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ALTERNATIVE FINANCE

The determinants of alternative finance adoption for Dutch SMEs and the implications for capital structure theory

Master thesis

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PREFACE

This thesis represents the final phase of the study MSc. Business Administration at the University of Twente, which I started with in February 2015 and have undertaken with much enthusiasm and gratification.

First, I want to use this opportunity to thank KroeseWevers Corporate Finance for the time and freedom to develop myself in a period of seven months. This applies to both writing the thesis, and working in the field of Corporate Finance. In this time, I have experienced a challenging learning curve, since the combination of simultaneously writing a thesis and working as a corporate finance assistant has proven time consuming and demanding. Then again, Mister Janssen and Mister Niemeijer have demonstrated to be valuable tutors and sparring partners in these seven months.

Second, I want to thank Ir. H. Kroon, who has proven himself an unconventional teacher and supervisor. Mister Kroon's classes combined the best of academic- and business thinking. As a supervisor, he addressed responsibility and independence in proving my skills as an academic. Our meetings are characterised by discussing the 'how and why' research decisions have been taken. The principal lesson; know what you are doing and why at all times.

Lastly, I want to thank my family and former partner. First off my family, for their toleration of my occasional complaints. Second, my former partner, Manon, in stimulating me to undertake the study MSc. Business Administration and motivating me in achieving the best of results.

May 2016

Ferdi van Benthem

ABSTRACT

Goal: The research goal is to provide academic insight in the perception of SMEs towards alternative financing in order to determine which factors influence the adoption decision and what the implications are for capital structure theory.

Methodology: This study has a qualitative research design, in which a semi structured interview has been held with six participants. These participants represent a SME category, namely, micro, small or medium, in accordance with the definition of the Commission of the European Communities (2003). The extensive theoretical adoption framework of Wisdom, Chor, Hoagwood and Horwitz (2013) has been employed as a basis to explore the adoption factors in the context of alternative financing.

Findings**:** Trust appears to be a determining factor in selecting a financing source, and this is where the traditional banks are favoured over alternative finance organisations. The speed of acquiring the desired capital is mentioned unambiguous as the main advantage. An innovative management and business environment seem to be positive adoption predictors. Regulation and government policy, which has been indicated in previous studies as a crucial factor for a further development of the alternative finance market, is in the perception of the participants not mandatory. The external environment can have an influence on the financing choice, e.g., time or market conditions. Participants indicated complex financing issues are consulted with an external advisor, in which the accountant is mentioned most often. A negative influential factor appears to be alternative finance's cost of capital, which is perceived as high in contrast to traditional financing. Furthermore, the research results provide evidence for the pecking order theory, whereby alternative financing is currently ranked low as an option for debt and equity financing. From a general point of view, alternative financing is perceived as an option for constrained companies. However, all participants do believe one form or another is suitable as a financing option for their organisation.

Practical implications**:** This paper produces several practical implications. First, alternative finance organisations are troubled with image and trust complications. Second, the cost of capital is perceived as high, whether this is true or not. Third, external advisors are used for extraordinary financing situations. External advisors could be engaged by alternative financing organisations for commercial partnerships.

Limitations: There are several major limitations, in which some of them can be considered inherent to a qualitative research design. The generalizability and reliability is limited due to the sample formation and sample size. Therefore, the findings of this study need to be placed in perspective.

TABLE OF CONTENTS

1 INTRODUCTION

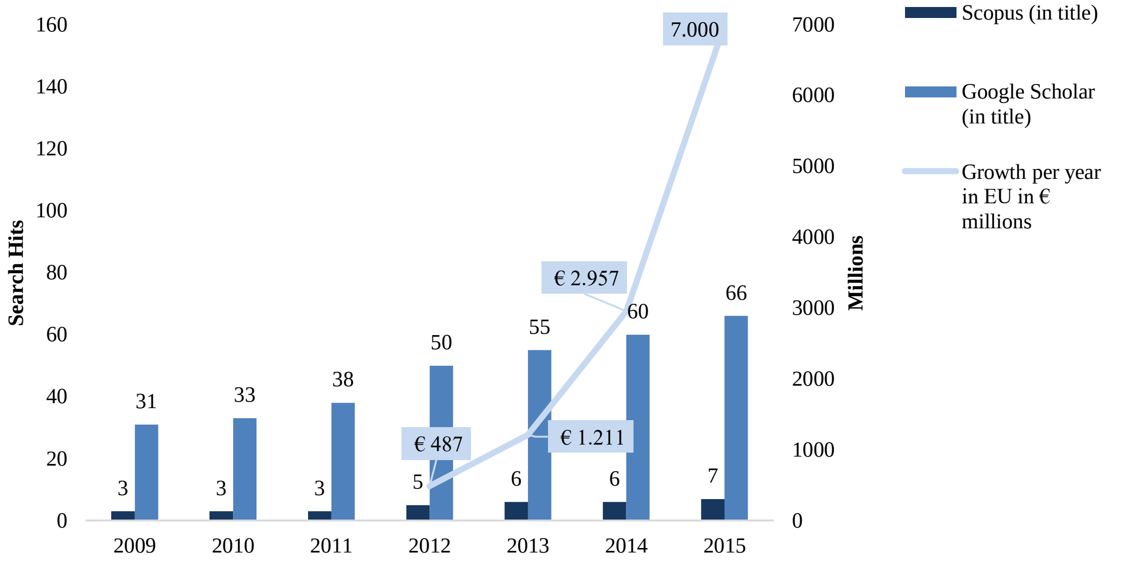
The widely discussed efficient market hypothesis (EMH) has not proven itself without flaws, as multiple bubbles and subsequent market crashes go unexplained (Malkiel, 2003). The latest event, better known as the United States housing bubble, left its mark on today's global economy. The post-crisis consequences appear to be harsh on different fronts, e.g., unstable financial markets, an increase of public debt and limited economic growth (Mamica and Tridico, 2014). Moreover, according to Artola and Genre (2011), the interest rates on small- and large loans have widened significantly. One group who is suffering in the post-crisis era are the small and medium enterprises (SME), who appear to have great difficulty acquiring financial means through traditional bank lending (Artola and Genre, 2011; Casey and Toole, 2014; Mac an Bhaird, 2013; Paulet, Parnaudeau and Abdessemed, 2014). Subsequently, there is a negative effect on a firm's investing activities (Artola and Genre, 2011; Behr, Norden and Noth, 2013; Mamica and Tridico, 2014). However, the importance of SMEs towards society has proven significant, regarding the contribution to gross value added (GVA) and employment (Beck, 2013; Mac an Bhaird, 2013). Or, as stated by Degryse, de Goeij and Kappert (2010, p.431): "Small unlisted firms, however, make up for more than 90% of all existing firms, and are the engine of growth in most economies". The literature has described diverse reasons for today's banking constraints towards SMEs. According to Mac an Bhaird (2013), the SME finance crux is due to credit rationing by banks. Further evidence was found by Holton, Lawless and McCann (2013), as their study states that banks tend to increase credit conditions in a weak state of economy. In summary, the aftermath of the latest crisis appears to have adverse financing consequences for SMEs, which in its turn could lead to lost investing opportunities, or worse, company default.

According to a study of Fraser, Bhaumik, and Wright (2015), the entrepreneur's perception towards a poor supply side of capital can result in discouraged behaviour of applying for external finance. Consequently, investing activities rely mainly on a firm's internal finance. The employment of alternative finance could be a solution to the SMEs financing complication, contrary to the traditional suppliers of finance (banks and financial markets). Alternative finance widens financing options, and more importantly, provide capital to constrained enterprises. According to Wardrop, Zhang, Rau and Gray (2015), alternative financing initiatives exist in a business-to-business, consumer-to-business and consumer-to-consumer context. Furthermore, the alternative finance market has grown rapidly since the financial crisis and is expected to grow even faster in the near future (Barnett and Jawadi, 2012; Wardrop et al., 2015; Bruton, Khavul, Siegel and Wright, 2015). A reason for alternative finance sources to flourish appears to be the weak (post-crisis) state of economy (Allen, Qian, Carletti and Valenzuela, 2012). Bruton et al. (2015) elaborate by stating the growth of alternative finance is propelled by the constrained supply of finance by the traditional financial system. Furthermore, it has to be noted that alternative finance initiatives sprout mainly online, whereby the internet proves itself as a platform for innovation (Bruton et al., 2015). As Wardrop et al. (2015, p. 40) state:

"From 2012 to 2014, transaction volume via online alternative finance platforms in Europe grew six-fold, from approximately €500m to €3,000m, and we project it will surpass €7,000m in 2015. During the same period, the number of ventures funded by alternative finance platforms increased five-fold, from approximately 75,000 to 350,000, and engaged well over a million investors. The market is now attracting bigger, more sophisticated investors and this is likely to accelerate volume growth."

The quote above underpins the today's relevance and future role of alternative finance. More importantly, the numbers point out alternative finance sources increasingly provide in the financing needs of enterprises.

Figure 1
Search hits for alternative finance and industry growth per year



Note. The search hits for title only articles for the keywords "alternative finance" in scientific databases Scopus and Google Scholar (1-10-2015). The secondary axis shows the growth of alternative finance in Europe year on year adapted from Wardrop et al. (2015).

Aside from the contribution to the supply-side of capital, alternative finance initiatives have advantages and disadvantages in contrast to traditional financing. In a study of Casey and O'Toole (2014), the disadvantages of traditional financing have been noted. Firstly, the use of traditional finance often requires detailed information on a firm's liquidity and solvency. Secondly, the lending conditions are stricter and the monitoring costs are higher. Thirdly, companies with a high dependency on traditional finance appear to be more vulnerable in times of bank crises. In contrast to traditional financing, alternative finance forms have potential benefits for the lender and the borrower (Wardrop et al., 2015). In general, the return received by the lenders (business or consumer) is relatively high compared with the interest rates traditional financial institutions provide. However, it has to be noted that from the perspective of risk and return, the benefits of alternative finance are unclear. Nevertheless, alternative finance initiatives provide investors and lenders (businesses and consumers) with additional investing and lending options. Secondly, applying for capital at traditional banks can be a long-drawn process, whereas different alternative financing sources are renowned for their application processing speed (peer-to-peer business lending). Besides the speed of acquiring the requested capital, the terms of lending are generally regarded as attractive, in comparison to the terms of the traditional suppliers of finance (Wardrop et al., 2015).

1.1 Problem statement

Despite the high growth rates and the benefits of alternative finance sources, there are still factors which suppress a further development. According to Wardrop et al. (2015), limiting factors, specifically in the field of alternative finance, are a lack of trust and regulation. In short, Wardrop et al. (2015), underline the immaturity of the alternative finance market. For a further development of the alternative finance market, it is necessary for authorities to institutionalize regulatory agencies, which subsequently leads to protection of investors and other stakeholders. According to Pinotti (2012), regulations are an equilibrium outcome and are mostly the results of opportunistic markets which were coursing for failure. Thus, the construct trust between lender and investor should be examined. Previous studies have already proven the importance of trust between SMEs and banks (Hernández-Cánovas and Martínez-Solano, 2010; Watson, 2005). Furthermore, according to Wardrop et al. (2015), estimations of alternative finance platforms range from hundreds to thousands. Besides this indication of popularity, this development can be regarded as an uncontrolled growth with potentially negative consequences. Hence, it is another reason to regulate this immature market.

Although alternative finance sources are thriving in growth numbers, scientific literature dedicated to the topic appears to be lagging (Wardrop et al., 2015; Bruton et al., 2015). This finding could be partially explained by the study of Allen et al. (2012), who suggests alternative finance becomes particularly interesting in a weak state of economy, and therefore it is not a topic of continuous interest. In accordance with Wardrop et al. (2015), figure 1 exhibits the number of scientific articles in the field of alternative finance in contrast to the growth in EUR millions per year. In short, the literature is minimal compared with the growth development since 2012. The available literature does not focus on the topic of adoption. Are there specific barriers which withhold SMEs from adopting alternative finance? Is it simply a lack of awareness or familiarity and how do alternative finance initiatives fit a company's capital structure decision? As these questions and more go unexplained, it is justified and desired to perform research on the subject of alternative finance. The goal of this study is to determine the factors which influence the adoption decision of alternative finance sources for Dutch SMEs. By doing so, the different stakeholders of alternative finance know what steps have to be taken for further development of the alternative finance market. The contribution to the academic community will be of a different nature, as this study is explorative and therefore should help in structuring future research on the topic.

1.2 Research question

The alternative finance landscape seems to be thriving, and not without a reason. Alternative finance sources can meet the SME's need for finance, contrary to the traditional finance system. However, current literature has shown there are obstacles which suppress an even greater development of the utilization of alternative finance in the SME sector (Wardrop et al., 2015). Furthermore, research which tries to uncover factors from a broad perspective is lagging. Therefore, this study is concentrated on validating previously found factors (trust and regulation), uncovering adoption determinants, and additionally, the implications of alternative finance adoption on capital structure theory. Subsequently, this research is guided by the following research question:

"What are the determinants for Dutch SMEs in adopting alternative finance and what are the implications for capital structure theory?"

Sub questions:

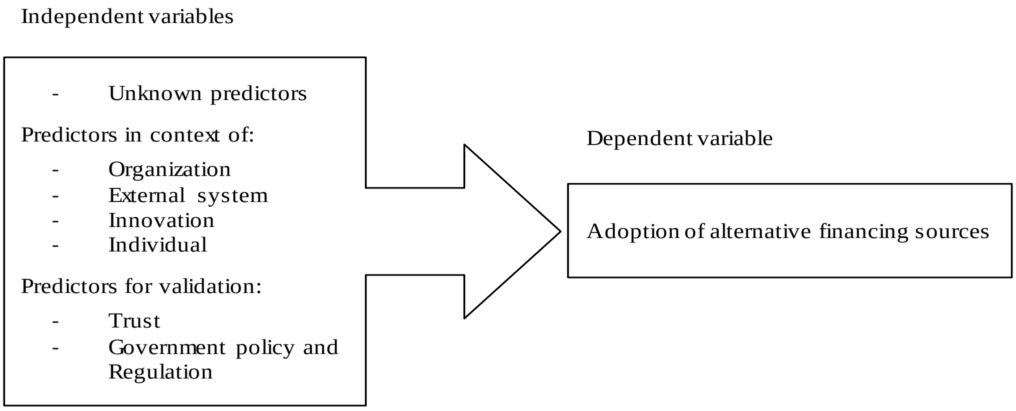
1. How are Dutch SMEs, capital structure, trust, regulation and finance defined?
2. What adoption theory is relevant for alternative finance?
3. What capital structure theory is relevant for Dutch SMEs?
4. What are the determinants for Dutch SMEs which influence the adoption decision of alternative finance?
5. What are the implications of alternative finance for capital structure theory?

This study is carried out with the cooperation of KroeseWevers, a multidisciplinary organisation with its core activities focused on tax and accountancy services for SMEs in the eastern part of the Netherlands. More specifically, this research contributes to the Corporate Finance department's knowledge, as they handle financing issues on a regularly basis for clients. However, KroeseWevers' affiliation to this research has been limited to providing research participants.

1.3 Theoretical model

The figure below depicts the variables this study has tried to measure in the context of alternative finance adoption decisions for SMEs. The factors trust and government policy and regulation have been validated, while undetermined predictors have tried to be exposed by using the contextual levels of the theoretical framework of Wisdom et al. (2013). These levels are: organisation, external system, innovation and individual. Determinants which do not fall in aforementioned categories have been noted under unknown predictors.

Figure 2
Theoretical model of adoption predictors for alternative finance sources



The terms determinant, predictor, and factor have been used interchangeably in this study, and are perceived equal in meaning. According to the Oxford English dictionary (n.d.), the definition of a determinant is “a factor which decisively affects the nature or outcome of something”. The definition of a predictor is described as “A person or thing that predicts that something will happen in the future or will be a consequence of something” (Oxford English Dictionary, n.d.).

2 THEORETICAL FRAMEWORK

The content of the theoretical framework is focused on the key theories and constructs, which have been determined relevant for this study. Furthermore, definitions are introduced and discussed to avoid ambiguity. This chapter starts with the substantiation of the proposed definition of SMEs, finance and capital structure used in this study. Subsequently, a taxonomy of alternative finance is introduced to provide the reader an overview of the alternative finance landscape, followed by a discussion of adoption theory developments. Lastly, the concepts trust and regulation have been elaborated on.

2.1 A definition of SMEs

According to Zhang, Bi and Liu (2009), a universal definition of SMEs is lacking due to the different measures by national statistical systems. The Commission of the European Communities (2003) recognises this problem of nonconsent, and more importantly its effects; measures concerning SMEs are inconsistent, ineffective and distorted. Therefore, the Commission of the European Communities (2003) has developed the following universal definition: “The category of micro-, small- and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro”. The following table presents detailed characteristics for a further breakdown of the definition, as three categories have been defined.

Table 1
SME definition of categories. Adapted from the Commission of the European Communities (2003).

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total
Medium-sized	<250	≤ € 50 million	or	≤ € 43 million
Small	<50	≤ € 10 million	or	≤ € 10 million
Micro	<10	≤ € 2 million	or	≤ € 2 million

For reasons of comparability and consistency with future research, the proposed SME definition of the Commission of the European Communities (2003) is accepted in this study.

2.2 A definition of finance

According to Allen et al. (2012), the traditional finance system consists of financial markets and traditional banks. Subsequently, alternative finance is defined as (Allen et al. 2012, p. 2), “all the non-market, non-bank sources, including internal finance (e.g., retained earnings) and alternative, external finance”. Other definitions of alternative finance have been searched for, to determine congruence among scholars. However, the available literature lacks in explanations of the term alternative finance. Consequently, Allen et al.’s (2012) definition is adopted in this study.

According to Degryse et al. (2012), Dutch SME’s access to financial markets is limited, and therefore capital structure decisions are mostly constrained to the choice between debt (bank loans) and equity. Contrary to large corporations, who have significantly more options concerning their choice of finance, i.e., private debt or public debt (zero-coupon bonds, convertible bonds etc.). Due to the SME’s limited financial sources, banks are the primary financing source, and in practice SMEs finance decisions are mostly limited to choosing between banks.

2.3 A taxonomy of alternative finance

Wardrop et al. (2015) have developed a taxonomy (table 2) which categorizes the different forms of alternative finance sources. Many of these forms are recognised by Bruton et al. (2015), however, their study focuses solely on entrepreneurial firms. Since the taxonomy of Wardrop et al. (2015) is up-to-date and drafted from a general perspective, it is adopted in this study. However, it has to be noted that the alternative finance landscape is evolving rapidly, and the adopted taxonomy can potentially lose its relevance relatively fast. As becomes clear from the taxonomy below, alternative finance focuses on business-to-business, consumer-to-business and consumer-to-consumer. Since the focus in this study lies on the implications of alternative finance for SMEs, the relevant forms are business-to-business and consumer-to-business financing.

Table 2
An overview of alternative finance. Adapted from Wardrop et al. (2015).

A working taxonomy of alternative finance, with the value of 2014 European transactions in millions (excluding the UK)		
Peer-to-peer consumer lending	Debt-based transactions between individuals: most are unsecured personal loans	274.62m
Reward-based crowdfunding	Backers have an expectation that recipients will provide a tangible (but non-financial) reward or product in exchange for their contribution.	120.33m
Peer-to-peer business lending	Debt–based transactions between individual/institutional investors and existing businesses who are mostly SMEs.	93.1m
Equity-based crowdfunding	Sale of registered security by mostly early–stage firms to investors.	82.56m
Community shares / microfinance	Microfinance refers to the lending of small sums to entrepreneurs who are often economically disadvantaged and financially marginalised. There is a debt obligation incurred, but the amounts lent are very small. Community shares refer to the sale of withdrawable share capital in cooperative and community benefit societies.	19.91m
Donation-based crowdfunding	No legally binding financial obligation incurred by recipient to donor; no financial or material returns are expected by the donor.	16.34m
Invoice Trading	Firms sell their invoices or receivables to a pool of individual or institutional investors.	6.63m
Debt-based securities	Lenders receive a non–collateralised debt obligation, typically paid back over an extended period of time. Similar in structure to purchasing a bond, but with different rights and obligations.	3.61m
Pension-led funding	Mainly allows SME owners/directors to use their accumulated pension funds in order to invest in their own businesses. Intellectual properties are often used as collateral.	N/A

The taxonomy of Wardrop et al. (2015) is used in this research to provide the reader with an overview of the diverse alternative finance landscape. The taxonomy in its current state is in congruence with the proposed definition as described in chapter 2.2. However, the taxonomy could be specified more extensively to underline the weight and relevance of certain alternative finance initiatives. Especially, the peer-to-peer business-lending category can be regarded as a broad category. Therefore, this study views the taxonomy as work in progress and as a topic for future research.

2.4 Capital structure

The use of alternative financing can be regarded as an element of a firm's capital structure. According to Baker and Martin (2011, p. 1), a firm's capital structure refers to "the sources of financing employed by the firm. These sources include debt, equity, and hybrid securities that a firm uses to finance its assets, operations, and future growth". The definition of Baker and Martin is in congruence with the definition of Hillier, Ross, Westerfield, Jaffe and Jordan (2013, p. 2), as they have defined capital structure as: "the proportions of the firm's financing from current and long-term debt and equity". Since the definition of Baker and Martin (2011) is more explained, it is favoured over Hillier et al.'s (2013) definition and accepted in this study. As becomes apparent from the definitions, alternative finance sources are incorporated in a firm's capital structure. Therewith, the decision of adopting alternative finance sources can be associated with capital structure decision theories.

Different theories try to explain capital structure decisions and its determinants. However, three theories have been discussed extensively in the literature and are regarded as capable in explaining capital structure under certain conditions (Baker and Martin, 2011; De Jong, Kabir and Nguyen, 2008; Frydenberg, Graham and Leary, 2011; Michaelas, Chittenden and Poutziouris, 1999; Niu, 2009). These theories are the statistic trade-off theory, the agency theory and the pecking order theory. According to the trade-off theory, a firm seeks the right balance between debt and equity, and subsequently takes advantage of a tax-shield, as interest paid on debt is tax deductible while equity income is subject to corporate tax (Niu, 2009). However, an increase in debt results in a higher risk of financial distress, which at its turn increases the cost of debt. Therefore, a company's aim, according to the statistic trade-off theory, is finding the optimal balance between debt and equity, which results in the lowest theoretical weighted average cost of capital.

The agency theory explains a company's capital structure according to the agency costs. Agency costs are the costs which arise due to the potential conflict of interest between equity holders (the principal) and managers (the agent) (Graham and Leary, 2011). An example of an agency conflict is the restricted use of retained earnings for investing activities. By employing debt for new projects, a manager should have less incentive in wasting capital. The pecking order theory is derived from the asymmetric information theory (Michaelas et al., 1999) and describes an organization's financing preference according to a hierarchy, i.e., internal financing, followed by debt financing and lastly equity issuing (De Jong et al., 2008). This hierarchy is a consequence of the asymmetric information component, as the manager's goal is to disclose as little information as possible if new capital is required. Williamson's (1988) theory describes the same financing order as the pecking order theory. However, the underlying argumentation differs, as his theory reasons from transaction costs (Gossy, 2008).

Capital structure decisions vary across counties (De Jong et al., 2008; Kayo and Kimura, 2011). According to Degryse et al. (2012), The pecking order theory and trade-off theory are most relevant for SMEs, as these enterprises are mostly privately held. Furthermore, the study of Degryse et al. (2012) states that Dutch SMEs capital structure decisions are in accordance with the pecking order theory. This finding is partially in congruence with the results of Chen and Jiang (2001), as their study too finds evidence which supports the pecking order. However, the results cast doubt on the asymmetric information component, since this argument appears to be rejected in most cases. Additionally, the results provide evidence which supports the statistic trade-off theory. Dutch SMEs shelter income via provisions (bad debt and pension liability) and the study of Chen and Jiang (2001) perceives these provisions as a non-debt tax shield. The argument of a non-debt tax shield is rejected in this study since the use of provisions as a tax shield should only work temporarily, as tax is paid on all cash leaving the firm one time or another. Therefore, this study assumes the pecking order theory is most likely to be applicable for Dutch SMEs.

2.5 Adoption theory

According to Wisdom et al. (2013), the literature on adoption theory is extensive, as numerous scholars have proposed divers frameworks and theories. Wisdom et al. (2013) have used a narrative synthesis approach to review different frameworks and its constructs in order to identify general elements of adoption practices. The review of Wisdom et al. (2013) is particularly interesting since it can be regarded as a thorough summary of existing adoption theory. As described in the review, the landscape of adoption theory is dispersed since there appears to be little consensus among scholars on the many different definitions and measures associated with adoption theory. It has to be noted that the literature review of Wisdom et al. (2013) focusses on innovation adoption theory. One could debate whether alternative finance forms should be perceived as innovation. However, scholars have indicated they do (Wardrop et al., 2015; Bruton et al., 2015). Innovation is defined by Rogers (1983) as "an idea, practice, or object that is perceived as new by an individual or another unit of adoption. An innovation presents an individual or an organization with a new alternative or alternatives, with new means of solving problems".

Adoption can be regarded as a process, which involves constructs that are relevant across different contextual levels (Wisdom et al., 2013). These levels are grouped as organisational, external, innovation and individual. Table 3 depicts Wisdom et al.'s (2013) theoretical model. Despite the distinction between contextual levels, there are multiple constructs which have an overlap (Wisdom et al., 2013). The first contextual level, external system, comprises all elements which influence adoption from outside an organisation. The second contextual level, organization, views all elements related to adoption from an inside out perspective. Innovation is the third contextual level, which represents the perceived characteristics of an innovation. Lastly, the individual context examines the adoption factors from an individual's perspective.

This study's purpose is to uncover the determinants of alternative finance sources with a minimal preconceived attitude. By doing so, unknown factors are most likely to be discovered in addition to Wisdom et al.'s framework. However, despite the open approach, a general starting point is needed and therefore the contextual levels of Wisdom et al.'s theoretical framework have been adopted in this study. The contextual levels are functioning as a basic framework for data collection. However, the framework leaves enough room for a free interpretation to uncover factors. The table below depicts an adjusted version of the framework of Wisdom et al. (2013).

Table 3
The adoption theory framework. Adjusted from Wisdom et al. (2013) (1/3)

Level	Adoption constructs (predictors)	Description
External system	Changes in External System-level Adoption Constructs:	
	• External Environment	Competition can force a company to take measures. E.g. the adoption of alternative finance
	• Government Policy and Regulation	Government policy and regulation Government policy and regulation enacted that have direct implications on adoption
	• Social Network (Inter-systems)	Social linkages among external systems that influence adoption
	• Regulation with Financial Incentives	Regulation associated with financial incentives and reward systems for adoption.
Organization	Changes in Organization-level Adoption Constructs:	
	• Absorptive Capacity	Organizational capacity to utilize innovative and existing knowledge
	• Leadership and Champion of Innovation	Leadership and champion of innovations Organizational leadership style that champions innovation adoption
	• Network with Innovation Developers and Consultants	Organizational relationships and collaboration with innovation developers and consultants
	• Norms, Values, and Cultures	Norms, values, and cultures Norms, values, and cultures that define an organization

Table 3 continued.
The adoption theory framework. Adjusted from Wisdom et al. (2013) (2/3)

Level	Adoption constructs (predictors)	Description
Organisation	• Operational Size and Structure	Norms, values, and cultures Norms, values, and cultures that define an organization
	• Social Climate	Social climate Social climate of learning and pressure
	• Social Network (Inter-organizations)	Social network (inter-organizations) Social linkages from one organization to another
	• Training Readiness and Efforts	Training readiness and efforts Organizational training and efforts related to adoption
	• Traits and Readiness for Change	Traits and readiness for change Organizational traits and readiness for change related to adoption
Innovation	Changes in Innovation-level Adoption Constructs:	
	• Complexity, Relative Advantage, and Observability	Perceived complexity, relative advantage over other innovations or existing practice, and the visibility of an innovation
	• Cost-efficacy and Feasibility	Cost-efficacy and feasibility Financial costs and feasibility associated with an innovation
	• Evidence and Compatibility	Evidence and compatibility Perceived evidence that an innovation works and that it is compatible
	• Facilitators and Barriers	Facilitators and barriers Perceived facilitators and barriers, which can apply to external system, organization, innovation, and/or individual levels
	• Innovation Fit with Users' Norms and Values	Innovation fit with users' norms and values Perceived goodness-of-fit between an innovation and one's norms and values
	• Trialability, Relevance, and Ease	Trialability, relevance and ease Perceived flexibility of an innovation to be experimented, relevance to
Individual	Changes in Staff/Individual-level Adoption Constructs:	
	• Affiliation with Organizational Culture	Affiliation with organizational culture Fit between individual staff and organizational culture
	• Attitudes, Motivations, and Readiness towards Quality Improvement and Reward	Individual attitudes, motivations, and readiness towards change, adoption,
	• Feedback on Execution and Fidelity	Feedback on execution and fidelity Individualized feedback on the execution and fidelity of adopting an innovation
	• Individual Characteristics	Individual characteristics such as awareness of innovations, skills, knowledge, and experience with adoption
	• Managerial Characteristics	Manager characteristics such as education, knowledge, innovations, skills, knowledge, and innovative attitudes that influence adoption.
	• Social Network (Individual's Personal Network)	Social linkages fostered among individual staff

Table 3 continued
The adoption theory framework. Adjusted from Wisdom et al. (2013) (3/3)

Level	Adoption constructs (predictors)	Description
Individual	Changes in Client-level Adoption Construct:	
	• Readiness for change/capacity to adopt	Readiness and capacity of a client/consumer—the recipient of an innovation to adopt

Specific factors are underlined by Rotchanakitumnuai and Speece (2003). In their study, which focussed on the adoption of internet banking, a lack of trust and legal support have been identified as critical issues to adoption. These findings are in congruence with the conclusion of the study of Wardrop et al. (2015), who state that a further development of the alternative finance market depends on trust and regulation. The constructs trust and government policy and regulation have been validated, since these have been mentioned specifically in the study of Wardrop et al. (2015).

2.6 Trust

The construct trust has been a topic of interest for many years and received attention from different disciplines, such as, psychology, management, marketing, organizational behaviour and public relations (Watson, 2005). In her extensive literature review, Watson (2005) notes the many different definitions and measures of trust stemming from the aforementioned research areas. As stated by Watson, there is no congruence among scholars on a single definition or measure for the concept trust. This study views trust from an organizational perspective, as financing can be regarded as agreements between organisations. According to Watson (2005), the study of Zaheer, McEvily and Perrone (1998) on organisational trust is notable as they distinguish interpersonal and interorganisational trust. Zaheer et al. (1998, p. 143) have defined trust as “The expectation that an actor (1) can be relied on to fulfil obligations, (2) will behave in a predictable manner, and (3) will act and negotiate fairly when the possibility for opportunism is present”. Interpersonal trust is defined as (Zaheer et al., 1998, p. 142) “the extent of a boundary-spanning agent’s trust in her counterpart in the partner organization”, whereas interorganisational trust is defined as “the extent of trust placed in the partner organization by the members of a focal organization”. Due to distinction of interpersonal- and interorganisational trust from an organisational perspective, and scientific support, Zaheer et al.’s (1998) definition is recognized in this study.

2.7 Regulation

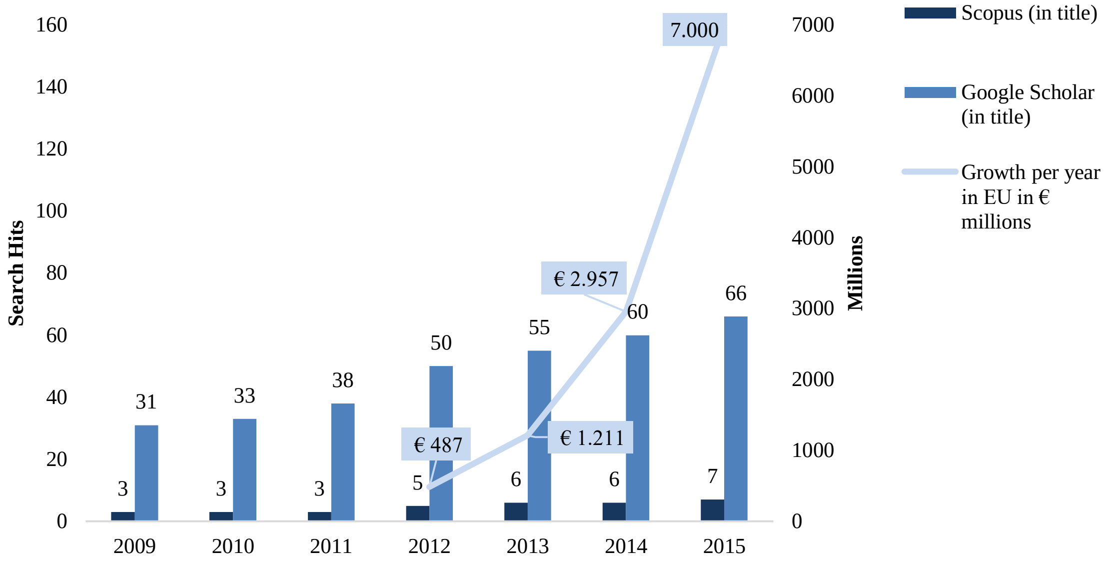
Pinotti (2012) states the general perception towards government regulation is negative, as the opinion is that firms are pushed out of markets due to government influence, while the intention to prevent market failure falls short. Furthermore, as noted by Pinotti (2012), regulations can be regarded as a barrier for entry. From the alternative finance perspective, it would probably have a positive effect on the uncontrolled sprawl of alternative finance platforms, as described in this study's introduction. Searching for definitions on regulation has proven hard, as few scholars have proposed a definition (Jones and Graf, 2001). Priest, Stanbury and Thompson (1980) have defined government regulation as: "imposition of rules by government, backed by the use of penalties that are intended specifically to modify the economic behaviour of individuals and firms in the private sector". This definition of regulation is supported in different studies (The Centre for Co-operation with European Economies in Transition, 1993; Jones and Graf, 2001). Despite the fact that the definition of Priest et al. (1980) has little competition, it appears to be adequate and supported and therefore it is accepted in this study.

3 THEORETICAL AND PRACTICAL CONTRIBUTION

3.1 Theoretical contribution

Figure 1

Search hits for alternative finance and industry growth per year



Note. The search hits for title only articles for the keywords "alternative finance" in scientific databases Scopus and Google Scholar (1-10-2015). The secondary axis shows the growth of alternative finance in Europe year on year adapted from Wardrop et al. (2015).

As figure 1 shows, the scientific literature committed to the topic of alternative finance is scarce. In particular, considering the growth rates year on year. Literature reveals further development of alternative finance is a challenge, since there are potential factors which influence the adoption decision. Therefore, this study's contribution to the academic community is one of uncovering determinants and validating the factors trust and regulation. Furthermore, the findings of this study have provided an insight how alternative finance sources are related to adoption theory. More importantly, the explorative character of this study should help in structuring future research on the topic, specifically in the context of Dutch SMEs. Lastly, the results of this study have produced an indication how alternative financing fits within existing capital structure theory.

3.2 Practical contribution

The heterogeneous stakeholders involved with alternative finance face their own specific future development obstacles. The purpose of this study is to determine the factors which influence the adoption of alternative finance sources for Dutch SMEs. By doing so, the stakeholders of alternative finance independently know what steps have to be taken for a further development of the alternative finance market. For KroeseWevers, this study's results shed light on their client's decision making process, whether to adopt alternative finance, and more importantly why. The Corporate Finance department often deals with financing issues. With a better understanding of the decision making process, providing the appropriate financing solution to the client will be more straightforward. Furthermore, this study can be published as a whitepaper, which contributes to the knowledge sharing in the financial community and the business network of KroeseWevers.

4 RESEARCH DESIGN

The following paragraphs disclose how this research has been carried out. The first-, second and third sub questions have been answered through the use of secondary research, which can be found in chapter 3. Therefore, these questions are not elaborated on in chapter 4. Relevant literature on the topics of alternative finance, SMEs, capital structure and adoption theory has been researched. Hereby, the reliability and the validation of the sources have been assessed thoroughly by using dedicated scientific literature databases, such as, Scopus and Google Scholar. The used scientific articles are selected on the number of citations and publishing year, under the assumption that recent articles have a higher relevance. If available, extensive literature reviews have been used for input. Sub questions four and five have been answered through primary research, which paragraph 4.1 till 4.4 elaborate on. The following paragraphs describe this study's subject selection, the measurement instruments, procedures of data collection and lastly, the method of data analysis.

4.1 Selection

This study used a purposive sampling method. According to Bryman and Bell (2011), purposive sampling is a non-probability form, which samples participants on a strategic way. Strategic can be described as a selection based on key characteristics. In this study, the key characteristics are the three different categories of the SME definition, as described in chapter 2.1. The initial sample size counts nine enterprises in total. Subsequently, these nine enterprises are divided in subgroups of three enterprises according to the categories as defined by the Commission of the European Communities (2003), namely, medium-, small- and micro-enterprises. By doing so, it is ensured all groups are equally represented in this study, and a distinction can be made based on firm size, since differences are expected. The initial proposed sample size should be regarded as a starting point for data collection, as the goal is to keep on sampling until the point of theoretical saturation has been reached. Theoretical saturation is the point in which no new- or relevant data emerges in the predetermined categories. However, theoretical saturation has to be placed in perspective, as this study has its limitation, e.g., time. Table 4 is a detailed depiction of the sample selection. Based on the predetermined criteria as described in table 4, the participants have been selected from the KroeseWevers' database. The selection is in consultation with an accountant or a corporate finance advisor, since the database has a limited selection function (selection not possible on size, turnover and balance sheet total). An overview of the selected participants and firm characteristics can be found in appendix I. Since KroeseWevers' working area is the Eastern part of the Netherlands, the participant's business location is to be found in the Eastern-Netherlands. Furthermore, using KroeseWevers' database of clients has provided an easy entry and introduction to accomplish cooperation of the selected participants. An introduction through KroeseWevers worked positive towards the participant's openness, as the discussion of financial issues by itself could be a barrier.

Table 4
Purposive sample characteristics

Enterprise category	Headcount: Annual Work Unit (AWU)	Annual turnover	or	Annual balance sheet total	Initial sample Count	Geography
Medium-sized	<250	≤ € 50 million		≤ € 43 million	3	The Eastern-Netherlands
Small	<50	≤ € 10 million		≤ € 10 million	3	The Eastern-Netherlands
Micro	<10	≤ € 2 million		≤ € 2 million	3	The Eastern-Netherlands

Note. The purposive sample is based on the SME definition of the Commission of the European Communities (2003).

4.2 Measurement Instruments

Sub questions four and five have been measured by the use of a qualitative in-depth interview. Bryman and Bell (2011) distinguish two types of qualitative interview techniques, namely, unstructured- and semi structured interviews. A main characteristic of an unstructured interview is a single or a few pre-formulated questions, whereby the further course of the interview is based on the interaction between interviewee and interviewer. However, a semi-structured interview contains a specific list of questions based on certain topics. Nevertheless, there is also the opportunity for interaction. In short, for the validation of the factors trust and government policy and regulation and capital structure, as found in the literature, a predetermined set of questions has been drafted. Whereas, exploring unknown factors can be achieved by asking a few basic questions based on the contextual elements of Wisdom et al. (2013), with the purpose of creating interaction. Therefore, the use of a semi-structured interview appears to the most appropriate measurement instrument. Chor, Wisdom, Olin, Hoagwood and Horwitz (2014) have identified measures which can be associated with the 27 predictors of Wisdom et al.'s (2013) adoption framework. These measures have been used for the formulation of questions.

4.3 Data collection

The interviews started with an oral explanation of the study's ground and relevance. Subsequently, basic questions have been asked based on the contextual elements distinguished by Wisdom et al. (2013). Specific questions have been asked if extra input was required due to insufficient response of the participant. In the final phase of the interview, the factors trust and regulation have been validated according the predefined questions.

There are several pitfalls which have to be taken into account. Firstly, the interviewer needs to possess the adequate interview skills (Bryman and Bell, 2011). Secondly, according to Easton, McComish and Greenberg (2000), equipment failure, environmental hazards, and transcription errors are often overlooked in the data collection. These pitfalls have been counter measured with the following actions: (1) reading relevant literature, such as, the work of Turner (2010), on how to conduct interviews. (2) using 2 digital recorders, which decreased the chance of an unrecorded interview. (3) Ensuring a quit- and suitable room, which eliminated or decreased environmental hazards, such as, noise disturbance. Besides potential pitfalls, it is important to draft the right questions for the semi structured interview, as the quality of the research depends on it. Appendix II provides an outline of the semi structured interview. The construct trust and the effect of government policy and regulation has been measured directly, as these have been mentioned specifically in a key study on alternative finance (Wardrop et al, 2015). The subject has been asked for an opinion on the two constructs if the topic had not been addressed naturally in the interview.

4.4 Data analysis

On average, the interviews have a length of approximately 50 minutes. The collected data has been analysed according to the theoretical framework of Wisdom et al. (2013). Specifically, the 27 adoption predictors of Wisdom et al. (2013) have been used to identify the constructs in the collected data (table 3). According to this study's definition of alternative finance (Allen et al. 2012), operational and financial lease are categorized as alternative finance. However, in this study it is assumed Dutch SMEs perceive leasing as a common way of financing business operations. Due to this assumed perception, leasing has not been included in the findings concerning the adoption predictors of alternative finance.

The data analysis has been performed according to multiple steps. These steps are described in table 5.

Table 5
Description of steps of analysis

Steps	Description
1	The findings have been written down globally, directly after the data collection. The theoretical framework of Wisdom et al. (2013) has been used for structuring these initial findings. The goal of this phase was to construct a global overview of the study's results. The initial findings can be found in appendix III.
2	In the second phase of analysis, a written report has been made of all recorded interviews. These reports have been used as the input for the in-depth analysis. These reports can be found in appendix IV.
3	An extensive table has been constructed in phase three based on the theoretical framework of Wisdom et al. (2013), whereby the information of the written reports has been used as input. The table has been designed on a participant level. These tables can be found in appendix V.
4	In this phase, tables have been designed which describe the general findings based on the theoretical framework of Wisdom et al. (2013). These tables can be found in chapter 5. The goal of this table is to summarise the different results of phase 3 (participant level).
5	In this step, all interview recordings have been analysed for a second time to decrease the probability of missing relevant information. Steps 2 till 4 have been repeated in case new information was discovered.
6	The results, as described in step 3, have been used for input to construct a table which presents the influence of the different adoption predictors on a participant level on a 5-point scale. The goal of this table is to provide a straightforward view, in which the reader can directly link this study's results on a participant level with the framework of Wisdom et al. (2013).
7	The results of step 4 have been used for input to construct a table which presents the influence of the different adoption predictors on a 5-point scale (table 12). The goal of this table is to provide a straightforward view, in which the reader can directly link this study's results with the framework of Wisdom et al. (2013).

5 RESULTS

The results of the data collection have been analysed according to the theoretical framework of Wisdom et al. (2013). In addition, the framework is complemented with the validation of the concept trust and the fit of alternative finance within Dutch SME capital structure theory. Government policy and regulation has also been validated, however, this construct is already incorporated in Wisdom et al.'s (2013) framework.

This chapter starts with the results of the external system, followed by an analysis of adoption predictors on the organisational level, the innovative level and the individual level. Thereafter, the results of the validation and other findings have been described. Lastly, an overview of alternative finance adoption predictors is presented on a 5-point scale based on the theoretical framework of Wisdom et al. (2013).

As mentioned before, not all adoption predictors are applicable due to various reasons. First, there is an overlap between predictors (Wisdom et al., 2013), and second, some adoption predictors have surpassed the pre-adoption phase, which makes these predictors irrelevant for this study.

5.1 Alternative finance adoption determinants

Table 6
The influence of constructs on the external system level

Changes in External System-level Adoption Constructs:	Summary of findings
• External Environment	Various reasons have been mentioned why the external environment does have an influence on the financing choice. 1 participant indicated that the bank's rigid attitude was a reason to orientate on alternative finance initiatives. This result is in congruence with the finding of Bruton et al. (2015). Furthermore, according to the perception of a different participant, a risky market and therewith a risky project should be financed accordingly. Lastly, the aspect of time has been mentioned, which excludes banks in the participants' perception, due to the long drawn processing times. However, 1 participant indicated the external environment does not influence the company's financing choice, since financing choices should be structural by nature and not a temporary solution. 2 participants have not shared information which could be linked to the external environment. In conclusion, 3 of 6 participants have provided information that the external environment, such as the aspect of time and the banks attitude, does influence the financing decision. 1 participant indicated the external environment does not have influence on the financing choice, whereas 2 participants have not shared this specific information.
• Government Policy and Regulation	5 of 6 participants have indicated a basic framework of legislation is desired in case of financing. 1 participant indicated government policy and regulation is not needed, as permits or certification labels is given little attention in the decision making process. However, despite the fact that most participants have indicated that a basic framework is desired, for none of the interviewees is government policy and regulation a hard criterion in the financing choice. Furthermore, 3 participants have a fairly negative attitude towards government policy and regulation, which is in congruence with the study of Pinotti (2012). The perception is that government interference withholds entrepreneurship and the market has to deal with fraudulent practices of companies in very situation. A participant provides an example of the strongly regulated banking sector, which still led to a financial crisis. Then again, 1 participant has indicated certification labels and permits contribute positively to trust between parties. Lastly, a finding which can be regarded remarkable, is the fact that none of the participants associate government policy and regulation with a mean to provide more structure to the alternative finance landscape and supress the overgrowth of alternative finance initiatives. As stated by Pinotti (2012), government policy and regulation could function as an entry barrier. In conclusion, government policy and regulation appears to have little influence on the adoption decision, which contributes to the finding of Wardrop et al. (2015). Their study indicates a lack of regulation withholds further development of the alternative finance market. However, this study indicates this is mostly true for the investors.
• Social Network (Inter-systems)	Not applicable. This factor focusses on the linkages between systems (inter-systems). Financing choices are not processed by systems.
Regulation with Financial Incentives	Not applicable. This factor is based on adoption which relies on incentive funding from the government.

The external environment appears to have an influence on the financing choice; e.g. a risky market, time or the bank's attitude. Government policy and regulation appears to have little effect on the adoption decision. This finding substantiates the results of Wardrop et al. (2015) partially, as their study indicated regulation as a necessary mean for further development. The social network and regulation with financial incentives are not applicable.

Table 7

The influence of constructs on the organisational level (1/2)

Changes in Organization-level Adoption Constructs:	Summary of findings
• Absorptive Capacity	From a general perspective, the absorptive capacity of 4 of 6 participants can be regarded as high, from which 2 interviewees have indicated to already working with alternative finance. These participants have utilized specific resources for accumulating and employing external knowledge (e.g. attracting specific skilled personnel, participations in start-ups, dedicated R&D departments). moreover, their pre-existing knowledge and skill concerning alternative finance is high. 5 of 6 participants have dedicated jobs in finance. In conclusion, 2 of 4 organisations which been indicated to have a high absorptive capacity are already working with alternative finance. These organisations have dedicated personnel in finance. Therefore, there appears to be an indication that a high absorptive capacity has a positive influence on the adoption decision of alternative finance.
• Leadership and Champion of Innovation	3 of 6 participants have indicated the management to be visionary or innovative. 2 of these 3 organisations are already working with alternative finance, e.g., investors, crowd funding, business angels. It has to be noted that the participants are in all cases part of the management team. The other 3 interviewees have not provided the information needed for a conclusion. As stated by a participant, ‘people with a traditional view will always utilize traditional means'. In conclusion, the results provide an indication that the management's level of innovativeness has a positive influence on the adoption of alternative finance. Particularly, in not excluding options.
• Network with Innovation Developers and Consultants	All participants are unambiguous on the role of external consultants. Complex finance cases are consulted with an external advisor. In all cases, the company's accountant or tax advisor is perceived as a capable consultant. Based on these findings, it appears to be that accountants and tax advisors have an important role in the adoption decision of alternative finance. However, most participants handle normal financing situations internally. Therefore, the influence of external advisors appears to be limited to complex financing situations.
• Norms, Values, and Cultures	All participants have described the organisation culture to be flat and informal. Therefore, it is impossible to present a conclusion whether norms, values and culture have an influence on the adoption decision.

Table 7 continued.
The influence of constructs on the organisational level (2/2)

Changes in Organization-level Adoption Constructs:	Summary of findings
• Operational Size and Structure	3 of 6 participants are already working with alternative finance sources (crowdfunding, investors and fintech). Of these organisations, 2 fall into the category medium and 1 in the category small. These results can be regarded as an indication that organisational size does have an influence in the adoption decision of alternative finance. However, it has to be taken into account that only 1 participant has been interviewed in category micro, and there are also indications start-ups and young innovative firms are open for alternative finance initiatives.
• Social Climate	The collected data provides too little information for a conclusion.
• Social Network (Inter-organizations)	5 of 6 participants stated of having inter-organisational ties. These relationships are used for exchanging information and experiences. 3 of these 5 organisations already use alternative finance sources. Therefore, the results of this study indicate that having inter-organisational ties and exchanging information is an indicator for adopting alternative finance sources.
• Training Readiness and Efforts	1 interviewee has indicated to have employed resources for alternative finance. This interviewee also stated he already has experience with alternative financing. The other participants have not mentioned specific training opportunities concerning (alternative) finance. In conclusion, the collected data is insufficient for a strong statement.
• Traits and Readiness for Change	4 of 6 participants have indicated of working in an innovative business environment. These organisations are actively anticipating change by attracting personnel with specific knowledge, participations in start-ups or working with external experts. 2 of these 4 organisations already have experience with alternative financing. In conclusion, the readiness for change appears to be an indicator for the adoption of alternative finance.

There is an indication an organisation's absorptive capacity, level of innovativeness, the relationship with consultants, organisational size, an organisation's social network and the traits and readiness for change influences the financing choice, and therewith the adoption decision of alternative financing. This study's results are insufficient to determine whether norms, values and cultures, the social climate and training readiness and efforts have an impact on the financing choice.

Table 8

The influence of constructs on an innovation level (1/2)

Changes in Innovation-level Adoption Constructs:	Summary of findings
• Complexity, Relative Advantage, and Observability	The results of this study are unambiguous concerning the perceived advantage of alternative financing and in congruence with the study of Wardrop et al. (2015). All participants have indicated the speed of acquiring capital as most importantly. Alternative finance is not perceived as complex. However, 5 of 6 participants are overwhelmed by the large number of initiatives, and therefore the alternative finance landscape is perceived as messy and unstructured. As a participant states: 'the alternative finance landscape is momentarily like a spaghetti, it needs to be structured and organised'. 2 participants specifically described the benefit of increased financial independence. Other advantages which have been mentioned are; less bureaucracy and increased transparency. These findings are in accordance with the study of Casey and O'Toole (2014). From an investor's perspective, the risk diversification is mentioned by 2 participants (e.g. crowdfunding). Despite the fact alternative finance has some unique advantages compared to traditional finance, 5 of 6 participants indicated these advantages do not weigh up against the perceived high cost aspect in contrast to traditional bank lending.
• Cost-efficacy and Feasibility	All participants perceive the cost of alternative finance as high, compared to traditional bank lending. Therefore, the bank is in most cases the preferred supplier of capital. However, 5 of 6 participants understand that the perceived benefits of alternative finance come at a cost. 5 of 6 participants have indicated the cost aspect of alternative finance to be a reason not to consider alternative financing before the bank.
• Evidence and Compatibility	All participants perceive at least one form of alternative finance to be compatible with the organisation. This finding is not surprising, due to the wide variety of initiatives available. In general, it is indicated as very important for financing to fit the organisation's operations. As a participant states: 'a financing partner should have the same values as our own business, which are, solidity, reliability and assurance'. 3 participants have indicated to prefer a proof of concept before adopting an innovation. In conclusion, alternative finance initiatives are perceived compatible. According to the results, proof of concept (compatibility) is desired.
• Facilitators and Barriers	The familiarity with alternative finance varies among participants. 2 interviewees stated to have a high familiarity with alternative finance. These 2 participants already have experience with alternative finance (informal investors, crowdfunding and fintech). Other participants indicated to have a basic level of familiarity with alternative financing. However, 1 of these interviewees is already financing with alternative means. Notable is the fact that crowdfunding and investors are mentioned most often in the context of alternative finance, despite the fast growing fintech companies. Several different barriers have been mentioned: visibility, a lack of a business network, insufficient skill and knowledge at the side of alternative financing parties, accountability towards multiple financing parties, a lack of local presence, a lack of trust, and the high number of alternative financing initiatives. In conclusion, a high level of familiarity is an indication for adoption of alternative finance sources. Lastly, most participants describe the cost of capital as a potential barrier.

Table 8 continued.
The influence of constructs on an innovation level (2/2)

Changes in Innovation-level Adoption Constructs:	Summary of findings
• Innovation Fit with Users' Norms and Values (and risk)	In this study, the innovation fit with the user is regarded equal to the compatibility (see adoption predictor 'Evidence and compatibility'). The perceived risks which have been mentioned by a participant: loss of control, high cost of capital and the accountability towards new investors. These risks are a characteristics of the statistic trade-off theory (Niu, 2009). Other risks have not been mentioned by the interviewees. However, multiple participants have indicated the investor faces the real risk by lending the capital.
• Trialability, Relevance, and Ease	The relevance of alternative finance is stated by most participants to be minimal, due to the fact that there is a good relationship with the bank. However, 3 interviewees perceive the role of the bank differently and therewith the relevance of alternative finance, since the flexibility and independence is relevant in financing.

The alternative finance landscape is not perceived as complex and the participants are unambiguous concerning the advantage of alternatives; i.e. the speed of acquiring capital. The cost of capital is perceived as high and has been indicated to have a substantial influence on the financing choice. All participants do perceive a fit or compatibility of alternative finance products with their organisation. The results showed that the level of familiarity is an indicator for adoption (facilitator), whereas, multiple barriers have been mentioned. The innovation fit with users in this study is regarded the same as compatibility. Lastly, the relevance of alternatives is stated to be minimal, mainly due to the fact most organisations have a stable long term relationship with the bank.

Table 9
The influence of constructs on a staff/individual level

Changes in Staff/Individual-level Adoption Constructs	Summary of findings
• Affiliation with Organizational Culture	5 of 6 participants have shared information in which a fit with the company culture is stated. One participant has not shared this information. However, it is unclear what influence the individual's fit with the organisational culture has on financial adopting choices.
• Attitudes, Motivations, and Readiness towards Quality Improvement and Reward	2 of 6 participants have stated of having a highly innovative attitude. They are participating in highly innovative business environments. Both participants are open for change, and can be regarded as innovators. Both interviewees are already working with alternative finance initiatives, such as, crowdfunding, fintech and participations. 3 participants characterised their attitude towards change as reserved. A proof of concept is required before adoption. However, 1 of these 3 interviewees has financed a start-up by attracting investors. In conclusion, the participants who have indicated to have an innovative attitude have already adopted alternative finance initiatives for their business activities. The other participants are open for change, but desire a proof of concept before adoption. 1 participant has provided too little information for a conclusion.
• Feedback on Execution and Fidelity	Not applicable. This factor focusses on innovations which already have been adopted. This study's focus lies on initial adoption.
• Individual Characteristics	The participant's educational level varies from moderate- to highly educated. Since all participants would consider alternative financing, it is impossible to draw meaningful conclusions. However, it has to be noted that all participants already working with alternative finance initiatives are highly educated.
• Managerial Characteristics	The management of 4 participants is described as innovative or visionary. 3 of these 4 interviewees have experience with alternative finance sources. 2 other interviewees have not shared this information. In short, there appears to be a positive relation between alternative finance adoption and the management degree of innovativeness.
• Social Network (Individual's Personal Network)	3 of 6 participants know individuals in their personal social network who are working with alternative finance sources. In all three situations the participants have indicated to take into account best practices and experiences. However, one participant indicated a condition in which the individual needs to be creditable.
Changes in Client-level Adoption Construct:	
• Readiness for Change/Capacity to Adopt	Not applicable. Financing is an inter-organisational decision and not a concern of the client.

The impact of an individual’s affiliation with the organisational culture and the individual characteristics on the adoption decision of alternative finance is unclear, as more data is required for a substantiated conclusion. However, the attitude, motivations and readiness towards quality improvement and reward appears to be influential on the adoption decision, since an innovative attitude appears to have a positive effect. The personal social network appears to be a predictor, since personal experiences are being exchanged and taken into account, depending on the relationship with the individual.

5.2 Trust, capital structure and other findings

Table 10
validation and other findings (1/2)

Topic/construct	Summary of findings
• Capital structure	5 of 6 participants indicate a financing order which strongly resembles the pecking order theory (Degryse et al. 2012). As indicated by the majority of the participants: First, the organisation’s internal funds are used for investing activities. Second, debt is acquired if internal funds prove insufficient. However, most participants described a hierarchy of debt financing, in which the bank is the preferred creditor, followed by debt based alternative financing options. Third and last is the consideration of equity financing. In this context investors are perceived as unattractive, due to the fact they are associated with a high degree of information sharing and interference with management. In addition, the participants’ preferred financing order appears to be based on the cost of capital, as described in table 8 under cost-efficacy and feasibility. This finding is in congruence with the theory of Williamson (1988). 1 participant mentioned the use of internal cash flows to ensure capital is not wasted on bad investments. This argument is a characteristic of the agency view (Graham and Leary, 2011). However, the participant is not the principal in this context, and internal funds are favoured over debt, contrary to the agency theory. Another participant has an open perspective, and takes all financing options in consideration. This participant's goal is to strive for independence and a low cost of capital. In conclusion, the capital structure decisions of the participants indicate that alternative finance initiatives are ranked low according to the pecking order theory and the theory of Williamson (1988).

Table 10 continued.
validation and other findings (2/2)

Topic/construct	Summary of findings
• Trust	All participants are unambiguous in their opinion on the construct trust in association with financing. Trust appears to be key in the adoption decision. This result underlines the findings of previous studies (Hernández-Cánovas and Martínez-Solano, 2010; Rotchanakitumnuai and Speece, 2003; Watson, 2005). 1 participant states that trust is being built by having long term relationships. Therefore, the adoption of alternative finance is perceived as a big step. Furthermore, it is stated that it is hard to establish trust via the internet. 4 interviewees indicate the relationship with the bank to be valuable and important for their organisation. Another participant indicates trust can be enhanced by mutual openness and insight. Trust is also perceived important in the context with external advisors. In conclusion, trust appears to be one of the determining factors in the adoption decision of finance sources. Trust is associated with long term relationships and therefore the bank has an edge over alternative finance initiatives.
• Other findings	5 of 6 participants perceive alternative finance generally as an option for businesses who are constrained by banks, or, young, fast growing, innovative firms. Despite the finding that most participants value the relationship with the bank, they are aware that banks need to change their business models to stay relevant.

The capital structure decisions appear to be in congruence with the findings of Degryse et al. (2012), as characteristics of the pecking-order theory have been mentioned by most participants. However, 1 participant has also mentioned capital structure decisions which resemble the agency view theory. In financing, trust is perceived as very important by all participants. Lastly, the general perception of alternative finance is the initiatives are focussed on enterprises which have been constrained by banks.

5.3 Alternative finance adoption determinants in relation to the adoption framework

Table 11

Alternative finance adoption determinants indicated on a 5-point scale per participant (1/2)

Contextual levels and adoption predictors	Participant 1	Participant 2	Participant 3	Participant 4	Participant 5	Participant 6
Changes in External System-level Adoption Constructs:						
External Environment	unclear	unclear	++	+	--	±
Government Policy and Regulation	±	±	±	±	±	±
Social Network (Inter-systems)	N/A	N/A	N/A	N/A	N/A	N/A
Regulation with Financial Incentives	N/A	N/A	N/A	N/A	N/A	N/A
Changes in Organization-level Adoption Constructs:						
• Absorptive Capacity	±	++	+	+	±	++
• Leadership and Champion of Innovation	±	++	+	+	++	++
• Network with Innovation Developers and Consultants	+	++	+	+	+	++
• Norms, Values, and Cultures	unclear	unclear	unclear	unclear	unclear	unclear
• Operational Size and Structure	micro	medium	small	medium	medium	small
• Social Climate	unclear	unclear	unclear	unclear	unclear	unclear
• Social Network (Inter-organizations)	--	++	++	±	+	++
• Training Readiness and Efforts	unclear	unclear	unclear	unclear	unclear	unclear
• Traits and Readiness for Change	-	++	+	+	±	++
Changes in Innovation-level Adoption Constructs:						
• Complexity, Relative Advantage, and Observability	±	+	++	+	+	++
• Cost-efficacy and Feasibility	--	--	+	--	-	±
• Evidence and Compatibility	+	++	++	±	±	++
• Facilitators and Barriers	±	-	±	±	±	±
• Innovation Fit with Users' Norms and Values (and risk)	overlap	overlap	overlap	overlap	overlap	overlap
• Trialability, Relevance, and Ease	-	-	++	-	+	++

Table 11 continued

Alternative finance adoption determinants indicated on a 5-point scale per participant (2/2)

Contextual levels and adoption predictors	Participant 1	Participant 2	Participant 3	Participant 4	Participant 5	Participant 6
Changes in Staff/Individual-level Adoption Constructs						
• Affiliation with Organizational Culture	++	++	++	++	++	++
• Attitudes, Motivations, and Readiness towards Quality Improvement and Reward	±	++	±	±	±	++
• Feedback on Execution and Fidelity	N/A	N/A	N/A	N/A	N/A	N/A
• Individual Characteristics	±	++	±	±	±	++
• Managerial Characteristics	±	++	++	unclear	++	++
• Social Network (Individual's Personal Network)	+	++	--	--	--	++
Changes in Client-level Adoption Construct:						
• Readiness for Change/Capacity to Adopt	N/A	N/A	N/A	N/A	N/A	N/A

Note. Adoption determinants indicated on a 5-point scale per participant (-- Strong negative influence, - Minor negative influence, ± Neutral, + Minor positive influence, Strong positive influence). The factors which have been considered not applicable (N/A) are explained in tables 6 till 9.

As described in chapter 4.4, tables 11 and 12 are derived from the tables in appendix V and the tables 6-10. The purpose of these tables is to provide a straightforward view, in which the reader can directly link this study's results (on a participant and general level) with the framework of Wisdom et al. (2013).

Table 12
General findings of adoption predictors which influence the adoption decision
Note. Adoption determinants indicated on a 5-point scale (-- Strong negative influence, - Minor negative influence, ± Neutral, + Minor positive influence, Strong positive influence). The factors which have been considered not applicable (N/A) are explained in tables 6 till 9.

Influence of adoption predictors	Level of influence
Changes in External System-level Adoption Constructs:	
External Environment	+
Government Policy and Regulation	±
Social Network (Inter-systems)	N/A
Regulation with Financial Incentives	N/A
Changes in Organization-level Adoption Constructs:	
• Absorptive Capacity	+
• Leadership and Champion of Innovation	++
• Network with Innovation Developers and Consultants	+
• Norms, Values, and Cultures	unclear
• Operational Size and Structure	+
• Social Climate	unclear
• Social Network (Inter-organizations)	+
• Training Readiness and Efforts	unclear
• Traits and Readiness for Change	++
Changes in Innovation-level Adoption Constructs:	
• Complexity, Relative Advantage, and Observability	+
• Cost-efficacy and Feasibility	--
• Evidence and Compatibility	+
• Facilitators and Barriers	±
• Innovation Fit with Users' Norms and Values (and risk)	overlap
• Trialability, Relevance, and Ease	-
Changes in Staff/Individual-level Adoption Constructs	
• Affiliation with Organizational Culture	unclear
• Attitudes, Motivations, and Readiness towards Quality Improvement and Reward	++
• Feedback on Execution and Fidelity	N/A
• Individual Characteristics	++
• Managerial Characteristics	++
• Social Network (Individual's Personal Network)	+
Changes in Client-level Adoption Construct:	
• Readiness for Change/Capacity to Adopt	N/A

As can be observed from table 12, there are indications all contextual levels of the theoretical framework of Wisdom et al. (2013) influence the adoption decision regarding alternative finance. These results underline that the complexity of adoption theory also applies for financing choices in general.

6 CONCLUSION AND DISCUSSION

This chapter discusses this study's conclusions, practical implications, limitations and suggested future research topics.

6.1 Conclusion

The research goal is to provide academic insight in the perception of SMEs towards alternative financing in order to determine which factors influence the adoption decision and what the implications are for capital structure theory. This conclusion starts with the research results as seen from the four contextual levels of the adoption framework (Wisdom et al., 2013). Subsequently, the results of the validation of the concept trust have been summarised, followed by the implications for capital structure theory. Lastly, findings which cannot be categorized under aforementioned sections have been described separately.

External system

The external environment appears to have an influence on the financing choice (e.g. time or market conditions). Remarkable, all participants perceive government policy and regulation as a minimal influence on their financing choice. However, a basic framework of regulation is desired by all interviewees. The adoption predictors social network and regulation with financial incentives are regarded as not applicable.

Organisation

In the context of the organisational-level, several adoption predictors seem to be relevant: An organisation's absorptive capacity, the degree of an innovative management, the network with innovation developers and consultants, the organisational size and structure, the social network and the traits and readiness for change. The collected data has proven insufficient for a conclusion for three adoption predictors, i.e., norms, values and cultures, the social climate and training readiness and efforts.

Innovation

The relevant predictors from the contextual innovation level are: Complexity, relative advantage and observability, the cost-efficacy and feasibility, evidence and compatibility, facilitators and barriers and Trialability, relevance and ease. The adoption predictor innovation fit with users' norms and values (and risk) has an overlap with compatibility. The speed of acquiring capital is mentioned as the main advantage, whereas the cost of capital and a lack of trust appear to be the biggest challenges for alternative finance organisations to overcome. Results also show the business context can influence the adoption decision, since a highly innovative business environment and an innovative management attitude seem to be good predictors for adoption. Despite the fact all participants are overwhelmed by the amount of alternative finance initiatives, it is not perceived as complex. All participants do believe one or more alternative finance initiatives are suitable as a financing option for their organisation.

Staff/individual level

Several adoption predictors stand out from the staff/individual level. These are attitudes, motivations, and readiness towards quality improvement and reward, the individual's social network, the individual's characteristics and the managerial characteristics. Participants who have described their attitude as highly innovative have experience with alternative financing. In addition, their personal social network consists of individuals who are also familiar with alternative finance. All participants indicate a strong affiliation with the organisation culture. Therefore, the influence of this predictor seems to be neutral in the context of alternative financing.

Trust

The results concerning the concept trust in association with finance appears to be unambiguous, as trust appears to be key in the adoption decision. Trust is built on long term relationships, openness and insight. In addition, trust seems to be equally important in the relationship with the organisation's advisors. According to the participants, the bank momentarily has an advantage over alternative finance organisations due to existing long-term relationships with clients, in addition to the bank's extensive business network and resources.

Capital structure theory

The results of this research provide evidence for the pecking order theory and the theory of Williamson (1988), which is in congruence with findings of previous studies. Alternative finance initiatives are ranked low by most participants. For debt financing, the bank is the preferred creditor, followed by debt based alternative financing options. Reasons seem to be a lack of trust, the perceived (higher) cost of capital and the information sharing component.

Other findings

5 of 6 participants perceive alternative financing as a last resort. The suggestion made by the participants is that organisations who have employed alternative financing sources are constrained by banks. In addition, all participants value a good relationship with the bank. However, the interviewees are aware the business model of the bank needs to change in order to stay relevant in the future.

6.2 Practical implications

The practical implications of this research are diverse. First, the results have indicated the construct trust in combination with long term relationships to be perceived as very important in financing. Therefore, at least some alternative finance organisations are challenged to establish or increase trust with prospects or clients and build long term relationships. Besides the aspect trust, the cost of capital is perceived as high, which seems to be an important barrier. Alternative finance organisations should focus on decreasing the cost of capital, or the perception of it. A different finding with a practical implication is the target group. The research results indicate that highly innovative firms, which falls in the small or medium category of SMEs, are likely to adopt alternative finance sources. An alternative finance organisation could use this profile to get a better understanding of their target group. Lastly, participants indicated complex financing cases are discussed with external advisors, in which the organisation's accountant has been mentioned most often. Based on this finding, alternative finance organisations could focus on establishing partnerships with accountancy firms and use the accountants' as ambassadors.

6.3 Limitations and future research

This paragraph starts with this study's limitations, and subsequently discusses the future research opportunities. The limitations stem from the sample selection and size sample size, the reliability of data analysis and the deployed adoption framework. Future research implications are suggested on the topics of trust in relationship to the internet, the management's age, government policy and regulation, organisational size, an alternative finance taxonomy and the cost aspect.

Limitations

As many studies, this research has its limitations which have to been taken into account when interpreting the results and conclusions. First, the generalizability of the study is limited, due to the fact that the research is qualitative and the participants have purposively been selected in the Eastern part of the Netherlands. Therefore, regional cultural differences within the Netherlands cannot be distinguished. Furthermore, the study's reliability can be discussed. Despite the fact that the research is qualitative, the total number of participants can be regarded as minimal. The proposed participant selection is based on 3 SME categories according to a definition of the Commission of the European Communities (2003). However, in the category micro, 1 participant has been interviewed, contrary to the category small and medium, with respectively 2 and 3 participants. A different reliability issue is data analysis by a single person. A second analyst would have increased this study's reliability. One of this study's pillars is a theoretical adoption framework, which has incorporated innovation theory from many different disciplines (e.g. healthcare, technology). However, the use of this framework can be disputed from two different angles. First, can alternative finance from a general point of view be regarded as innovation, and consequently, does the framework capture all factors which have an influence on adoption? One could reason the framework is limiting the researcher's perspective. Second, the framework has a potential irrelevance, due to the many different disciplines which have been included. A third limitation which has to be taken into consideration is the aspect of time. Since this study had to be completed within 7 months, choices had to be made, e.g., the number of participants, the scope of the study and a minimal set of research conditions. From this point of view, one could debate whether the right participants have been selected, as alternative finance could be perceived as an option for enterprises who are constrained by traditional suppliers of finance. Lastly, it has to be taken into account that adoption decisions are complex by nature, and therefore it is unreasonable to assume adoption decisions can be explained fully.

Future research

The results of this study have provided topics for future research. First, the relationship between lender and lendee appears to be very important. This relationship is built on trust. Therefore, it is very likely relationships built on trust can be regarded as a necessity for alternative finance parties to achieve higher adoption rates. Future research could focus on how a relationship based on trust can be established between lender and lendee via a platform as the internet. Second, during the research, indications have emerged that the age of the entrepreneur or manager could be a key factor in the adoption decision of alternative financing. Traditionally, the bank has a central position in society (e.g. household savings, mortgage etc.). However, nowadays the connection with the bank appears to be eroding due to services which are driven by information technology. Third, the research results have shown that the participants perceive the alternative finance landscape as overgrown and unstructured. Therefore, future research could be focussed on determining what the effect of government policy and regulation is on the development of the market. As well as the results which have shown that almost all of the participants have a negative attitude towards government policy regulation. Fourth, the study has revealed indications that the organisational size, phase and level of innovativeness are related to the adoption of alternative finance. Fifth, as described in chapter 2.3, the working taxonomy of alternative finance could be improved by a further specification of categories. Lastly, the cost of capital has been indicated to be important in whether to adopt alternative financing options. Future research could be focussed on the cost aspect of alternative finance initiatives. What would be the effect if the cost of capital competes with the rates of banks?

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APPENDIX