question is; has access to capital really been democratized on a global scale? What will the democratization of access to capital look like? If the concept of crowd funding is yet to be encountered and embraced in many developing countries, then access to capital has not been democratized. The actual democratization of access to capital will have a semblance to the following:

- There will no longer be financial gatekeepers. This will include all banks, lending houses, financial institutions and venture capitalist.
- The movement of cash and the redistribution of wealth will happen over the internet by people who will not require to physically meet each other or have a need to pull in a middle-man into their transactions.
- Cash will eventually be distributed via some technology that is not very unrelated to the block chain technology that powers bitcoin. The movement of cash amongst backers, fundraisers and eventually, amongst humans in general, will be executed seamlessly at scale with absolutely no need for financial lenders, no need for financial regulators, no repayment interest rates, and every financial transaction will be documented in a ledger controlled by several trusted and unconnected people, thus, eliminating corruption and financial favours that have enriched a few monopolists in partnership with their banking buddies.
- Access to funding will be available to all irrespective of geographical location, religious, political or social affiliations, sexual orientation and educational/cultural background. This means that cash will be available to all without fear, favour or bureaucratic bottlenecks.

Methodology

The author conducted a study amongst 20 middle-level and top management executives in the United Kingdom, Thailand and Nigeria, and the results indicate that 95% of executives are completely unaware of the financial revolution that is poised to change the ways and methods via which access to funding and wealth are redistributed. Participants at this stage were selected via a purposive sampling technique. The purposive sampling technique was used in the selection of participants in order to ensure that only decision makers and managers who could provide insightful responses and who have certain powers to take decisions on behalf of the companies they represent, participated in the study at this stage. This strategy was helpful because the researcher relied on sound judgement and experience whilst selecting the identified participants at this stage of the study. The research instrument that was used in collecting data from the participants were questionnaires with open-ended questions and a few closed-ended questions [11]. The questionnaire distribution strategy was supported by semi-structured interviews in order to get a deeper understanding of the participants knowledge about the phenomenon under investigation.

Upon concluding the first stage of the data collection process, the author then carried out a survey of 300 fundraisers randomly selected from the above-named markets via a stratified random selection technique. The key criteria that determined the selection of the participants at this stage, was that they had to fall under the millennials benchmark. Stratified random sampling is a probability sampling method that involves the division of a population into smaller groups otherwise known as strata. The strata are formed based on members' shared attributes and or characteristics. These subsets of the strata are then pooled to form a random sample. This method was suitable for the second stage of data collection. The research instrument that was used in collecting data from the participants were "surveys" with predominantly closed-ended questions and a few open-ended questions. 95% of the latter group are of the opinion that the crowd funding financial revolution is inevitable. In order to ascertain the accuracy of the above-presumptions, the researcher analysed the key responses from the participants and tested the hypothesis in the null using chi-square and cross-tabs, as illustrated below.

Hypothesis :H1n

Table 1. *The null hypothesis state that there is no relationship between crowd funding and dependence on bank loans required to jumpstart and grow businesses.*

Variable	Response categories					Chi square critical	df	P
	High	Medium	Low	Total	Chi square			
level of crowdfunding and its impact on bank lending.	12	20	168	200	337.705	43.773	30	0.001
X2 computed>X2 critical at df 30, calculated p<0.05								

Results of the X2 analysis above shows that the level of crowd funding penetration and practice has a significant impact on bank lending dependence. Reason being the computed X2 value of 337.705 is higher than the X2 critical value of 43.773 at df 30. The calculated p value of 0.001 is lower than the 0.05 confidence level. The evidence gathered indicates that the growth of crowd funding practices globally, is having a negative impact on the bank lending industry as more fundraisers are drawn to the former to the detriment of the later.

Hypothesis :H2n

Table 2. *The null hypothesis states that there is no relationship between the levels of discrimination by traditional financial institutions against entrepreneurs from certain geographical regions seeking for funding for their businesses, and its impact on crowd funding as an alternative financial option.*

Count		Availability of crowd funding options		Total	X2 Computed	X2 critical	P	Remarks
		Available	Not Available					
level of discrimination	High	70	26	96	22.105		0.001	Relationship exist
	Low	22	82	104				
X2 computed=22.105, X2 critical=3.841								

The outcome of the Nominal X2 cross tabulation statistics above indicates that there is a significant relationship between the levels of discrimination by traditional financial institutions against entrepreneurs from certain geographical regions seeking for funding for their businesses, and its impact on crowd funding as an alternative financial option. The reason being that the computed X2 value of 22.105 is above the X2 critical value of 3.841 at df 1. The calculated p value of 0.001 is lower than the 0.05 alpha level of significance. The table simply illustrates that whenever there is a low level of bank-based lending(which in most cases stems from the fact that entrepreneurs operating in less credit attractive business environments, either come from poor backgrounds, have no collateral and or notable big personality behind their business, are usually denied loans from banks and financial institutions), there is a parallel high level of crowd funding efforts by entrepreneurs and fundraisers who look for alternative options to start or grow their business. Replicating this trend on a global scale, will spell the death of the bank-lending industry.

Consequently, the null hypothesis which state that there is no significant relationship between the duo, is hereby rejected.

Results

The Funding Triangle Model (FTM)

The funding triangle is a model of a perfect angle of financial disruption. The author refers to this curve as the "Kanayo Disruption Curve". This is a sweet spot between the funding gap created by financial institutions, the rise of a new crowd of potentially disruptive internet-based investors, and the possibility of massive shrinking of the profitable bank loan business for financial institutions if the dawn of the crowd kicks in.

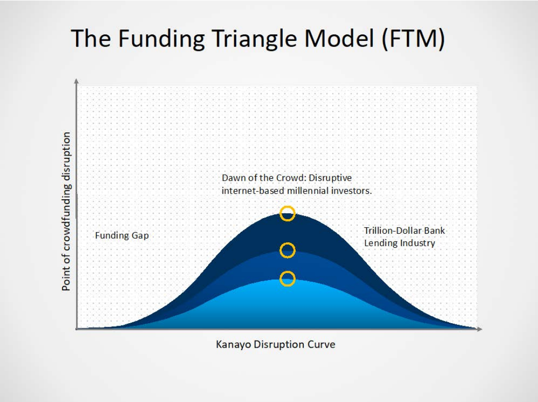

Figure 1. *The Funding triangle model.*

Kanayo Disruption Curve (KDC)

The KDC is the point at which the funding gap meets with the disruptive force of the crowd. This is a perfect elasticity and the point at which a crowd enabled financial revolution kicks off. This revolution will bring about the death of bank-based lending. The diagram below explains this model in visuals.

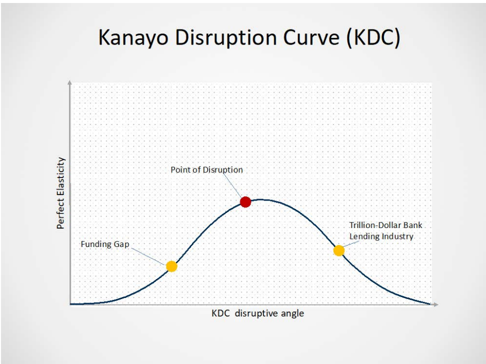

Figure 2. *Kanayo disruptive curve.*

Conclusion

This crowd funding sits at the sweet spot and disrupts, whilst simultaneously solving the funding gap problem and bringing about the death of the profitable bank lending system. Banks and other recognised institutional lenders will eventually find themselves at a dichotomy; should they change the mind-set of risk taking in relation to funding small businesses. who do not have adequate collateral and thus suffer potential losses if such startups cannot repay the loans? or should they take a gamble that crowd funding is a fad and if they are wrong, watch a trillion-dollar bank lending system go right down the drain as it gets replaced with crowd funding based innovations? How will either of the decisions taken by the financial lending sector affect managers and companies who rely on bank-based investments as part of their business strategy? Will this financial revolution lead to another global financial crises as wealth distribution begins to change hands? who tends to profit from the "dawn of the crowd" and who are the potential losers? Managers who do not get a grasp of crowd funding and its potential to disrupt monetary distribution, may soon become obsolete in a fast changing, technology powered world, all driven by the vehicle of finance.

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*Correspondence to

Kanayo Ogwu

Department of Commerce

London School of Chaucer House

London, United Kingdom

E-mail: kanayoogwu@yahoo.com