Teaching activity Proposal to be conducted at the University of Modena and Reggio Emilia

Alternative Finance

12 Research Seminars for doctoral students– February to June 2020

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Introduction

Alternative finance includes financial instruments and distributive channels that emerge outside of the traditional financial system (regulated banks and financial markets). Since the global financial crisis (2006 - 2008), it is developing very fast in all regions in the world. This segment does not pose a single definition. For many years, the Cambridge Center for Alternative Finance[1] provides updated reports and analysis regarding all features of alternative finance. Baeck et al. (2014) in the second report on Alternative finance in UK, give the following definition: *"Alternative finance covers a variety of new financing models that have emerged outside of the traditional financial system, that connect fundraisers directly with funders often via online platforms or websites"*. Crowdfunding platforms or peer to peer lending are examples of alternative financial channels. Mini-bonds, social impact bonds (SIBs) or alternative currencies as Bitcoin are examples of new instruments. Both individuals and businesses are concerned by the development of new finance intermediaries. The new financing models are many disruptive innovations that present both opportunities and challenges for a wide array of stakeholders, especially policymakers and regulators.

The reasons and conditions that permitted this rapid development have been well documented since many years. The unfavorable condition of economies and the limited resources on the part of traditional financial systems just after the global crisis are part of the explanation. At the same time, the internet and the development of information technologies have played and continue to play a crucial role. We speak about the digitization of the finance industry through

[1] University of Cambridge, Judge Business School: https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/

the rise of Fintechs. Finally, changes in the behaviors of many economic agents, especially households, can also explain why such a growth has been possible.

Then alternative finance is an umbrella term that covers a range of many different models. The 12 seminars look at discussing the main models that can facilitate fundraising for entrepreneurial projects and environmental causes. Then, it is clearly linked to the theoretical framework of Entrepreneurial Finance and then the early stage funding of innovative projects and startups.

Course Overview

The seminars highlight some new financing models to address the financing gaps disruptive or radical innovative projects and SMEs are facing when the need of external finance appears. The course introduces major new financial models in the world with an emphasis on Europe and North America. Then, in the theoretical framework of asymmetric information, signaling theory, agency theory, and investment decision under uncertainty, the aim is to explore different research questions relative to the early stage funding of new innovative projects or enterprises.

Course contents

The course proposal is divided in three parts.

The first part proposes an overview of alternative finance today regarding the main models and figures. The different reports of the Cambridge Center for Alternative Finance are used to illustrate the main points.

- This part will be partly conducted as personal readings before the first Seminar in order to be aware of the current landscape.

- The **Seminar 1** will concern the discussion of the new players, their behaviors and new challenges for all stakeholders

The second part concerns the difficulty to fund startups:

- **Seminar 2 and 3:** we first discuss the challenges that such projects represent both for the founder and the external capital providers due to a strong asymmetry of information.
- **Seminar 4 and 5:** we present the most up-dated research and opened questions regarding the funding of such projects by Business Angels.
- **Seminar 6, 7 and 8:** we deeply analyze Equity Crowdfunding mechanisms: the discussion concerns retail investors' behaviors, the different signals used on these platforms, the role of traditional investors as business angels and venture capital funds and the consequences of interconnection between all these investors. The corporate governance consequence for the funded firm will also be discussed.

The third part aims at dealing with funding sustainable entrepreneurship through crowdfunding.

- **Seminar 9 and 10**: we first discuss the capacity of various crowdfunding models to fund sustainable projects regarding motivations of backers. We will be able to compare those models to others as SIBs (Social Impact Bonds).
- **Seminar 11 and 12**: we focus on the advantages and limits of different crowdfunding models to fund projects of renewable energy. This part allows to analyze the different crowdlending models and the link banks.

Course Pedagogy

The course relies on pre-readings (see tentative reading) and 12 interactive research seminars

Course outlines and tentative reading

Session	**Topic**	**Main Readings**	**Study question**
Part 1 February 2020	Introduction SEMINAR 1	1. Web site of the Cambridge Center of Alternative Finance: https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/ 2. Bruton et al. (2014), New financial alternatives in seeding entrepreneurship 3. Bellavitis et al (2017), Entrepreneurial Finance, new frontiers of research and practice 4. Block et al. (2018), New players in entrepreneurial finance and why they are there.	What is alternative Finance? Where is it present? What are the main new financial models? How do they work? (readings before Seminar 1) What are the new players? What are the current challenges?
Part 2	Startup Financing and ECF platforms		
February 2020	Difficulties to fund startups SEMINAR 2 SEMINAR 3	1. Landström (2017) Chapter 1: The basic of entrepreneurial finance +List of main articles in entrepreneurial finance (Cassar 2004, Ueda 2004, Denis, 2008, Caosh et al. 2009, …) 2. Leach & Melicher (2016), Entrepreneurial Finance, 6th edition 3. Cumming & Vismara (2017), De-segmenting	Financing entrepreneurial firms: what do we know? Why the theoretical framework of corporate finance does not apply to entrepreneurial firms?

		research in entrepreneurial finance 4. Cumming et al. (2019), New directions in entrepreneurial finance	
March 2020	The role of Business Angels SEMINAR 4	1. Mason et al (2016), Why business angels reject investment opportunities: Is it personal? 2. White & Dumay (2017), Business Angels: A research review and new agenda.	BA research Landscape and comparison with research on Venture Capital: main results and limits
	SEMINAR 5	3. Huang (2018), The role of investor gut feel in managing complexity and extreme risk 4. Friberg (2015), Managing risk and uncertainty	BA decision to invest under uncertainty: the role of cognitive psychology to better understand the behavior of those players
April 2020	Addressing equity gaps through ECF	1. Mochkabadi & Volkmann (2018), Equity crowdfunding: a systematic review of the literature	Literature Review (personal reading to prepare readings for Seminar 6 to 8)
	SEMINAR 6	2. Alhers et al (2015) 3. Vismara (2016) 4. Lukkarinen et al. (2016), Success drivers of online equity crowdfunding campaigns 5. Ralcheva & Roosenboom (2018), Forecating success in Equity Crowdfunding	What are the determinants of a successful ECF campaign?
	SEMINAR 7	6. Cumming et al. (2019), Equity Crowdfunding and Governance: Toward an Integrative Model and Research Agenda. 7. Wirtz (2011), The cognitive dimension of corporate governance in fast growing entrepreneurial firms.	What are the consequences for the funded company?

	SEMINAR 8	8. Stevensen et al. (2018), Unleashing main street entrepreneurship: crowdfunding, venture capital, and the democratization of new venture development 9. Wallmeroth et al. (2018), Venture Capital, Angel Financing, and Crowdfunding of Entrepreneurial Ventures: A Literature Review 10. Wang et al (2019), The evolution of equity crowdfunding: Insights from co-investments of angels and the crowd	What are the main opened research questions on ECF?
Part 3	Crowdfunding and sustainable entrepreneurship		
May 2020	Moving towards a sustainable society? SEMINAR 9	1. Testa et al. (2019), The role of crowdfunding in moving towards a sustainable society 2. Bone & Baeack, (2016), Crowdfunding good causes 3. Lehner & Nicholls (2014), Social finance and crowdfunding for social enterprises: a public-private case study providing legitimacy and leverage.	What are the motivations of crowdfunders?
	SEMINAR 10	4. Vismara (2019), Sustainability in equity crowdfunding 5. Brown et al. (2018), Working the crowd: improvisational entrepreneurship and equity crowdfunding in nascent entrepreneurial ventures.	Can ECF fund sustainability oriented ventures?

June 2020	Financing projects in renewable energy (RnE) SEMINAR 11 SEMINAR 12	1. Lam & Law (2016), Crowdfunding for renewable and sustainable energy projects: An exploratory case study approach. 2. Bento et al. (2019), Do crowdfunding returns reward risk? Evidences from clean-tech projects. 3. Buttece et al. (2019), Green oriented crowdfunding campaigns: Their characteristics and diffusion in different institutional settings. 4. Charbit & Desmoulins (2017), Civic Crowdfunding: A collective option for local public goods?	Can ECF fund RnE projects? How new debt financing models are used by citizens and public authorities?