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The emergence and early growth of new niche organisational forms in a highly regulated context: the role of regulatory architecture and analogy in the case of loan-based crowdfunding in the UK

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2023

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Thesis submitted in partial fulfillment of the requirements for the degree of

D.Phil. in Management - Hilary Term 2023

Abstract

What we are now observing across a variety of economic sectors is the emergence and development of new organisational forms based on technological infrastructures, algorithms and platform-based systems. While these organisational actors offer new services and enable new practices through technological developments, these processes do not happen in isolation from the wider institutional context (e.g. regulation) and the underlying characteristics of these innovations are not entirely new. These observations are particularly relevant to current developments in the highly regulated financial services context, where financial technology organisations (known as FinTech) have started to co-exist with traditional, incumbent financial institutions. The general purpose of the thesis, using the arguments from theories of organisations and institutions, and on the sociology of law and legal studies, is to uncover the elements and dynamics of the emergence process and early growth stages within the wider institutional environment.

The thesis is split into two main parts to research the empirical context of the UK crowdfunding market with a specific focus on the first generation of the regulated form of loan-based crowdfunding from 2004 to 2018. This organisational form became the first small, niche, innovative actors based on platform architecture that brought in different elements from financial and non-financial domains, creating a form at the intersection of financial, technological and social areas that enabled new form of lending. Therefore, the first part of the thesis extends the analysis to the era before the emergence in the UK from the 1980s through rich historical materials on the regulatory transformations of financial services to position the phenomenon of emergence within time. The second part of the thesis zooms into the emergence and early growth of loan-based crowdfunding. The main data sources for this longitudinal study are archival materials, interviews, reports, observations of the events and online sources. Hence one of my findings is the role of analogies as a certain device with cognitive elements that bring different elements into a recognisable form, maintaining a balance between novelty and tradition, between legality and illegality. My next contribution is the development of a concept of *collective analogising* that enabled the process of emergence by which different actors played certain roles in solving the indeterminacy of the product side and legal ambiguity. My aim is that the findings and models from this study of financial services clarify the similar processes in many other important societal sectors.

Keywords**: organisational forms, emergence, regulation, analogy, crowdfunding, financial innovation, FinTech**

Acknowledgements

My DPhil journey could have been very challenging without the support and guidance of my academic community, family, friends and yoga community. My DPhil studies happened during the global COVID -19 pandemic, a complex political situation involving Russia, and the exciting times of having my daughter Emilia.

First, I would like to acknowledge Said Business School and Green Templeton College for their financial support (combined scholarship) for my DPhil studies. It has been an honour to be the recipient of the Said Foundation and Green Templeton scholarship.

Second, I am incredibly grateful to my supervisors, Prof. Marc Ventresca and Prof. Michael Smets, for their invaluable contribution to my academic development, continuous personal and professional support through challenging times, and patience during my DPhil studies. They inspired me to find my thesis topic and provided constant encouragement throughout all the stages of thesis writing. They taught me how to enjoy different stages of academic research. I only have words of appreciation to them. I also want to acknowledge my trip to Stanford University, which gave me a chance to attend seminars across various departments and share my research ideas. Also, it was at Stanford that I developed the first draft of my thesis. I also wish to thank my college advisor, Dr Keith Ruddle, who supported me during my college life. Thank you to all the academics I had a chance to collaborate with through seminars, professional development workshops and conferences, which helped me get to this stage.

Next, I want to thank all the members of the DPhil community, both at Said Business School and colleges, that became an invaluable part of my personal life experience through these

years. Special thanks to my Management DPhil cohort: Elise Lee, Tanja Olson, Christian de Koning, Beata Gafka. We became friends for life.

During my DPhil studies, I got a fantastic opportunity to become a part of the Oxford Yoga community through teaching yoga, barre and pilates classes in the university colleges and leading yoga studios. These classes helped me to stay fit and get psychological and financial support. Simone Jones and Katie Gordon are the two people who gave me this chance. I am very grateful for meeting these two strong women during this journey.

Next, I would like to express my gratitude to my parents, who supported me during this time. With their tremendous understanding, encouragement and financial support in the past few years, I was able to complete my thesis. Finally, one of the most important acknowledgements is to my small family: Nishant Donchak and our daughter Emilia. Nishant encouraged me during the last stages of the thesis writing, gave me extra energy and provided all his time to help with our daughter Emilia, who was born during my studies. Despite new challenges, motherhood inspired me to finish my thesis and made my studies more enjoyable. I am looking forward to celebrating my graduation together as a family.

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1. Introduction

1.1 Motivation

I started my research based on wider personal and research interests in how new organisations develop from an idea into functioning economic and business entities. I have always been curious to delve deeper to understand which processes, elements, and actors participate in the process. We always speak of new innovative organisations as being the result of great ideas developed by their founders and entrepreneurs, which diminishes the role of other actors and processes that enable innovation. My specific interest focused on sectors with established, incumbent organisations where the rules of a game are clarified by, and where regulation can become a key factor for, the emergence and entrance of a new actor. I started my research with some prior knowledge around the transformations happening in different sectors due to the emergence of platform-based organisations that recombined different elements to create their businesses. It was even more exciting to observe 'live' how the financial services – a highly regulated system with a long history of regulatory development saw the beginning of the era of FinTech actors.

My second research interest was to understand the similarities and differences that exist between new and incumbent actors. I have read many cases in which the founders of new organisations usually spoke about their motivations for developing something new. They always stressed the origins of their ideas, concepts, and structures locating these in some cases in their backgrounds, in others in related or distant business areas. I realised that academic research needed to provide a more detailed analysis of those basic building blocks of emergence of new forms, practices and markets. I became increasingly interested in the role of analogy as a key element and also a cognitive mechanism that can highlight similarities but also differences between domains. Therefore, studying the very early days of

FinTech actors in the form of loan-based crowdfunding can help academic researchers theorise on how new forms emerge in highly regulated spaces and also in general. Specifically, an approach that uncovers the interconnections between different parts of the complex infrastructure in which the emergence is embedded, helps to reveal the conditions that can enable or constrain innovative ideas, and the roles of different actors participating in the emergence process.

1.2 Introduction

This research project explores how new organisational forms, based on platform systems, emerge in highly concentrated and regulated settings such as financial services, with an empirical focus on the interplay of such an emergence with institutional infrastructure (regulatory architecture). My specific focus is on the current transformations happening in the financial services: the emergence of platform and technology-based organisations – specifically, the very first generation of crowdfunding organisations in the UK. I explore the form of loan-based crowdfunding – a mode that is currently regulated financial services provider. What is surprising about these organisational actors is the fact that they were the first small, niche actors from outside the financial services sector to proliferate in the sector, and establish their forms as legally functioning financial services, creating templates for the next generation of FinTech and their organisational forms. Therefore, it is necessary to analyse their emergence in particular temporal settings to reveal the particular conditions that enabled their emergence.

Hence one of the puzzles that the project explores is the specific role of temporal settings in which the forms take shape and, in turn, shape the infrastructure's context. So, I follow the argument (e.g. Sewell, 1996; Clemente et al., 2017; Pierson, 2011) that it is necessary to study the phenomenon to answer not only the question of 'how' but also of 'when'. In

particular, I study the role of the sequence of the events in creating specific conditions and pathways for the emergence of organisational forms, and creating a new legal opportunity in the highly regulated setting of the financial services. In terms of methodology, one inspiration was the method used by Van de Ven et al (1989) and Van de Ven and Garud (1993) in their detailed studies of the emergence of a new industry around an innovative technology (cochlear implants) and concepts of institutional development and evolution from political studies (e.g. Pierson, 2011; Thelen, 2003). Given the setting of a highly regulated context, and the emergence of new organisational actors around particular niches, I adapted their methods in my first empirical chapter to identify the sequence of the main events, moments, and actors in the regulatory architecture and in the political context. A variety of studies show the important role of critical events (known as environmental jolts, institutional contradictions, and conjunctures) in creating conditions for institutional transformations (e.g. Meyer, 1982) but their focus is mainly on the downward causation process when events influence organisations, neglecting the analysis of upward processes, when the events condition the decisions made by organisations that in turn shape historical developments.

The project shows that the sequence of events in the regulatory architecture of the UK over the period of the 1980s to 2018 went from a self-regulatory model of regulation, towards the taken-for-granted statutory model of regulation that became the part of the underlying regulatory architecture of the institution. This process occurred through the *institutional layering* that at the same time shaped the formation of niches in the financial services; both of these processes enabled a legal opportunity window for non-financial, platform-based organisational actors to proliferate in those niches. What is unique about this research project is that it studies not only the features of one equilibrium compared to a new equilibrium, but also the processes through which the transformation happened. For instance, I show that the

financial crisis 2007–2008 not only revealed that some taken-for-granted practices and related institutional arrangements were inefficient, but also became the precondition for transformation of deeper underlying elements in the regulatory architecture, through shaping the meaning-making around key concepts among related actors. These actors can be named as the inhabitants of the social structure following the discussion in the previous studies (e.g. Seo and Creed, 2002). Further, I add to the discussion (e.g. Edelman, 1992; Seo and Creed, 2002) of the idea that critical events are not always idiosyncratic, exogenous events but are the consequences of interinstitutional incompatibilities unfolding in different segments of the larger institutional field.

Further, to make visible the roles of analogies and regulation/legal elements as a toolkit of institutional infrastructure, I explore granular evidence from careful fieldwork investigating the strategies and activities of the very first loan-based crowdfunding actors and related audiences, specifically legal professionals and regulatory actors that played an active role in shaping the emergence and early growth of the new organisational forms. The analysis revealed that through analogising, new organisational actors from outside the financial services were able to anchor on the existing niches, then, together with legal professionals who became 'interpreters' of these analogies, built an institutional scaffolding (temporary institutional arrangements) to enable them to continue their analogising with the regulatory actors. Two types of analogising were identified in the case of loan-based crowdfunding, which went through three theoretically conceptualised phases of *divergence, alignment, and stabilisation*. The findings show that analogies were the devices used to reconcile novelty and traditional/taken-for-granted ways, legality and illegality, in the period when a large number of possibilities could have been chosen, and when a high level of uncertainty and ambiguity existed. Current scholarship often starts with an analysis of existent practices, organisational

actors, and institutions, followed by analysis of how novel they are, and what strategies are used to develop and diffuse them; but what we need is to shift to a different and generally underdeveloped aim: to focus on the components of new things, the resources of particular elements, asking through which mechanisms these elements are cobbled together into particular forms, and what their connection is with the surrounding context (e.g. Padgett and Powell, 2012; Greenwood et al., 2008).

The emergence of these organisational actors with innovative activities is one of the best examples of organisations that, at the point of emergence, can be subjected to two simultaneous pressures. On the one hand, they experience strong competitive pressures from established financial services organisations (e.g. large incumbent banks); on the other hand, they are subject to strict procedural, legal, and regulatory requirements imposed by the regulatory authorities and the state, developed through particular historical paths (Freeman and Lomi, 1994; Scott and Meyer, 1992). In addition, the financial system is a context where the role of regulatory elements and law can be revealed as a part of the wider context and connected with the possibility of the emergence of new small actors. Hence, this study brings into analysis another underdeveloped area of our understanding of regulation, not only as exogenous rules that regulated actors have to follow, but as a part of the context in which the activities of regulated actors and the regulator feed back to each other, transforming the environment. This research strategy answers the need to uncover the relationship between the emergence of innovative organisational forms, and the environment in which these activities take place, moving away from a heroic ideal of individual inventors. I want to challenge the idea that technological opportunity is the main factor in the emergence of new organisational forms. In other words, technology only has an impact on the development of novel arrangements when it manages to attract attention, when it is viewed as legitimate from a

moral and instrumental standpoint, and when powerful community participants rally in its favour (Scott, 1998, p. 168).

1.3 Terminology

Before discussing the literature review, methodology and empirical chapters, it is necessary to provide several clarifications of my terms, taken from the academic literature, empirical settings and professional studies that are used throughout this document. This terminology section serves as a brief guide to the particular concepts used, for the benefit of readers from other research fields and theoretical backgrounds. More detailed definitions and discussions are provided throughout the other parts of the document.

The concept of *emergence* covers here institutional emergence as a process of bringing together a set of shared meanings, practices, and other related elements from similar or different domains (e.g. Padgett and Powell, 2012; Becker, 1982). While a new organisational form can be defined from a general angle as representation of the classes of organisations that audiences understand to be similar in their core features and distinctive from other classes of organisation (e.g. Fiol and Romanelli, 2012).

Institutions are generally understood in the *new* institutional theory as the formal rules, the more-or-less taken-for-granted norms, and the cultural values and commonly held beliefs that guide the actions of individuals and organisations in a specific context (e.g. Greenwood et al., 2008; Scott, 1995; Tolbert et al., 2011).

The language and definitions around crowdfunding platforms, alternative finance and FinTech are still in flux and changing, with new elements added as the sector develops and reshapes. At the current stage of the development, different audiences distinguish four

configurations of crowdfunding including reward-based, donation-based, Equity crowdfunding and loan-based crowdfunding (also known as P2P lending) platforms. The Financial Conduct Authority defines crowdfunding as different ways in which people and businesses (including start-ups) raise money, typically through an internet-based platform. Some academic studies define *crowdfunding* broadly as a widespread and effective alternative for raising capital to support new business ideas and ventures (e.g. Barbi and Bigelli, 2017); or with a narrower angle as a mechanism that allows founders of for-profit, artistic, and cultural ventures to fund their efforts by drawing on relatively small contributions from a relatively large number of individuals using the internet, without standard financial intermediaries; or as an umbrella term that stands for any type of web-based collection of small quantities of funds from platform users to finance a project (Mollick, 2014; Lenz, 2016).

In this thesis I draw on the conceptualisation of *platforms* developed by Gawer (2014, p. 1239) as evolving organisations or meta-organisations that: (1) federate and coordinate constitutive agents who can innovate and compete; (2) create value by generating and harnessing economies of scope in supply or/and in demand; and (3) entail a modular technological architecture composed of a core and a periphery. This definitions suits well to study the phenomenon through the lense of organisational theory.

In this research project, I refer to the core arguments developed by Mary Douglas (1986) about the broader role of *analogies* in the emergence of institutions and classification systems of meaning. For her, analogy is not just a linguistic device, but a building block that has a broader application to the existence of meaning systems; it is the very foundation of the constructed world of meaning (Logue et al., 2016). Sometimes experts distinguish between

metaphors, analogies, and similes in the context of micro-discursive linguistic devices; for example, some experts argue that the main difference between them is the different extents to which analogies, metaphors, and similes assert how two elements (e.g. objects) are similar and if particular words such as 'as' and 'like' are used. Analogies are comparisons, and metaphors and similes are the ways of making them.[1] In this study, my main interest is not on the micro-discursive role of analogies but rather on their role as elements and mechanisms in the emergence and formation of deeper systems of meaning. So my working definition of '*analogies'* is that they are a comparison, a meaning-making device between two domains, where the two things are held to demonstrate structural similarities in some or all of their properties (Houghton, 1996), but at the same time they allow one to distinguish dissimilarities, hence stimulating innovation and change. One can have as an analogical base for instance, a past situation that can enables understanding of the nature of a present situation (or analogical target) (Gentner, 1983).

I refer to *institutional scaffolding* as a nascent institutional arrangement that supports different types of transition, for example, from informal to formal markets (e.g. Sutter et al., 2017). I use *legitimacy* as 'perceived consonance with relevant institutions and alignment with cultural-cognitive frameworks' (Scott, 2008, p. 60). Legitimacy is a social evaluation by a particular audience; while some audiences may consider an organisation as legitimate, others may not (Hampel and Tracey, 2017).

The concept of *resource partitioning*, developed by organisational ecology theorists (e.g. Carroll, 1985) refers to the process wherein two forms of organisations (generalist and specialist) co-exist in the same industry as they depend on different resource bases when the

[1] https://danielmiessler.com/blog/difference-analogy-metaphor/

industry becomes highly concentrated. Resource partitioning argues that resource concentration and market concentration go hand in hand. Some resource areas come outside of the generalists' target areas, so specialists can find and fill in the emerged niches in the resource areas, and so the market is partitioned: generalists and specialists do not compete.

With regards to the concepts related to legal and regulatory discussion, it is worth introducing here the concept of *legal consciousness* that can be also defined as a main part of regulatory architecture. Legal consciousness is a particular mode of 'consciousness' embodying modes of cultural practice and an integral part of the underlying social structure (Ewick and Silbey, 1998; Silbey, 2005). Legal consciousness constitutes regulatory architecture, and brings a more cognitive approach towards law and regulation. Another significant concept*, legality*, is defined by Ewick and Silbey (1998, p. 22) as the meanings, sources of authority, and cultural practices that are commonly recognised as legal, regardless of who employs them or for what purposes.

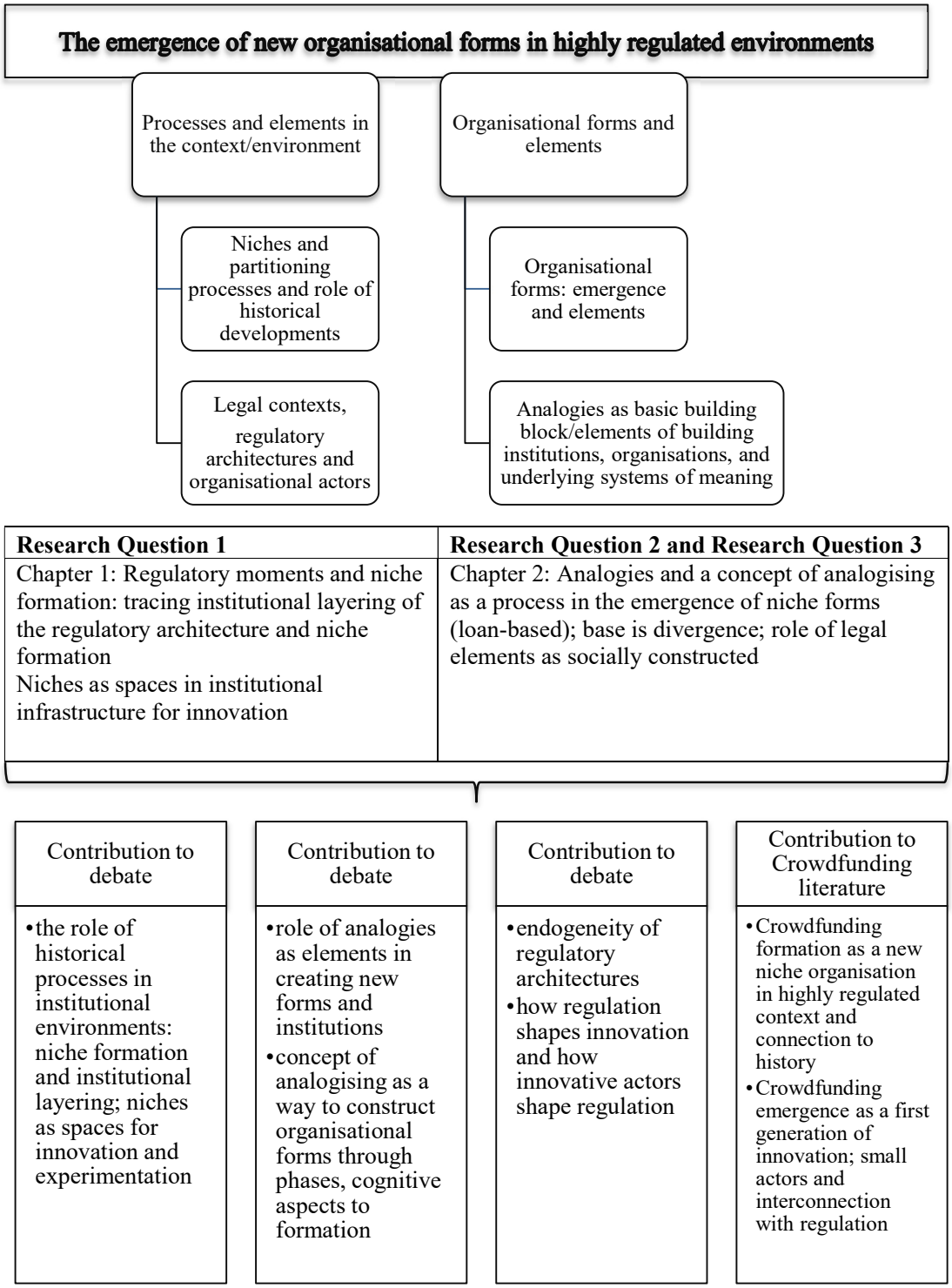
The concept of the *highly regulated context* (industry, market, or field) can be broadly defined as a type of a context controlled by government rules (Cambridge Dictionary). I extend it to add the aspect of the legality of organisational forms functioning in those contexts where they cannot function without defining their legality.

2. Theoretical background

2.1 Introduction

The purpose of this chapter is to provide an overview of the theoretical background and underdeveloped areas to which I aim to contribute with this research, as well as to introduce the research questions of this project. The literature overview is grouped into a review of the studies around organisation forms, their elements, and certain emergence processes, followed by a look at a group of studies that give insights into processes in the wider environment that can shape the pool of elements for emergence and the processes that bring components together. Figure 1 below summarises the theoretical background, research questions and area for contribution.

Figure 1: Summary of the theoretical base, research questions, and areas for contribution



I start my discussion with a broad overview of the existing studies around the emergence and elements of organisational forms that focus on different aspects and definitions (e.g., Greenwood and Suddaby, 2006) as well as the initial observations into processes and actors that involved in the emergence (e.g., Powel and Sandholtz, 2012a; 2012b). While some studies provide good observations of the content of forms, types of forms, dynamics in the population of organisational forms (e.g. growth, mortality rates), the majority of studies either research already established organisations and their practices and/or looks at how forms develop and diffuse after the emergence. A limited number of studies define several processes including organisational bricolage, translation, transposition as well as recombination that cobble together new organisational forms but they still lack a deeper theorisation of the initial step of emergence when the very building blocks come together and how these processes are connected to the conditions in the wider context that also is shaped by the historical developments and cognitive processes. Another question that left neglected to some extent is the fact that the innovative organisational forms emerge as a collective process involving different types of actors with different motivations and toolkit and not in isolation from the surrounding context/environment where the regulation and legal contexts are an important part. Hence, these general observations introduce the following research arguments and specific research questions.

First, I focus on particular processes that may develop through time in the wider environment of organisations that enable the conditions for new actors to emergence. The institutional environment may logically shape both comparative and competitive strategic actions (Orru al., 1997, p.127-129). My observation of the emergence literature brought me to the arguments of the organisational ecologists about resource partitioning process that exist in highly concentrated and mature markets that can enable the conditions for the emergence of

small niches that new organisational actors can fill without direct competition with mature incumbents. Loan-based crowdfunding platforms are types of actors that co-exist together with big banks and venture capitalists and from the very beginning were functioning in particular niches (or pockets) of the financial services. While a large number of studies in this tradition, using large data sets quantitatively assess and confirm the existence of this process, and specific role of shifts in regulation, they do not specifically focus on how and why these particular niches came into the surface in the underlying architecture and how this is connected to historical events in the regulatory environment that shape the niche availability for new forms to emerge and to enable innovation. They consider niches as predefined gaps in the resource distribution, neglecting the role of historical dynamic and exigencies as well as the roles of organisational actors and their cognitive meaning-making elements in the process of constructing their boundaries and roles (Rawlings and Bourgeois, 2004). Hence, I specifically ask:

How is the formation and institutionalisation of a particular model of regulation, in the institutional environment of the highly regulated context, connected with the niches' formation as a precondition enabling new organisational forms to emerge?

Second, since my review of the organisational forms and emergence literature highlights the role of different elements that are assembled together, I claim that it is timely to revisit early studies of institutions and underdeveloped conceptualisation of specific elements that have been recognised as key building blocks to answer a call to study the area of emergence of organisational forms. My specific focus is on the concept of analogies developed by Douglas (1986) and the role of analogies in creating institutions, classification systems and organisations. I develop a concept of *analogising* that is a collective process involving

activities of new organisational actors, professional actors, and regulators that use analogies together to transform initial ideas into recognisable, legal organisational forms. Hence, I ask: *How do analogies play a role in emergence and early growth of new organisational forms in a highly regulated context?*

Third, I claim that another underdeveloped area is the role of law and regulation as constitute part of the institutional environment in analysing the emergence of organisational forms. Based on my first observation of the role of regulation and legal environment in shaping the availability of niches in the surrounding architecture as well as on my second observation that analogies is an important element in cobbling forms together, my specific focus is on the concept of law not as an exogenous regulation imposed by the state and the regulator but as an embedded and an emergent feature of social life (Silbey, 2005; see earlier overview by Edelman and Suchman, 1997; Suchman and Edelman 1996). I am interested in how the construction of the regulatory architecture involves many actors that contribute to the process of legal enactment and how different interpretations of law can enable the emergence of organisational actors in particular forms. Hence, law is not only a set of discrete rules and official decisions but also includes specific cultural conventions, practices, symbolic meanings and processes (McCann and March, 1995; Galanter 1983). This leads to the research question, asking, *how the regulatory architecture and the activities of new organisational actors shape each other at the emergence and early growth stages of a new organisational form?*

2.2 Organisational forms and emergence

"*The building blocks for organisations come to be littered around the societal landscape; it takes only a little entrepreneurial energy to assemble them into a structure." (Meyer and Rowan, 1977, p. 345)*

This section provides a brief overview of the existing literature focusing on different definitions of organisational forms and main arguments about the process that drives their emergence. I discuss main arguments and insights as well as demonstrate underdeveloped areas.

The discussion about the organisational forms, their content, where they come from, the sources of their variance, can be traced back to the seminal study by Stinchcombe (1965) around the relation of the society outside organisations and the internal life of organisations. The author spoke about two important areas for the analysis: first is the focus on studying the interconnection between environmental conditions (social structure) and the rate of foundation of new organisations of a new kind and, second the analysis of the correlation between the time in history that a particular form emerged and the social structure of organisations of that type which exists at present

Later, Meyer and Rowan (1977; p. 345) in their seminal study that brought institutional approach into studying organisations clearly spoke about the connection between the emergence of organisations and their context through which 'the building blocks for organisations come to be littered around the societal landscape; it takes only a little entrepreneurial energy to assemble them into a structure'. Further, organisational ecologists (e.g. Delacroix and Carroll, 1983; Hannan and Freeman, 1987; Tucker, et al., 1988; Hannan and Freeman 1977), following the tradition that deals with the relationship between environments and the creation of new organisations consider both the structural influence of

organisational environments and the particular organisational characteristics that mediate that influence. This stream focuses on those intrinsic organisational features that shape institutional environments and determine how particular organisations respond to them. The population ecology scholars are concerned with variation, retention, and selection processes at the population level of analysis, hence the major units of analysis is not an organisation but populations of organisational forms with similar activities and resource utilization. A central question is how populations of organisations change over time (Carroll, 1984, 1987; Hannan and Freeman, 1977, 1989). The general approach researchers adopted is an investigation of the systematic operation of selection processes in organisational populations (Tucker et al., 1990).

The research of new organisations (organisations-in-creation) was acknowledged in the early scholarship as the way to develop frameworks for distinguishing the different ways in which the organisations' creation process occur as well as the elements that drive the process of organising (Katz and Gartner, 1988). Organisations emerge from the interaction of different types of agents (individuals, partners, groups, parent organisations, etc.) and the environment. Hence, emerging organisation (organisation-in-creation) is a unique situation in which the organisation's abilities to adapt and environmental selection pressures can be revealed, bringing a better understanding of the nature of the concept of emergence and the answer to the question: "How do organisations come into existence?" (Katz and Gartner, 1988).

Some authors following neo- institutionalism define organisational forms as archetypes - configurations of structures and practices with underlying values appropriate within an institutional context, hence they are manifestations of institutional logics and hybrid institutional logics (Greenwood and Hinings, 1996; Greenwood and Suddaby, 2006; Tracey

et al., 2011) taken for granted as a social fact (Rao et al. 2000). The development and change of organisational forms have been acknowledged in the literature as a process providing institutional implications and as an illustrative example of institutional entrepreneurship (e.g. Ingram, 1996; Greenwood and Suddaby, 2006; Tracey, et al. 2011).

Other authors use more simple approaches and use such definitions of an organisational form as ' the combination of an organisational structure and an organisational strategy as an alternative to institutional mechanisms of generating credible commitment' (Ingram, 1996, p.85). Rao and Singh (2001, p.244) defined a form as "novel recombination of core organisational features involving goals, authority relations (including organisation structures and governance arrangements), technologies, and client markets". It was pointed out that a new form is emerging when there is contestation over its legitimacy and that different forms of collective action (e.g. social movements) underlie the emergence of new organisational forms (Greenwood and Suddaby, 2006; Rao et al. 2000). Rao et al (2000) and Scott (1995) speak about the properties of organisational forms that they divide into the core and peripheral properties. Core features consist of goals, authority relations, technologies, and marketing strategy that differ in ways that they can be changed.

It has been acknowledged that new forms are usually arranged or assembled from the elements of existing forms and transitional arrangements and that existing institutions can provide enabling infrastructure for the new forms to emerge (e.g. Campbell, 1997). The studies also acknowledge the role of technological development in driving new organisational forms, the role of entrepreneurs and wider social movements (e.g. Rao et al., 2000; Van de Ven, et al., 1989). It has been shown that technological innovation is a dynamic social process which, as it unfolds, creates the resource space that will support new firms reflecting

new organisational form, where research needs to focus on human interactions that enact the evolution of new forms (Romanelli, 1991). It has also been discussed that emergence is an outcome of a relationship between individual agency and other generative elements in the external context that are combined together through pathways of temporally discrete steps (Anand et al., 2007). Hence, studying the emergence of new organisational forms as a social process, shaped across time, space, interconnected with the institutional settings provides a great opportunity to uncover the underlying mechanisms that exist between the process of innovation and the setting in which it is enabled (Tolbert, et al., 2011).

Powell and Sandholtz (2012a; 2012b) in their study of the biotechnology field, provide significant insights into the analysis of the processes of the emergence of new organisational forms and the connection with the wider domains. They found that reconfiguration (a type of bricolage) occurs when entrepreneurs launch new businesses in adjacent fields with which they are familiar and the process of the reassembly of borrowed elements from known sources happens. In contrast, the process of transposition happens when entrepreneurs enter a distant domain, in which it is impossible to draw on established templates and tools of organising. They call this type of entrepreneurs as amphibious entrepreneurs those actors that carry practices and assumptions across domains. They transpose the frameworks from the former domain with which they are familiar, generating significantly new forms that might change the social order. Hence, the study sheds the lights of the process of emergence and how and why different pathways might drive it.

Perkmann and Spicer (2014) develop a model of organisational bricolage in which they observe how organisational values as a focusing device enable the modification of the anchor (imprinted) form's structure that was the primary element at the point of founding. They

show that emerging organisations augment particular features of the anchor form by using ancillary forms aligned with their organisational values and reinforce their core features by differentiating themselves from antagonistic forms that conflict with their values. Hence, in their study, the context provides multiple forms that are available and can be used in different ways shaping the emerging organisations but the combinations of these forms are underpinned by specific ideas, beliefs, and values that provide them with meaning.

Later studies have started to be interested in the organisation literature around the concept of hybridity that touches upon the arguments around the combination of organisational forms as a source of hybridity (e.g. Battilana and Lee, 2014). Their focus is on the institutional complexity in a field-level that influences on organisations and guides the potential changes in their forms as a response (e.g. Raynard, 2016). Table 1 summarises the key definitions of organisational forms and provides examples of the existing studies.

Table 1: Organisational forms literature and main definitions

Concept	Examples of definition and content of forms	Representative studies
Organisational forms	An archetypal configuration of goals, practices, and identity claims that mark members out as belonging to a particular category of organisations, given coherence by underlying values regarded as appropriate	Greenwood and Suddaby (2006); Vergne and Wry (2014); Perkmann and Spicer (2014); Tracey et al (2018); Hinings et al (2018);
	Manifestations of institutional logics	Rao et al (2000)
	Activities, structures, processes, and meanings; include core organisational activities, workforce composition, organisational design and organisational culture, which are the critical building blocks of organisations; Social legitimate templates	Battilana and Lee (2014)
	Strategy, structure and management processes	Miles and Snow (1986)
	Organisational strategy and organisational structure	Ingram (1996)
	Human resources and hierarchies, decision making process, internal and external boundaries, employees, capacity for renewal, self-organising units, and self-integrating coordination mechanisms, leadership, organisational processes, structure, size or information technology	Daft and Lewin (1993)
	Aspects of established institutional logics and their associated practices and organisational forms to create a new type of organisation with a new, hybrid logic	Tracey et al (2011)
	Complex networks of governance arrangements; star model includes strategy, structure, processes, human resources, and behaviour	Miterev et al (2017)
	Manifestations of institutional logics	Suddaby and Greenwood (2005)
	Core features: technologies, authority relations, goals, markets	Rao and Singh (1999)

	Institutional logics, resources (material and symbolic)	King and Pearce (2010)
	Goals, technology, and forms of authority	Abbott et al (2016)
	Normative order, formal structure	Hannan and Freeman (1977, 1989)
	A socially constructed collective identity of classes of organisations.	Polos, Hannan, Carroll, and Péli (2002)
	A specific configuration of organisational elements, including organisational structures and practices, choice of markets and audiences, and use of certain technologies; Forms as 'settlements'	Hannan and Freeman (1984); Rao and Kenney (2008)
	Characteristics of an organisation that identify it as a distinct entity and, at the same time, classify it as a member of a group of similar organisations	Romanelli (1991); Mair and Reischauer (2017)
	Platform as an organisational form- a pool of schemes, arrangements and human resources	Ciborra (1996)
	Organisational forms as bundles of attributes and practices	Powell and Sandholtz (2012a)
	Organisational community—a bounded set of forms with related identities	Ruef (2000)

Current literature suggests the need to explore the process of new forms' creation by analysing how forms are adopted from one institutional setting into the local institutional settings. Tracey et al (2018) explore how organisational forms (a case of the first business incubator in Italy) are translated from misaligned institutional settings through the process of misaligned translation - a dynamic, iterative and on-going accomplishment. From this model, translation in entrepreneurial settings involves a " moving target" being transposed to another setting by a "moving object" with a more complex dynamic that previously has been identified in translation and organisational forms emergence studies (Tracey, et al., 2018). They also argue that the institutional context influences the level of uncertainty of the translation process allowing more degree of experimentation rather than faithful emulation. In sum, the previous literature shows that the emergence of organisational forms is a process involving different elements combined together, underpinned by specific beliefs, values, and ideas to give them particular meaning. Initial insights state that the emergence is not happening in isolation from the wider environments that provide the availability of particular elements that actors can cobble together through certain cognitive/meaning-making processes. Hence, I focus on the development of further theorisation of that particular area of organisational emergence. I follow a general definition (e.g. Fiol and Romanelli, 2012) of a new organisational form as representing groups of organisations that relevant audiences understand to be similar in their core features and distinctive from other classes of organisation

My first argument is that it is necessary to trace the historical processes in the wider infrastructure (pre-emergence phase) that provides underlying conditions that at the same time shape the pool of elements that are arranged in certain forms. My next argument is that we still lack consistent theorisation of the elements and mechanisms that underpin the

emergence. My specific focus is on two underdeveloped but promising areas in the organisation and institutions studies – the role of analogies as underlying elements and the role of law and regulation as a constitutive part of the regulatory architecture (a constitutive part of institutional infrastructure).

2.3 Process in the surrounding environment: a particular case of the co-existence of large incumbent organisational forms and new niche forms

What are the conditions in the wider environment that might be guiding the emergence process, enabling and limiting particular pools of elements and mechanisms that can cobble them together into a recognisable form? The emergence of new organisational actors is not happening in isolation and the ability to derive those conditions promise to bring a better understanding of the interconnection between the emergence of innovative activities and the context. I develop my argument by reviewing the process of resource partitioning that enables the niche formation that new small actors can fill in and potentially transform without direct competition with large incumbents. Equity crowdfunding and loan-based crowdfunding platform actors demonstrate similar patterns as they emerged as small actors that are considered as complementary rather than substitutive actors to established financial services actors.

The widely held proposition by a variety of scholarship is that small organisational actors cannot co-exist and successfully compete with large incumbents in the long term. Many technological, political, cultural, and class-based theories that offer the explanations of concentration cannot explain the emergence of small specialist organisations in certain highly concentrated industries (e.g., banking, airline passenger service, and film production), most

theories of concentration deny the possibility of such a development (Sutton, 1991; Boone et al., 2002).

However, under some conditions and mechanisms that exist in the wider context and due to particular strategies that small actors can apply both types of organisations can co-exist. What we can see now in a variety of sectors is the period of experimentation and rethink of how particular services can be unbundled and delivered in a different way enabling the co-existence of small platform – based actors and large incumbents (e.g. transportation, hotels). The financial services segment is one of the contexts that traditionally were perceived as the one where large and well-established incumbents usually dominate and are often attributed to reliability and accountability. However, going back to the research area of this project, we see that there are mechanisms that enabled the emergence of new organisational forms in the highly regulated and concentrated setting such as financial services.

In this perspective, it is timely to revisit several arguments and insights developed by the organisational ecology stream and specifically the resource partitioning theory that addresses the questions of co-existence of different types of organisational forms in the population of organisations in the same industry through the existence of niches. A specific focus of the theory is on particular niches (pockets) in the wider context of industries as a useful theoretical lens to start relating the emergence of new organisational forms and the wider environment.

In the perspective of this research project, I am not aiming to replicate the assumptions and designs of the theory but my aim is to discuss the general arguments that are relevant to this project and then apply and develop them according to the questions and design of this study. I

apply an institutional approach to studying niches and their boundaries that have symbolic meaning and can be reshaped through the historical dynamics of the field and through the activities of actors of the field in which niches are present. In addition, the insights of this project might add into the resource partitioning theory from a qualitative perspective through extending the notion of niches as spaces in institutional infrastructure opened to social construction processes in the context where the organisational forms are emerging rather than in the contexts where the forms already exist.

The main focus of the resource-partitioning theory is on the role of small specialist organisations in industries and society. The main question that the scholars of this stream are trying to answer is how small specialist organisations proliferate in industries dominated by large-scale competitors despite the increasing returns to scale imply that in the long run, small organisational actors cannot successfully co-exist and compete with larger ones. Overall, resource partitioning explains why the two trends sometimes occur simultaneously within the same industry (Carroll, 1985).

In the initial studies, the main argument was based on the assumption that organisations are not highly adaptive and actors have different positions in a defined resource space (Carroll, 1985). The theory predicts that under certain conditions the resource space becomes partitioned into generalist and specialist segments. Two main processes have been analysed to support the argument. On the one hand, as the industry matures and the competition rises among generalists, there are only a few surviving generalists in the centre of the resource space, so the concentration levels of the generalists become high. On the other hand, as a structural consequence - the specialist actors proceed with the niches' discovery, so they can find newly opened peripheral spaces, proliferate and anchor there, so they do not directly

compete with large incumbent actors (e.g., Carroll and Hannan, 1995; 2000; Bonne et al., 2002). This literature distinguishes two types of actors – generalists who target a broad range of consumer tastes and different types of consumers and specialist actors who target a small range of very specific customer tastes within a much smaller niche segment (Hannan and Freeman 1977). This can occur because some aspects of a product or service delivery possess have a scale advantage, so the empty areas in the resource space become populated by new and mobile organisations. The argument is that consolidation can set a process of specialisation making the coexistence of different forms as a sustainable outcome.

Resource partitioning theory argues that resource concentration and market concentration go hand in hand. Resource areas that are outside of the generalists' target areas can be used to maintain specialists, so the market is partitioned – generalists and specialists do not compete. These actors depend on different parts of the resource base. The area outside the generalists' occupied resource space is larger when the concentration is higher (fewer and larger generalists). These processes seem especially likely in mature populations where generalists become very large, possessing extremely broad target areas, and the combined resources held by all generalist organisations declines (Carroll, 1985; Carroll and Hannan, 1995; 2000). So the rise of specialist organisations involves entrepreneurs discovering and populating the "residual" resource space that lies outside the generalists' target areas. Specialists and generalists operate in different domains: specialists operate in single domains and have narrow niches; generalists operate in multiple domains and have broad niches (Tucker et al., 1990). Hence, the conception of a market is based on a distinction between a centre with homogeneous demand where generalists dominate the space because of the economies of scale and scope and the peripheral region characterized by different niches each of its own set of characteristics (e.g. tastes or preferences) (Park and Podolny, 2000). Therefore, in the

region occupied by specialists, the dominant source of advantage is the appeal to a particular need or taste.

In later studies, other mechanisms rather than the sheer location of products in resource spaces were identified. Three alternatives were discussed including customisation, anti-mass production cultural sentiments and conspicuous status consumption that were identified on the basis of different industries (Dobrev et al., 2002). Hence, the first alternative connects the role of dynamic capabilities and the other two connect identity arguments. Table 2 provides different examples of the applications of the resource partitioning theory.

Table 2: Examples of resource partitioning theory's applications and examples of the literature

Industries studied	Examples of studies	Methods	Mechanism of partitioning
Newspaper publishers	Carroll (1985)	Quantitative	Resource space and position of organisational actors in it
Newspaper publishers	Dobrev (2000)	Quantitative	Resource space and position of organisational actors in it; based on the above the study analyses the reversibility of the process
Newspaper publishers	Boone et al. (2002)	Quantitative	Resource space and position of organisational actors in it: distribution of environmental resources drives concentration among generalists and specialists fill in the uninhabited resource spaces
Auditing firms	Boone et al (2000)	Quantitative	Customisation: How the services of small specialist auditors might be more attractive for small client firms.
Wineries	Swaminathan (1995)	Quantitative	Resource space and position of organisational actors in it: In a concentrated market, generalist and specialist firms operate in distinct resource spaces, whereas they rely on a common resource base in an non-concentrated market.
Telephone companies	Barnett and Carroll, (1987)	Quantitative	Resource space and position of organisational actors in it: the greater the average size of incumbent telephone companies, the higher the founding rate of new telephone companies.
Film distributors	Mezias and Mezias (2000)	Quantitative	Resource space and position of organisational actors in it: concentration among generalists increases, the environment becomes more munificent for specialist organisations that utilize different resources

Investment banks	Park and Podolny (2000).	Quantitative	Conspicuous Status Consumption: Status partitioning mechanism, generalism correspond to a high status
Beer brewing	Carroll and Swaminathan (2000)	Quantitative	Anti-mass production cultural sentiment
Wine industry	Swaminathan (2001)	Quantitative	Resource space and position of organisational actors in it; in addition, this study shows that identity's characteristics of specialist and generalist organisational forms play an important role in the evolution of specialist organisational forms

The generalist-specialist distinction revolves around the concept of an organisational form that embodies not only structural features but also the environmental factors that define the form's niche (Hannan and Freeman, 1989). The discussion about different mechanisms of de-maturity of industries and markets has acknowledged the role of niches' creation and regulatory policies (changes in regulations, deregulations) as the essence to create new linkages of the elements to create innovation in the underlying architectures (Abernahy and Clark, 1984). Li and Liu (2013) observed the transformation of the regulatory environment of the financial services (e.g. the deregulation of deposit accounts, changes in capital requirements, and liberalisation of geographic restrictions) and changes in the competitive dynamics of the market. These changes also transformed the deeper level of understanding of the regulatory meaning-making. These changes in the dynamics of the market affected the market niche positioning decisions of new organisational actors (banks). The study acknowledges that the regulatory environment, niche emergence and the decisions of new actors to enter the niches are not discretionary but interconnected and shape each other over time.

Swaminathan (1995) states that newly founded organisations that constitute specialist organisational forms have a different formal structure, patterns of activity, and normative order compared to those of dominant generalist organisations. This elaborates that niches are not static entities but evolving and changing through the impact of different factors including laws that might shape the competition in time (Barnett and Carroll, 1993). Freeman and Lomi's (1994) study of the Italian banking industry over 55 years identifies the connection between the regulatory transformations, the formation of niches, and new organisational forms and the wider change of institutionalised practices. The enactment of the 1936 Banking Law prescribed specific organisational prerequisites that new entrants had to satisfy in order

to operate legally as "banks." These requirements transformed into the institutionalised norms that became encoded in the organisational form, that through specific dimensions defined the market, the services, the strategies and the relationships of organisational actors and their clients. These evolutionary dynamics were influenced by both competitive and institutional pressures. These institutional pressures come packaged in organisational forms that defined a set of expectations and practices that were expected from organisational actors. Hence, given these transformations the ecological process of partitioning finally was enabled by competition among the large, incumbent banks, leaving the fringes of the market and peripheral resources for small, unit banks. The consequences of this ecological process shaped not only the industry structure but also created the conditions for persistence (or disruption) of the original institutional practices. Hence, government regulations and ecological dynamics are connected through resources and normative effects: first, government regulations affect resource flows by enabling or constraining different kinds of organisations within a population and second, regulations indirectly shape organisational populations by creating norms (widely held beliefs) and cultural expectations (Wade et al., 1998). This literature provides significant insights into the factors of the partitioning process and also elaborates on different alternatives that can be the factors for partitioning (not only distribution of resources). These studies also provide initial evidence on the role of the regulatory architecture and the interconnection between changes in it with the niche formation and emergence of small niche organisational forms but the approach remains incomplete. First, the majority of studies assume the niches in the resource spaces as given, they do not trace how these niches formed in the first place, and how this formation can be connected to the wider context. These insights may add into the argument that partitioning process, niche formation and the emergence of small niche forms are not isolated entities but iterative and connected, that niches cannot be diminished only to the gaps in the resource

allocation but become spaces in the institutional infrastructure opened to symbolic meaning-making process. Second, the focus is on the entry of new organisational actors into the existing niches, however, the entrance may provoke the niches to transform or may provoke new partitioning process. For instance, loan-based crowdfunding platforms started to address one type of niches, however, several regulatory transformations enable the formation of other niches that enabled the subtle modifications in the initial form.

First, I claim the argument of the partitioning process should be developed further by bringing the historical lens based on the analysis of a sequence of events that shape the conditions triggering the formation of the niches in the wider context. Second, my argument is that by neglecting the previous events from the analysis we might miss the mechanisms and elements that can help better theorise the enabling process of the niches formation and then the emergence of new organisational actors and the wider environment. Third, I argue that the interplay between the transformations in the environment and the niche formation is not a simple feature of the structural resource redistribution from the centre to periphery of the market, but is connected to the meaning-making process that reshapes the underlying infrastructure and hence, the interpretation of niches. These efforts to extend the arguments might help to reach more generalisable results.

2.4. Sequence of events in time: key themes

"In the short run actors create relations in the long run relations create actors"
(Padgett and Powell, 2012)

This section provides several arguments and key themes of the necessity to theorise the emergence of organisational forms through niches' penetration within a sequence of events with a historical approach that has a potential to provide more nuances and adds to resource

partitioning argument discussed in the previous section. I develop my argument by bringing together three streams of research that elaborate on the role of time, history and events in studying the emergence of innovation not in isolation but in the context in which it is enabled. Zucker (1989) pointed out that historical time plays an important role in understanding institutional shifts and that the legitimacy of organisational forms could not be taken exogenously from their historical context. Particular events and their sequences usually trigger changes in how organisations represent their logics and question their focus of attention, sources of authority, norms, legitimacy, and identity (Clemente et al., 2017). Certain events might provoke the reconfiguration of societies and unveil underlying structures (Hardy and Maguire, 2010; Schüssler et al., 2014).

First, political science literature (e.g. Thelen, 2003; Pierson, 2011) provides a rich pool of arguments about the importance of theorising the events in history, bringing a more nuanced approach towards organisations, politics, institutions that have been neglected by the majority of organisations scholars. Studying how institutional arrangements become embedded over time uncovers institutional development, and particular historical sequences. Those are crucial because initial processes generate particular, long-lasting, and highly consequential organisational forms and institutional arrangements, which alter the implications of later events or processes (Pierson, 2011). For instance, rather than powerful actors generating the institution, the institutional arrangements may have played a powerful role in generating the properties of the actors. Here sequencing becomes a way of identifying the linkages between distinct processes and examining the consequences of the relative timing of those processes.

Institutional change identified as a 'layering' process in time may show a more subtle way in which some elements of a given set of institutions are renegotiated while leaving others

unchanged (Thelen, 2003). In some cases, existing institutional arrangements may remain intact, but other institutions are added on—modifying the functioning of previous ones. "Layering" may also involve the creation of "parallel" or potentially "subversive" institutional tracks (Pierson, 2011; p.150). Such layered arrangements might successfully challenge the institutional status quo. Layering has also been recongnised in organisations literature as a mechanism of organisational change through which one organisational archetype is layered on another (Cooper et al., 1996).

Second, the social system framework proposed by Van de Ven and Garud (1989, 1993) discussed the elements of industrial infrastructure for technological innovation, with the focus on temporal relations between the components of the system. They followed Ruttan and Hayami (1984) in that these components are reciprocally interrelated. For example, Van de Ven and Garud (1993), Van de Ven and Poole (1990) and Van de Ven et al (2008) suggest that an explanation of how innovations develop should focus on the numerous microscopic events by which components of the infrastructure emerge over time. This system emerges as a partially cumulative progression of numerous events involving many actors in the public and private sectors who invest resources and perform different roles to develop an innovation including new organisational forms.

Finally, the Annales School (e.g. Bloch, 1990; Febvre, 1985; Braudel, 1995; Labrousse, 1990; Le Roy Ladurie, 1971) suggests that particular events expose historical structures and may provoke the change and disruption in what has been taken for granted (e.g. logics, norms, prevailing value, and beliefs). The key argument is that it is possible to trace back the recursive processes between practices, organisations, and historical matter (Clemente et al., 2017). The authors distinguished structure (slow-moving elements), from conjunctures (mid-

range moving elements), and culminating in punctual occurrences—the events. At the same time events not only stem from historical patterns but also help reveal, understand, and change them (Tendler, 2013). Organisations through their choices and activities espousing or contradicting historical trends, may lead (or not) to changes, and create platforms for the next iteration of new events, crises, and innovations**.** Hence the overall message is that historical events are important to theorise because they reshape and supply an unforeseen direction to social development as well as alter the causal nexus in which interactions occur (Sewell, 1996).

The choice of a time window is critical for the analysis of broader processes and can be based on a particular key event, founding of a particular organisation or even symbol. Overall, the choice depends on a goal of a study. The temporal dimension of contexts provides boundary conditions for studying the social phenomenon as actors, organisations, institutions are part of the wider temporal processes – acts of collective creativity (Sewell, 1996). Thus, the analysis of the temporal settings has a potential to demonstrate the elements of the formation of organisational forms and temporality of the recursive processes between organisational forms and historical matter (Clemente et al., 2017). History is a coherent narrative through which events (e.g. crisis) can help reveal the structures and mechanics of an economic and political system and can become bursts of change on a surface of history (Clemente, et al 2017). Critical events might unveil schemes of social interactions and also provoke a cognitive fracture that might transform accepted categories and classifications (Castells et al., 2012; Paruchuri and Ingram, 2012).

Hence, the general argument of the resource partitioning theory about the existence of niches that might be available for new forms, so they can co-exist with incumbent actors,

incorporated with the analysis of particular events with a historical approach become a useful lens to go a step back to uncover the processes and mechanisms that link the environmental processes and emergence of new organisational forms. As such, I argue that it is necessary to revise the role of regulatory architecture and legal elements as a part of the wider environment that shape the conditions of the niche formation and also provides a toolkit for the emergence of new organisational actors. A theoretical conceptualisation of the events in the regulatory architecture may reveal those interconnected elements. The next section provides a brief overview of the arguments around law as constructed, negotiated and constituted in practices, the ideas that the regulatory systems and legal elements are a significant and constitutive part of the wider environment of organisational actors and a part of a tool kit enabling a path through which new forms can emerge.

2.5 Regulation, legal elements and environments

The common underlying assumption across current organisations and institutional research is that law and legal elements are an exogenous regulation in the form of a constraining and coercive force - concrete and determinative, exogenous and top-down, imposed by the state (Edelman, et al., 2010). Hence, the existing argumentation has focused on one side of the relationship—how regulation influences and determines the process through which novel products, services, and organisational forms are created and introduced to markets. Far less is known about how both sides of the process are interconnected and may shape each other (Funk and Hirschman, 2014).

In contrast, I follow the call to pay more attention to law and regulation as an embedded and an emergent feature of social life that is negotiated, constructed and constituted by different actors that also transforms across time (Silbey, 2005; see earlier overview by Edelman and

Suchman, 1997; Suchman and Edelman 1996). Law collaborates with other social structures to provide meaning, enable and constrain social action and once it is enacted law becomes "endogenous" less coercive and more fluid, malleable, and constitutive (Edelman et al., 1999; Edelman, et al., 2010). Law that regulates organisations can be ambiguous, so organisational actors turn to legal environments to collectively construct the meaning of compliance. Legal endogeneity might evolve at the intersection of organisational and legal fields (Edelman et al., 2001, Edelman, 2004), where chance can occur (Edelman, et al., 2010).

My argument is that the law and regulation consist of particular schemas emerging through the participation of a number of actors, guiding social action along particular 'legal' pathways. This approach to law and regulation also assumes that legal frameworks can be at the same time enacted and transformed by the actors whose role is not only objects that are 'regulated' by the authority but whose role is the participants of the development of legal canvas that regulate them. As such, legal environment provides the raw materials to "construct interactions" (Hallet and Ventresca, 2006) and at the same time, the meanings of law are constructed and develop forward by social interactions. "The law can exercise its specific power only to the extent that it attains recognition, that is, to the extent that the element of arbitrariness at the heart of its functioning (which may vary from case to case) remains unrecognized" (Bourdieu, 1987, p. 844.).

I revise the role and understanding of regulatory frameworks and legal elements as institutional material of a wider institutional infrastructure that can be arranged in different ways shaping the ways of how and in which particular forms of organisational actors can emerge and establish the legality of their practices. The emergence of new organisational

actors with innovative practices specifically in the financial services space is the unique empirical setting to reveal those relations.

Hence, following the above discussion, law is not only a set of discrete rules and official decisions but also includes specific cultural conventions, practices, symbolic meanings and processes (McCann and March, 1995; Galanter 1983). Law and construction of law involve many actors that contribute to the process of legal enactment and interpretations that are based on analogies and analogical reasoning. Analogies play a big role in law's ambiguity, elasticity, and contradictions (Bourdieu, 1987). Legislation and legal arenas are arenas where conflicts among organisations are adjudicated: they provide the capacity to define and enforce property rights, rules of ownership and control, and therefore they provide a repertoire of elements that can be recombined and transformed in a different way. These law and legislation arenas can take more formal forms (for example courts), they can take the form of debates about policy, and they can take the form of the direct involvement of legal professionals and regulated actors. Through these arenas, law can be mobilised to challenge and even reconstitute the terms of institutional order. As such law and legal elements constitute an important pool of elements for the systems of meaning and analogical reasoning. Hence, the legal culture is not an autonomous and logical system of symbols but a pull of resources that are deployed in the performance of an action (Swidler 1986; Silbey, 2005). Law is *a rhetorical and symbolic* resource (Edelman, 1992; Edelman et al., 1999; Stryker 1990, 1994) that acquires meaning through dialogue across organisational, professional, and legal fields. “Symbols communicate only because they have relatively structured relationships to other symbols, are part of a system. Similarly, a cultural system cannot exist independent of the succession of practices that instantiate, reproduce or, most interestingly, transform it” (Sewell 1999, p. 47).

Law is also a set of conceptual categories and schema that help construct, compose, communicate, and interpret social relations, that may become patterned and eventually naturalised (Silbey, 2005). Legal norms make the symbolically dominant social relations official through a set of official social rules and hence shape the behaviour of all social actors (Bourdieu, 1987). The law is a social institution that includes not just codified rules, but also the social context that gives law meaning and the social behaviors that influence the mobilization and enactment of law (Ewick and Silbey 1998; Selznick, 1969; Edelman, et al., 2010). The real effect of law lies in legal consciousness or the meaning given to law by actors who experience it (Ewick and Silbey 1998; Sarat 1990). Legal consciousness[2] can also be defined as a part of the regulatory architecture that includes the meaning of legality of certain practices and forms.

Hence, the investigation of how different actors including professionals are engaged in the underlying reproduction of the elements of the law and of transformation, and how these processes shape the existing relations between participants (Fritsvold, 2009; Larson, 2004) reveals how 'law can be explored as a durable and powerful human arrangement with invisible constraining power, suffusing and saturating everyday life with uncontested legal authority, forms, and decisions' (Silbey, 2005; p. 331). Specifically, it is possible to analyse the deeper dynamics of how legality assigns meaning to social structures including organisational forms (Ewick and Silbey, 1998; Silbey, 2005). Organisations have a potential to influence regulatory architecture of the society but in this process the professional actors (e.g. lawyers), who work in between the organisational actors and legal environments, help navigate the shifts in the meaning within one dimension and guide it into the other dimension and potentially shape the underlying architecture with new ideas, forms and practices

[2] Authors (Ewick and Silbey, 1998) distinguish three modes of legal consciousness: 'before the law', 'with the law' and 'against the law'

(Edelman, et al., 2010). The professionals are *mediators* of the meaning discovery process (Bourdieu, 1987).

The regulatory elements and context are being shaped through the historic as well as contemporary legal decisions that are no longer actively debated, becoming taken-for-granted and built into the very structures of ordinary social relations, places, and objects (Silbey, 2005). The broad set of principles, ideas, norms, formal and informal practices can evolve out of law and then can be enacted by organisational actors. Organisations also become sites where the interpretation of law can be blended with non-legal elements (e.g. values and analogies) shaping the meaning of law and provoke further change. For instance, Edelman et al. (1993, 2001) show how organisational actors can reinterpret law from a managerial perspective. Hence, the state and regulators are not always the dominant actors that influence the legal system.

At a surface the regulation plays different roles: on the one hand, law and regulatory frameworks are a system of incentives and penalties - externally imposed instruments of the regulator and the government, but on the other hand legal elements become the toolkit of institutional material/elements that drive the underlying mechanisms of how and why particular organisational actors can emerge, in which particular forms. In addition, legal elements have symbolic value because they provide a system of moral principles, role, and symbols - they become elements for the construction of the legality of innovative practices to related audiences including those who make regulatory decisions. For instance, regulation is at the core of financial services providers shaping their practices (e.g. credit risk assessment, due diligence, how technological systems should be assembled in a way that reduces risk for customers). However, it is not one directional process and in the case of new organisational actors, we can track how they also construct and configure legal regimes as they respond to

and enact them. That is how the endogenous nature of law functions (Edelman and Suchman, 1997). Hence legal meanings and legality are socially constructed, and that this construction process often takes place at the level of entire organisational fields, hence the relationship between law and organisational actors is not so much reciprocally causal as endogenously co-evolutionary (Suchman and Edelmand, 1996; Edelman et al., 1999). Hence, legal rules function less as absolute mandates than as rhetorical claims that acquire meaning through dialog across organisational, professional, and legal fields which spur reactions, interpretations, normative declarations, filtering processes, and organisational mimesis, all of which interact to construct not only organisational responses to law but the law itself (Edelman, et al., 1999). Legal elements are a source of symbols and meanings that might lead to *legal ambiguity* that organisations enact at a local level (Edelman, 1992) implying that law is not considered to be purely external to organisations but instead forms part of an endogenous system (Edelman, et al., 2011) in which organisations contribute to "configure legal regimes even as they respond to them" (Edelman and Suchman, 1997, p. 484)

I further develop the argument by borrowing the ideas from the legal mobilisation stream and legal opportunity structure (LOS) studies that demonstrate how law and legal aspects, together with the role of broader political processes and opportunities, can both limit and enhance the meaning-making process (Vanhala, 2012; Andersen, 2005; De Fazio, 2012; Hilson, 2002), opening or closing the *legal opportunities or 'windows'* for action (Andersen, 2005). This literature stream has been developed inside a broader social movement theory (e.g. Rao, et al., 2000; McAdam and Fligstein, 2012) to investigate how legal dynamics can be crucial for the social movements' (SMs) development and consequences (McCann, 1994; Epp, 1998), and to separate law and regulation elements from political opportunity structure

(POS) (e.g. Tilly, 1978; Hiatt et al., 2009; Rao, 1998; Hilson, 2002; McAdam, et al., 1996; Roederer-Rynning, 2002; Stevenson and Greenberg, 2000) and politics.

Lempert (1976) provides a general definition of *legal mobilisation* as a process by which legal norms are invoked to regulate behaviour – the process at the earliest stages of mobilisation when desires and want to take on a more precise shape. Legal mobilisation takes place with reference to the larger context of multiple legal and extra-legal norms or discourses that structure social relations and reconstruct legal dimensions of social relations, shaping capacities to imagine social or political possibilities (e.g. McCann, 2006). The argument is that legal mobilisation is generated not by the writing of new laws, but by changing social perceptions of the nature of the problem and the appropriateness of the intervention of official (e.g. state) authority (Zemans, 1983). This process can be visible through interactions in the official legal arenas or 'invisible' through underlying interactions among different types of actors including lawyers and legal professionals. Legal or political change can provide opportunity for entrepreneurs to act in ways completely unanticipated by the regulators and policy-makers (Hwang and Powell, 2005). Specifically, at the emergence stage, the loan-based crowdfunding and equity crowdfunding platforms carefully enacted the complex process of legal mobilisation that became possible because of the emergence of legal opportunity window through a historical sequence of events. The legal mobilisation enabled the creation of institutional scaffolding, which was further transformed by the involvement of lawyers and regulator themselves.

Current organisations and institutions studies have initial insights in their analyses of the co-evolving relations between the institutional context, regulation as a part of it and organisational actors. Larson (2004) explicitly shows a valuable model in the comparative

study of the security exchanges in two different countries. His analysis reveals that the regulation of these industries is indeterminate because the regulation is constructed within the very field that it regulates and legal consciousness (regulatory architecture) is a response to the indeterminacy of law. The formal laws and their applications are shaped by the types of disputes in which they are invoked, but the types of disputes in which laws are invoked are determined by the particular history of the institution. Hence, the same official regulation can be enacted by different forms of legal consciousness (regulatory architecture) – one form based on internal norms and another one on formal rules. Hence, legal consciousness (regulatory architecture) is an emergent feature of the social action that shapes the orientations, behaviour, and relations of actors within the field.

Uzunca et al (2018) in their cross-sector, cross-country study of the Sharing Economy (SE) actors - AirBnB and Uber, provide a perspective of the co-evolution between the strategies of the legitimacy of the SE actors and the institutional environment, focusing on the contingency effect of national and local stakeholders' actions. Specifically, they show that legitimisation is an endogenous process, in which the role of regulators and governments is not to categorise SE firms within established exogenous laws but to examine the interactions among consumers, firms and the relevant institutions and then develop necessary rules. Another study by Ozcan and Gurses (2018) of the USA dietary supplements developed the argument that regulatory arenas are critical for the firms' decisions and survival and are contested by multiple stakeholders. In their study they show that regulators are not absolute, static authorities that resist or impose change but have certain limitations and tendencies. By analysing the transformations in the regulatory categorisation, they show that regulatory categorisation is a multi-players' contest between organisations, the regulator and other actors through their perspectives and actions. This strategic categorisation involves micro-

mechanisms that can lead to power struggles and is determined through the strategies and interaction of incumbents, peripheral firms, regulators and other category audiences. Hence, regulatory categories are determined through political contestation among various actors (Vergne and Wry, 2014).

Financial services setting has been acknowledged as a case where legal elements play a significant role for the organisational forms' emergence, development, and death but where at the same time the dynamic intertwining relationship between the regulation and financial services organisations can be traced (Funk and Hirschman, 2014). Field of finance can be defined as the constellation of rules, beliefs, practices, statuses, and actors that facilitate economy-wide capital formation processes by pooling and allocating resources (Lounsbury, 2002**).** Financial regulation defines the rules and sanctions that can restrict and/or enable certain actions of the participants in financial services (Marti and Scherer, 2016). Financial innovations consist of new products and new processes (Tufano, 2003) that create one of the main challenges for financial regulation to balance the emergence of certain financial innovations but constrain others. On the one hand, the regulation influences the process through which novel products, services, and organisational forms are created and introduced, but on the other hand, innovation, not explicit lobbying by incumbents, can shape regulation (Funk and Hirschman, 2014) and the boundaries of legal and illegal meaning. Through the historical analysis of one type of innovative financial derivatives, it was demonstrated how these instruments undermined the separation of commercial and investment banking by the Glass–Steagall Act of 1933. The actual business practices of financial organisations altered the influence of law and provoke the deregulation (Funk and Hirschman, 2014). The study shows that laws usually rely on a particular theory of what the market is, what the practices and activities are, what actors are present and with which particular roles. Hence, the changes

in the behaviour of firms through new products and practices can transform and disrupt the regulator framework based on that particular theory.

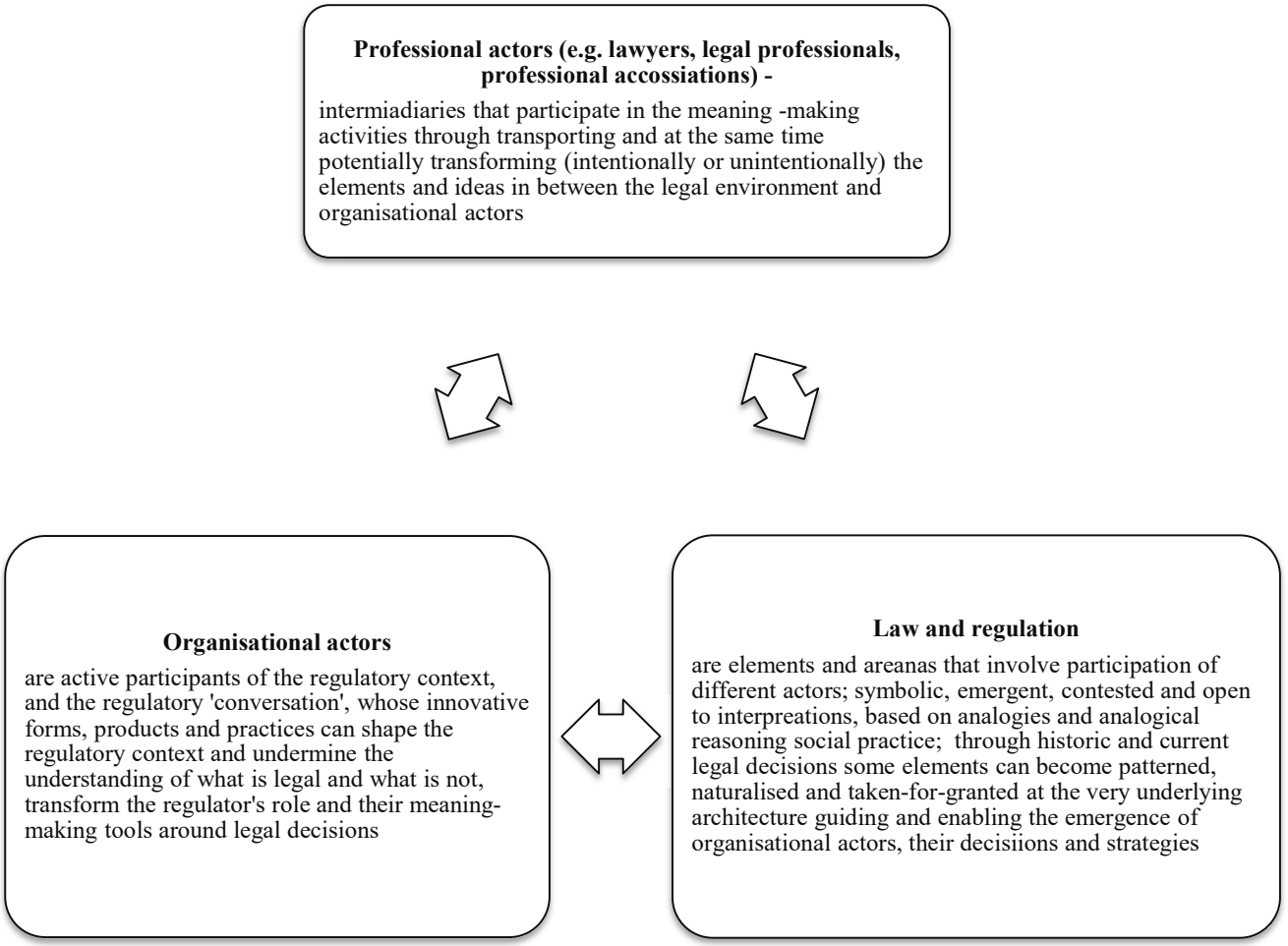
Hence, legal frameworks acquire their meaning through a collective interpretation by lawyers, new organisational actors and regulator, and their substance is shaped through the applications by organisations. However, the timing and the roles of different actors are different throughout the process, shaping the sequence and bringing different elements. This research project reveals and adds into existing knowledge that the interconnection between the institutional infrastructure and organisational forms can be mediated and filtered by different audiences at different times, shaping the underlying arrangements of institutional elements. I show how different audiences brought their own understanding of legal frameworks, hence shaping the deeper meanings in the regulatory architecture of what is possible to innovate in the financial services. In addition, the process of the enactment of law is a collective effort of different audiences involved at different stages including new organisational actors, lawyers, regulators, the government, the professional associations of new organisations who collectively construct what is legality, what is legal, what is compliance towards external and internal audiences.

Overall, the initial insights of existing literature, as well as the arguments about the emergent nature of law and regulatory architecture as a part of institutional context and their role of meaning-making, shows promising insights of studying the role of law and regulation in the process of emergence of new organisational forms in highly regulated contexts. Bringing law and regulatory aspects into the analysis may also add to the conversation of the connection between the micro-level, meaning-making process of the meaning convergence with macro-level structures. Overall, the insights can provide a more nuanced multi-level approach

towards studying endogenous emergence and transformations in institutions (Smets, et, al., 2012).

Figure 2 summarises the arguments discussed by demonstrating that the regulatory environment is interconnected with the regulated organisational actors, who are active participants in enacting the law through the collective process of constructing the meaning of legality of forms, practices and new ideas, potentially shaping the underlying regulatory architecture, solving legal ambiguity. These processes involve particular analogical approach towards the development of legal frameworks and official laws, where analogies play a significant role in how meaning is constructed. The professionals, specifically lawyers are active actors that work in between the dimensions, transporting and transforming the meaning and ideas of law and legality. By their active interpretation of the law, they might play an entrepreneurial role as diluting or filtering actors at the interface of the legal environment and organisations (Hwang and Powell, 2005). Hence, the investigation of how new innovative organisational forms enable innovation in a regulated context of financial services can make a unique contribution in revealing the nature and interconnection between the regulatory architecture and innovation**.**

Figure 2: Features, elements of law and regulation: endogenous, emergent, iterative relation between the components



In the next section, I discuss the existing literature and arguments around the role of analogies and the importance to use this lens in the organisation and institutions studies.

2.5 Analogies, organisations and institutions

"We create institutions that protect our valued ideas. We use analogies to build them up like a house of cards, one weak and fragile idea balanced against another, with a few central ideas holding them in place like a roof".

Douglas (2001, p. 148)

This section introduces and discusses the relevance and promising insights that can be revealed by bringing back analogies into the theorising of organisations and institutions.

The introduction of new elements in existing contexts or old elements into new contexts can result in the emergence of new organisational forms, reconfiguration of practices and institutions. What elements and how they can become those templates in the wider context that guide the emergence into particular ways that make unfamiliar – familiar and then potentially taken-for-granted? How the indeterminacy and ambiguity around new organisational forms of the early period of emergence is settled and solved? Specific focus is on the underdeveloped theorisation of *analogies* as building blocks and *analogising* as the mechanism or the underlying process of how analogies can be used individually or can be combined together in particular forms that become taken-for-granted and legitimate. The argument here is that analogies are not deterministic because they allow some level of ambiguity and analogising happens in particular socio-economic and historical contexts. 'It is not nature that makes the match, but society' as introduced by Douglas (1986; p. 90).

I argue that it is timely to revisit the insights of the work of Douglas and under-specified and forgotten elements of the initial new institutionalism scholarship as a possible source for a new way of the current institutional theorising of the emergence of new organisational forms

in highly regulated settings. I follow the recent message from Logue and colleagues (2016) calling to bring back the arguments stating that analogies are powerful devices to (re) inform organisational and institutional theorising. Specifically, it is necessary to bring back into the discussion the core arguments around '*naturalising analogies'* and their connections to institutional theorising, how '*naturalising analogies'* can be used to explain the process of how new institutions and organisational forms are reified, naturalised and made meaningful (e.g. Logue at al, 2016). Current scholarship in the institutional literature in the majority of cases limits its focus to established conventions, codes, forms and symbols and/or the focus is on the diffusion processes of new practices, forms and institutions without a comprehensive analysis of the processes and mechanisms that bring them into the surface in the first place, how and why particular ideas become conventionalised and then become taken-for-granted.

Indeed, the role of analogies has been acknowledged beyond institutions and organisations studies. Mary Douglas herself applied analogies in anthropological studies. Indeed the use of analogies and analogical reasoning has been of interest among cognitive scientists (e.g. Gick and Holyoak 1980; Holyoak and Thagard 1995; Fauconnier and Turner, 1998; Gentner, et al., 2001). They acknowledge that an individual starts with a situation that he/she needs to handle – the target and then through mental mapping process identifies similarities in properties or underlying relations with a source domain as a candidate solution. Hence, the use of analogies serves as a short cut mechanism in making decisions in particular situations. *Reasoning based on analogies* is one of the most common methods by which human beings attempt to understand the world and make decisions. For instance, Dahl and Moreau (2002) explore the role of analogy in creating originality in concept ideation and design at the early stages of product development. They show that through the first stage of analogical thinking – the access stage, people search a "space of possibilities" in their memory that mobilises the

information that enables the mapping of the similarities between the base and the target domains when they are confronted with a creative task.

A similar argument is relevant to organisational actors. The idea that institutional components from different domains are reused, reworked, or rearranged to perform new functions and organise new forms, has been underdeveloped. In addition, little is known about how constructs of comparability and valuation criteria are established (Baker and Nelson, 2005). These arrangements can be layered over time without dramatic shifts or transposed with a higher level of transformations, and are influenced by changes in political and social discourses, and thus the mechanisms that form institutions can be pieced together from a variety of sources for multipurpose use (Sehring, 2009; Marin and Bjorkland, 2015).

The core arguments are that institutions are '*naturalised*' through analogy to accepted ways of doing things, to the social order and to ideas of rightness in relation to social, natural or spiritual worlds (Douglas, 1986). This acknowledges that institutions are founded on analogy to acquire legitimacy (Douglas, 1986) and that collective significations are connected with individual cognitions. The focus of her arguments is on implicit patterns of assumptions rather than on explicit products (Wuthnow and Witten, 1988). She is not interested in the micro-discursive elements that can be divided into metaphors and similes but on the process of emergence and establishment of the systems of meaning.

Different actors select elements from a 'tool kit', collecting bits and pieces, which can come in handy at some future moment – a method by which new cognitive models and formal structures are constructed (Swidler, 1986; Baker and Nelson, 2005). Thus, new actors can

recombine elements from existing repertoires through *analogising*[3] that might make analogies work, for example, to create new product categorisations and manage their interests in their interactions (Cornelissen, et al., 2008). Hence, the role of analogy is central to the existence of meaning. Organisational actors can develop justification out of a plurality of forms of the agreement through analogies as sense-giving mechanisms (Patriotta, Gond and Schultz, 2011). Analogies are used to identify, justify and enable innovation and discovery. Analogies are about relations, rather than simple features - the interrelationships between the facts and functions that determine the content of an analogy (Falkenhainer, et al., 1989)

Analogies allow actors to take an insight developed in one context (for example, from a prototypical member of an existing category) and apply it to a new setting, facilitate yet constrain search and problem solving (Gavetti, 2005). New actors may use analogical comparisons to make sense of puzzling or unfamiliar situations, justifying decisions and actions (Creed, Langstraat, and Scully, 2002).

Further, analogies provide the initial insight into more systematic parallels between two domains through analogical reasoning which allows some degree of ambiguity that can liberate imagination (Tsoukas, 1993). Analogies can be defined as a basic structural form of experience through which actors engage, organise and understand their world, helping derive key principles and relational matches that can be employ within-domain (similar domains) or between-domain that can be conceptually very different. A set of relation not only particular elements can be transferred to a target domain because the knowledge of them in the source domain is already established knowledge (Tsoukas, 1993). Some analogies can become conventionalised as systems, while the others can be turned into local categories, preserving

[3] I develop this concept further through the empirical analysis in the empirical chapter 2

and storing the common schema (Gentner et al., 2001). In the early stage of the institutionalisation process, conventions emerge to enable coordination and collective action, but they become institutions when an analogy transposes the convention and demonstrates its fit with the domain of the natural order (Davis et al., 1994; Etzion and Ferraro, 2010). When a convention has been institutionalised, it parallels other aspects of the way the world works (Douglas 1986). These naturalising analogies sustain an institution by demonstrating its fit with the natural order, and with scripts for appropriate behaviour (Davis et al., 1994). At the same time, analogies are embodied within a practice and 'together, the analogies make a solid frame for thought' (Douglas, 2001, p. 150) with some areas of greyness and ambiguity amongst those common properties analogised. Hence, analogies have a degree of fragility or flexibility in interpretation of analogies by social groups (Judt, 2011). Analogies can also lose their naturalness, can be challenged and hence weaken institutions, belief systems and social structures showing that they are not given and stable but more reflexive and inhabited (Hallet and Ventresca, 2006).

Despite these powerful insights and a high potential to get comprehensive insights by bringing analogies into theorising of the emergence new organisational forms and interconnection with the wider institutional context, there is a very little research in organisational studies of how analogies are used by new actors specifically in contexts when elements from different domains are brought together, how this process might change over time, and how particular analogies are chosen in the first place.

One of the earliest studies that brought the role of analogies into theorising is by Leblebici et al. (1991) about the emergence and evolution of the USA radio industry from 1920 to 1965, showing how different analogies (a utility vs. a newspaper or magazine of the air)

transformed the development of the industry. Davis et al (1994) show how deinstitutionalisation of a conglomerate organisational form occurred in the early 1980s due to the shift in the key analogy of a 'firm as a body' implying that the corporation is a sovereign bounded entity to a 'firm-as-a-nexus of contracts', so it became possible to buy conglomerates and sell parts of them as a simple act of assets' reallocation. The body analogy had an underlying meaning of an organisation as a bounded social structure composed of the members that can guide action and adoption of organisational practices and forms. On the one hand, analogies provide a source of stability for conventions by "scripting" appropriate behavior, and ordering social arrangements but on the other hand, analogies have their limits, and without an *authoritative analogy*, an institution becomes vulnerable and might become a subject to deinstitutionalisation (Davis, et al., 1994).

The role of analogies has been also theorised in the strategy-making studies as an important cognitive process of managers in novel situations. For instance, Gavetti et al (2005) show that in complex and novel situations managers - practicing strategists, rely heavily on analogical reasoning as a vehicle to transfer useful wisdom from similar settings they have experienced in the past. Analogies guide the process of strategy - making through bringing the choice of representation, judgment and pattern recognition. Analogies provide simplifications for the cognition of managers, they are 'the vehicles of transporting experience across contexts' (Gavetti et al., 2005, p. 32), but the quality of guidance can be different.

Another study by Haveman et al. (2007) about the transformation of the thrift organisations highlights that new organisations become successful only if they are integrated into the prevailing cultural order by the media and by *naturalising analogies*. The efficient market based on collective rationality became the *naturalising analogy* in the process of the US

banking transformation from the 1980s to the present moment, shaping the identities of the customers from being a homeowners into investors into the financial markets (Davis, et al., 1994; Davis, 2009a; 2009b; 2010).

Later studies include the work by Etzion and Ferraro (2010) on the role of analogies in the development of Sustainability Reporting. The study shows that in the early stages of institutionalisation analogy operates primarily as a normative mechanism emphasising similarities to the existing practice of financial reporting to establish legitimacy, while after the initial acceptance analogies can also have a cognitive effect on the institutional design by revealing incongruences between the emergent institution and its analogical base. Hence, analogies to established institutional practices might provide both legitimacy to new institutions and the basis for an innovative process of institutional design. This study confirms that analogies are not just careers of similarity, but they can highlight differences between analogical source and target, provoking reflection and reconceptualisation. Hence, "analogies can be applied to replicate the institutional fabric of society and seed its evolution" (Etzion and Ferraro, 2010, p.1105).

It has been acknowledged that analogies can enrich the theorising of framing strategies used by managers and leaders in their efforts to connect the framing of change to broader cultural frames and hence gain support and legitimacy; in addition, analogies can drive the process of how particular categories can become taken for granted (Cornelissen et al., 2011). Within framing, analogies can guide thinking, understanding, social acceptance and provide structure for organisational actors to comprehend unfamiliar situations, justifying decisions and actions to others (Cornelissen, et al., 2011; Creed, Langstraat and Scully, 2002).

One interesting and promising example in the most recent studies is the project by Glaser et al. (2016) of how organisational actors in the online advertising markets introduced new business models based on financial markets' templates through 'stretching, 'bending' and 'positioning' their activities in superficial ways to match the analogy in situations where there is no ideal 'fit' between the source domain and target domain. This dynamic account also revealed that the actors were able to get an advantage in the new space, by changing the understanding of the advertising industry through their actions that historically relied on agency-based models.

What is also significant about the theorisation of analogies is that reasoning based on analogies is acknowledged as a key mechanism in policy-making and legal practices with enormous importance in legal and political discussions (Sunstein, 1993).
These insights have been significantly neglected by institutional theorising around regulation and legal context of organisations. For instance, earlier studies in the political science literature have acknowledged the crucial role of analogies and analogising for specific actors - *policy-makers and decision-makers*. Those actors, in the process of developing new foreign policy relied on historical analogies (analogical base) to make sense of what was happening in the present situation (analogical target) in the context of the Iranian hostage crisis; important observation is that some analogies that appear to be fit for some audiences can be unacceptable to other audiences (Houghton, 1996). In situations when no direct or perfect analogy exists which would categorise the new situation in terms of some event in the past, policymakers may use partial analogies, and may 'mix and match' them as a puzzle; they may search, through various mechanisms, to enhance the degree of overlap between the present situation and a favoured analogy (Houghton, 1996). In addition, the process of developments of the policies involved different analogies at various stages of the policy-making process to

evaluate consequences of action and inactions and to define the situation that was characterised by a high level of novelty and structural uncertainty. Further, some of the decision makers did seek to influence and adapt the target situation when no direct match exists between a current situation and a previous one, rendering the analogy operative. Hence, the study showed that in the context of policy-making, analogies are the elements of the belief system that provide definitions of situations, detailed policy recommendations, and expectations of how events might unfold (Houghton, 1996).

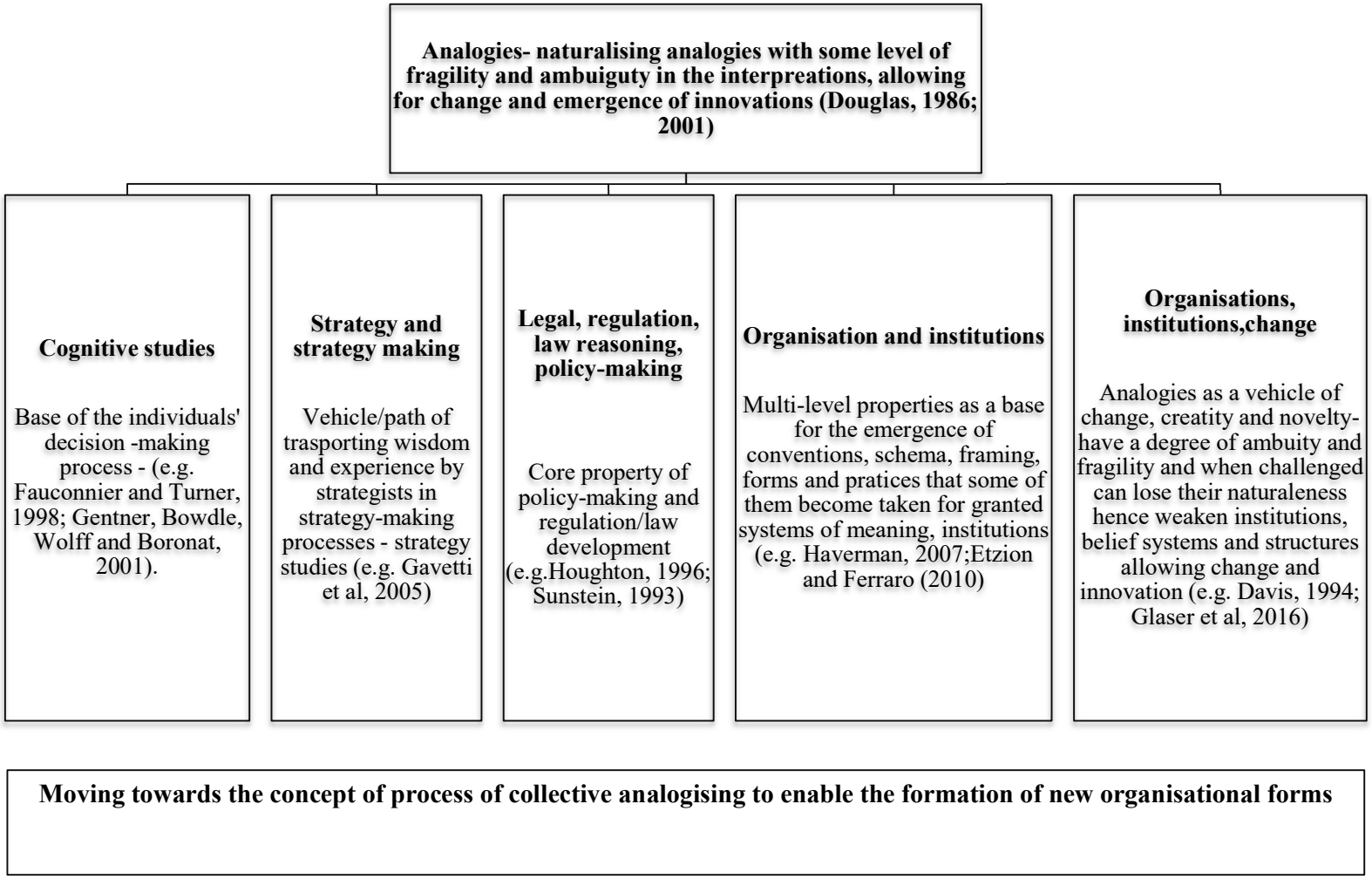
In the context of legal practices, it has been acknowledged that analogies and decision-making based on analogies are the main elements of creation and development of legal frameworks, specifically in such systems as 'Common Law' (Sunstein, 1993) of which the UK is an example. In general, 'Common Law' system implies that analogies are combined with reasoning by rule and principle (Sunstein, 1993). In this tradition, the law is jurisprudential (case law), based almost exclusively on the rule of precedent and is weakly codified (Bourdieu, 1987).

Similar to policy-making arguments, regulators and actors involved in legal practices give weight to what has been decided in the past (Lamond, 2016). Legal systems, being a part of the wider institutional environment, involve many decision-makers, organisational actors as well as a heterogeneous group of legal materials, where analogies and precedent help increase the predictability of decisions but also leave space for change and transformation. Analogies provide non-conclusive reasons for reaching a particular outcome when regulators face new situations and new actors with new roles, allowing them to reach compromises over the important values served by the law. Hence, the actors involved in the development of law can relate to resemblance not only on the fact relationships but also on the consequences of

treating them the same. In the process of law development analogies not only static elements being concerned with similarities and dissimilarities of different cases, but also dynamic entities that relate consequences under specified conditions (Becker, 1973, Lamond 2016). Analogies allow actors who diverge on abstract principles to converge on particular outcomes and in some cases give the bases to reevaluate the guiding general, legal principles. Analogies have their meaning in their use with a constitutive dimension, allowing openness to new facts and perspectives, enabling disagreement and uncertainty to turn into a consensus (Sunstein, 1993).

Collectively, these studies provide initial evidence for how analogies as fundamental elements could help elaborate the processes of institutionalisation and deinstitutionalisation, uncover underlying processes of the emergence of new organisational forms and practices, connect individual cognition and collective signification; how analogies as multi-level properties enable the generation of the field-level meaning systems, hence providing a theoretical lens for understanding the production structures that emerge and become taken for granted based on their ability to sustain underlying, naturalising analogies. Analogising may become a process of organising of composition rules about appropriate combinations of features' in the new forms, providing a tool for organising communication and traffic among actors and across domains, giving a tool for entrepreneurs to become 'rule creators' that legitimise deviance and mobilise support to it. Figure 3 summarises the elements and features of analogies from the existing studies.

Figure 3: Elements and features of analogies: initial evidence across research dimensions



Hence, analogies and the concept of collective analogising that I develop through my empirical data analysis have a great potential to inform institutional theorising and organisational emergence as well as the connection of the process with the wider environment.

2.6 Summary of the main themes of crowdfunding research in academic studies

Crowdfunding in all its four forms is a relatively recent empirical phenomenon that has become a topic of a variety of academic studies across scholarly disciplines. A general search using the term 'crowdfunding' through the Web of Knowledge database returns more than 120 papers whose key topic is crowdfunding. While this thesis uses the empirical context of loan-based crowdfunding to answer the research questions other research used other forms of crowdfunding (reward-based, equity and donation-based) to study different topics. Hence, the academic studies around crowdfunding are multidisciplinary, spreading across vast research questions and applying different research methods: qualitative, quantitative, experimental and mixed (see a more detailed discussion in Dushnitsky and Zunino (2019)).

On the one hand, crowdfunding is a fund raising activity that shapes the ways individuals and businesses can raise funds. Therefore, it received attention from scholars in economics and finance (e.g. Agrawal, Catalini, C., and Goldfarb, 2015; Block, J., Hornuf, L., and Moritz, A., 2016; Cumming, D. J., Leboeuf, G., and Schwienbacher, A., 2017). On the other hand, crowdfunding is enabled by digital and platform-based technological systems. Hence, researchers from the fields of information systems, computer science and operations have started to analyse this phenomenon from a technology point of view (e.g., Burtch, Ghose, and Wattal, 2016). Another stream comes from the fields of entrepreneurship, strategy and entrepreneurial finance that focuses on crowdfunding as a source of funding for innovation

and early stage entrepreneurial start-ups (e.g. Sorenson et al., 2016; Kuppuswamy and Bayus, 2017; Manning and Bejarano, 2017) .

Early studies about crowdfunding in 2009-2011 (e.g. Agrawal et al., 2011; Ordanini at al., 2011) were descriptive in their attempt to provide a general overview of the phenomenon to make sense of the phenomenon itself. Later studies started to position crowdfunding as an intermediary platform, entrepreneurial finance provider, an enabler of innovation, indicating the role of crowdfunding platforms as a key actor within the finance, funding and entrepreneurship areas. Crowdfunding has been used as an empirical setting, as a source of quantitative data or as a setting to extend existing theories in those areas of academic research. Therefore, crowdfunding literature while providing a richness of insights faces a risk of disciplinary silos (Dushnitsky and Zunino, 2019, p. 1). As I noted the studies that research crowdfunding are coming from a diverse range of disciplines, creating unsystematic insights that can contradict or repeat each other.

Another problem is the use of data from a limited number of platforms while there are hundreds of platforms operating in Europe only (Dushnitsky et al., 2016). This fact can be explained by the easily available access to the large data sets that certain crowdfunding platforms allow. These studies cover topics such as pricing mechanisms within crowdfunidng platforms, influence of different factors on the success of crowdfunding campaigns, motivations of investors, herding and signalling behaviour (e.g. Ahlers et al., 2015; Vismara, 2016; Molick, 2014). However, while these results answer a variety of questions, confirm certain hyphothesis, enable revealing comparisons between different types of early stage finance, they might not reflect all the varieties and insights that crowdfunding

might offer as an empirical setting. Table 3 below provides a snapshot and examples of existing themes, academic fields and examples of research studies.

Table 3: Examples of crowdfunding literature and main themes

Themes	Details	Examples of studies
The role of crowdfunding platforms as intermediaries whose activities and choices influence the funding dynamics	The role of the platform choices (including technologies, interfaces, design) on the relationship between fund providers and fund seekers	Berger and Gleisner (2009); Mollick and Nanda (2015); Cumming, Leboeuf, and Schwienbacher (2015); Iyer, Khwaja, Luttmer, and Shue (2015)
The role, goals and motivations of crowdfunders	What are the reasons behind the fund provision; who are the crowdfunders; Which biases might exist in the investment decisions	Herzenstein et al (2011); Lin et al. (2013); Gleasure and Feller (2016); Vismara and Benaroio (2017)
Crowdfunders (investors) Herding behaviour	If and how investors observe the investment behavious of other participants; existence of information cascades	Zhang and Liu (2012); Vismara (2016); Vulkan, Åstebro, and Sierra (2016);
The role, goals and motivations of crowdfundees	What are the motivations to use crowdfunding? What are the characteristics of crowdfundees and their campaigns?	Burtch et al. (2013); Younkin and Kuppuswamy (2017); Parhankangas and Renko (2017);
Relationship between incumbents (e.g. banks, angels) and crowdfunding platforms	What is the interrelationship between traditional actors and crowdfunding; Influence of crowdfunding campaigns on the future relationship between crowdfundees and traditional funding sources	Butler, Cornaggia, and Gurun (2016); Sorenson, Assenova, Li, Boada and Fleming (2016); Yu, Johnson, Lai, Cricelli, and Fleming (2017)
Signalling of crowdfundees	Signals in crowdfunding to reduce information asymmetries	Lin et al. (2013); Ahlers et al. (2015); Estrin and Khavul (2016);
Crowdfunders' Value-Added Services	Research around forms of support and other forms of value added services that crowdfunding may provide (e.g. marketing, customer interaction, early adoption)	Burtch et al. (2013); Stanko and Henard (2017);
Outcomes and Innovation from crowdfunding; post-investment phase	What are the consequences after the crowdfunding campaigns? How crowdfunding influences on different types of innovations?	Desai and Kharas (2009); Mollick and Nanda (2015); Cumming, Leboeuf, and Schwienbacher (2017); Signori and Vismara (2018)

Hence, this study adds to the existing academic literature across the discussed disciplines by observing the phenomenon's emergence within the historical and contextual setting, attempting to bring into the existing knowledge an organisational and institutional analysis through uncovering cognitive and legal elements within the process. In addition, the study uses different platforms compared to the existing literature.

Based on the above literature overview, discussion about the underdeveloped areas and promising theoretical lenses that they offer to answer my research questions, I argue that by applying them to the empirical context of the first generation of FinTech in the form of loan-based crowdfunding within the wider transformations of the financial system in the UK and regulatory architecture that I discuss in Chapter Four and Chapter Five, this research provides promising theoretical and practical contributions. The next chapter discusses the methodology, research design, data collection and data analysis that I used in this study.

Chapter 3. Methodology and research design

3.1 Methodology

"Qualitative research addresses questions about how social experience is created and given meaning and produces representations of the world that make the world visible" (Denzin and Lincoln, 2000, p. 3).

In this chapter, I discuss the general research design and methodology employed for the research study. I present specific, detailed aspects of methodology in each empirical chapter. First, I discuss why it is necessary and important to bring a longitudinal, qualitative approach to the study of the emergence of new organisational forms. As one of the research foci is on the sequencing of events that set specific pathways that drive the emergence of new forms, it is necessary to capture the temporal dimension of what, how and when particular choices were made, which can be lost through a short-term approach. Second, the emergence of new organisational forms lacks comprehensive datasets that can be analysed through quantitative methods; hence it is appropriate to conduct qualitative studies to understand and capture the construction of meanings and to interpret how different audiences participate in the process of the emergence of new forms. Further, I provide a description of the research context and the empirical phenomenon of interest – crowdfunding in the UK as a part of the wider trend of financial innovations based on technological systems known as Alternative Finance and FinTech. It is a unique setting to study the emergence of organisational forms in special temporal and spatial dimensions for several reasons. Loan-based crowdfunding type became the first ever forms that emerged in the UK and globally as small and niche actors within the highly regulated and concentrated sector of financial services. Loan-based crowdfunding provides examples of the arrangement of different technological, financial and legal elements sitting at the intersection of the social, financial, technological and legal sectors. Loan-based crowdfunding emerged in 2004–2005, becoming the first generation of the wider phenomenon of financial innovations based on new technologies (FinTech), providing a

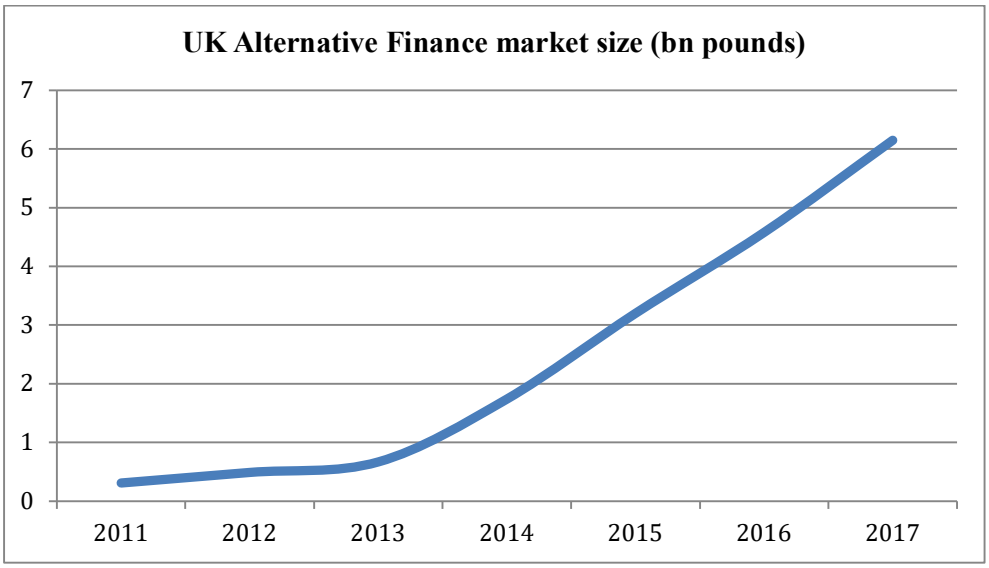
template for a large number of actors entering other areas of financial services. Finally, loan-based crowdfunding is a type of financial innovation that is of great importance to different audiences, such as the government, policy-makers, regulators, institutional and retail investors, start-ups and SMEs (small and medium enterprises). What is also exciting about the empirical setting is that the UK regulatory environment is considered to be a unique regulatory architecture for financial innovations, not only in Europe but also on a global scale. Regulatory initiatives (e.g. from the FCA) such as Sandbox and Project Innovate, and the collaborative nature of their communication with new organisations are being replicated in different countries as an exemplary case of how the regulatory environment can enable innovation. Hence, the findings of this study are not only specific to the local setting of the UK, but can be relevant to other geographies and other institutional settings. Finally, I discuss the data collection process and data sources, as well as providing an overview of how the data were analysed.

3.2 Research context – empirical setting of crowdfunding in the UK. Origins and definitions

Since the end of the financial crisis of 2007–2008, the financial services sector has witnessed a proliferation of financial innovations that have different technological systems at their core models, emerging in different areas of financial services. Being curious about the origins of this trend, I did a review of different secondary resources (e.g. industry reports and news articles) that pointed out the very first niche platforms, loan-based crowdfunding and Equity crowdfunding, that became the first regulated financial services providers outside of the incumbent, large financial institutions. Hence, the empirical setting of crowdfunding is

situated at the unique crossroads of a rapidly growing market segment and a social phenomenon. Figure 4 reports the growth of UK Alternative Finance[4] from 2011–2017.

Figure 4: UK Alternative Finance market growth (bn pounds)



Source: based on the figures from the 5th UK Alternative Finance industry report by the Cambridge Centre of Alternative Finance (CCAF)

Excitingly, the very first loan-based crowdfunding platform was founded during the very early days of such technological transformations as the internet and social media, in 2004–2005, before the financial crisis, presenting an opportunity to really uncover the early moments of this form's emergence. Formally, crowdfunding is a part of the finance industry, specifically its Alternative Finance segment, which is a part of FinTech, with a focus on funds provision for innovative and small companies and individuals (e.g. loan-based crowdfunding) through web-based technological systems. Table 4 summarises the details of the Alternative Finance segments and sizes.

[4] Alternative Finance figures include: Equity crowdfunding, loan-based crowdfunding, rewards crowdfunding, donation crowdfunding, invoice trading, debt-based securities and community shares

Table 4: Size and segmentation of UK Alternative Finance (bn pounds)

Segment	Size		Regulation
	2016	**2017**	
Loan-based crowdfunding (P2P) business lending	1.232	2.04	Financial services regulation
Loan-based crowdfunding (P2P) consumer lending	1.169	1.4	Financial services regulation
Loan-based crowdfunding (P2P) property lending	1.147	1.22	Financial services regulation
Invoice trading	0.452	0.787	Not regulated
Equity crowdfunding	0.272	0.333	Financial services regulation
Debt-based securities	0.079	0.075	Financial services regulation
Real-estate crowdfunding	0.071	0.211	Financial services regulation
Reward-based crowdfunding	0.048	0.044	Not regulated
Donation-based crowdfunding	0.04	0.041	Not regulated
Total	**4.51**	**6.151**	

One core idea behind the organising of crowdfunding is that of the 'crowd': those who could not previously invest and lend under the traditional rules of equity markets and banking can participate in those activities. A second core idea is the creation of institutional models that expand the pool of candidate ventures (e.g. start-ups, new and small businesses, individuals) who can seek funding, and launch and check their ideas in a new 'market' of investors. Hence, crowdfunding started as a general project to change both who can invest and who can seek funds.

In both professional practice and academic research, definitions of crowdfunding are still contested. Crowdfunding has a variety of definitions, with several terms used interchangeably in both academic and professional literature (e.g. crowdfinancing, loan-based crowdfunding,

peer-to-peer lending and crowdinvesting), with the main focus on technological elements of the platform. Table 5 summarises some of these definitions.

Table 5: Illustration of crowdfunding definitions

Definitions	Description	Authors
Broad angle	crowdfunding involves an open call, mostly through the internet, for the provision of financial resources either in the form of donation or in exchange for the future product or some form of reward, to support initiatives from diverse investors.	Belleflemme, et al., 2013; Belleflemme, Lambert and Schweinbacher, 2010
Specific angle	crowdfunding is a new method for the funding of *new* ventures, allowing individual founders of for-profit, cultural, or social projects to request funding from many individuals in small amounts or large amounts of seed capital, often in return for future products or equity; *alternative* to traditional venture capital investment, without standard financial intermediaries; a mechanism that is *democratising* capital access and the entrepreneurial process.	Kshetri, 2015; Lehner, 2013; Macht and Weatherstone, 2014; Rossi, 2014; Mollick, 2016
Official angle	crowdfunding is a way in which people, organisations and businesses can raise money through online portals (platforms) to finance or re-finance their activities. Money is subscribed mainly by individuals but also by institutions.	The FCA The Bank of England

This foregrounds the fact that crowdfunding is not only a combination of technology and material elements, but also involves institutions adjusting to these technologies, and support of institutional arrangements and architectures (Garud et al., 2014; Van de Ven and Garud, 1993).

My observation suggests that crowdfunding is based on a range of legacy concepts such as microfinance (Morduch, 1999) and crowdsourcing (Poetz and Schreier, 2012; Unterberg, 2010; Mollick, 2013), but it represents a different way of fundraising, facilitated by web-based platforms. However, to move from an idea to an operating business also requires the

management of a set of regulatory and other arrangements. In the case of crowdfunding, through the use of crowd-based online technology (CBOT), crowdsourcing helps obtain money from large audiences (the 'crowd') over the internet, instead of from small groups of sophisticated investors (Belleflemme et al., 2013; Kshetri, 2015). One of the most recent definitions is offered by Dushnitsky and Fitza (2018 p. 2) by specifying crowdfunding's five key features (a) it is an Internet platform that (b) aggregates funding from multiple individuals, where (c) each individual generally contributes a relatively small fraction of the requested amount, (d) based on a distinct set of goals and objectives (e.g., securing financial gains, seeking material gain (rewards), donating towards social cause, etc.) and (e) his/her assessment of the focal project. Formally, crowdfunding platforms tend to share the first two traits (i.e., (a) and (b)), yet, they vary on the remaining traits (i.e., (c) through (e)). As such, on a general level, the consensus of most current researchers, practitioners and regulators is that *crowdfunding is a way of raising financial resources from the general public/'crowd' as well as institutional investors, via an intermediary platform that is typically web-based and CBOT technology-based, either through a donation-based model or in return for future products/rewards, equity, or repayment of the loans.*

This exploration of crowdfunding definitions across the literature gives us a sense of the complex processes and the variety of different elements (for example from existing finance models, systems of technology and regulation activities) that led to the emergence of crowdfunding, and that shaped its current state.

3.3 Developing a conceptualisation of crowdfunding

What excites and puzzles us about the crowdfunding phenomenon is that while it seems to be a new type of finance provision, the fundamental ideas, elements and concepts have deep roots in history. These historical roots can be found as early as the 1700s, when Jonathan Swift set up the Irish Loan Fund to provide loans to poor families in Ireland; or when individuals solicited small donations— such as Alexander Pope, who asked for donations to fund translation of Greek poetry into English in 1713, and Mozart, who carried out two crowdfunding campaigns in 1783 and in 1784.

This core idea of going to the 'crowd' in its modern way came into its own with the wider spread of the internet, social media, and, specifically, after the financial crisis of 2007-2008 when many incumbent banks, and institutional investors, such as venture capitalists and business angels, started to slowly pull back from funding very early-stage ventures and certain types of borrowers, creating a potential gap in the funding cycle. Coupled with stricter banking regulation by the financial authorities, these developments made the process of loan lending more complex and lengthy, a factor that contributed towards the emergence of loan-based crowdfunding type. Modern crowdfunding is divided into four main types. While each type resembles different types and elements of previously existing market players and is affected differently by related legitimacy issues (Agrawal et al., 2011, 2013; Ahlers et al., 2012; Kuppuswamy and Bayus, 2013; Mollick, 2014), we can also see that they share features with organisations outside the financial services, opening up opportunities to uncover how this first came to be, which actors (and with what motivations) participated in the process, and how this might potentially affect future developments. Table 6 summarises the elements of different forms of funds providers.

Table 6: Existing forms of funds providers to businesses and individuals. General sketch of core features

Forms	Providers	Receivers	Technology	Regulation
Business angels and business angels syndicates	High net worth individuals	Early-stage start-ups	N/A	Official regulation (for example in the UK): self-certified as either a high net worth or sophisticated investor, as defined by the FCA under the Financial Services and Markets Act 2000 (FSMA)
Venture Capital (VC)	A company or business	Later-stage start-ups	N/A	Official regulation (e.g. in the UK): FCA
Bank loans	Financial institutions	Businesses with already established revenues and customer base; unsecured personal loans	Some involvement in credit scoring, initial applications check	Official financial regulation (e.g. in the UK): the FCA, the Bank of England, the Prudential Regulation Authority (PRA), etc.
Microfinance	Financial organisations: community development finance institutions (CDFIs); building societies	Microenterprises (businesses with fewer than 10 employees); SMEs; social enterprises, community organisations or charities; low-income individuals	N/A	Primarily under a code of practice
Other types of FinTech (emerged after crowdfunding) – challenger banks	Financial institutions	Retail customers	Technology is a core	Banking licence (simplified version compared to incumbent banks)
Crowdfunding (four main forms)	**'Crowd' and institutional investors, government bodies**	**SMEs; start-ups at different stages of development; individuals**	**Technology is a core element of existence, sustainability, and processes**	**Depends on the type of crowdfunding**

The crowdfunding setting provides an opportunity to explore the emergence of a form that has historical roots in traditional finance and non-finance areas, facilitating the application of different analogical elements. How we choose labels matters, as they influence how institutional conventions are created and sustained around this new form. Table 6 summarises the observations that demonstrate the interconnections (difference and similarities) among the existing forms of financial services provider and types of crowdfunding. We see that at the current stage crowdfunding has evolved into a form that blends existing financial, non-financial and technological elements and underlying analogies.

First, while equity crowdfunding actors accomplish financial intermediation and investment decision-making they do not provide actual execution of these decisions, which contrasts with existing models such as VCs and business angels. In addition, similar to microfinance and charity activities, crowdfunding provides a symbolic community relationship but at the same time maintains a space for commercial activity and monetised exchange. Second, the area of law and regulation around crowdfunding actors creates an existing setting for the exploration of the initial process of self-regulation—to the point of bespoke regulatory development (in the UK) that came into place through interactions among crowdfunding actors, professionals and regulators through a process of borrowing and recombination of existing regulatory elements and, in the case of loan-based crowdfunding, creation of a new regulatory category. This, in turn, affected the way crowdfunding actors organised themselves around the four main types. Table 7 reviews these four main types of crowdfunding according to core features and relevant regulatory considerations.

Table 7: Zooming into types of crowdfunding

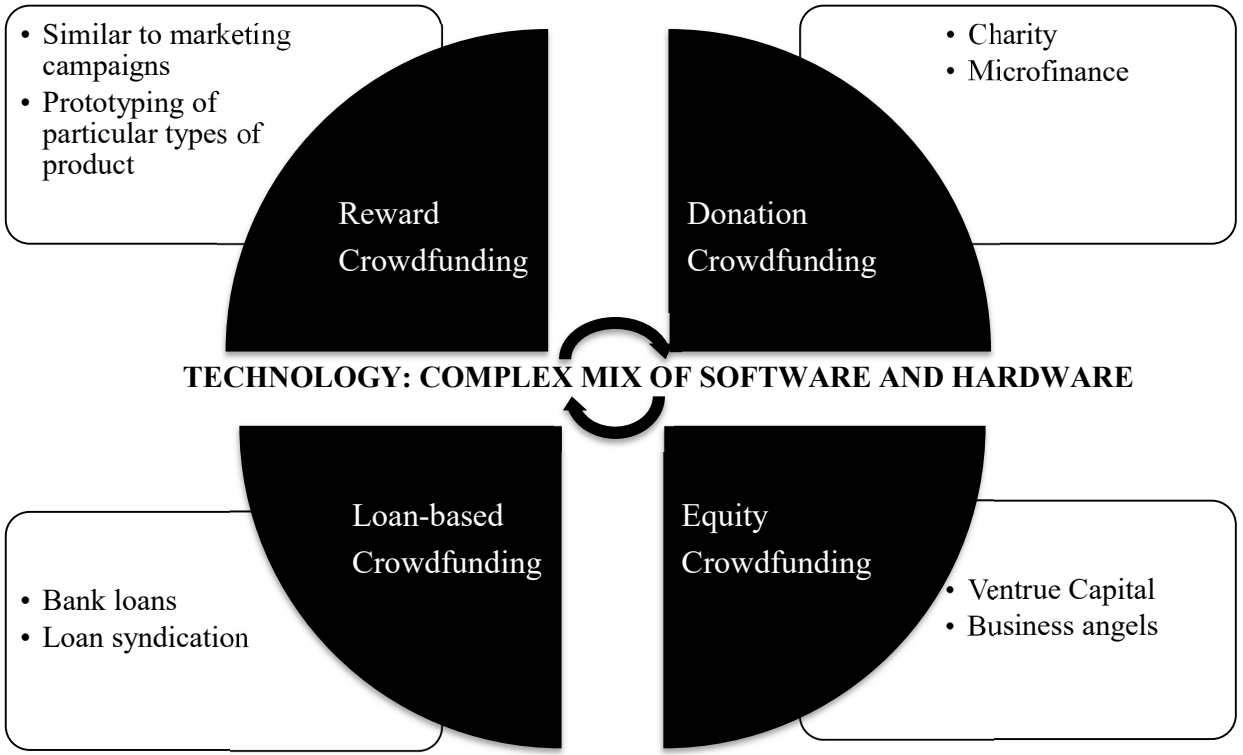
Type of crowdfunding	Features	Regulation
Rewards	In these campaigns, different levels of reward that correspond to pledge amounts are offered (usually three levels). Rewards campaigns are applicable for client-facing, tangible products and typically last for 1–3 months. Rewards can include free gifts and tickets.	Does not fall under regulation
Donation	This type of campaign is designed mainly for social projects and charities. Donation campaigns are often 1–3 months in length. crowdfunding platforms can be useful by smaller organisations and people raising money for personal or specific charitable causes.	Does not fall under regulation
Loan-based crowdfunding (P2P lending)	Fundraising campaigns in the form of loans that fund-seekers will pay back over a pre-determined timeline with a set interest rate. Lending campaigns tend to take place over a shorter timespan of around five weeks. They can also represent a lower cost compared to a bank loan. However, they are more suitable for companies with high existing revenues.	Falls under official regulation
Equity	Equity crowdfunding is the exchange of actual shares in a private company for capital. Equity campaigns are typically several months or longer in length. Investors invest in unlisted shares or debt securities issued by businesses.	Falls under official regulation

Third, crowdfunding platforms are based on combinations of different types of technology that enable the initial emergence of the actors and their sustainability. The combination of software, hardware and different algorithmic systems—particular combinations of codes as a baseline for the online activity (e.g. credit underwriting, due diligence)—are the most evident features that influence and are influenced by the wider social aspects. These experimentations with proprietary algorithms to run correlations and regressions, using new inputs from non-traditional sources, distance crowdfunding from traditional forms and draw it closer to electronic markets. For instance, loan-based crowdfunding platforms experiment with the two core processes of lending agreement— one is 'know your customer' (KYC) through new

technological provider and second is credit underwriting by applying new technologies for lenders' checks and different data points for the assessment of the borrowers' creditworthiness.

While two modes of crowdfunding, rewards and donation-based, do not fall under the financial services regulatory frameworks, loan-based crowdfunding and equity crowdfunding do. These two modes of crowdfunding are the very first niche organisational forms that emerged and collective activities around them shaped the underlying regulatory architecture of financial services and reveal those mechanisms and elements that can explain the endogenous relationship between emergence and underlying institutional context. Hence, given the research area and research questions of the research project, the focus of this thesis is on these two modes of crowdfunding: loan-based and equity-based crowdfunding. Figure 5 shows the main features behind the four modes of crowdfunding.

Figure 5: Four modes of crowdfunding



3.3 Research design

In the previous section I showed that the emergence of crowdfunding and its regulated modes (loan-based crowdfunding and equity crowdfunding) was a complex process involving different templates and different actors. Hence, the study of this phenomenon is necessary but challenging, requiring appropriate data sources and data analysis techniques.

Given that the phenomenon is a new process that is still evolving, we do not have homogenous, longitudinal and reliable quantitative databases that can be analysed through quantitative regression models. The focus of the study is to capture the very early moments of the form's emergence, as it evolved from the idea stage to a legally functioning economic activity. Hence, the complexity and the level of detail required to address the research focus makes the longitudinal, qualitative methodology the most relevant for capturing the social construction of meanings, as well as interrelations among different actors. For this research project, qualitative research provides thick, detailed descriptions of actual actions in real-life contexts that uncover the meanings that actors apply to these actions and settings, providing bases for understanding the social processes that underlie the emergence of new forms and innovative activities (Gephart, 2004).

A single case study of one organisation or a small number of case studies of three to four organisations might not be suitable for revealing all the complexity and diversity that existed during the very early days of the form's emergence, as well as to establish the roles and activities that had specific impacts on the emergence path. A single case study can open up specific roles and actions within one organisation, while a small number of case studies can provide a comparison between three or four types, which might still not be enough to study the emergence stage, as such approaches can miss important actors, their activities, strategies and discourses (Zilber, 2014). To overcome those limitations, a case study on a field level

across a variety of actors and events is the most suitable approach towards examining the early stage of the emergence of new organisational forms. This approach adds a comparative analysis, emphasises complementary aspects of a phenomenon and helps develop a more accurate, elaborate and generalisable theory (Eisenhardt, 1991).

Case study research design is a strong research tool to promote an in-depth understanding of the research context and to identify emerging concepts and their dynamic relations (Miles and Huberman, 1994; Tran et al., 2011). I follow Yin's (2014) criteria of suitability of the case study approach, seeking to address 'how' and 'why' questions, when the phenomenon in which the research is interested is situated in a contemporary and real-life context with characteristics that are beyond the researcher's control. Following the typology of case studies that divides them into descriptive, explanatory and exploratory (Hancock and Algozzine, 2006), I suggest that this project offers an exploratory case study approach, with descriptive features.

Loan-based crowdfunding in its present form is also a new empirical phenomenon that has gathered only a limited amount of theory and empirical evidence. Hence, my research project is an inductive study (Eisenhardt, 1989). First of all, I conducted process-based research to position the phenomenon in time through the analysis of a sequence of events, based on the study of archival and historical materials (the findings are presented in the empirical Chapter 1). Next my research covers the case studies of loan-based crowdfunding emergence and early growth. The main case then was then split into two smaller cases: the first wave and the second wave of actors in loan-based crowdfunding, to capture the main phases of their emergence and early growth. Table 8 below summarises the split across cases.

Table 8: Case studies split: loan-based crowdfunding

Case type	Loan-based platforms	Time	Focus
First cohort	The first generation of platforms (one platform)	Very early moments (2004–2005), before 2010 when a second cohort entered the space	A simple model with a general focus One niche: unsecured consumer lending
Second cohort	The second cohort of platforms	After 2010, within wider regulatory transformations	New asset classes with a more specific/niche focus Niches: unsecured consumer lending, SMEs lending, property lending

I am interested in studying social construction processes, which implies a focus more on how actors construct and understand their experience and less on the frequency of measurable occurrences (Gioia et al., 2012). Hence, in this research, I follow the interpretive constructionist tradition (Gephart, 1999). Following this approach, organisations are seen as "a potentially fluid field of meaning making" (Gergen, 2009, p. 321), involved in a continuous process of development (Camargo-Borges and Rasera, 2013). Loan-based crowdfunding and equity crowdfunding are the settings that have general characteristics requiring the application of this approach. First, the transformation of financial services is taking place in complex social settings, with different types of actors involved. Second, the analysis involves historical processes—past development, the present state of the evolution of the phenomenon, and possible future directions—requiring inductive techniques. Finally, I aimed to understand which specific, coherent and/or conflicting versions of the same phenomena exist simultaneously to get detailed descriptions of underlying social processes (Gephart, 2004; Denzin and Lincoln, 2000). The context of crowdfunding is characterised by conditions of high uncertainty, where new developments in policy and technology are constantly emerging and new actors appear and evolve their roles.

Furthermore, the project's focus is on the UK as a unique case study of the very initial emergence of loan-based crowdfunding, not just in the local setting but internationally. First of all, the UK was one of the initiators of the crowdfunding market and crowdfunding there has been growing rapidly compared to other countries in Europe, in loan-based crowdfunding lending and equity crowdfunding. The second reason is that the UK presents a unique regulatory environment of new forms in the financial services through technological applications. The UK was one of the first nations to create bespoke regulation for regulated crowdfunding activities, which provides an opportunity to explore several levels of analysis (field/macro and organisational levels) in real-time settings. Finally, loan-based crowdfunding became templates themselves for other financial innovators, and the government's and the regulator's actions became templates for other countries to follow. Therefore, the research project is based on an exploratory field-level case study of an emergence, addressing the research questions using multiple data sources.

3.4 Data collection

Data collection involved three main data sources and one complementary data source to confirm and double-check some details gathered from the three main data sources (Table 9). Multiple data sources offer a holistic and 'in-depth' approach.

Table 9: Summary of data sources by type

Data source	Amount	Details
Interviews	105	Equity crowdfunding platforms Loan-based crowdfunding lenders (loan-based crowdfunding) Reward-based crowdfunding Donation-based crowdfunding Law firms Think tanks Government (MPs) Data analytics Compliance/consultancy companies Independent researchers UKcrowdfunding Association Loan-based crowdfunding Association Archival interviews available online
Reports, documents & archival materials	50+	The Bank of England archival materials FSA reports Regulatory Acts (e.g. Financial Services Act, Banking Act) FCA consultancy papers FCA regulation notes FCA handbook (sections) NESTA reports Cambridge Institute of Alternative Finance Report 2015, 2016 British Business Bank Reports 2014, 2015, 2016 Terms and conditions of platforms Privacy agreements Risk warning
Observations and interviews at industry events	13+2 (follow ups)	Crowdfest 2016 (16) Innovate Finance 2017 (16) AltFi Summit 2017 (8) Reshaping Financial Institutions 2017 (8) Women in FinTech 2017 (3) LendIt 2017 (18) IFISA seminar 2018 (4) Innovate Finance 2018 (18) AltFi Summit 2018 (9) FCA Annual meeting 2017 (3) FCA Annual meeting 2018 (3) Innovate Finance 2019 (8) APPG FinTech 2019 (3) Innovate Finance 2021 (follow up observation, online event) Innovate Finance 2022 (follow up observation, online event)
Other	n/a	Seminars and lectures Blogs & newsletters Social media

It should be acknowledged that according, to University policy, before I started the main data collection phase, I obtained ethical clearance from the Central University Research Ethics

Committee (CUREC) to ensure that I followed the best ethical practices during the data collection phase, data analysis and data storage.

The main data collection phase, through primary data sources, took place from late May 2017 to April 2018, with several additional and follow-up interviews in August and September 2018, after the main reviews and consultation on the regulatory rules had been published by the FCA in July 2018. One of the study's strengths is that I had access to the founders of the very first loan-based crowdfunding and equity crowdfunding platforms, and the first lawyers and government actors involved in crowdfunding during its very early days. Hence, primary data was collected through semi-structured interviews with the founders and/or managers of crowdfunding platforms across equity crowdfunding, loan-based crowdfunding, reward-based and donation-based models, partners at law firms heavily involved in the emergence and development stages of crowdfunding and Alternative Finance, think tanks, policy-makers, politicians and other financial services providers working with crowdfunding. In total, I conducted 105 interviews. I divide them into two types: comprehensive, face-to-face interviews and snapshot interviews during conferences and industry events. Snapshot interviews gave an opportunity to observe and discuss the topics during 'live' gatherings of the main actors involved in crowdfunding and in the broader FinTech market. Table 10 provides a sketch of the details of the interviews while **Appendix 1** demonstrates all the details.

Table 10: Details of interviews (example)

Type of interview	#	Date	Location	Type of organisation/field	Interviewee's position
in-depth	1	May-17	London, UK	Research	Researcher
in-depth	2	Jun-17	Oxford, UK	Law	Academic
in-depth	3	Jun-17	London, UK	Research + events organisation + news	Events Organiser
in-depth	4	Jul-17	London, UK	Law	Founder
in-depth	5	Jul-17	Cambridge, UK	Research	Director + Head of Policy
in-depth	6	Jul-17	London, UK	Equity crowdfunding	Manager
in-depth	7	Jul-17	London, UK	P2P research	Researcher
in-depth	8	Jul-17	London, UK	Equity crowdfunding	Head of Products
in-depth	9	Jul-17	London, UK	Equity crowdfunding	Founder
in-depth	10	Jul-17	Phone	Research + Consulting	Principal Consultant
in-depth	11	Jul-17	Phone	Research + events organisation + policy	Head of Events
in-depth	12	Jul-17	Phone	Research + events organisation	Head of Policy Research
in-depth	13	Aug-17	Three Bridges, UK	Law	Head of Law advisory
in-depth	14	Aug-17	London, UK	P2P	Founder
in-depth	15	Aug-17	London, UK	Property P2P	Chief Operating Officer
in-depth	16	Aug-17	London, UK	Research (Equity crowdfunding)	Head of Research
in-depth	17	Aug-17	London, UK	P2P	CMO

In terms of the general sampling process, to maximise internal validity and to benefit from an in-depth research design, I applied purposive sampling together with a 'snowball' convenience sample. At the first stage, I identified informants based on documentation and secondary data analysis. I consulted main industry reports, the regulator's consultation papers, and lists of speakers at the large conferences, to identify the most visible actors. Then I added the snowball sampling technique (Mack et al., 2005). First of all, snowball sampling utilises reliance on the knowledge of already-identified participants, who can refer to other stakeholders who may add insights. The second benefit is that the process is simple, and cost- and time-efficient. Finally, given the phenomenon is evolving and transforming at a rapid pace in real-time settings, it is beneficial to get guidance from actors who can add more detail and update the data.

Each interview lasted between 20 minutes and 3.5 hours, with an average duration of 60-75 minutes. 98 percent of all the interviews were face-to-face either in the interviewee's offices, conference rooms or pre-booked meeting rooms. The remaining interviews were conducted over the phone and via Skype™ due to the interviewees' preferences, time availability and location. 98 percent of interviews were audio-recorded and transcribed. One interview was conducted in Russian due to the interviewee's background and my knowledge of the language. This interview was then translated into English. I usually made preliminary preparations before the interviews and then triangulated the data after the interviews with the information available on the companies' websites (e.g. the company's historical background, main business models, the backgrounds of the founders and the management team) and other information available on media websites, and on comparison websites (e.g. In-Review) which provide short overviews of the platforms and feedback from customers. The interview guide (protocol) had a general structure but an open-ended format, allowing me to capture a rich description of the initial events and actors associated with the emergence and related transformations. Interviews were stopped when saturation point was reached and only very few and non-substantial new details about the topics of interest (e.g. the emergence of crowdfunding, elements of crowdfunding in the broader technology and finance areas, regulations, strategy used for development, etc.) were identified. To eliminate the recall and attribution bias that might be present when interviewing about past events and important events, I integrated and triangulated the information provided by the interviewees using multiple sources of archival and secondary data, for example, internal presentations (e.g. the very first presentation deck developed by the founders of Alpha) and external presentations, several examples of the correspondence between the founders and regulator case officers.

Data collection through interviews comes with several challenges before the actual interview, including the negotiation of access to the right person and scheduling of time slots. There are also challenges during the interview itself: for example, it is important to steer the direction of the questions but at the same time to allow freedom for the interviewees to reveal necessary insights. I was able to overcome these challenges successfully and interview the most suitable individuals from the companies and also from the government and the regulator—this was a great opportunity given the sensitive political atmosphere in the government and in parliament due to wider political changes.

My second primary data source involved observations and casual conversations at main industry events, which I started in October 2016 at a small niche event, Crowdfest, and continued till late March 2018. This data source was an opportunity to get snapshot insights from different actors involved in specific questions and topics. Most of the conferences provided different tools to arrange meetings before the conference, enabling one to plan and find people for short discussions and introductions, through, for example, apps, mail exchanges and networking tools. During LendIt 2017 I was able to have 20 meetings back-to-back over two days that enabled me to observe the participants within the wider context of the FinTech segment and at the same time to interview them.

One of the research goals of this research project was to delve deeper into the emergence and developments of crowdfunding, the roles and types of actors involved and also to understand how those actors come together and around which particular topics. To achieve this goal it is necessary not only to interview actors and analyse textual data sources but also to observe them in action 'live', when the actors come together for a short period of time during industry events including large conferences, niche meetings, and seminars with a special focus on a

particular topic (e.g. a specific law or tax incentive). This method of data collection allowed me to efficiently capture specific practices and show how members negotiate and understand their reality (Barley and Kunda, 2001). Conferences have been acknowledged in the academic literature as informative 'field reconfiguring events' in which to conduct 'field level ethnography' (e.g. Zilber, 2011; 2014), where networks are constructed, deals are made, regulations and rules are discussed, and representatives of all of the major 'social fauna' that comprise the community of the field can be observed (Lampel et al., 2005; Schüßler et al., 2015; Meyer, Gaba and Colwell, 2005). Given that crowdfunding is at a dynamic stage of development, these professional events attract key decision-makers and various stakeholders, such as crowdfunding platforms, start-ups, venture capitalists, business angels, regulators, journalists and professional services advisers, which can facilitate the shaping and emergence of the field (Lampel and Meyer, 2008).

I took part in and observed 14 events during the main data collection process with two follow-up observations in 2020 and 2021, with differences in focus, scope, and in the organisers behind the events (Table 11). The observation of these different types of conference allowed me to identify new, relevant actors, observe participants in different research settings, and listen to their discussions at different types of meeting (e.g. at niche events vs. large events; with the focus on regulations vs. with the focus on innovation/technology; at round tables vs. presentations and keynote speeches). Because conferences bring together different actors with different agendas and interests for a short period of time, it is not easy to predict the outcomes of those interactions (Lampel and Meyer, 2008). I also paid particular attention not only to the actors who organised the events but also to the sponsors and supporters, as they are key players who make the events and their agendas happen in the first place. Following Zilber (2011), I attempted to collect not just

spoken and written texts but also to focus on the use of artefacts, presentations, spaces/locations. For instance, the Innovate Finance event takes place at the Guildhall, the ceremonial and administrative centre of the City of London and its Corporation since the Middle Ages. Placing the event in these historic buildings became a symbol of continuity, showing how financial services in the UK had historic roots, but could also enable and accommodate innovation. I also collected texts and handouts distributed during the events, and where possible I audio-recorded some of the sessions and round-table discussions. I also observed spatial arrangements, dress code and informal, networking events (e.g. coffee breaks, exhibition halls, networking drinks).

In order to get a wider perspective on the number of participants and delegates at the events I downloaded and registered for the apps' services. These apps (e.g. Brella) contained all the agendas, delegates' names and positions, as well as networking tools. In addition, I conducted in-depth interviews with the actors behind the creation of those events, to understand how and why they create particular agendas and types of sessions and why they decide to include them, how and when they decide to include particular organisations and/or individuals. In addition, I was able to make comparative observations across time for two main events: AltFi Summit and Innovate Finance. I was able to track the emergence, developments, change and continuity of particular topics and themes, not only across types of events but also across time. I should note that while these conferences gave me a chance to see the actors 'live', similar to previous studies that have used this method, I was also able to observe the emergence of the events themselves. In contrast to previous studies that mainly focus on long-established events, I was able to see the simultaneous emergence of the phenomenon and the events, along with the specific role of the regulatory and government actors that used

the large events as platforms to learn and communicate with new actors, hence shaping their own agendas.

Table 11: Industry events details

Name	Type	Frequency	Geographical focus	Organisers	Technology (apps)	Sponsors
Crowdfest 2016	Niche Equity crowdfunding	N (were trying to repeat in 2017 but this did not happen)	Local	UK Crowd Funding Association + professional services/compliance (Bates Wells & Braithwaite (BWB)), the Institute of Directors, Confederation of British Industry, Federation of Small Businesses, UK Business Angels Association, British Banking Association, EIS Association and Better Business Finance	No	Professional services firm (regulation/financial services compliance) BWB, Equity crowdfundings (Downing, Leetchi), insurance company (AIG), payments provider (Mangopay)
AltFi 2017	Loan-based crowdfunding	Y (annual)	Local/Europe	Media and data provider (AltFi)	Yes: main agenda, delegates	Loan-based crowdfunding platform (Funding Circle), Fund (MW Eaglewood)
AltFi 2018	Loan-based crowdfunding	Y (annual)	Local/Europe	Media and data provider (AltFi)	Yes: agenda, delegates, networking, questions during presentations	Loan-based crowdfunding platform (Funding Circle), Asset Income Fund (SQN). New supporter: law firm (Fox Williams)
Innovate Finance 2017	General FinTech + financial innovations	Y (annual)	International in relation to the UK	Non-profit think tank; government bodies, law firms	Yes: agenda, networking, additional events	Main sponsor: professional services firm (Deloitte); among others: big banks, main payment providers, law firms, international financial services providers; only one P2P platform

Name	Type	Frequency	Geographical focus	Organisers	Technology (apps)	Sponsors
Innovate Finance 2018	General FinTech + financial innovations	Y (annual)	International in relation to the UK	Non-profit think tank; government bodies, law firms	Yes: agenda, networking, additional events	Main sponsor: professional services firm (Deloitte); among others: international financial services providers, law firms, payment providers, banks, no platforms
FCA annual meeting 2017	Regulation; general strategy of the regulator	Y (annual, free access)	Local	FCA (Regulator)	No, but live streaming provided	n/a
LendIt Europe 2017	Loan-based crowdfunding lending + related services	Y (annual)	Europe	LendIt Europe, one of three international events (LendIt USA, LendIt Asia). LendIt is an organiser of events based in the USA	Yes: agenda, delegates, networking	Main sponsor: technology provider (SaaS banking platform MAMBU); law firm, technology providers, P2P platforms etc.
Reshaping Financial Institutions 2017	Regulation and financial innovations and necessary operational environment	One-off round table/seminar	Local + international	Chatham House (policy institute)	No	Main sponsors: DTCC (international depository, trust and clearing corporation); law firm (Shearman and Sterling); bank (Santander)

Name	Type	Frequency	Geographical focus	Organisers	Technology (apps)	Sponsors
Women in FinTech 2017	FinTech	A one-off/small event	Local	Think tank (Innovate Finance) + law firm (Hogan Lovells)	No	Law firm (Hogan Lovells); Innovate Finance; bank (Lloyds Group)
IFISA seminar 2018	Tax incentives and loan-based crowdfunding	Seminar – part of a series of seminars	Local	AltFi + law firm (Taylor Wessing)	No	P2P platforms (Assetz Capital, Funding Circle, Relendex, Downing), law firm (Taylor Wessing),
AltFi Alternative Property Peer to Peer lending	Property loan-based crowdfunding developments	Seminar – part of a series of seminars	Local	AltFi + law firm (Taylor Wessing)	Yes: agenda, delegates, networking	Loan-based crowdfunding property platforms (LendInvest, Relendex, Proplend, Landbay etc)
FCA Annual meeting 2018	Regulation General strategy of the regulator	Y (annual)	Local	FCA (regulator)	No, but live streaming provided	n/a
Innovate Finance Summit 2019	General FinTech + financial innovations	Y (annual)	International in relation to the UK	Non-profit think tank; government bodies, law firms	Yes: agenda, networking, additional events	Main sponsor: professional services firm (Deloitte); among others: international financial services providers, law firms, payment providers, banks, no platforms
APPG meeting 2019	FinTech and regulation	Throughour the year	Local	Parliament	N/A	N/A

Name	Type	Frequency	Geographical focus	Organisers	Technology (apps)	Sponsors
Innovate Finance Summit 2020 (follow up)	General FinTech + financial innovations	Y (annual)	International in relation to the UK	Non-profit think tank; government bodies, law firms	Yes: agenda, networking, additional events Online due to the lockdown (COVID 19)	Main sponsor: professional services firm (Deloitte); among others: international financial services providers, law firms, payment providers, banks, no platforms
Innovate Finance Summit 2021 (follow up)	General FinTech + financial innovations	Y (annual)	International in relation to the UK	Non-profit think tank; government bodies, law firms	Yes: agenda, networking, additional events Some sessions online due to COVID 19	Main sponsor: professional services firm (Deloitte); among others: international financial services providers, law firms, payment providers, banks, no platforms

The most niche crowdfunding event was Crowdfest, with the main focus on the equity crowdfunding model and related to equity crowdfunding areas including regulation. Interestingly, despite the fact that it was supported by the main associations (e.g. Crowdfunding Association), attendance was low and this event did not return the following year, after which it was quietly closed. The most central event, the conference that annually attracts different actors in the relevant markets, policy-makers, and interested parties was Innovate Finance in 2017 and 2018. These events also had a small exhibition hall and one full day of pitch events, when start-ups across financial services, split into particular categories, were given a chance to present their companies and win funding.

AltFi Summit 2017 was mainly organised around the loan-based crowdfunding lending model and technological developments relevant to this type of crowdfunding, while AltFi Summit 2018 included more sessions around regulation, Brexit (exit of the UK from the European Union), Open Banking and Institutional Investors' involvement. LendIt 2017 was one of three regional events (LendIt USA, LendIt Europe, LendIt Asia) organised by a US-based company. The core of the event's discussions and presentations was the loan-based crowdfunding lending model, but this event also attracted a variety of related/complementary actors such as technology providers, funders (e.g. VCs). In addition, by giving participants an opportunity to pre-book meetings through an app prior to the conferences, the event became a networking/meeting platform for the companies, individuals and related actors.
Participation in events at the early stages of data collection allowed me to identify additional relevant actors for in-depth interviews. Most of the events at the later stages of the data collection attracted participants with whom I had already conducted interviews for the project, which allowed me to have brief, follow-up conversations and to see them presenting publicly and interacting privately with other relevant peers, policy-makers and competitors.

To get the most comprehensive insights, I split my time between the attendance of different types of sessions (keynotes, presentations, small round tables), meetings/interviews with particular actors, informal conversations with relevant delegates, and participation in networking events (usually either during the event, after the first day of the event, or after the event). This strategy allowed me to make necessary observations, learn about main developments in crowdfunding and FinTech spaces, find out about organisations working at the crossroads of different sectors and to hear about developments in other countries which helped identify the position of the UK, specifically in the context of Brexit, which may become one of the main factors in future changes to the wider political and economic arenas. Overall, participant observation accounted for 100 hours of field work and 322 pages of field notes, which were used to combine data collection and analysis from interviews to guide the analytical codes' development throughout the data analysis phase. In addition to 13 events, I participated and observed two follow up events - Innovate Finance 2021 and Innovate Finance 2022. I participated virtually (online) to gather extra ollow up knowledge after my final data analysis had been finished.

Secondary data sources included a variety of types of archival document from the regulators (e.g. the FSA, the FCA, the PRA), bulletins and research papers from the Bank of England, industry reports, videos of interviews with founders and related management of the platforms, articles in the main industry media sources, written speeches from the regulator and other relevant individuals (see **Appendix 2** for and examples of the references and details). The initial search of the secondary data sources was conducted using search engines such as Google™, Google Scholar™, and SOLO (Search Oxford Libraries Online). Once the main sources were identified I used individual websites to retrieve the remaining materials. For example, the main industry reports were conducted by NESTA and then by the

Cambridge Institute of Alternative Finance; the speeches, keynotes and comments from the regulator are usually available online on the FCA's website. Table 12 below provides an overview of the sources.

Table 12: Secondary data sources summary

Type	Source	Insights
Secondary	Bank of England archival materials about financial services development and regulatory changes	Transformation in time + regulatory moments (layering of elements and actors)
Secondary	Transcriptions and reviews of the government's meetings about changes in the financial services	Main ideas/concept/paradigm that drove the developments of particular policies around financial services
Secondary	Main regulatory acts (e.g. Financial Services 2000; Banking Acts, Consumer Credit Acts)	The main focus and particular area of regulation that came to the surface (consumer protection, innovation)
Secondary	FCA's consultation papers	Development of regulatory elements around new organisations
Secondary	FCA rules and mandates from the Handbook	Track the discourse in the wider context of the regulatory environment
Secondary	FCA's speeches (by e.g. the Head of Policy)	The positioning of the regulator, their policy and strategy towards wider/external audiences
Secondary	Annual reports about Alternative Finance and FinTech in general	Track market/form's development and emergence of niches
Secondary	Media articles and news	Track main developments of the main companies and evolution of the key players
Secondary	Press releases from main crowdfunding companies	Track development around products offered, technology and regulatory authorisation
Secondary	Consultation papers and opinion notes from law firms/compliance consultancies	Track main concepts, discussions, concerns from the legal professionals' point of view
Secondary	Legal documents (e.g. terms and conditions, privacy, risk warnings from the platforms websites)	Track the legal elements of the crowdfunding platforms; terms and conditions define the rules of the market and also the roles of the actors and legal practices that are allowed
Secondary	Reports, discussions about changes in the structure of regulation (e.g. Twin Peaks approach; Gower report)	The connection of the regulatory moments and structural changes and impact on organisational actors (e.g. too big to fail, and high concentration of the banking sector in the UK)

Historical and archival materials are useful sources for studying the emergence and transformation of organisational forms and also for revealing sequential processes in related arenas. These texts show different perspectives, points of view and assumptions as events are unfolding (Ventresca and Mohr, 2002). Hence, I used historical data sources as an important source of data for the project. Following the aim of the first research question: to position the emergence of new organisational actors in time and space, I actively used archival materials to understand the sequence of events in the regulatory and wider institutional space of the UK financial services market, which became the driving forces that enabled and shaped the way and form in which new organisational actors emerged. The large quantity of documents produced over the time period shows the prevalence of publicly available and accessible discussions and communications around regulatory changes to legal frameworks in the financial services market. These documents provide historical insight into the process, specifically in the UK: over these last decades financial services regulation has become a huge political topic involving different actors. It has been acknowledged that analysis of the regulator's methods of communication can capture important and timely information about how the regulator views issues and responds to other actors' demands (Gurses and Ozcan, 2015). Through analysis of bulletins and consultation papers, I was able to derive which particular ideas, arguments, views, and actors prevailed in particular moments, what changed or remained the same. In a review of archival materials around the main developments in the institutional/regulatory context of UK financial services, I went back to the 1980s and up to 2018. With regard to reports and media articles, I went back in my search to 2004, when the first loan-based crowdfunding lender launched in the UK, up to start of 2019.

Hence, archival materials are useful to understand and delve deep into the 'archaeology' (c.f. Foucault, 1972): the history and current dynamics within the regulatory context and new

organisational actors (equity crowdfunding and loan-based crowdfunding lenders) at the societal, field and organisational levels. No doubt, given that the phenomenon is rapidly growing, the demand for the data and reports on the market is growing rapidly as well. When the first loan-based crowdfunding lender emerged in 2005 no reports were to be found; however, after 2008 articles in the media and also industry reports increasingly started to appear. I found the very first report mentioning the keyword 'Crowdfunding' in 2009, conducted by NESTA in the context of the Social Venturing market, while, in 2011, NESTA conducted a separate report, 'Crowdfunding Innovation', devoted only to crowdfunding developments.

After preliminary data analysis on the main list of interviews and several industry reports, I clarified the importance of applying a temporal dimension to the study of the emergence and legal moments of crowdfunding. Hence, in order to clarify several questions related to the era before crowdfunding, I conducted 12 additional interviews with several actors from legal consultancies, to get insights into the formation and transformation of the legal infrastructure in late 1990s and early 2000s, and the very first individuals who were the founders of very first online initiatives in the financial service in the UK.

Additional sources that I added include the terms and conditions and other legal documents from the platforms' websites. These sources are especially useful secondary data sources for analysis of the legal rules of the platforms' models, regulatory status, and the roles that platforms have to play due to regulatory transformations. Overall, the contractual terms of service of major platforms, their language and ideas, enable an understanding of the legal and governance frameworks that they apply and transform. I mainly focused on documents from the platforms that I interviewed; however, for better triangulation, comparison and data

analysis I also incorporated eight additional documents from platforms that proved be relevant actors (see example Table 13).

Table 13: Documents from the platform's websites (illustration)

Platform	Type of document	Details (what it signifies)	How it defines the platform's role	Extra information	Legal frameworks
Loan-based crowdfunding	Terms and conditions	Main terms on which the market operates Defines the main legal frameworks used Who is doing what: role setting, boundary setting Liability	Platform as a company Legal issues: authorisation/regulation from the FCA Information Commissioner Status Owner or licensee of intellectual property	Legally binding agreement Loan contract	The Contracts (Rights of Third Parties) Act 1999 Copyright law
	Privacy policy	How the platform uses the data from customers: it can collect and process data about you and how you communicate and interact with us How it stores and protects data Use of credit references agencies	The collector of different types of information. The types of information collected may include personal information, financial information, sensitive information. May be shared with: (both within the UK and, where appropriate, overseas) credit reference, debt recovery, fraud prevention and law enforcement agencies, and other relevant organisations including other lenders	Customers who are giving consent to the collection and use of the data: visitors to the website, people who use the platform, any other people whom we do business with or who register with the platform. Customers can pay for a copy of data that the platforms store about them	Anti-money laundering laws; anti-terrorism laws and regulations; fighting crime and terrorism
	Cookies	Website Policy		Cookies are small text files placed on your computer and are common throughout websites across the internet.	

	Lenders/investors terms	Identifies types of lending and credit risk Investment terms and access to funds Identifies provision fund and its terms when applicable Distinguishes the characteristics of the assets class What affects the returns What happens if the platform stops trading Cancellation policy Transparency	This is an investment product and is not a savings deposit Platforms become an agent of a lender/investor By agreeing to these terms, investors are appointing an exclusive agent to act in all matters relating to the origination, negotiation, administration and management of the loans	Credit agreement	The Income Tax Act 2007
	Borrowers conditions				Consumer Credit Act

I used these materials for analysis and for triangulation of the details obtained from interviews and participant observations. In addition, I used some of the materials to check facts and/or add additional details that had not appeared in the primary data. Also, reports and media articles were useful to understand chronological developments and key events and changes in language and definitions. Overall, the analysis of the contractual terms of service of major platforms, their language, and ideas helped me to delve into the legal and governance frameworks that they apply and transform.

Given the focus of the project on the regulatory elements, the speeches from the regulator's representatives and consultation papers from the FCA were especially useful for tracking the transformations from the point when the FCA was formed with a specific mission around competition and innovation in financial services, after the economic crisis of 2007–2008. Media articles gave insights into the main events occurring inside crowdfunding and Alternative Finance and the wider FinTech fields. Media articles were also useful for getting a perspective from different external actors and to see which particular wider/external events might influence the transformations (for example, niche media such as AltFi news, Crowdfundinsider, Loan-based crowdfunding Finance news, City AM and wider media such as the Financial Times and Business Insider).

For the second empirical chapter of the study, I integrated ten archival online interviews with the founders of the main platforms, discussing the early days of their companies and the challenges of launching new products and sharing their opinions about regulatory transformations. These interviews helped to enrich findings and also provide details of particular activities and products of the platforms that were not discussed during in-depth interviews.

Finally, I have used some additional data sources for deeper triangulation, and also for tracking on-going transformations of the crowdfunding, Alternative Finance and wider FinTech fields. I have included overviews from main and fringe actors in the sector (e.g. blogs) available online and on social media. This data triangulation strategy around multiple sources strengthens the robustness of the findings (Eisenhardt, 1989). Data were corroborated across multiple sources when possible to avoid single-source bias and maintain objectivity (Strauss and Corbin, 1998). Data collection continued until saturation point, after which additional data contributed only marginal insights (Eisenhardt, 1989).

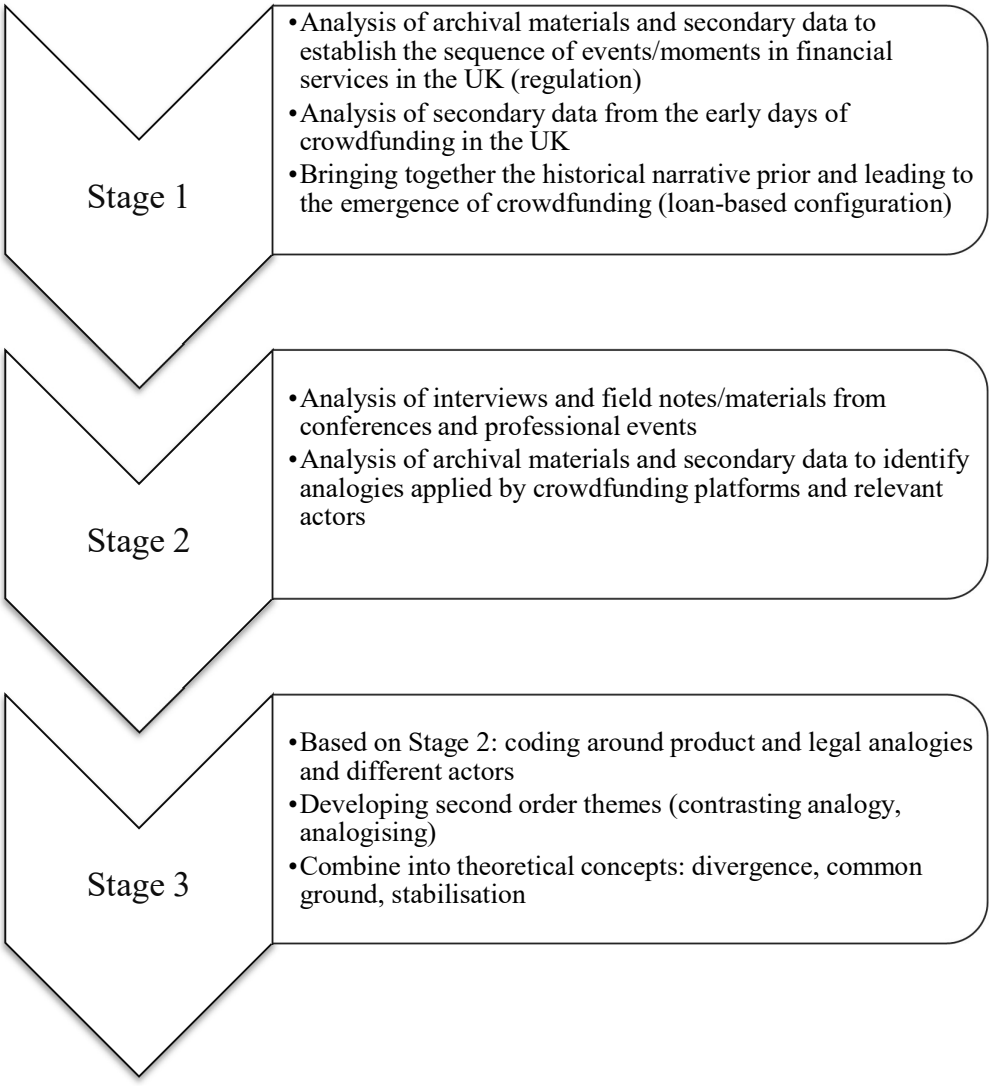
Thus, I used a data collection strategy that was in line with the theoretical approach and is suitable for the empirical context and phenomenon. Through the diversity and breadth in the sampling of the interviewees, I got an opportunity to reveal necessary elements and actors in the early moments and initial emergence of crowdfunding. Through the collection of the industry reports, and initial materials (presentations, discussion notes) from the very first years of the emergence of crowdfunding, as well as through interviews with the very first actors involved in its early days, I was able to add a necessary historical dimension. By conducting a comprehensive set of formal interviews, casual conversations and by complementing text data with participant observation and with continuous tracking of industry news and social media, I was able to develop a data set on the emergence of new forms, the actors involved and their activities as well as the main stages of the regulatory processes in the context of financial services in the UK. The archival materials enabled me to trace the events and develop a historical approach towards the elements that enabled the niche formation, prior to the emergence of the very first loan-based crowdfunding platform, hence connecting the emergence process within time and space.

3.5 Data analysis

In this section, I discuss the general data analysis approach, while specific details are provided in the separate empirical chapters. My analysis of the data is primarily based on an interpretive approach where the aim was to explore the dynamics during the early stages of the emergence of a new form. The focus was on discovering what actors, interactions, processes and dynamics have been key in the context of loan-based crowdfunding and equity crowdfunding as well as within wider financial services in the UK.

My main approach to the data analysis was a non-linear research process, characterised by the iterative sequence of data gathering, data analysis, and reading and re-reading of existing literature in the light of emerging concepts and ideas. This approach involved the application of different theoretical lenses to find the most plausible explanations (Glaser and Strauss, 1967; Gioia et al., 2013). Figure 6 below provides a short overview of the stages of data analysis.

Figure 6: Summary of the data analysis sequence for two empirical chapters



In terms of practical considerations, given the amount of data gathered from interview transcripts and other data sources, I used a MAXQDA software package for organising data sources, themes analysis, coding of qualitative data, and finding main data patterns, before proceeding to more abstract categories as theory gradually emerged (Marshall and Rossman, 2014). During the data analysis stage, I continued to constantly question and test the relevance and plausibility of emerging ideas, which led to a refining and clarifying of my

research questions. The final stage of data analysis shows how data and theory connect to each other (Gioia et al., 2013).

For my two empirical chapters, I used open coding of interviews, secondary sources and archival materials, searching for relevant texts that referred to events in financial services in the UK (regulatory context), particular actors, specific elements that became the bases for the platforms and regulatory developments. For the first empirical chapter, the main sources of data were archival materials and industry reports, supported by available historical interviews with different actors (e.g. government bodies) and several semi-structured interviews. For the second empirical chapter, the main sources of data were the semi-structured interviews, supported by the industry reports and media news as well as by observations and field notes from the conferences.

3.6 Overview of data analysis for the first empirical chapter (chapter 4)

At the initial stage of reading the transcripts of the interviews, I applied open coding (wide brush) to discover the main concepts, ideas, and properties of the data. This process includes summarising all the texts and transcripts to build basic blocks of data and to saturate categories (Miles and Huberman, 1994; Strauss and Corbin, 1990). It is during this stage that I started to uncover the variance between the two configurations of crowdfunding (loan-based crowdfunding and equity crowdfunding) in how and when they emerged, which particular actors and elements were involved, and what their connection was with the wider financial services context and the regulatory architecture.

In order to explore the first research area, on particular moments/events that enabled the emergence of the niches for new organisational actors, I read secondary data sources, mainly archival materials and industry reports and reviews, to code the events and moments,

frameworks and actors involved. I used academic studies and chapters of books to fill gaps in the data about the main functions of financial services, financial regulation and types of financial intermediaries existed in the 20th century, to track a top-line evolution of types of organisation that existed and shaped the niches prior to the emergence of crowdfunding platforms. I started by writing and describing main events and moments in the UK regulatory and political context as a case history, triangulating data around the data sources.

The sequence of events identified is not an exhaustive recounting of all events in the data. Rather they are moments that stood out as important for steering change in the financial services, bringing particular actors, concepts of regulation and ideas to the surface. Specifically, they are the moments that show a shift in regulatory frameworks, layering of particular elements and actors, and transforming the structural organisation of regulatory bodies, connecting them to the emergence of niches and their social meaning. Such events can be called critical events, including, for example, the Big Bang reforms of 1979–1986, and the financial crisis of 2007–2008. My focus here was on positioning the emergence of new organisational actors as a stage in a continuous process, interconnecting organisational actors and the institutional/regulatory context in time. In general, during my data analysis I followed some steps of a process method before the outcome was known (Van de Ven, 1992). Known as 'temporal bracketing strategy', this strategy transforms data into a series of more discrete but connected blocks or phases, to examine how the context affects the processes, and what the future consequences of these processes are on the future context and other relevant elements (Langley, 1999). In addition, I observed the developments in real-time as the process unfolded, by examining the data for patterns, trends, and themes over time and in relation to other events, through the applications of tools such as longitudinal tables, phases and charts of events (Van de Ven and Poole, 2005).

The observations of conferences and professional events, as well as the public meetings of the regulator, provided me with an additional data analysis lens to fill the gaps in my understanding of the wider context and trends in the financial services, FinTech, government policies around new organisational actors, and topics about potential transformations. The observation of these events allowed me to connect historical developments with current transformations. In addition, these events gave me an opportunity to track how such conferences and meetings became platforms for the regulator to send certain messages to different audiences and at the same time to learn from those audiences.

3.7 Overview of data analysis for the second empirical chapter (chapter 5)

For the second empirical chapter in this thesis, I have followed an approach in which I identified a general line of inquiry, and selected a research site where I saw potential for interesting answers to emerge (Reay and Jones, 2016). This is in line with a grounded theory approach (Glaser and Strauss, 1967; Locke, 2001), which involves open-ended analysis, where researchers iterate back and forth between existing theoretical insights, empirical data, literature and emerging theory (Smets et al., 2012). The process of coding and combination into different themes and groups was done iteratively while more interviews were being done; thus I was able to see the emergence of different themes shaping the next iteration of data collection and analysis. I also iterated between the data and the theories of organisational forms' emergence, and analogies and roles of regulation, which helped me further in adapting the questions in the last few interviews to refine my findings. Following the guidance for open coding technique (Locke, 2001), I used several rounds of coding to evolutionarily combine first-order descriptive codes (e.g., "not a bank" "eBay for money" and "not fund") into more theoretically relevant second-order codes (e.g., "contrasting analogy"; "contrasting legal analogy") and finally to combine them into the aggregated dimensions (e.g.,

"divergence"; "alignment" and "stabilisation"). I provide more details in the empirical Chapter 5 and I also provide a detailed review of codes and quotes in **Appendix 9**.

The next two chapters offer the main empirical findings of the thesis. The first chapter is focused on the analysis of the sequence of events in the UK financial services that enabled the niche formation as a space for innovation, while the second empirical chapter provides findings on a particular process: *collective analogising,* through which particular elements—financial and non-financial *analogies*—enabled the emergence of new organisational form (loan-based crowdfunding). Each of the chapters provides a brief introduction, details of the data analysis, the findings, and a brief discussion of its theoretical implications. These two chapters are followed by the final discussion and conclusion chapters.

Chapter 4. Regulatory moments and niche formation for new organisational forms: the transformation of the regulatory architecture in the UK from the 1980s to 2018

4.1 Introduction

The task of delving into an organisational emergence requires an analytical approach that allows identification and explication of the fundamental social mechanisms behind it. The study of how institutional arrangements become embedded over time through institutional developments and particular historical sequences is crucial to getting a more nuanced insight into the connections between the institutional context, its elements, and how they are organised in certain forms of organisation. The identification and clarification of such mechanisms can help develop arguments about temporal processes, in order to construct theories and apply them to different contexts. Early organisational scholars (e.g. Stinchcombe, 1965) and political studies (e.g. Pierson, 2004) acknowledged a strong imperative that the emergence of organisations be positioned in time and in a context, with the goal of shedding light on how the processes of organisational emergence unfold in their early stages, and, especially, determining *specific processes, elements, and actors* that navigate those period of unsettlement when a large of number of choices exist. The analysis of these initial processes might demonstrate particularly consequential processes between the emergence of organisational forms and institutional arrangements, which alter the implications of later events or processes (Pierson, 2011), demonstrating how the period of uncertainty and indeterminacy had been resolved in the early period of the emergence. Hence, one of the aims of this research project is to uncover how the formation of, and transformations in, the regulatory environment of a highly regulated context are connected with the niches' formation, and with their availability as a precondition enabling new niche organisational forms to emerge. In order to do so, this chapter looks at the historical

development of regulatory moments in a highly regulated context (financial services in the UK) as a sequence of particular events that occurred. Specifically, I trace how the regulatory architecture went from a stage of self-regulation to the institutionalised form of statutory regulation, and how, through this process of *layering*, niches became available in the architecture for new organisational forms to emerge. The obvious prediction based on the resource partitioning argument would conclude that, in a context where the incumbent players are the large concentrated bank actors, small banks will proliferate because of resource partitioning, by defining niches as gaps in the resources space. But how could these niches become spaces for innovation and experimentation? The findings of this chapter show that a particular combination, developed through the process of layering of different elements in the regulatory architecture (a part of the institutional infrastructure), shaped the understanding of the content of niches as spaces for innovation, and enabled non-bank forms to anchor into those niches through certain combinations and strategies. These observations guide my answers to the following question: *how is the formation and institutionalisation of a particular model of regulation, in the institutional environment of the highly regulated context, connected with the niches' formation as a precondition enabling new organisational forms to emerge?*

I used the identification of the temporal sequence of events to account for temporal connections among events, and the dynamic nature of processes to condense the rich process data in a simpler manner, and theoretically develop the phases of the emerging activities (Van de Ven and Poole, 2005). I discovered that the formation of the regulatory model through *layering s*haped particular core concepts, and underlying ideas of risk and innovation, for financial services providers, hence shaping the characteristics of practices and products that could be enabled in niches. This, in turn, shaped the actions and forms of organisational

actors entering and anchoring into the spaces. This analysis also contributes to the general understanding of the formation of innovation as an embedded process, rather than as an exogenous shock, in a highly regulated context such as financial services.

My goal is not to provide details of every single regulatory transformation and event, but to map the main building blocks that formed the layers transforming the pathway of the financial system development, enabling new organisational forms to embody not only structural features but also environmental factors. Policy-makers are challenged by an emerging present to reconstruct a coherent past and future. It has been acknowledged that the resulting policies and regulatory frameworks are based not on a single idea but, rather, on a fabric of ideas and interests woven by the interactions among different audiences and different interpretations trying to establish necessary consensus (Abolafia, 2004). My starting point is the period of the 1980s, as this period became the first stage in the *layering* of the statutory regulatory framework and, together with the self-regulatory arrangements that existed previously among financial services organisations, directed the transformations of the underlying elements of the regulatory architecture.

4.2 An overview of the data analysis

This chapter provides the results of the analysis of archival materials, industry reports, academic research around the regulatory architectures of financial services, several speeches by government bodies, and interviews (see **Chapter 3** on methodology and **Appendix 2** for examples of this material), around the formation and transformation of the regulatory environment.

When I started my initial reading around the emergence of the first loan-based crowdfunding and equity crowdfunding platforms, two general observations started to occur: the first was the timing of the regulatory changes and particular activities of new organisational actors; second, industry reports and interviewees acknowledged the importance of the 'legacy' of past events to how the context of financial services enabled the proliferation of new organisational actors, and the existence of key gaps in funding provision that had been developing over the years. This observation inspired me to delve deeper into the historical development of the regulatory architecture of financial services in the UK. I observed that the process of the development of the regulatory architecture went through several phases, foregrounding certain regulatory frameworks and moving others into the background, promoting certain ideas about what sustainable financial services are and removing others from the wider conversation. I observed in the data that, in different phases, the regulatory actors followed certain conceptual objectives co-developed together with the government, and at the same time they underwent structural changes to the regulatory bodies, which shaped the regulators' relations with the organisations that they regulate. At the same time, the foundation of the financial services' existence became the understanding that there is a need for financial services and members of the financial services *to be regulated*. This understanding of the regulatory frameworks became taken for granted by the actors. This meant that *regulation* and, in the current model, *statutory regulation*, became a significant part of the underlying architecture of financial services, as did, in the language of the sociology of law scholarship, legal consciousness of financial services.

The process of data analysis went through three main stages. I started by immersing myself in the extensive historical documents around financial services and regulation in the UK to understand their overall evolution. At this stage, I started to develop an event-history

database to establish the pathway of important incidents and events (Garud and Rappa, 1994). The first stage of the analysis was based on open coding. I used a coding scheme based on the main events (e.g. the financial crisis of 2007–2008), key legislation (e.g. the Financial Services and Markets Act 2000), actors (e.g. individuals and organisations), wider policy development paradigms, organisational forms in capital provision, niches/gaps in the provision of financial capital, types of regulation, and main ideas, official mandates and goals behind the regulatory frameworks. These codes enabled me to see changes over time and aggregate them into second-order processes (e.g. layers of regulatory models, ideas) that I was able to theoretically define within aggregated dimensions towards the three theoretically derived phases of *blending, bundling, and unbundling* in the regulatory architecture and, within the meaning and functions of the niche, *gaps, urgent problems, spaces for innovation and experimentation*, in the financial services in the UK. Table 14 below provides a summary of the phase one structure, while **Appendix 3** summarises other phases.

Table 14: Data structure summary (phase one, 1980s–2000)

First order codes (elements)	Second-order themes	Aggregated dimensions
Main events (Big Bang series of reforms)	Two layers of regulatory model co-exist	*Blending* of two layers: self-regulation and statutory backing
Acts/legal frameworks (Series of reforms in the 1980s)		
Actors (e.g. government, banks, building societies)	New layers of actors	
Organisational forms	New layers of practices	
Regulatory bodies (self-regulating organisations (SROs), Securities and Investments Board (SIB))	New layers of ideas about risk, consumers	*A niche is a gap* in capital circulation (similar to the resource partitioning definition)

During this stage, I noticed particular phases in the development of the regulatory model, so I started to delve deeper, looking for consistency across the first level coding. Periodisation is an important tool for analysing longitudinal studies in which divisions of social time and space are defined from sources and historical context in the process of research and writing (Plourde, 2013). Periodisation is the process of dividing a narrative into differently labelled sequences with clearly defined beginning and end points (Rowlinson, 2004). Different approaches exist to deriving periods from chronologies (e.g. deciding prior to the data collection). I derived my periodisation in two ways. One source was derivation from the events in the context and certain responses: patterns of action that they provoked. Another source of periodisation emerged from the data. These patterns then are combined into the sequence of phases that occur over time to produce given results (Van de Ven and Poole, 1995; Langley, 1999).

In the second stage of the analysis, I started to combine elements identified in the first stage into the groups. During this stage, I identified a consistent process of one element either being added or subtracted, creating particular transformations. In the final stage of the analysis, I went through one more iteration across the data sources to confirm the three phases in the development of the regulatory environment, from self-regulatory model to the institutionalised statutory model of regulation, establishing several taken-for-granted arrangements in the underlying regulatory architecture (part of the institutional infrastructure). Another analysis that I performed with this periodisation of the phases was on how the actors discussed the conceptions of niches in the financial services over time. I coded the data sources based on how these niches were positioned, which actors were present, and if changes in the discussion were connected to the wider transformations. Finally, I developed the theoretically conceptualised phases that also revealed how particular niches in the

financial services were developing and transforming, and what particular types of organisational actors were entering and exiting the niches. Overall, the analysis shows a dynamic process model of layering that connects dynamics in the wider institutional environment with the process of organising elements into recognisable organisational actors within the environment.

4.3 Setting the scene: three phases of the regulatory formation of the financial services in the UK

4.3.1.The financial system, its functions, and its institutional forms

The financial system is often divided from the 'real' economy, which includes the activities of organisations that produce things or provide services and the consumers of them. The financial system operates in relation to the real economy, linking future economic developments to the present state of the economy (Armour et al., 2016).

Some literature distinguishes three key *functions* of the financial system: payment services, intermediation between savers and borrowers, and insurance (management) against risk (Davies et al., 2010, The Bank of England Quarterly Bulletin). Current studies also include two more functions: selecting projects from those searching for investment capital, and monitoring the performance of those executing projects in which investment has been made (Armour et al., 2016). Historically, the financial system has been divided into two institutional components. The first includes financial intermediaries such as banks, savings and lending institutions, pension funds, mutual funds, and insurance companies; the second, financial markets such as equity markets, bond markets, derivatives (Armour et al., 2016). While this classification still exists, the boundaries between the forms and the practices of those two components have started to blur. So, the basis of the financial system is relatively

timeless, but some elements of the system providing financial services change continuously through transformations in underlying infrastructural elements such as regulatory architecture.

Overall I track developments from the 1980s up to 2018 in two main segments of the financial services in the UK: the banking sector, and investment or funding provision for early-stage companies, start-ups and individuals. I focus specifically on these segments because they are the contexts in which the first new platform-based organisational actors emerged. The identification of phases is an important element in longitudinal studies of the development and transformation of fields, as it helps to distinguish stages, events, and processes and also to draw the line between one stage and the next (Clemens, 2007; Langley, 1999). Table 15 summarises the characteristics of the phases and regulatory actors, while Table 16 provides additional details around the niches, existing ideas, and paradigms behind the frameworks and policies (see **Appendix 4** for an extended version of the tables)

Table 15: Phases and description of the main regulatory actors in the UK

Phase	Period	Local regulators	Main areas/spaces of regulation	Main objectives	Structure	International regulatory actors
Phase 1 (Blending of two layers: self-regulation and statutory backing) (1980s–2000)	1980s (the Financial Services Act 1986)	SIB SROs: The financial Intermediaries, Managers and Brokers Regulatory Association (FIMBRA) The life assurance and unit trust regulatory organisation (LAUTRO) The Association of Futures Brokers and Dealers (AFBD) The Securities Association	Securities and investments Investor protection: retail investment products Life insurance and mutual funds Commodities and futures Stock exchange Investment fund managers	Investor protection Based on: Top tier: rules from SIB (high level) Second tier: ten core principles binding SROs across (financial resources, conduct of business and client money) Third tier: SROs rules	SIB – company limited by guarantee with some statutory powers to approve and oversee SROs. SROs – organised by members.	European Union legal frameworks from 1973 Basel I 1988

Phase	Period	Local regulators	Main areas/spaces of regulation	Main objectives	Structure	International regulatory actors
		(TSA) The Investment Management Regulatory Organisation (IMRO) BoE (Bank of England)	Banks	Prudential supervision	BoE	
	1991	AFBD + TSA = SFA (The Securities and Futures Authority)	Period of consolidation of SROs leading to creation of the Financial Services Authority (FSA)			European Union legal frameworks from 1973 Basel I 1988
	1992	FIMBRA + LAUTRO + IMRO = PIA (The Personal Investments Authority)				European Union legal frameworks from 1973 Basel I 1988

Phase	Period	Local regulators	Main areas/spaces of regulation	Main objectives	Structure	International regulatory actors
Phase 2 (Consolidation/Bundling: statutory model becomes taken for granted) (2001–2012)	2001 (by Financial and Services and Markets Act 2000)	SIB +PIA+ SFA = FSA (The Financial Services Authority)	Investment businesses, banking, and insurance	Abstract principles: 4 statutory objectives (market confidence, public awareness, consumer protection, financial crime reduction) + a set of principles of good regulation.	Structured by a limited guarantee, formerly independent from the government, funded by fees from members of the financial services	European Union legal frameworks from 1973 Basel II 1999

Phase	Period	Local regulators	Main areas/spaces of regulation	Main objectives	Structure	International regulatory actors
Phase 3 (Segregation/unbundling) (2013-2018)	2013 (by the Financial Services Act 2012)–2018	FSA split into Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA), and FCP FCA merges with the OFT (Office of Fair Trading) FCA + OFT	FCA: conduct of business PRA: prudential supervision of banks and insurers FCP: stability of the financial system	FCA: strategic objective of ensuring that the relevant market functions well; 3 operating objectives: consumer protection integrity competition PRA: general objective of promoting the safety and soundness of the PRA authorised persons; insurance objective of contributing to the securing of an appropriate degree of protection for those who are or may become a policy-holder (With Brexit announcement consumer protection dominates)	FCA: formally independent from the government and gets funds from fees from members of the financial services PRA and FCP – part of the BoE	European Union legal frameworks from 1973 Basel III 2009

Source: Author's analysis of archival materials from the BoE, the FSA, the FCA, and the government

Table 16: Phases and description of the events, regulators, ideas, and paradigms

Phases	Key events	Main legislations (local)	Actors: regulators	Niches/Gaps	Type of regulation	Wider paradigm underlying the policy-making	Ideas behind regulatory frameworks
1980s–2000	Secondary Banking crisis 1974 Series of bank collapses in the 1990s Bank of England was given and then lost the banks' regulation	The Banking Act 1979 The Financial Services Act 1986 The Building Societies Act 1986 The Bank of England Act 1998	SIB and SROs Bank of England	Macmillan Gap, unsecured consumer lending	Self-regulation + layers of statutory regulation	Neoliberalism and monetarism Market paradigm	Investor protection
2001–2012	Financial Crisis 2007–2008 Further consolidation of the banking sector due to bailouts	The Financial Services and Markets Act 2000	FSA, Bank of England, Treasury – supervisory function (tripartite system)	Macmillan Gap, early-stage start-up financing, unsecured consumer funding	Statutory regulation model dominates	Neoliberalism as a dominant layer	Two dominate: consumer protection and financial fraud prevention Two others present: market confidence and public awareness

2013–2018	Key structural change of the regulatory model **2014** – The British Business Bank was formed, owned by the government with the goal of helping to fill the gap through indirect funding **2014** - FCA takes over OFT	The Financial Markets Act 2012	FCA, PRA, FCP (twin peaks system) Treasury – supervisory function	Macmillan Gap, early-stage start-up financing, unsecured consumer funding, property development funding, mortgage lending	Statutory regulation model split	Neoliberalism as a dominant layer	Good functioning of the market, based on consumer protection, integrity, and competition Additional element to competition: innovation
	2016 - Brexit vote 2016						

Source: Author's analysis of archival materials from the BoE, the FSA, the FCA, and the government

The findings of this study show that the three phases started from phase one with the blending of two layers within the regulatory architecture: self-regulation and statutory backing, during which the niche was a resources *gap* in financial services resource allocation. Hence, during this phase, the niche was defined in a way similar to the arguments of the resources partitioning theoretical framework discussed in the literature review. Phase two saw consolidation within the regulatory architecture, creating the statutory model of regulation as taken for granted, with similar bundling of the provision of the financial services within large incumbent forms creating a sense of urgency around the existing non-occupied niches as *problems* that needed a solution. Phase three demonstrates the beginning of the opposite process, of segregation within the regulatory actors, as well as the process of the unbundling of financial services and the wide emergence of new niche organisational forms that anchored into the niches, and which became those *spaces for innovation and experimentation* and bases for competition within the financial system.

This process of niche formation is not unilateral: while regulatory transformations influenced the niches, the actors who entered and exited particular niches shaped the formation of the regulatory architecture. In addition, the analysis showed an interesting combinatory mechanism within the layering that formed the statutory regulation as a taken-for-granted institutional arrangement of the underlying regulatory architecture (underlying legal consciousness). This process did not go through a linear development, but can be characterised as background/foreground interplay through which some layers came to the surface while others sank into the background. For instance, the critical event of the financial crisis of 2007–2008 brought into the foreground the concept of *competition*, through the mechanism of unbundling the financial services usually provided by the incumbent universal

banks. This notion of unbundling was strengthened by the idea of *innovation* that can be enabled by new actors rather than the existing organisations.

In the next sections, I provide a detailed analysis of the development of the regulatory architecture of the financial services in the UK over the period 1980s–2018 through three phases. I discuss three phases and show how layering occurred and how this process was connected with the niches that finally became the anchoring spaces allowing new small organisational actors outside the financial services to emerge (first - loan-based crowdfunding and then second - equity crowdfunding). I finish with a theoretical model that shows the process of the niches' transformation, and interplay with changes in the wider regulatory architecture. By providing these insights this research project adds to the development of a wider line of research that situates the endogenous notion of regulation as a part of the institutional context that patterns order and control in both the macro and micro contexts of organisations' lives. .

4.3.2 Phase 1. The blending of layers: formation (1980s–2000)

Background

The period before 1979 in the UK was characterised by the traditional system of informal regulation in which the banks did not fall under prudential regulation or supervision. The period before 1974 was stable, so explicit legislation was not considered important. The system was based on 'moral suasion', an informal approach to bank supervision taken by the Bank of England in discussions and general recommendations for banks (Petters, 1986/87). The regulatory framework of investment business was based on the Prevention of Fraud

(Investment) (PFI) Act 1958 that required all individuals and firms that carried out financial services business to obtain a licence issued by the Board of Trade.[5]

Hence, before the 1980s, the regulatory architecture was primarily based on self-regulatory mechanisms governing professional bodies through particular rules, best practice, professional standards, and norms. Investment markets were largely regulated by the institutions that evolved within the markets themselves (e.g. the London Stock Exchange) (Bowen et al., 1999). Hence, financial services organisations within the financial system were encouraged to regulate themselves through normative isomorphic pressures expressed between practitioners, in which the state was almost absent (Soin and Huber, 2013).

The early stage of the formation of the statutory model

In 1974, the secondary banking crisis became the type of critical event (Braudel, 1995) demonstrating the need for a supervisory actor over banks. Hence, the appearance of the first layer (actor): the Bank of England was given supervisory powers over all deposit-taking institutions through the Banking Act 1979. It was the first time in its history that the Bank of England was assigned *formal* responsibility for the prudential regulation and supervision of UK banks (The Bank of England Quarterly Bulletin, 1991). The Bank of England decided on whether an organisational actor was given 'bank' status, according to a formalised list of criteria of services required (provision of the facilities for current and deposit accounts, overdraft and loan facilities to corporate/retail customers, and at least one of: foreign exchange facilities, foreign trade documentation and finance, investment management services, or a specialised banking product (Shabani et al., 2014)). Also, the Bank of England checked that a 'bank' had a good reputation in the financial community, and could manage

[5] The UK Board of Trade is a British Government department that champions exports, inward investment and outward direct investment to deliver economic growth and prosperity. This Board was established in 1621.

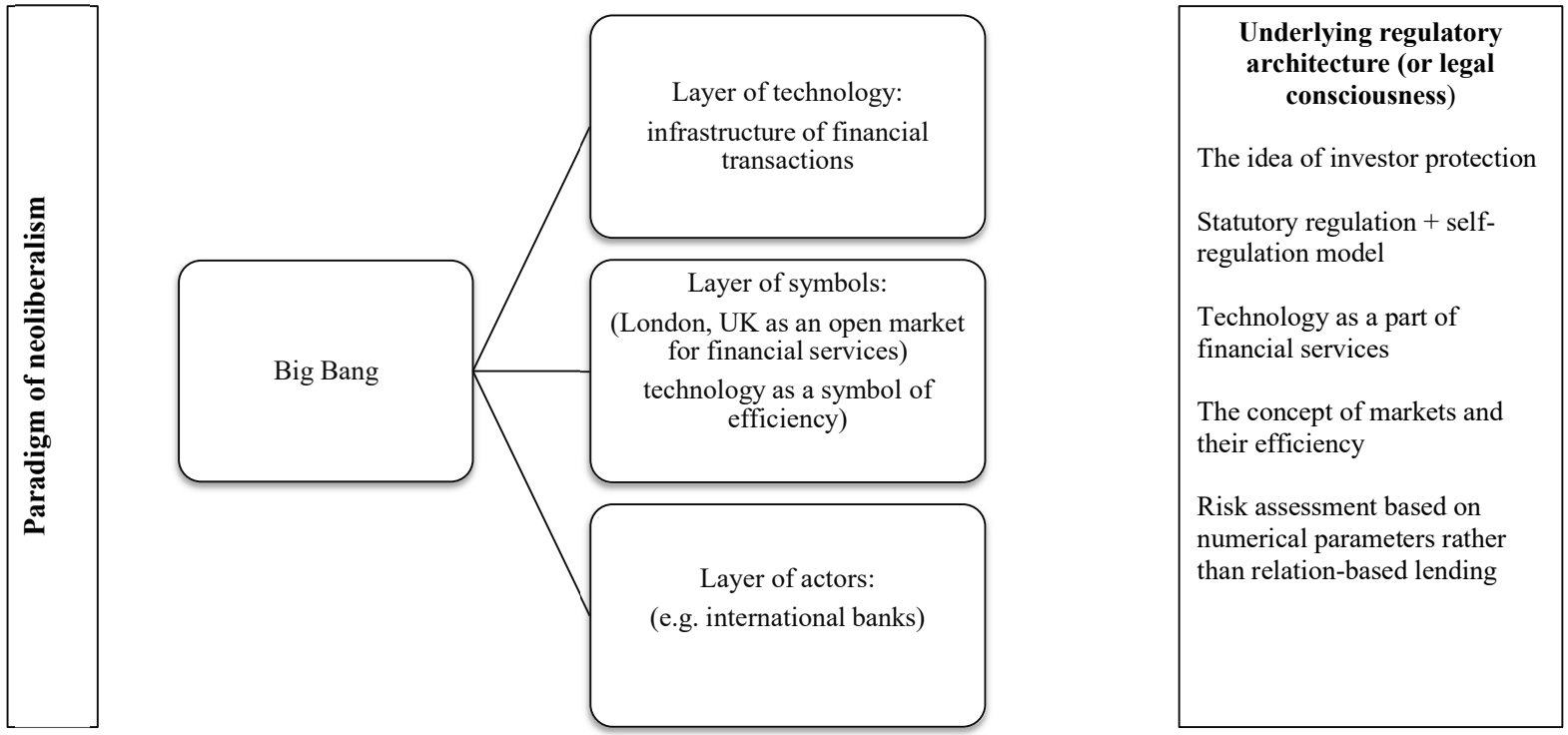
its financial affairs, and the criterion of being 'fit and proper' was applied to all directors/controllers/managers. Hence the banking sector still maintained the self-regulation model. These procedures became the basis for the future authorisation process, structuring the main elements that identify the form of a bank. The starting point of the wider discourse around the shift in the regulatory model, which combined self-regulation with some statutory back-up in the investment side of the financial services, became evident when the government ordered specific reports, known as the Gower Report(s) (1982, 1984, 1985). These reports identified three areas with respect to *investor* protection. This idea became the basis of the goal of the statutory regulatory architecture (Pimlett, 1985; Peeters, 1988; Soin and Huber, 2013). The areas of concern identified in the reports were: first, that there was no single regulator or complaints bureau; second, that there was no one to regulate takeovers; and third, that there was no regulation of the marketing of investments (now known as financial promotions) and investment managers. Essentially, these issues questioned the self-regulatory framework's efficiency without statutory backing. These reports provided templates for the transformations in the regulatory architecture that added the layer of the statutory regulation.

The later transformations happening during this phase were within the wider shift from the Keynesian, Welfare State paradigm towards ideas of *neoliberalism*, which finally established themselves as a guiding, underlying paradigm of policy-making. This is important to note here, as the ideas behind the paradigm affected not only regulatory architecture but also social and political norms and ideals that have dominated the space till now (e.g., Amable, 2010). Harvey (2005, p.2) defines *neoliberalism* as 'in the first instance a theory of political economic practices that proposes that human wellbeing can best be advanced by liberating entrepreneurial freedoms and skills within an institutional framework characterised by strong

private property rights, free markets, and free trade'. These ideas manifested themselves in social policies that gave an increased liberality and centrality to markets and market processes, and to the interests of capital and had a focus on individual rights and the centrality of property rights, and a culture of individualism and consumption.

This political ideology had a significant influence on the development of the regulatory model. The effects of these shifts in the wider paradigms on the transformations of the regulatory architecture cannot be underestimated. Policy-makers and regulators usually navigate their decisions through a large number of facts, creating a variety of choices that can be made. These wider paradigms or ideologies provide the decision-makers with a particular toolkit for filtering the main facts and choosing particular legal elements to develop their policies. Main actors, including the government, regulators, and financial services organisations started to perceive a change to be necessary – known as deregulation. The main areas affected included a more flexible market organisation, the development of overseas investment and international trading in equities, improved technology, the entrance of institutional investors into the market, and the establishment of London as a centre of international finance (Soin and Huber, 2013; Morgan and Engwall, 2018). This shift in the wider paradigm was localised in the financial services through a series of reforms (known as the 'Big Bang') that became another critical event contributing to the establishment of the idea of the market system in the financial services and the statutory regulatory model. This event influenced the underlying regulatory architecture in several aspects: by enabling new actors (e.g. international banks) to enter, by shaping the roles and forms of existing organisational actors (e.g. building societies), by enabling technological infrastructure in the financial services, by establishing the symbolic role of London as a centre of international finance. Figure 7 below summarises the shifts and layering within the regulatory architecture.

Figure 7: Big Bang reforms of the 1980s: layers and shifts in the underlying regulatory architecture



First, the initial step of the abolition of exchange control[6] in 1979 enabled the entrance of international business actors that increased competition levels. This allowed international actors (mainly US banks) to enter the financial services and increase the scale of financial transactions and deals on a daily basis[7]. Further, it opened up the era of mergers and acquisitions from 1986 onwards, creating the basis for the banks' growth in size towards *a universal form* of a bank. The reforms created the conditions for banks to achieve the economies of scale and to execute the transaction as a loss-leader[8]. The Building Societies Act 1986 allowed building societies (another form of financial service provider) to become similar to, and also more competitive with, banks, in that they expanded their retail banking services to include provision of loans other than mortgages. Building societies were now able to offer products such as current bank accounts and life assurance.

Second, the role of market intermediaries was reshaped: before the Big Bang, the London Stock Exchange had individual members, governed by their own internal rules similar to gentlemen's clubs; only these members could be partners/owners of the companies which carried on business at the exchange. In general, according to the system of single-capacity, brokers and jobbers were able to implement only one function: brokers could deal only as agents; dealers/jobbers could deal only as principals and only with brokers or other jobbers, and all brokers charged the same fixed commission rates. With the Big Bang, the role and functions of these two types of actor were reshaped. Companies and individuals were permitted to take on multiple roles. In addition, brokers, previously individuals, were allowed

[6] Exchange control prohibited British residents (individuals and organisations) from holding foreign currencies. The regulation's purpose was to help the authorities maintain the gold and foreign currency reserves and control the balance of payment positions. The Exchange Control Act of 1947 had tightly regulated the capital transactions (both direct and portfolio investment) of British residents with foreign territories.

[7] In the months before the Big Bang, the average number of trades in London-listed shares was 20,000, amounting to around £700m in value. This year, the average has been more than 45 times as many: 976,000 with an average of £5bn worth of equities changing hands every day (http://www.cityam.com/252351/big-bang-30-can-1986-hold-key-seizing-citys-brexit)

[8] http://www.cityam.com/252351/big-bang-30-can-1986-hold-key-seizing-citys-brexit

to organise themselves into companies rather than just partnerships. The process of charging fixed commissions was removed by allowing clients to negotiate. The Big Bang opened up London markets to the international banks. The London Stock Exchange became a private limited company. Further, the Big Bang initiated the process of the incorporation of technological elements into the functioning of financial services, specifically the provision of 'live' prices electronically over the Stock Exchange Automated Quotations system. These 'live' prices became the early stage in the emergence of electronic trading.

The regulatory framework resulted in a two-tier structure, based on two layers: a self-regulatory framework and the statutory element. Regulation of securities and investments came under the SIB that was responsible to parliament. The SIB was a private company and had a legally private character. It was funded via a levy on the markets, and its members were appointed jointly by the Secretary of State for Trade and Industry and the Governor of the Bank of England (Morgan and Soin, 1999). Under the overall supervision of the SIB, SROs oversaw particular areas of the financial services sector (Laurence, 1999). The SROs were still at the core of the regulatory model, as they were responsible for the licensing, supervision and authorisation of the members' performance of particular activities.

The layers of these transformations led to the dominance of the *universal form* of the banks and to the change of the core roles of the banks. The layering caused processes that questioned what *banking* was. The role of the banks shifted from their being intermediaries channelling savings from individuals to organisations, towards their being actors that *manage and transform risk*.

Before then the system was segmented and differentiated both in formal legal terms and institutional terms. The architecture of the regulatory environment was based on clear

demarcation between organisational actors. Different organisational actors existed to provide the differentiated services of commercial banking, housing finance, investment banking, life assurance, fund management, and securities trading (Davies et al., 2010). In the banking sector, several forms existed: clearing banks provided commercial banking activities and money transmission services, mainly to domestic customers; investment banks (merchant banks) provided a range of market intermediated financial services to both domestic and overseas corporations; and building societies provided housing finance. Lending activities within the clearing banks were mainly relations-based rather than scoring/numerical based.

Phase one became the phase of interplay between the formation of the regulatory model and shifts in the underlying regulatory architecture, leading to the formation of niches. Before phase one the gap in funding for small and medium enterprises (SMEs) was acknowledged as a potential difficulty that SMEs might experience,[9] but this gap was not interpreted as a niche that needed to be addressed, as the banks maintained some presence there. In addition, the role of SMEs was not perceived and discussed as significant for the economy and hence for policy-making. The banks still had a specialist focus, and the number of SMEs was not significant enough to create a sense of urgency. Hence, the niche was given the status of *a small gap* in capital circulation.

An additional layer of the international regulatory framework in the form of Basel I Accord 1988[10] strengthened the transformation of the concept of risk and the riskiness of the banks' products and assessment of the banks' capital (see **Appendix 5** for the evolution of Basel

[9] The Labour government launched the Macmillan Committee enquiry in 1929. The public reaction to its report, published in 1931, focused on its finding that, 'It has been represented to us that great difficulty is experienced by the smaller and medium-sized businesses in raising... capital... even when the security offered is perfectly sound' – which soon became known as the Macmillan Gap (Scott and Newton, 2006).
[10] The Basel Accord of 1988 established the principle that banks should hold capital in proportion to their risk-weighted loans. This ratio became a key factor in banks' management, in their credit ratios, and hence in the cost of their capital, i.e., their share price.

frameworks over the years). The layering in phase one shifted the concept of *risk* and the techniques of its assessment, making what were previously seen as 'problems' into widely accepted niches in funding provision. First, lending to SMEs, as a banking product, fell into the category of 'risk'-type products, so banks with the universal model started to reduce their presence in this space. Economic reasons (profit and costs - the universal model allowed banks to start getting non-traditional, non-interest income) can explain a part of this slow move of the banks away from SME lending, but it was the underlying shift in the meaning and understanding of the concept of 'risk' that provoked the move. On the one hand, risk became a product that could be packaged and sold in the market. On the other hand, automation provided the opportunity to start measuring risk according to a set of standardised criteria. So the formation of the niche was a two-sided process: first, organisations started to perceive this type of a product as risky, due to the change in the underlying meaning of the concept of risk; second, the regulatory frameworks also transformed.

Further, SMEs were segmented into a start-up group and, according to the risk criteria, they were considered very high-risk actors, requiring a different type of funding, in the form of equity rather than loans. This became a niche that added a new layer of actors in the form of venture capitalists (Murray, 1991b; Masson and Harrison, 1992). Archival material from the Bank of England (1982, p.) states:

> The UK venture capital industry is still in its infancy, and no doubt there will be growing pains. But it probably has considerable potential benefits for the economy and should, therefore, be encouraged to establish itself. Venture capitalists are natural intermediaries between institutional investors who have funds but lack the human resources for active involvement in management, and rapidly-growing businesses who often lack both.

The early venture capital actors were equity oriented, highly selective in their investee businesses to reduce risk, and were focused on making a medium- to the long-term

commitment of finance with the aim of making capital gains (Masson and Harrison, 1991, in Green 1991). Before the emergence of the venture capitalist in the UK in the 1980s, the only sources of venture capital were the small business arms of the clearing banks, merchant banks that specialised in small business clients, and The Industrial and Commercial Finance Corporation (ICF)(now the venture capital firm 3i) (Clark 1987) (**Appendix 6** shows the evolution of the sources of start-up funding). However, the gap/niche in early-stage start-up capital had never been filled as the majority of venture capitalists provided larger amounts of capital to later (buy-out) stage companies, with a specific regional focus.

Phase one was ended by a series of bank collapses, leading to debate over and a rethink of the role of the Bank of England as an appropriate actor to regulate banks within the wider regulatory environment. While responsibilities for the banks' regulation were removed from the Bank of England, the main underlying model of statutory regulation became even more deeply embedded in the underlying architecture. The Bank of England Act 1998 gave the Bank of England the responsibility for the conduct of monetary policy. The supervision of the insurance industry passed from the Department for Trade and Industry to the Treasury. This was the first stage in the process of the creation of one big regulator over prudential, conduct for business and market conduct regulation, including banking, insurance, securities, and investment business and the building societies.

4.3.3 Phase 2: Era of bundling – universal model (2001–2012)

I distinguish two stages in phase two, due to another critical event, in the form of the financial crisis (2007–2008).

Before the financial crisis 2007–2008

While phase one became the emergence stage of statutory regulation and its layering with the self-regulatory model, the period of 2001–2007 is the phase of the institutionalisation of the

statutory model of regulation. It became not only an official approach imposed by the government, but it also became taken for granted by the government, the regulator and organisations – part of the regulatory architecture (legal consciousness) (Silbey, 1998; Edelman, 2010). While self-regulatory elements were still present, they sank into the background and maintained their position in the professional bodies and associations.

The process of bundling of layers can summarise the dynamic in this period. One bundled regulator, the FSA, formed in 2001, was responsible for the authorisation and prudential supervision of banks, building societies, insurance companies and brokers, credit unions, and friendly societies. Furthermore, it was the supervisor of financial markets, securities listings and of clearing and settlements systems. The Treasury (part of the government) had operational responsibility for the activities of the FSA and the Bank of England. This 'tripartite' regulatory system gave the Bank of England, the Treasury and the FSA combined responsibility for regulating the UK financial system. However, the FSA had the main responsibility for the prudential oversight and conduct of all legally functioning financial service providers (the Financial Services and Markets Act (FSMA) 2000). So, the process of 'embedding' consumers into the universal model of financial services went in parallel with 'embedding' financial services organisations into the bundled/consolidated regulatory architecture. Other actors that provided early-stage start-ups with funds, mainly business angels (BAs) and venture capitalists (VCs), continued to be active in this niche; however, their focus started to shift even more towards later stage start-ups that they considered less risky.

The *universal model* became the dominant model for banks, which were increasingly shifting from their role of intermediaries towards becoming actors, packaging risk and providing

maturity transformation[11]. From the economic point of view, the banks relied increasingly on non-interest revenue sources. Another significant process at this stage is the conversion of previously different forms into the organisational form of banks. The number of building societies, the main providers of mortgage lending, converting into the banks grew dramatically.

Hence, these two interconnected processes, a tighter organisation among the actors and among regulatory bodies, provoked further institutionalisation of the statutory model of regulation and particular concepts became more deeply embedded into the underlying infrastructure. These transformations reconfigured the specialist nature of the financial services, blurring clear boundaries between the particular products, blending them within fewer forms, leaving some niches visible on the surface.

After the critical event of the financial crisis 2007–2008

The financial crisis became that type of a critical event that enabled a rethink of how certain areas of the financial system should function, how certain concepts should be defined, how legal frameworks should be written and how certain actors should be regulated. It has also been acknowledged that the financial crisis 2007–2008 had a special role in revealing how markets work (Munir, 2011). Gordon Brown, the UK Prime Minister during the crisis period, provided his interpretation:

> We created a system in 1997 which was unified regulation. Before 1997 it was virtually self-regulation. We created a statutory system, but around the world, we were finding that we had a global set of financial flows and you needed global supervision. The general view of financial practitioners was that the more ownership of products

[11] Maturity transformation is the core practice of retail banks when they take short-term sources of finance, such as deposits from savers and money-market loans, and turn them into long-term borrowings (source: Investopedia, Moneyweek)

> was diversified, the more you limited the danger of risk falling on one institution (Guardian, 2009).

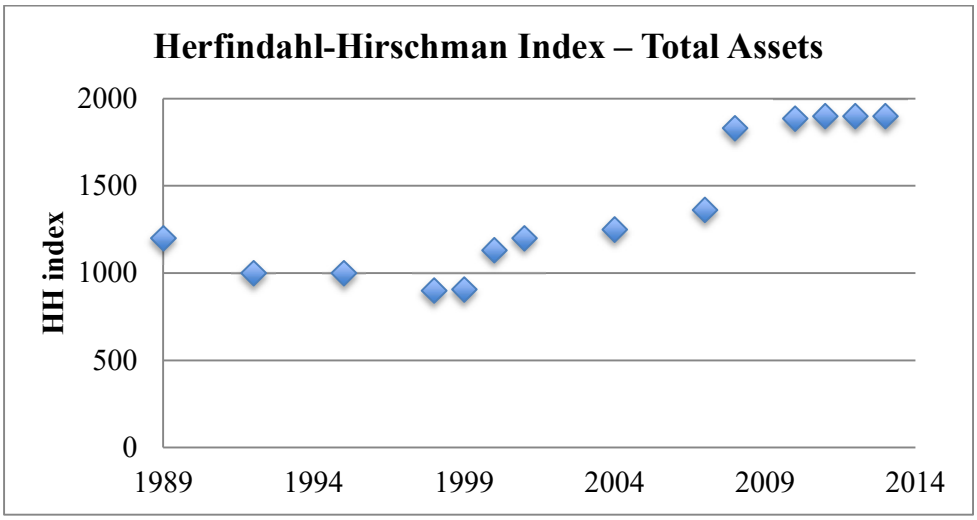
Hence, questioning of the existing underlying concepts was catalysed among different audiences.

The unique characteristic of the financial crisis 2007–2008 compared to previous crisis type events, is that it transformed perceptions of the whole system of financial services, including the regulatory model, questioning particular practices while accommodating new actors and activities that were previously out of its scope. Unlike previous critical events, the financial crisis 2007–2008 provoked the questioning of the roles, practices, and efficiency of the whole financial services system. While this event provoked another stage of layering, through the review of the whole regulatory model, it did not cause the dismissal of the statutory model of regulation from the underlying architecture.

The crisis created an atmosphere of confusion for regulators and policy-makers, organisations and their consumers, so they became engaged in a 'collective questioning' of existing structures (Barley and Tolbert, 1997). This questioning was largely retrospective, focusing on that which had already occurred, that is, the shock or contradiction, and on trying to bring order and clarity (Emirbayer and Mische, 1998; Weick, 1995). A shift from retrospective to projective, and from the collective questioning of the past to the collective questioning of the future, occurred during and straight after the financial crisis 2007–2008 The government's attempt to bring back some order and stability, and to restore confidence in the banking system, led to a series of bailouts of the main banks (Lloyds and the Royal Bank of Scotland), which made the banking sector even more consolidated. However, the consolidation of the incumbent actors had been already questioned as not being beneficial for financial services and for the wider economy. A report by the Treasury in 2011 clearly concluded that, 'The

crisis was caused by the failure of financial institutions to manage themselves prudently, and of regulators to spot the risks that were building up across the system as a whole.' Figure 8 shows the level of concentration in the banking sector.

Figure 8: UK banking sector concentration from 1989 to 2014 based on HH Index[12]



Source: Author's adaption of Bank of England data

The conversation or wider discourse that became visible among actors was that the legal and regulatory transformation was a way to solve the problem of the efficiency and resilience of the financial system for stable future developments.

The process of *questioning* what went wrong in the financial system made visible by the active process of *finding solutions*. The search for solutions mobilised different actors to collaborate with the government. This period involved active work on the government's part to identify weak areas and to offer solutions to the problems of the financial services system, accommodating previously unrecognised elements. More interventionist ideas started to come to the surface. Because regulation was portrayed as failing, the regulation itself became

[12] HH index as a measure of concentration, in this case among deposit-taking institutions;
1. Un-concentrated markets – those with a HHI below 1000
2. Moderately concentrated markets – HHI between 1,000 and 2,000
3. Highly concentrated markets – HHI above 2,000

questioned, rather than how it was enacted (Soin and Huber, 2013). The Chairman of the FSA, Lord Turner, announced in 2008 that, 'The days of soft-touch regulation were over. There is no doubt the touch will be heavier. We have to make sure it is intelligent and focused on where the risks really are'.

Similarly to the phase one, when the Gower reports brought foundational concepts for transformation to the attention of policy-makers, this time the UK's Independent Commission on Banking (ICB) was formed in 2010 to recommend structural and non-structural transformations after the crisis. The final report of the ICB, chaired by Sir John Vickers, was published on 12 September 2011. The recommendations include *ring-fencing* UK banks' retail banking operations, *higher capital requirements* for UK retail banks, preferential status for insured deposits in bank insolvency, and measures to increase *competition* in the UK banking sector (Edmonds, 2013). It became the key report in the first step in the rethink of the underlying elements of the functioning of the financial system and its regulatory model, and also introduced the idea of *unbundling*. For the first time, the idea of competition was framed as a necessary measure to improve the provision of financial services. The concepts of competition through innovative activities by *new* small actors started to emerge as a key solution. Andy Haldane (Chief Economist at the Bank of England) questioned whether large banks were a necessity:

> … the economics of banking do not suggest that bigger need be better. Indeed, if large-scale processing of loans risks economising on the collection of information, there might even be diseconomies of scale in banking. The present crisis provides a case study. The desire to make loans a tradable commodity led to a loss of information, as transactions replaced relationships and quantity trumped quality. Within the space of a decade, banks went from monogamy to speed-dating.

Vickers, the chair of the ICB, explained the idea of separation through ring-fencing, based on the risk criteria of banks' activities:

> One response could be somehow to ring-fence the retail banking activities of systemically-important institutions and require them to be capitalized on a stand-alone basis. A variant of this idea would be to require the ring-fenced retail banking activities to be relatively strongly capitalized while adopting a lighter regulatory policy towards the other activities (if any) of banks, thereby focusing (and limiting) the need for heightened capital requirements on the key retail services.

This stage became the point at which the idea of competition through innovation became a new layer starting to emerge as a part of the underlying regulatory architecture of the financial services. This idea also became a part of the government's conversation around the solution to the financial crisis and its impact. The universal model of banks gained a negative perception. Specifically, the very large institutions were identified as carrying *systemic*[13] risk that damaged the whole financial system. The universal model of regulation in the form of the FSA was dismissed as inefficient at regulating both conduct and prudential areas. Hence, the financial crisis and the period thereafter became the moment to question what form the regulator should take, what products and models should be available to financial service providers, and what innovation, competition, and risk meant and how these basic concepts could be balanced. Actors' wider discourse framed the financial crisis 2007–2008 as a consequence of inefficiency at the foundations of the regulatory system, rather than as inefficiency on the parts of financial services actors. Andy Haldane, Chief Economist at the Bank of England stated in the *London Review of Books* (2012), 'For the most part the financial crisis was not the result of individual wickedness or folly. It is not a story of pantomime villains and village idiots. Instead, the crisis reflected a failure of the entire system of [the UK's] financial sector governance'.

The crisis also brought to the surface the categorisation of organisations as carrying systemic risk or non-systemic risk, leading to differences in the regulatory frameworks. The category

[13] Systemic risk is the possibility that an event at the company level could trigger severe instability or collapse in an entire industry or economy. Companies considered to be a systemic risk are called 'too big to fail'. These institutions are large relative to their respective industries or make up a significant part of the overall economy.

of too-big-to-fail organisations (TBTF)[14] emerged in the discourse as an enormous problem for the financial system. The conclusion was derived that one single regulator was unable to maintain the balance between prudential governance and conduct of business. That is how the macro-prudential approach was developed and incorporated into the regulator's mandate for market stability. This approach stated that the stability of the whole financial system is important, and not only that of one particular institution. Before the Banking Act 2009, British insolvency law did not distinguish banks from other failing companies. As a result, insolvency proceedings were triggered by default. The UK's Banking Act 2009 introduced the power of regulator to intervene in failing banks, and enabled the regulator's judgment to be used to force distressed banks into a formal resolution process. The process allows for bank assets to be transferred to other institutions (Morrison, 2011)

This questioning and solution search period also opened up the debate about the gaps that existed in financial services, bringing up the question of their importance for the whole economy, and creating a sense of urgency around them. For instance, I identified that during this phase, several reports were written about the importance of the SMEs sector and the lack of funds available to them. The Competition and Market Authority report, the key report around the SME funding gap, specifically stresses:

> following the financial crisis there has been a rise in the number of SMEs. In 2014 there were over 5 million SMEs accounting for 99.9% of all UK businesses. Overall we, therefore, found that competition for both BCAs and SME lending is not working well. A combination of factors means there is weak customer engagement and as a result banks have limited incentives to compete in BCAs and SME lending.

The wide criticism of British banking's failure to provide for SMEs became more vocal, with public media, conferences and white papers arguing that because of the higher requirements

[14] TBTF was formally articulated in 1984, the phrase was used in a comment by Congressman McKinney when C. Todd Conover, the US Comptroller of the Currency, testified before Congress on the $4.5 billion government rescue of the money centre bank, Continental Illinois (Morrison, 2011, p. 500).

to hold capital in proportion to their risk weighed assets (e.g. corporate loans), banks chose to reduce lending to SMEs, as a risky type of lending. This discourse strengthened the negative perception around banks and the sense of the urgency of the problem around this type of financing, as well providing positive support towards non-incumbent actors who might solve the problem. In addition, the SME segment started to be perceived and defined by the government as a significant contributor to the economy, shaping policy-making discourse towards the necessity to improve the conditions for SME development.

The crisis also triggered a time of questioning among international actors on global and European levels. A European Commission Memo states (2013, p. 1): 'The financial crisis revealed vulnerabilities in the regulation and supervision of the banking system at European and global level'. In recognition of the need for banks to improve liquidity management, risk management and hence financial stability, the Basel Committee on Banking Regulation and Supervision developed an international framework for liquidity assessment, in addition to more stringent capital adequacy rules. To comply with regulatory standards, banks would thus have to strengthen capitalisation and modify their balance sheet structures to improve the liquidity of their assets and the stability of their funding. Consequently, a broad range of bank activities have been affected, most notably one of their core functions as credit providers. For example, loans are subject to higher risk weights than trading securities. The new accord required that all banks and systemically important financial institutions hold additional and higher-quality capital. The assessment of risk was extended to include risks associated with securitisation (Mayer, 2015). Hence, the Basel III Accord added an additional layer to the requirements defining the general meaning of what is risky, and at the same time left it to the banks to determine how they numerically calculate risk and decide what particular activities

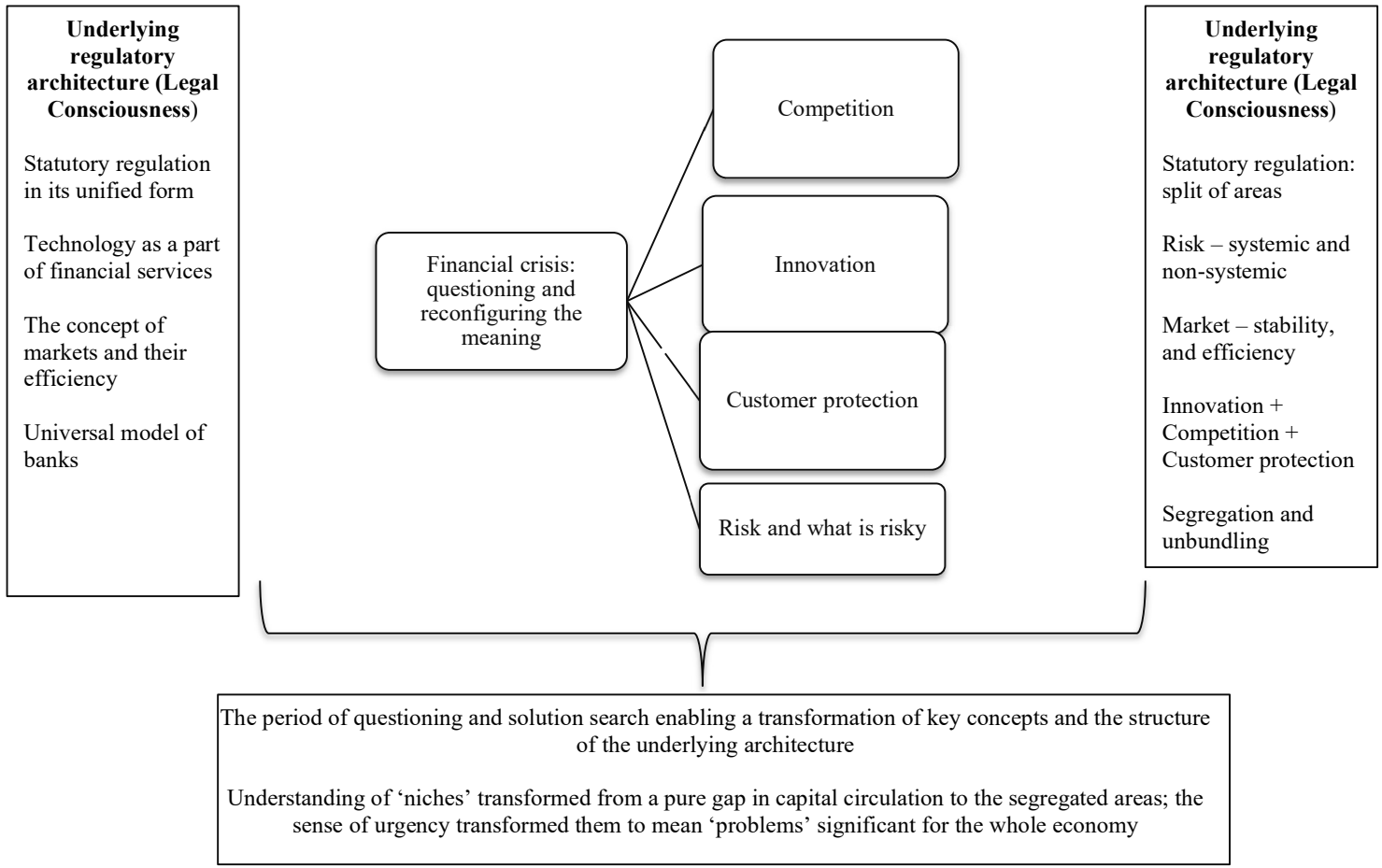
to include, exclude or modify. Basel III added macro-prudential considerations to its traditional micro-prudential approach.

Hence, after the crisis, statutory regulation of the financial services was, through collective debates, and questioning of goals and ideas, further embedded in the underlying regulatory architecture as the best model to overcome turbulent times. So, in contrast to previous studies (e.g. Munir, 2005) that conclude that critical events provoke the dismissal of particular institutional arrangements, this event provoked the segregation of particular layers and blending of others, without any dramatic shifts in the understanding of the role of statutory regulation.

This period became the moment for those new niche platform-based actors to reconfigure their positions and navigate towards the niches. This phase opened up a legal opportunity window for new niche actors, through the reconfiguration of the underlying concepts of competition, innovation, and risk. The transformations discussed above accommodated existing niches, such as SM and start-up funding gaps, and unsecured loans for individuals, within urgent issues of great economic importance on a country level. This coincided with the layering within the regulatory architecture bringing competition and innovation in as foundational concepts, enabling the first new non-bank small organisations, such as loan-based crowdfunding and equity crowdfunding platform-based actors, to anchor into the niches. These actors in turn, through careful collective work with lawyers and regulators on the enactment and interpretation of the regulatory frameworks, shaped the meaning of the regulatory elements. Due to the idea of innovation and competition informing the wider discourse of unbundling and necessary segregation, new niches have been brought to the surface along with a sense of urgency related to property lending and mortgages, enabling

loan-based crowdfunding and equity crowdfunding, through subtle transformations in their practices, to inhabit them as well. In addition to the main core idea about the niches in the financial services as spaces for innovation, a supplementary idea of *improved efficiency* also became a significant meaning-making tool, enabling other forms of small technology-based actors to emerge (for instance, payment providers, insurance providers). This phase enabled the further emergence of a variety of different FinTech providers around a number of segments of the financial system. This final period of phase two ended with reconfigurations in the underlying regulatory architecture to accommodate phase three as an era of segregation and unbundling. Figure 9 summarises the main reconfigurations caused by the event of the financial crisis 2007–2008.

Figure 9: Financial crisis 2007–2008: layers and shifts in the underlying infrastructure



4.3.4 Phase 3: Era of segregation and unbundling (2013–2018)

Phase three can be characterised as a phase of finding order and stability through *segregation and unbundling* of the layers within the regulatory architecture, within the underlying key concepts driving the meaning of financial services (e.g. their risk) as well as within the organisational forms of financial services. However, the period of questioning provoked by the financial crisis 2007–2008 did not affect the core layer of the underlying infrastructure: the statutory model of regulation maintained its role as the institutionalised model of regulation. Hence, phase three is the period of unbundling, segregation and blending of certain financial services as well as of the regulatory architecture within the wider taken-for-granted model of the statutory regulatory architecture. First, a certain boundary was created between the systemic-risk organisational actors and non-systemic actors, setting a different set of requirements for each. Hence, the layer of *systemic risk* became the driving element setting particular regulatory frameworks, as well as splitting the functions previously consolidated within the FSA.

Second, the meaning of the concept of *competition* became an element of the underlying infrastructure as a solution to the problems caused by the crisis. Unlike in previous phases, the meaning of *competition* transformed from a general organising feature of the market, that can be present or not, into the key solution that might establish trust and confidence in the financial services and organisations, as a basis for a stable and efficient market for the benefits of consumers. That is the meaning that was established to signify the new element of competition to enable sustainability of financial system:

> Competition will be an important new feature of the regulatory remit, incorporated in a way that goes significantly beyond the current FSMA framework. This will provide a significant step forward in terms of recognising the importance of competition in

> delivering good outcomes for consumers of financial services" (HM Treasury: CM 8012, 2011).

This was the first time that this competition mandate was officially included within the wider objectives of the regulator (the FCA). As Interviewee #43 (Peer-to-Peer Lending Association, former FSA employee) comments:

> Let me just take you back to 1999, 2000 when the UK legislation was going through parliament to formalise the powers of the FSA, the single financial services regulator. And at the time there were a few people who said the financial services regulator should have a competition objective as well as consumer protection and financial stability, making markets work fairly, all the rest.

Previously, the FSA, as one big regulatory actor, followed the underlying idea that it was better for crisis prevention and for the stability of the financial system to have a few big financial institutions who could come together for private discussion and solve problem of the crisis. As Interviewee #43 remarks: 'Because back then, this is twenty years ago now, the philosophy was that you need a few big financial institutions, if there's a major problem like a crisis, what you do is you just get them all in the room privately'.

Additionally, the concept of *competition* was blended with the concept of *innovation*. This competition-innovation blend embodied the new role of new small organisational actors, embedding the meaning of their activities as beneficial for the whole financial system. Third, similarly to the Big Bang period, when technological elements became an integral part of the underlying infrastructure, the concept of *technology* underwent a rethink of its meaning within financial services and organisations. It was not a breakthrough in technology *per se*, but the application of platform-based technological systems and algorithms to risk assessment processes, credit scoring, and the automation of particular activities, which acquired the symbolic meaning of innovative elements.

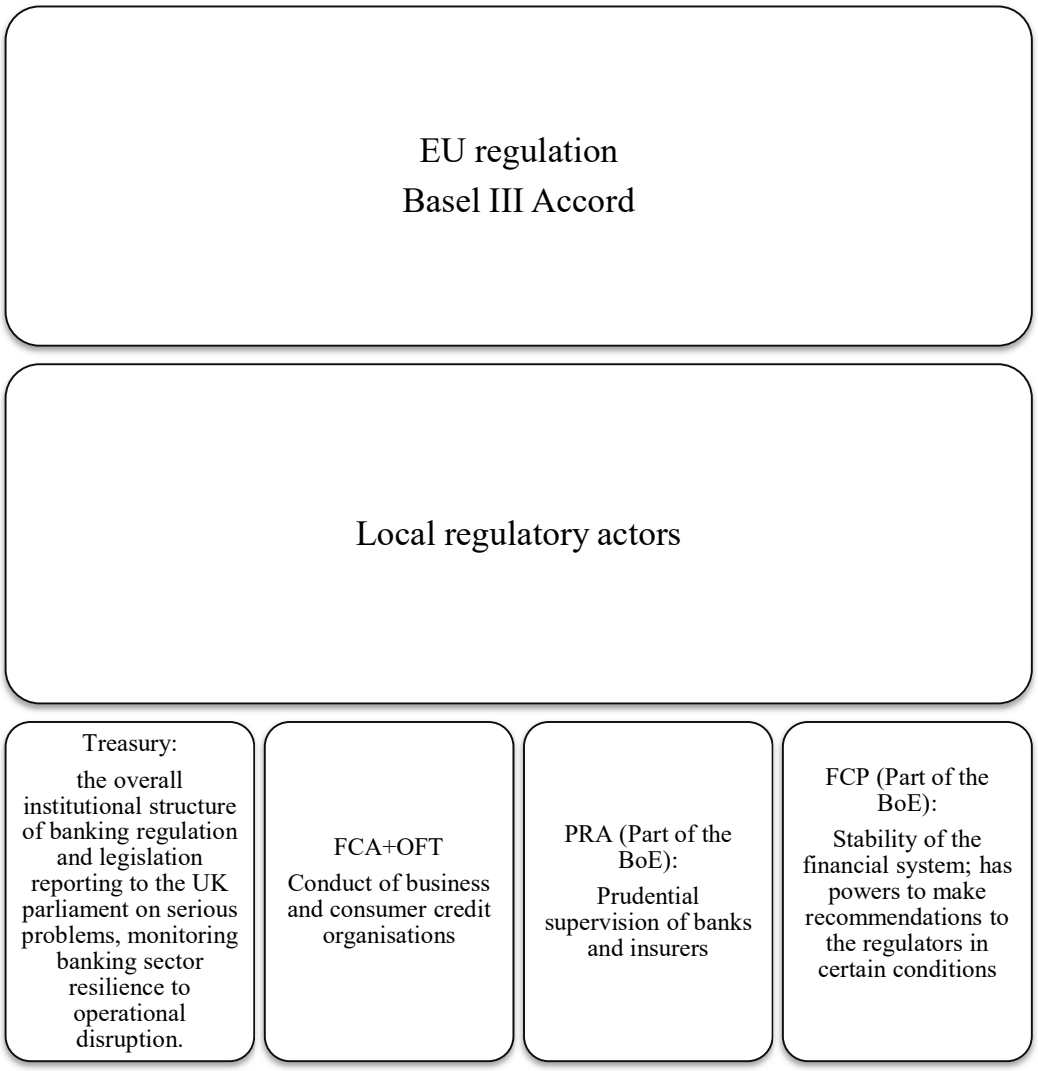
Further, I discuss the details of the new regulatory model and unbundling of the regulatory actors, the first stages of the segregation of the universal model of banks and the transformation of niches.

Regarding the regulatory framework: the Financial Services Act 2012 defined the regulatory model, the split of responsibilities among regulatory organisations, and their goals and principles. The model of regulation oversaw the unbundling of two main areas of regulation: stability and market conduct. This split was based on the underlying boundaries between systemic-risk and non-systemic-risk types of organisational actors within the financial system. This model, that has prudential and conduct regulation within different regulators, is known as the 'Twin Peaks' model (Shmulov, 2015).

The overall system of regulation consists of different layers of regulation, starting from overarching standards agreed by international bodies (such as Basel III Accord), and from EU directives. Various European laws that substantially influence the UK regulatory architecture set minimum requirements for the regulation of banks and banking services in the European Economic Area. Such frameworks as the Markets in Financial Instruments Directive (MiFID II), the regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation) together with the directive on capital requirements (Capital Requirements Directive IV) have a direct impact on UK regulatory frameworks. Further, the primary source of legislation governing the regulation of banking and financial services in the UK is the FSMA. Parliament, together with the HM Treasury, by means of primary and secondary domestic legislation, defines the local governing frameworks. Further, the UK's regulatory actors: the Bank of England, the PRA, FCA and the Financial Policy Committee (FPC) within the Bank of England implement their roles of

regulating the financial system within the UK. In addition, **the Appendix 7 s**ummarises all the institutional actors directly or indirectly related to the regulation and supervision of the financial system in the UK. In sum, the current model of local regulatory architecture defines the PRA as the prudential regulator, the FCA as the regulator of the conduct of business and the FPC as the committee within the BoE that monitors the risk of another crisis by identifying and taking action to remove or reduce systemic risks. The FPC has a secondary objective, which is to support the economic policy of the government. The regulatory actors have a number of formalised objectives and principles that drive their activities and regulation-making processes; however, these principles are high level, ambiguous and open to interpretation, potentially leading to their having different meaning among different audiences. Figure 10 summarises the layers and actors.

Figure 10: The multi-level and multi-layered structure and actors of the regulatory system in the UK, 2013–2018



While the regulatory actors were segregated according to the categories of systemic and non-systemic risk, an additional significant transformation blended the FCA with the OFT (see **Appendix 8** for the evolution of consumer credit regulation in the UK). This was when the concept of *consumer protection* was brought back into the underlying meaning-making process in the infrastructure (consciousness). The official memorandum to the Consumer Credit Order 2013 clearly summarised:

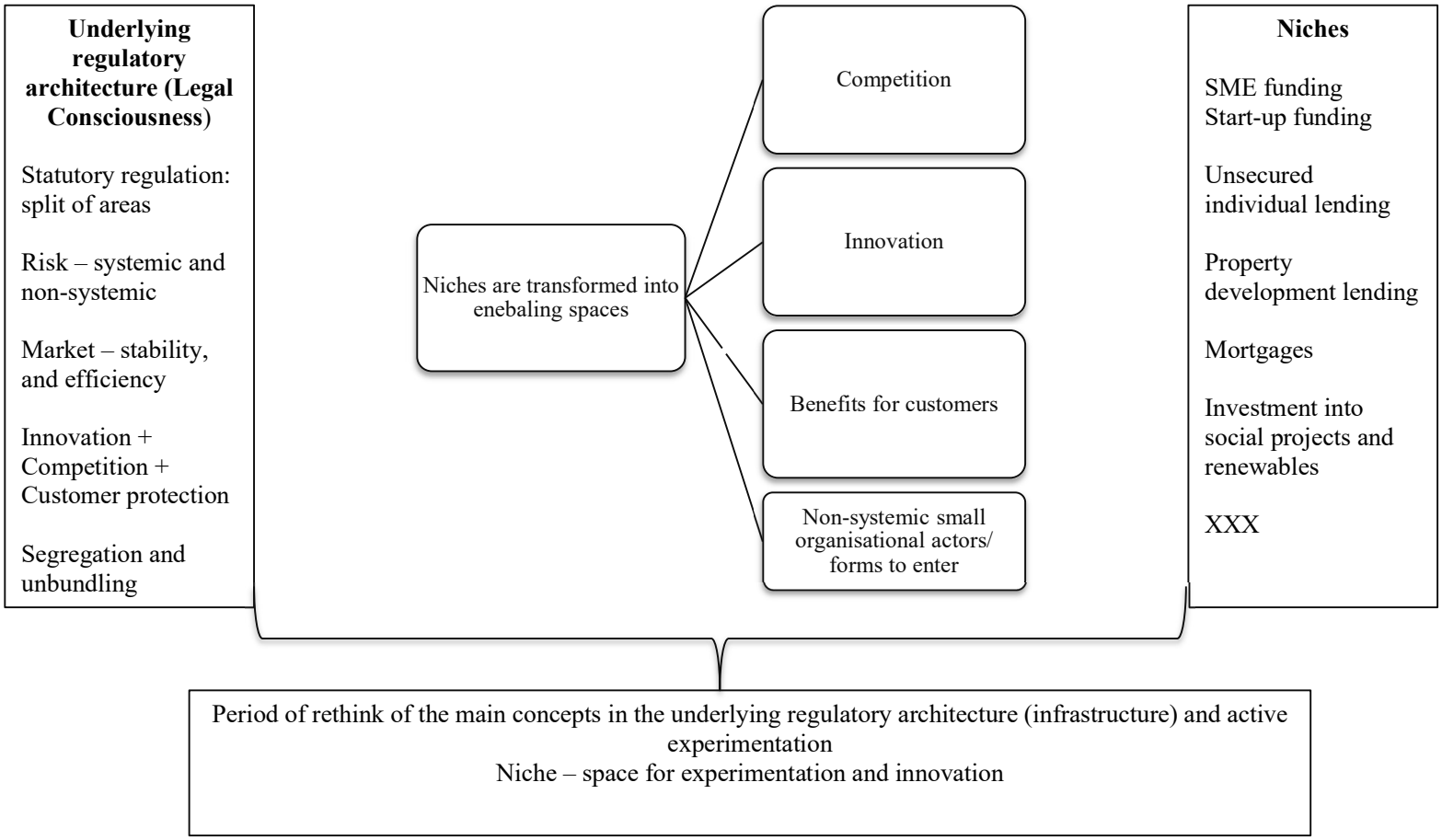
> The Government believes that there should be fundamental reform of the regulatory regime for consumer credit to better protect consumers engaging with this market. The Government's vision is that consumer credit regulation:
> • Is able to flex to keep pace with a fast-growing innovative market;
> • Has the powers and resources to protect consumers from actual and potential detriment;
> • Puts a proportionate burden and manageable burden on business, and is tailored to the unique nature of consumer credit markets; and
> • Delivers a well-functioning market which meets consumers' needs.
> Transferring responsibility for consumer credit regulation to the FCA will mean that for the first time conduct of business regulation of all retail financial services will be under one roof. (Explanatory memorandum to the FSMA 2000 (regulated activities) (amendment) (no.2) order 2013 and the Financial Services Act 2012 (consumer credit) order 2013)

This consolidation of retail financial services within the FCA became the significant event for niche actors in loan-based crowdfunding that first fitted in within the OFT boundaries. While OFT licensing played the role of being *institutional scaffolding* (e.g. Sutter et al., 2017), the consolidation the OFT and the FCA enabled active collective *analogising* – the concept that I develop through next chapters, used to define loan-based crowdfunding as an organisational form in the financial services space leading to a new legal category within regulated financial activities.

The niches' formation process underwent a similar process of segregation and segmentation. While, during phase one, the SME and start-up funding niches were perceived as gaps in funding provision/capital circulation, during phase two, after the financial crisis, the meaning of niches' existence was rethought, gaining the meaning of an urgent problem that needs to be solved. During phase three, the niches underwent another stage of rethink within the wider layering process of the concepts of competition, innovation and customer protection in the underlying infrastructure. The audiences' understanding of niches became the legal and regulated spaces where innovation might emerge from non-systemic, small organisations for the benefit of consumers. These developments led to a multi-layered and multi-level system

with multiple niches. The evolution of the regulatory model through the transformations of the banks' models, mandates of the regulator, and ideas behind the regulatory frameworks, became the context for the new platform-based and niche-based actors to emerge in particular forms. This was enabled through the shift in the underlying regulatory architecture (legal consciousness) where 'unbundling' became one of the taken-for-granted processes, where new layers of meaning for the concepts of competition, innovation, and consumer protection were added, as well as where the meaning of the application of technological systems within the financial services transformed into the symbolic feature of innovation. The figure demonstrates the reconfiguration of particular elements in the underlying infrastructure and also demonstrates the connection with the configuration of niches.

Figure 11: Phase 3: layering, unbundling and niche segmentation



This chapter discusses the period of the 1980s to 2018, therefore it is important to acknowledge that it was written during the early stages of another potentially critical event: the withdrawal of the UK from the EU (known as Brexit). Hence, another phase can be added for future research projects to extend the conclusions of this research.

Figure 12 summarises the three phases discussed above and demonstrates the theoretical model of layering shaping the underlying regulatory architecture and transforming niches into spaces of experimentation and innovation, enabling new niche actors to inhabit them. Table 17 provides details about the wider policy-making paradigms as well as about the initial reports that created the foundations for transformation during the three phases.

Figure 12: Summary of the three phases

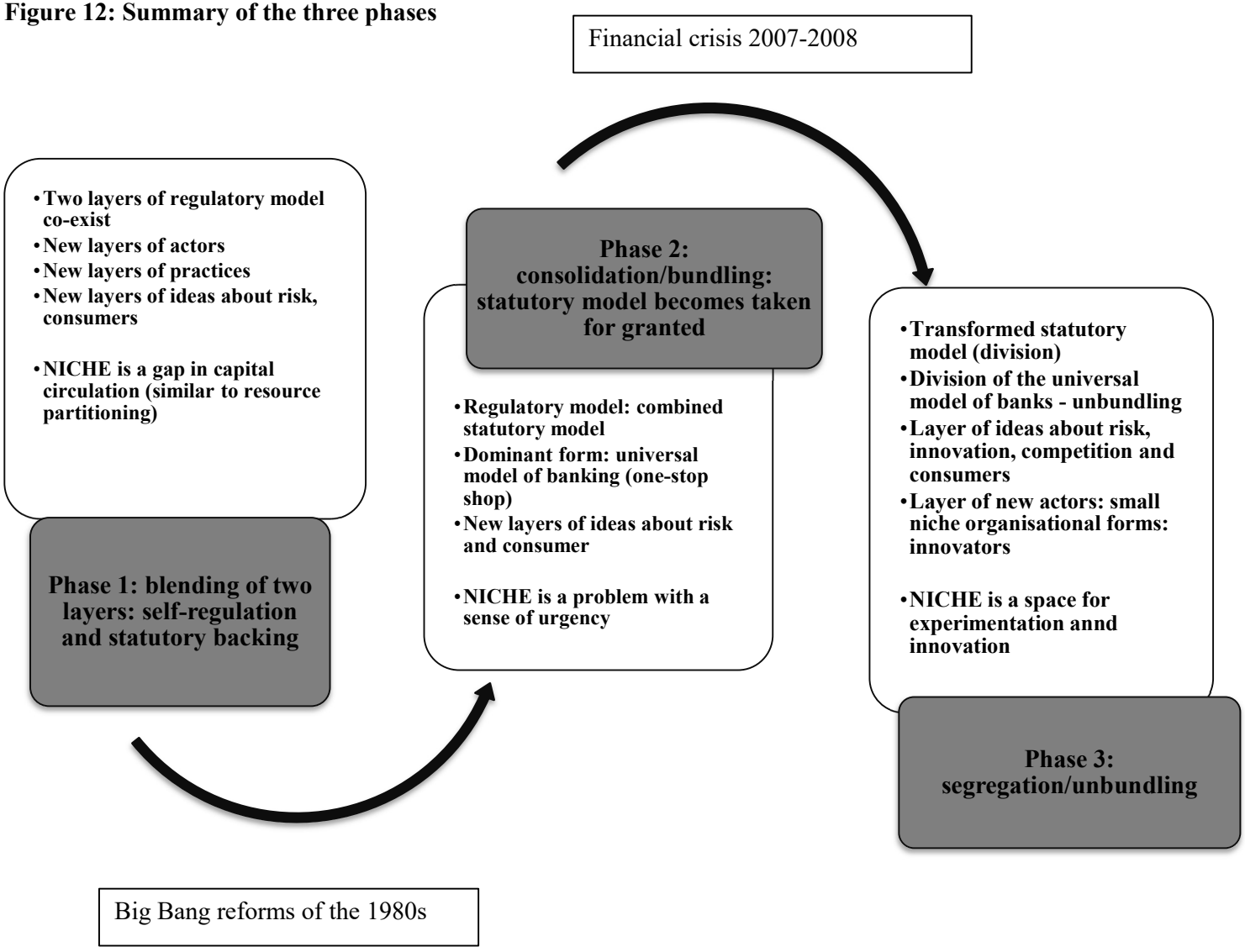


Table 17: Summary of the phases and their additional characteristics

Phase	Period	Regulatory model	Government and its underlying paradigm	Main reports introducing the ideas for official mandates
Phase 1	1980s–2000	Statutory and self-regulation	Conservative government (1979–1996) Shift in the economic policy paradigm from Keynesianism to neoliberalism and monetarism Labour government (1997–2010) Shift to new Keynesian consensus in macroeconomic theory (neoliberal with a layer of social democratic ideas and policies) but the layer of neoliberalism remained dominant	Gower reports (1984/1985) established the idea of investor protection as a layer in statutory regulation
Phase 2	2001–2012	Statutory regulation in the form of one large regulatory actor across functions and organisational forms	Labour government (1997–2010) Conservative government (2010–2018) Main paradigm: neoliberalism	The Vickers report (2011) brought the financial stability and competition layers to prominence
Phase 3	2013–2018	Statutory regulation split between three regulatory actors Statutory regulation through three regulatory actors layered with an additional type of organisational actor (multi-level and multi-layered system)	Conservative government (2010–2018) Main paradigm: neoliberalism	

Based on the above findings, in the next section, I discuss and conclude about the model of the interplay of the layering process, transformations in the underlying regulatory architecture, and formation and transformation of niches for innovative forms.

4.4 Discussion and conclusion

Starting from the puzzle of how, in a highly regulated context, inhabited by large incumbent actors, the niches were shaped by transformations in the regulatory architecture in such a way that small, niche, platform-based organisational forms were able to anchor into the space, I developed a model of how the institutionalisation of the institutional arrangements in the regulatory architecture, through the process of layering, shaped the underlying institutional infrastructure to enable the reconfiguration of the meaning of key concepts, creating niches as spaces for experimentation and innovation. While the case is based on historical dynamics the results are relevant to contemporary organisations and platform-based actors. I followed previous studies (Mahoney, 2012; Funk and Hirshman, 2014; Van de Ven and Garud, 1989; 1993) that make use of the rich data of the process tracing approach to establish that the posited causal explanations are likely to explain the events of the case**.** Based on analysis of the sequences of events within the regulatory context and several connected wider economic and political transformations of the financial system in the UK during the 1980s to 2018, this case shows the interplay between the conditions in the environment, formation of niches and further emergence of new organisational actors in those niches. The study shows that the initial institutional changes in the 1980s, provoked by the wider transition towards neoliberalism as the ideological ground for policies and regulatory frameworks, would not have been possible without changes in the ideas and cognitive elements of related actors on how to direct the capitalist economy and policy-making activities (Fourcade-Gourinchas and Babb, 2002; Beckert, 2010). The neoliberal agenda also became a powerful political platform

shaping the regulatory architecture and stabilising cognitive orientations of actors about what was appropriate, legal and legitimate, and shaping perceptions of the opportunities available in the financial services. Later, the events of the financial crisis 2007–2008 shaped the meaning of risk, competition and innovation in the financial services, opening a legal opportunity window for new forms.

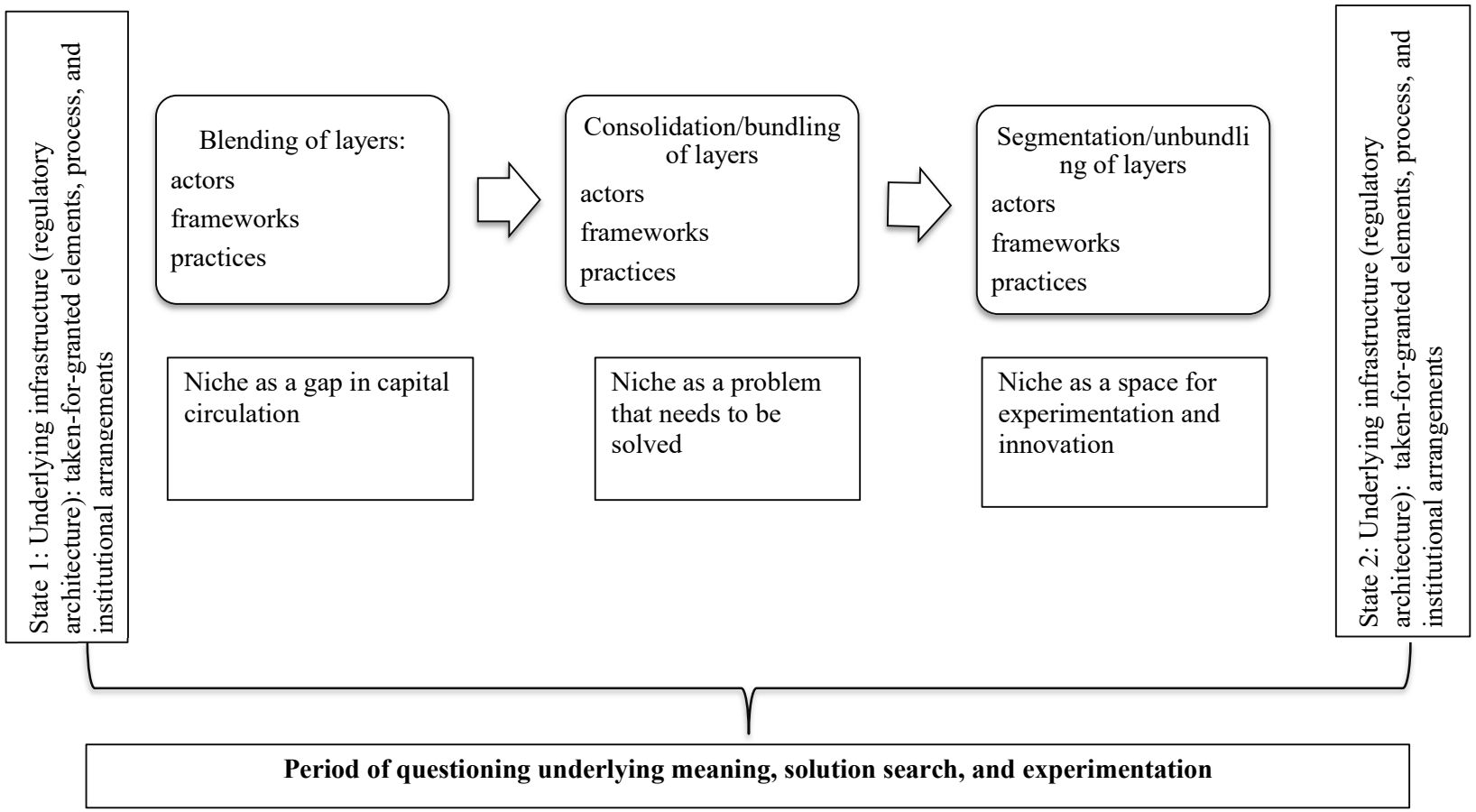
Hence the role of the surrounding context of organisations cannot be overstated (Woolet, 2014). New organisational forms are embedded in their social and economic environment (Granovetter, 1985) and are imprinted with the context in which they emerge (Boeker, 1988, 1989; Stinchcombe, 1965). The general application of the concept of institutional layering helps better understand those complex interconnections and how they came about (Mahoney and Thelen, 2010; Streeck and Thelen, 2005; van de Bovenkamp et al., 2016). Institutional layering is a type of institutional change in which new institutions are added on top of or alongside existing ones. Institutional layering does not mean that new arrangements simply overlie others, but that arrangements interact with each other, which can lead to large and unpredictable transformations (Mahoney and Thelen, 2010; Streeck and Thelen, 2005). Layering occurs when new rules are attached to existing ones, thereby changing the ways in which the original rules structure behaviour (Schickler, 2001; Thelen, 2003). Different from displacement, layering does not introduce wholly new institutions or rules, but rather involves amendments, revisions, or additions to existing ones. Such layering can, however, bring substantial change if amendments alter the underlying 'core' of an institution, or compromise the stable reproduction of the original 'core'. These transformations can have important consequences for actors working in such a layered arrangement. Hence, I show how institutional layering is associated with the gaps that might emerge between intentions when constructing regulatory architecture, and its actual outcomes, enabling a period of

questioning and solution search. I show how layering changes the meaning of the key underlying concepts of financial services and regulation, how actors, in turn, may respond to these layered arrangements, shaping them, and changing the underlying infrastructure. I identified three phases that enabled the layering of the institutional arrangements, different actors, ideas, mandates, and goals. However, this process was not a direct and straightforward layering of one element on top of the other but included blending, segmentation and consolidation, further reshaping the underlying elements and meaning of the underlying regulatory architecture. For instance, such key concepts as *risk, competition, innovation*, and *stability* were reconfigured through the collective questioning process during such events as the Big Bang reforms and the financial crisis 2007–2008 This, in turn, enabled the rethink of the core substance of financial services, the boundaries defining which services are regulated (legal) financial services and who can provide them, and which particular areas are associated with a sense of urgency and how innovation may happen in the highly regulated context.

Tracing the sequence of events that transformed the regulatory architecture, and established the statutory form of regulation in financial services in the UK, shows that this process was caused not only by sudden transformations but also by gradual erosions and movements of the layers (Soin and Huber, 2013). The model (see Figure 13) reflects their processual relationship and demonstrates how layering occurred through three processes: *blending, consolidation/bundling, and segmentation/unbundlin*g, proving the evolution of the underlying infrastructure in the form of regulatory architecture. The transformation of the meaning of key taken-for-granted elements enabled the transformation of the meaning and role of niches in the financial system. So, from the definition of a gap in capital circulation (similar to gaps in resource spaces), the definition of niches, through the reconfiguration of

the meaning of risk, competition, innovation and customer protection, shifted into the spaces where the process of experimentation and innovation may be enabled.

Figure 13: Process model of the interplay of layering and transformation of underlying infrastructure, and transformation of niches



Drawing on the existent arguments from resource partitioning studies about the co-existence of large incumbent actors and small, niche, specialist organisational forms within the same industry and context, I develop a model that extends a static analysis of one certain state. This dynamic approach traces the evolution of the dynamics of the underlying infrastructure and collective meaning-making process that transforms niches from being gaps in resources spaces towards acquiring a symbolic connotation of spaces where innovation may be enabled. Particular organisational forms can navigate their path into such spaces, inhabiting and shaping them. However, those new organisational forms are not passive actors who take these niches and architecture as given, they also influence their context through particular strategies, which I discuss in the next, empirical, chapters.

On the one hand, transformations in the regulatory area of the financial services drove banking to become a highly concentrated market with only a few large actors (generalist, according to the terminology of organisational ecologists); on the other hand, particular frameworks and tax schemes shaped the path of early-stage financing in the form of venture capital and BA that, similarly to the banking segment, make some niches available.

Regulatory moments show how the process of regulation formation, with different actors involved, defined not only resource distribution but also the environmental position of actors, including the regulator, and their roles in setting up the underlying ideas of what regulation should like, what particular areas should be regulated and how particular characteristics (e.g. different types of risks, innovation, competition, and urgency) should be balanced, leading to the formation and transformation of niches that become available as anchors for new organisational actors. Hence, the emergence becomes a process of 'collective achievements' that includes different elements and actors with their own toolkits of elements and cognitive perceptions (Van de Ven, 1993; Van de Ven and Garud, 1989, 1993; Wolley, 2014).

My focus on the phases of the events that transformed the regulatory model and reconfigured particular elements of the underlying infrastructure helped me derive an important case of regulatory model formation and to derive theoretical conclusions about the way the regulatory architecture shapes and is shaped, enabling innovation.

Due to the qualitative nature of this research, it may not be possible to generalise these findings and to affirm a similar interplay between regulatory infrastructure (legal consciousness) and the transformations of niches and, hence, formation of certain new organisational forms in other sectors and other countries. However, it is possible to assume that the general approach of events sequencing may help develop further the theorisation of the emergence of innovation and new organisational actors as an embedded process within the underlying infrastructure, where particular layers of elements and meanings drive the formation. Additionally, I extend the conceptualisation of niches of not only as a structural gap in resource allocation available within the periphery of the field, but also as those spaces that, through the transformation of the main concepts of the market and field, may become the areas in which active experimentation may occur, enabling the emergence of small niche actors. The model developed in this chapter demonstrates how shifts in the underlying infrastructure expose the rules and norms that had been taken for granted, and call into question the perceived benefits of those rules, producing new systems of meaning, rituals, and practices (Edelman, et al., 2010).

The results of this study add to the existing theories about the emergence of new organisations within wider environments. While several theories propose that new forms emerge in new industries from the entrepreneurial activity of new entrants (Aldrich and Mueller, 1982; Aldrich et al., 1986), or as an outcome of social movements that create radical

socio-economic change (Aldrich, 1979; Stinchcombe, 1965), or new organisational forms result from technological innovations and technological advances (e.g. Schumpeter, 1942; Tushman and Anderson, 1986); the results of this chapter demonstrate an evolutionary process within the underlying infrastructure – the regulatory architecture enabled the emergence of particular spaces for innovation. The study shows that the regulatory architecture cannot be diminished to written rules and legal frameworks, but should incorporate the cognitive aspect of the meaning-making process around the legal elements and policy-making. It demonstrates that the processes in the wider context can enable particular conditions that may be strategically shaped by new organisations. Hence, I demonstrate that innovation is a collective process that is shaped and shapes the wider environment in which it is happening.

The results of this chapter indicate several future research directions. First, this research project explores niche formation and transformation in a highly regulated and concentrated context, which developed over a long historical period of time. It would be interesting to explore how the formation and transformation of niches are different or similar in other less regulated environments and what type of organisational forms may fill them and through what mechanisms. An additional area of exploration would be a comparison of how the phases and the model of this case are similar or different in other contexts where platform-based actors started to emerge and continue to develop, for example in retail, transportation, or healthcare services.

Second, it would be interesting to conduct a comparative study across countries with different regulatory architectures in the financial services, to explore which niches exist, and which actors were able to anchor on them and why. For instance, in the USA, the formation of the

regulatory architecture may have involved not layering but other types of transformation, resulting in a more fragmented regulatory model with many actors across state and the national levels, unlike the UK. In addition, the definition of regulated financial services, the underlying meaning of assets, risk, and competition are different, potentially leading to different niches and different forms inhabiting them. Future work should attempt to identify the similarities and differences of these processes in different industrial, national, and historical contexts.

So far, the results of this chapter allow the demonstration of the processes in the wider environment that enabled layering in the regulatory environments, which transformed the underlying infrastructure (regulatory architecture/legal consciousness), driving the proliferation and recognition of niches that strategically were inhabited by new small platform-based actors, to anchor and establish their forms as legally and economically functioning entities.

Relevance for policy-makers and professionals

The results and discussion may be helpful for practitioners and policy-makers and regulators within the financial services. The debates about efficient regulatory models have been going for many years, specifically around the basis of regulation: a form or a function (Armour et al., 2016). Hence, it is important to take into consideration how the underlying meaning of a key concept may affect the activities of organisations, and how this, in turn, may shape the form and functions of the regulatory actors and hence the implementation of legal frameworks. It is also important to think about how the activities of organisations may provide unexpected applications of existing regulation. From the regulator's point of view it is necessary to think about innovation that can be ambiguous and ambivalent within existing

regulatory categories, so it is necessary to analyse the underlying elements that are bundled together, to understand their legality and not simply reject or accept according to predefined criteria. Additionally, certain events, while causing a short-term negative impact on the economy, may provide positive conditions for the growth and emergence of innovative organisations in the longer-term, presuming that the underlying infrastructure maintains its enabling elements and dynamics. Regulators should not underestimate the fact that the financial system is transforming itself, so it is necessary for the regulatory and the government to evolve the regulatory and policy frameworks while they learn about those transformations, hence maintaining the iterative process of innovation, and the regulation that regulates it. The financial system is a dynamic system requiring that policy-makers, financial services providers and regulators identify what function each part of the financial system is supposed to perform, and then make sure that they have the structure, ability, motivation, and incentives to do so (Mayer, 2015). Regulation both shapes and is shaped by the emergence and developments of financial innovations. At the same time the changes in regulation induce responses in financial innovation and institutional changes, which in turn feed back into the dynamics of regulatory architecture. Hence, policy-makers, regulators, organisations and other related audiences should recognise that financial innovations cannot be efficient without concurrent changes in the infrastructure (technological, institutional) supporting them. In addition, this case of regulatory model development adds detail to our understanding of the financialisation of the UK economy in the 20th century and beyond.

The next chapter zooms into the role of the analogies in the emergence and early growth from the product and legal sides of the organisational form, serving as basic building blocks and cognitive tools that enabled the emergence and early growth of new actors. Specifically, the next chapter develops the concept of collective *analogising* to describe the process of

bundling those financial and non-financial analogies towards the first loan-based crowdfunding form.

Chapter 5. The process of collective analogising in the emergence and early growth of new forms in a highly regulated context: the case of loan-based crowdfunding in the UK[15]

"Law is all over"(Sarat, 1990)
"Analogies will both replicate the institutional fabric of society and seed its evolution" (Etzion and Ferraro, 2010)
"We wanted to be as regulated as possible to get as many ticks and badges, but we wanted to avoid being regulated as a bank… we were not a bank" (Interviewee #70, founder of loan-based crowdfunding)

5.1. Introduction

This chapter focuses on the research question of the role of analogy in forms' emergence through developing the concept of the process of *analogising* in highly regulated contexts, where the role of legal elements and regulatory actors is uncovered. Based on a granular analysis of the emergence of loan-based crowdfunding in the UK, with a specific focus on the very early moments of its emergence, this case provides significant insights into how the very first new form emerged through bringing together analogies from different domains, and how the process of *analogising* with different actors enabled the form to become a recognisable and legal financial service activity. The study provides unique insights into the period before a form emerges, when elements, actors, relationships, and institutions are situated in a period of high indeterminacy or institutional ambiguity (Townsend and Hart, 2008), and a variety of paths of emergence can be chosen, and shows how this indeterminacy is resolved.

The central contribution of the study is an emergent theoretical framework of the emergence of an organisational form using analogies as basic building blocks that, through analogising

[15] The short version of this chapter was presented at the Vienna Institutional Workshop 2019 and at EGOS 2019 at sub-theme 12 (Institutions, Innovation, Impact: Technology, Materiality and Networks of Interaction).

over three phases and two streams, was shaped into the recognisable form of a financial service provider. DiMaggio (1997) indicates that culture is a network of interrelated schemata, with analogies as the 'ties' that create routes along which generalisation and innovation happen. That is how this model started to reveal how the application of analogies, and the relationships between them, maintained a balance between familiar and distinct, legal and illegal, leading towards the stabilisation of a form and emergence of a new legal category. Unlike previous works, this study reveals a more pluralistic and dynamic view of analogies in the process of organisational emergence. A key theoretical insight is that while analogy as a concept can be used on an individual level (e.g. in psychology) and in anthropology (e.g. research by Douglas), through a careful analysis and adjustment of analogy as a theoretical lens, this study extends the theories on organisational forms' emergence, as well as provides a more nuanced view of the interconnection between organisational forms and their institutional context. The study, through a comprehensive data sources on the early years of emergence and early growth, shows that the process of emergence is a complex and dynamic one that incorporates different elements and actors who, through their collective interactions, shape the emergence. The study develops a view that stresses the role of cognitive mechanisms that make an impact not only through their static, already-existent qualities, but also through their temporal exchange.

Hence, the results show that in general, analogies are the devices that guide actors through the period of indeterminacy, and analogies are not static devices blindly chosen by the actors, but are actually dynamic entities that, through the process of collective analogising by related audiences, cobble themselves into a new organisational form with recognised features and characteristics. This process may not happen immediately, but may require a certain period of experimentation, validation, testing, and adaptation before the phase of stabilisation can be

reached. Analogies function initially, to reduce cognitive uncertainty while the emerging form stabilises, and provide linkages with the wider context, specifically in cases when new forms are introduced. Analogies create routes along which generalisation and innovations happen (DiMaggio, 1997). In addition, the findings demonstrate that analogy, through a certain level of ambiguity in its meaning, inspires innovation, but as the process of analogising develops, it also functions as guidance, specifically through the legal ambiguity actors start to limit the available choices and fit some elements of the form together towards stabilisation.

Further, I demonstrate how different analogies became the underlying building blocks that cobbled the form together, allowing non-financial elements to work in the financial services. While prior studies focus on shared cognition about familiar domains as an explanation for why analogies work, this study shows that collective analogising is a skilful process of resolving ambiguity and indeterminacy through the application of different elements and information to compare different domains and situations. It is a dynamic process of meaning-making in which analogies, while providing a basis of similarity to existing forms and practices and hence stability, also bring some level of ambiguity that allows for divergence, experimentation, and change in the emergence and evolution of forms, rules, and practices.

Previously, Chapter 4 carefully examined and established the sequence of the processes in the regulatory context that drove and shaped financial services in the UK, showing how the evolution of niches from gaps in resource spaces, towards being spaces for innovation and experimentation, enabled new forms emergence. In addition, the processual model showed that the niches cannot be seen simply as gaps in the resource spaces, but as the spaces where innovation can emerge. Hence, it was demonstrated that in a highly regulated context, the

emergence of new organisational forms happens in a particular context that cannot be isolated, involving a variety of elements that need to be carefully arranged and adapted. New organisational actors are differentiated systems, and some components can be more open or more closed to wider context transformations (Thompson, 1967). Following the results from Chapter, the results of Chapter 5 present the strategies that new organisational actors applied to position themselves in particular niches through analogies and analogising in a highly regulated environment; and how they make the regulatory architecture work and hence, in turn, shape the process of the regulatory architecture's development.

Using a comprehensive combination of interviews, secondary data, materials from websites, and conference observations, I present a detailed field-level case study of two cohorts of loan-based crowdfunding platforms, to explain the phases through which new organisational forms emerged by applying analogies, and how analogising with legal professionals and regulators enabled the process of experimentation in the existing niches in the financial services. A key strength of my research design is that the interviews with founders and internal actors revealed details and motives for decisions during the initial stages, while my use of external informants (e.g. researchers, policymakers) offered an outsider perspective and a 'reality check' (Santos and Eisenhardt, 2009). This case develops the argument that analogies play a crucial role of coordination and collective action in shaping not only the diffusion of novel forms and institutions but also the forms themselves (e.g. Douglas, 1986; Glaser et al., 2016).

I found that two main paths of *analogising* were followed in the emergence of loan-based crowdfunding over three phases: one path came from the product/services side and the second one from the regulatory/legal side. These paths did not develop in isolation from each

other, thus enabling connections of the new form with underlying regulatory architecture. These two analogy paths went through three phases. These phases started from contrasting analogies, leading to the *phase of divergence* from existing/incumbent forms and regulatory frameworks, followed by an *alignment phase* in which collective analogising resulted in an aligned analogy blend, and concluded with the *stabilisation phase* based on analogies' convergence. This analysis of the collective analogising confirms that initially analogies could provide legitimacy for new organisational forms, but the use of analogies can change over time, based on which particular audiences participate and understand these analogies, inspiring further creative transformations. Second, I brought the concept of *collective analogising* as the key process that drives the emergence of a new form. I showed how this process reveals that the regulatory architecture is not a coercive existing structure, standing outside of the emergence process, but more a result of the endogenous meaning-making process between the regulators, legal professionals, and new forms that fall under the regulation. Third, I revealed that the role of legal professionals became that of interpreters/'translators' of the meaning of analogical elements, through filtering and modifying certain analogical blends of legal and product analogy. The analysis showed that legal professionals may be involved at the idea stage of the form's emergence, shaping how the form can be anchored into the product niches as well as potentially participating in the creation of a new legal category, leading towards the convergence of analogical blend, and stabilisation.

In addition, the current research acknowledges the role of analogies in organisational study, and provides some limited insight about the role of analogy in allowing the public to comprehend new ideas or organisations, but neglects its role in relation to other audiences such as regulators, legal professionals, and government. This chapter opens up this

underdeveloped area, focusing on the analogising of the regulatory actors that participate in the formation of new forms. These insights provide more concrete details and understanding of the new forms' emergence and the innovation's design: how the context and the emergence are connected through analogising.

5.2. Overview of the data analysis

Based on the results of Chapter 4, I started the analysis with orienting ideas about how the emergence of the niche forms was enabled in the highly regulated context of the financial services, and how the regulatory transformations and this emergence became interconnected. I focused on two main areas: on processes and elements in the early moments of the form's emergence, and on regulatory dynamics in the financial services. I divided the case of loan-based crowdfunding into two groups (see Table 18). This strategy allowed me to identify two streams of analogising, define the boundaries of the phases that occurred, and analyse which actors participated. This analysis allowed me to demonstrate how this new organisational form arose from a combination of different elements drawn from financial and non-financial domains in the context of the wider transformations of the foundations of the regulatory architecture.

Table 18: Characteristics of cases

Case	Time	Technological Focus	Customers (borrowers)	Customers (investors/lenders)	Type
First cohort	2004–2008 Before the financial crisis and regulatory transformation	Simple technological system	Individuals	Individuals	Within one niche (unsecured consumer lending)
Second cohort	After the financial crisis 2007–2008 and changes in the regulatory architecture	Advancing the technological system, specifically in risk assessment/due diligence	Individuals, SMEs, property developers	Individuals and institutional actors, including the government through the British Business Bank	Specialist (niche segmentation/multiplication)

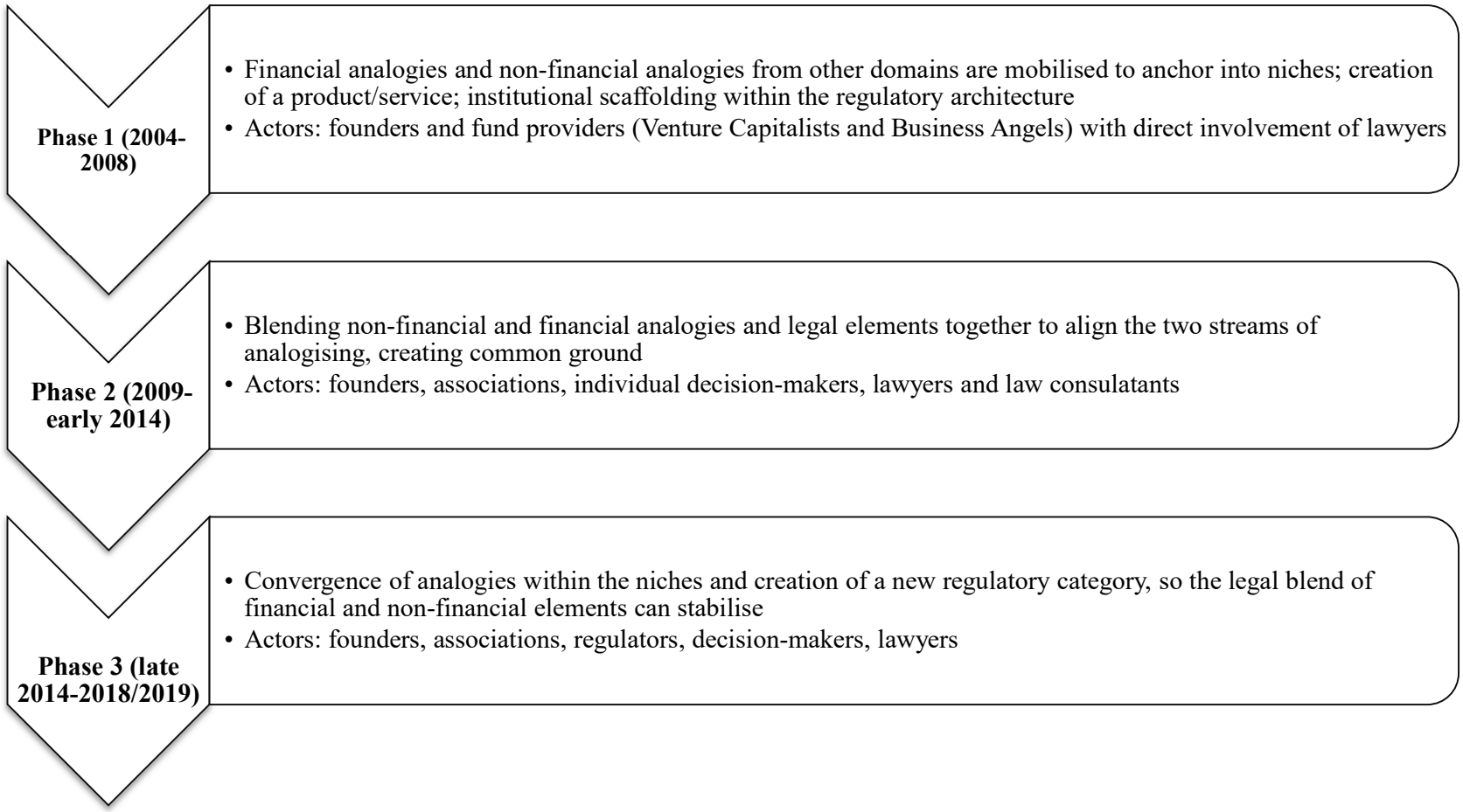
The purpose of this research was to capture the initial elements and ideas that were developed at the inception stage and then track the dynamics. So, I wanted to start with a broad overview of the interviews, conference observations and secondary data sources about the early stages of loan-based crowdfunding. First, I identified that when the very first loan-based crowdfunding platform emerged, it was the only actor in the space, before the second cohort emerged several years later. During this phase of the data analysis, I identified the years 2008 and 2014 as being particularly significant in terms of the importance of particular transformations in the analogising process, type of actors involved, and regulatory events. During this phase, I also created a draft of the main events related to loan-based crowdfunding (see Table 19 for details).

Table 19: Chronology of UK loan-based crowdfunding (2004–2019)

Year	Main developments	Regulatory moments/government engagement
2004–2005	First loan-based crowdfunding	Licence from the OFT granted
2007–2008	Financial crisis	Transformations in the regulatory architecture started
2010	Second cohort of loan-based crowdfunding	Period of rethink about innovation and competition in the financial services
2011	More loan-based platforms enter; peer-to-peer association launched	Active conversation between companies, association, government, and regulators
2014	Loan-based crowdfunding platforms start their official authorisation process	FCA took over the regulation of loan-based crowdfunding; interim permission regime; bespoke loan-based crowdfunding framework developed (article 36H) and included as an amendment of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ('RAO')
2016	Loan platforms start to get full authorisation status	Tax wrapper becomes available for investors in loan-based crowdfunding (IFSA); British Business Bank, owned by the government, continues to lend through the platforms
2018–2019	First loan-based crowdfunding moving into banking spaces	Revision of loan-based crowdfunding regulation by the regulator

Further, I summarised the chronological developments of loan-based crowdfunding in three phases, to demonstrate how the main developments shaped the emergence pathway, and which audiences participated. Figure 14 provides an overview of the three phases identified.

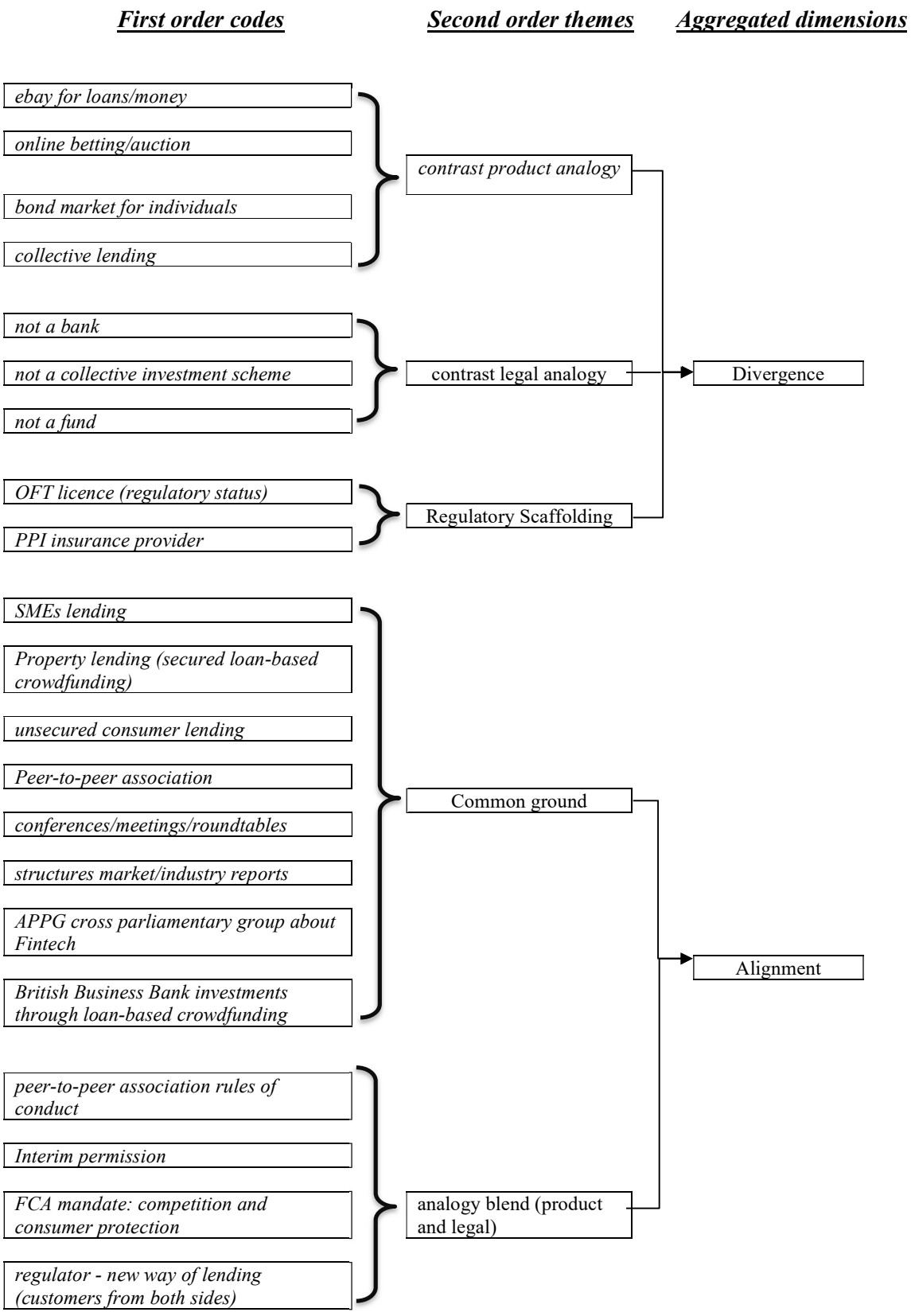
Figure 14: Three chronological stages

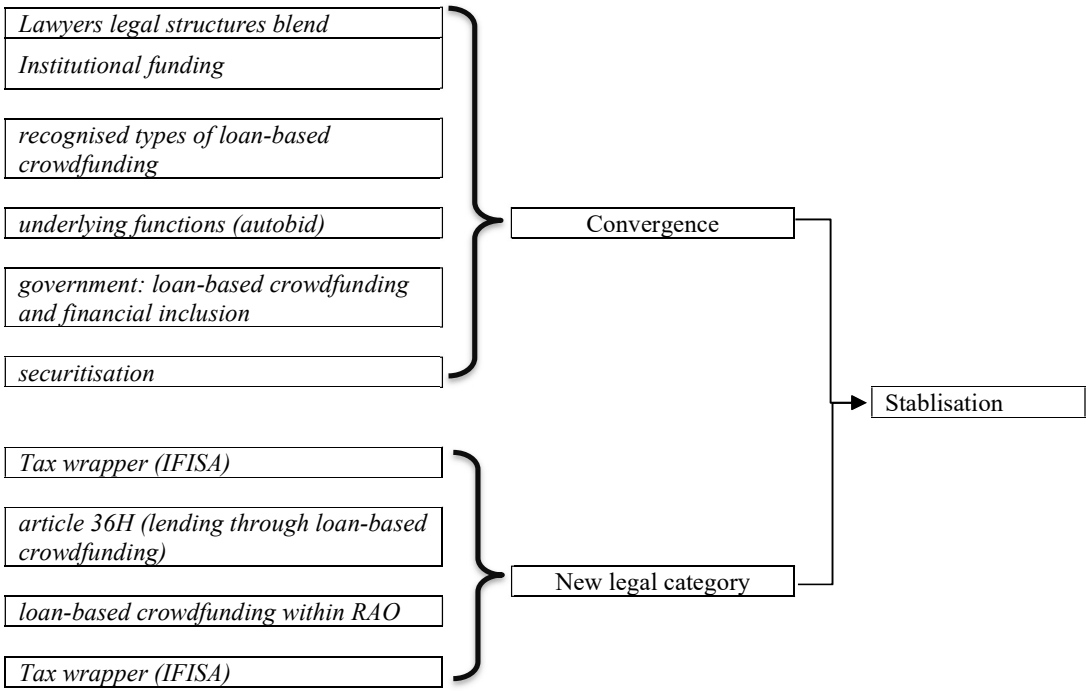


Through the analysis, I started to pay closer attention to the analogical elements, to the background of the founders and their industry experience, and to types of other actors and processes that were involved in the early days of the emergence of the first loan-based crowdfunding. I focused on which analogical elements were brought together, from which domains, and with which actors involved. I paid attention, for example, to how the initial list of available elements was transformed and filtered, how the legal aspects were discussed and framed, and how the regulator and legal professionals structured their understanding of loan-based crowdfunding. Second, I analysed the related data around the second cohort of platforms, asking what was the base for the second cohort of platforms, and how the regulatory actors and legal professionals were involved. The data showed that the second cohort of platforms recognised the first platform as the exemplary template (cognitive referent) for their businesses, while bringing in some other elements to maintain subtle differences from it and from one another. In addition, I reviewed the terms and conditions available on the platforms' websites to identify their legal status, how they define their legal identity, and how these documents structure the rules applicable to their customers, on both the lenders' and borrowers' side.

At the initial stage, I applied manual coding and I further applied MAXQDA 2018 software to organise and code the data. The wide-brush coding allowed me to find 31 codes related to the idea stage, platform development, founders' background, regulatory elements, and frameworks. Two codes were combined together, so the final number of codes is 30. The first-order codes were organised into secondary themes and then into aggregate dimensions. Figure 15 shows the structure of the coding process (see **Appendix 9** for the data structure summaries)

Figure 15: Coding process



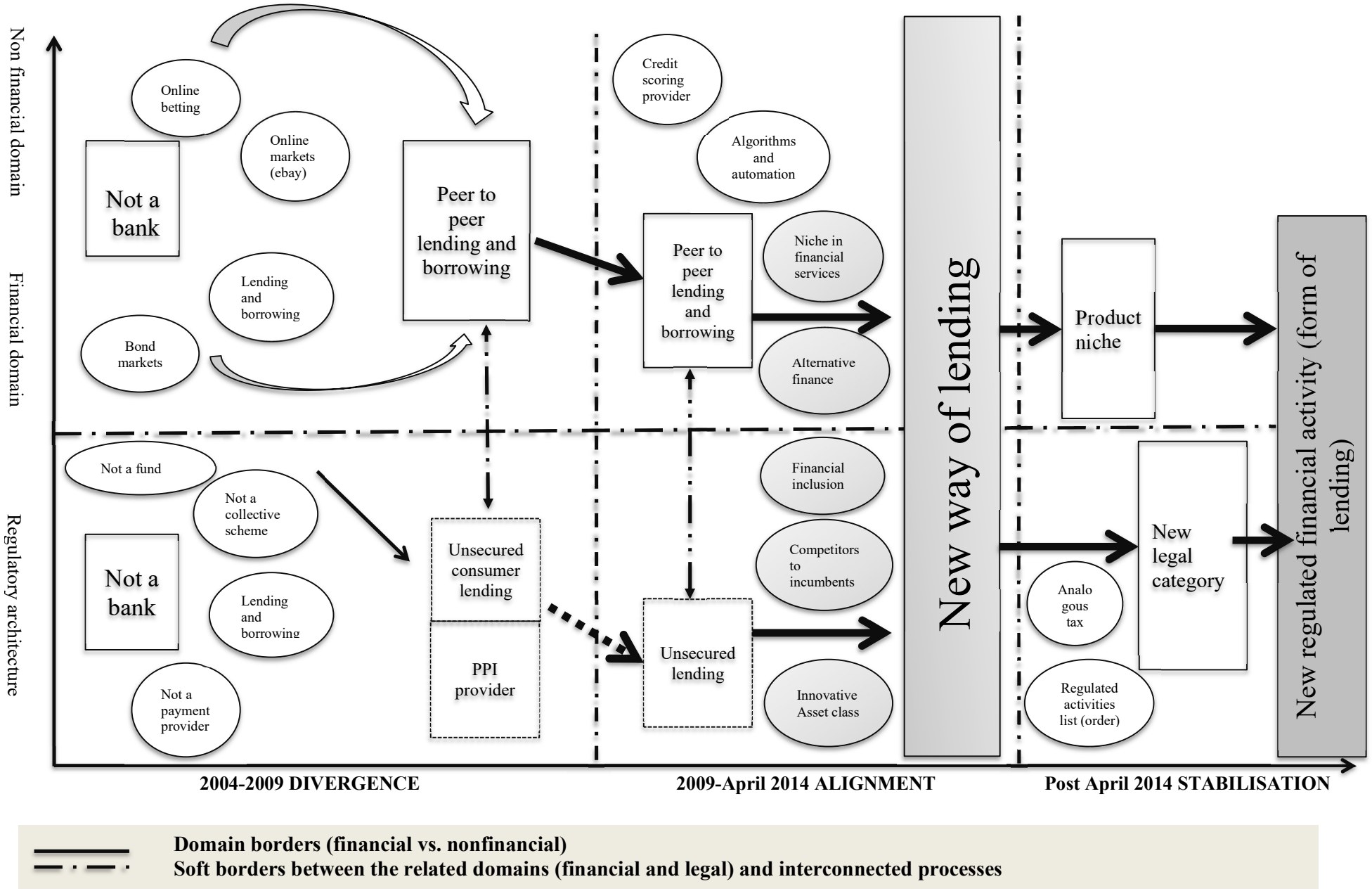


The conversations during the interviews and the reading of the secondary data sources demonstrated that the role of the legal context and legal professionals, and collaboration with the regulatory actors and particular actors within the government, were the key dynamics guiding the emergence. In addition, the interviewees specified that this collaboration with the regulators was a unique process, partly enabled by the wider transformations in the regulatory architecture after the financial crisis 2007–2008. So, I asked about the details of how the legal professionals were involved, how they participated in shaping the idea stage of the company, how the relationship with the regulator changed, and how the authorisation process went, and its impact on the formation. Another insight that emerged through the data is the shift that occurred in 2014, after the transformations in the regulatory architecture succeeding the financial crisis 2007–2008. I noticed that the regulatory/legal analogising during that period lead to a period of stabilisation, specifically after 2014–2015, when the new regulatory framework was developed for loan-based crowdfunding.

I bring and develop the concept of *analogising* – as a collective process that involves difference audiences, with their own toolkits of analogies, who through this collective process of meaning-making drive the emergence of a new form through particular phases. Analogising in the context of the emergence of a new form leads to the alignment of different analogical elements, to anchoring in certain niches and finally, to the convergence of product and legal analogies. I would assume that while the analogical construction of loan-based crowdfunding happened simultaneously in terms of it as a 'product/service' and in terms of its 'legal/regulatory' side, it is necessary to distinguish those two areas, to identify and specify the role of legal elements in shaping the emergence path. This is an interesting puzzle that the analysis of emergence in the highly regulated environments uncovers: how do the legal elements and regulatory architecture play a role in enabling those new forms with innovative activities to emerge?

During the data analysis, all the findings, identified chronology, phases, and ideas that were derived from the interviews were triangulated and confirmed by the field notes from the conferences, observations of meetings, reports, and other secondary data sources of the study. Based on the discussed data analysis, I present the summary of how different analogies from the legal and product sides through the processes of legal and product analogising enabled the emergence. The theoretical sequences explain how a new organisational form emerged through two streams of analogising (product and legal sides) over three phases in Figure 16.

Figure 16: Analogies, their domains, blends and their connection with the sequential organisational forms' emergence



Domain borders (financial vs. nonfinancial)
Soft borders between the related domains (financial and legal) and interconnected processes

The summary shows that the initial set of analogies guided the process through a divergence stage; this was followed by the period of collective analogising among the organisations, legal professionals and regulators/government that enabled the new forms to experiment within niches; followed by the stage of stabilisation within a new legal category and across the niches. During this trajectory the role of legal elements and legal analogising shaped the understanding of particular roles and processes of the new form, hence providing boundaries for the transformations and leading to the stabilisation phase within niches, and to the creation of a new legal category within the regulatory architecture.

Finally, I develop a model that I present at the end of this chapter. The model shows how the analogies and analogising with regulatory actors and legal professionals drive the emergence of the new organisational forms through three phases. This model shows how the emergence of new forms is connected to the underlying infrastructure through a certain mechanism: analogising, and how certain elements: analogies, became raw materials for the new forms. Analogising became the mechanism that connected organisations within a wider system and became the source of meaning, legitimation and higher level support (Parsons, 1960).
In the next section of the findings I provide the details of the phases, actors, analogies and underlying processes, presented in Figure 16.

5.3. Findings

The data show that two main streams of analogising were central to the emergence of this new organisational form in which different analogies were applied and different actors were involved. In addition, the data confirmed that these analogising streams happened across three main phases. In each of these phases, we can distinguish the process of analogising as

the core underlying mechanism that enabled this form to emerge in a particular way. I present the phases and analogising processes that drove the process.

5.3.1. Phase 1 (2004–2008): Divergence – early moments of an idea being shaped through contrasting analogies

The central moment of the emergence of loan-based crowdfunding was the period 2004–2005 when the very first organisation/platform was officially launched in the UK. This company was also the very first loan-based crowdfunding in the world. The emergence of loan-based crowdfunding has a specific feature: one organisation (Alpha) was the single player for some time, maintaining low but stable business growth before a large number of other actors started to follow. This first platform was an independent new venture that was not shielded by sponsoring organisations or by parent, large financial institutions. Previous organisations recognised as innovative in financial services, such as EGG, the first purely online bank, were part of larger concerns – in EGG's case, the insurance company Prudential Plc.

So, for the first founders, it became a creative process of bringing different elements together to configure the organisational form – that is, the moment of active search and the filtering of different pools of analogies. The group of the founders of the first platform had a comprehensive background in the financial services but the crucial factor was that they also had previous experience of bringing an innovative approach to banking through their engagement with launching the very first online bank within a large financial institution. During that time, some of them had already envisioned the importance of the online presence of financial services for customers. They left this project to pursue their aspiration to launch new businesses with the goal to address changes that were shaping sectors over the next 10–15 years. Following this idea they deliberately started to search the non-financial sectors to observe what was happening; in addition, they also worked with an academic researcher to

understand shifts in consumer behaviour. So the founders were filtering a variety of different elements from different domains in the light of their own toolkit of analogies. I identified three sources for their toolkits:

- Background – education (e.g. finance, law)
- Background – work/project experience (e.g. online banking, strategy, consulting)
- Observation – personal interests and general knowledge

They identified several elements that became for them analogical 'blueprints' for an organisational design that the founders believed was associated with effective organisations (Tolbert et al., 2011). That period of the early experimentation in the financial services in the banking segment (e.g. online banking, online accounts) coincided with a transformation in other domains (e.g. the online marketplace for clothes, online gambling, and betting). One of the founders of Alpha (interviewee #70) summarises the key transformation in non-financial fields:

> "New growth was coming from, in those days it was eBay, it was the early days of Amazon, and maybe Google, but those organisations seemed to have within them a different kind of logic about networks and about scale and about communities and about collaboration and about a whole bunch of other things."

The founders started to search strategically for analogical elements from different domains, emphasising modification and contrast compared to the existing forms and the ways they provided financial services. At this early stage, we can say that the founders were focusing on pragmatic action and visionary planning for the future. Analogies were used more to emphasise differences and incongruence, and the rationale for the adoption of these elements was to increase efficiency and customer satisfaction in contrast to incumbent players. One of the founders of Alpha (interviewee #4) emphasises the main divergence elements from the incumbents:

> "The original idea was eBay for Money which would involve people essentially auctioning either a borrowing request or auctioning their money. The idea was to

> remove a bank from the middle, you know, in the sense that a bank treats depositor's money as its own and then determines the loan rate on the other side. It was a paradigm shift in peer-to-peer lending – the idea that the platform is balancing the interests of lender and borrower. In a traditional financial services world, you know, a bank creates a product which is profitable for the bank and then seeks to market it, there's no attempt to balance the interests of depositors and the interests of borrows, it's an attempt to make money for the bank."

Secondary data sources from the first reports about alternative finance confirm the initial analogical elements (Nesta report, 2013):

> "This all changed in 1995 with the launch of eBay. Making the most of the opportunities to easily connect people online, they developed a simple low-cost consumer-to-consumer model for auctioning and bidding for goods online. Just like eBay functions as an online marketplace that facilitates exchange between sellers and buyers, the majority of modern crowdfunding happens through online platforms."

The first government research papers also acknowledged the analogical elements from non-financial segments, identifying the divergence from existing incumbents (APPG report, 2015; p. 4):

> "The rise of e-commerce has enabled individuals to access goods more transparently, from a variety of platforms such as Amazon and eBay. A similar opportunity is present in the small business marketplace."

Through collective discussions, the founders identified four main elements that became the 'raw' materials for the loan-based crowdfunding form. One of the founders (Interviewee #70) summarises these elements:

> "Several key bits – that was Alpha, so that idea popped out in about March or April 2004, so that's where the idea came from. So online gambling company now runs the largest exchange in the world for doing that and are growing really successfully, so they were going through great growth. And we kind of thought well look, they've built all the technology, they were doing more trades on that platform per day than the London Stock Exchange. While putting other different bits together and we also had to build the exchange, and that was a bespoke build. So we hired a company who had previously built bits of the Stock Exchanges, so they knew how to do exchanges."

The table 20 summarises these four analogies, their domains and features. Hence, they started their experimentation in the niche in the financial services known as the 'unsecured consumer

loans asset class‘ provider. One of the founders (Interviewee #70) speaks about this similarity with the unsecured consumer loans asset class:

> “By comparison, attracting borrowers should be relatively straightforward: Borrowers typically don’t greatly care whom they borrow from, and a [Alpha] loan is similar to any other unsecured personal loan.”

They were the first to bring together lenders and borrowers together through the platform technology based on the auctioning mechanism. Hence, this search process and filtering enabled them to identify the boundaries of the niche in the financial services that became the space for their innovative activity.

Table 20: Alpha analogies (product side)

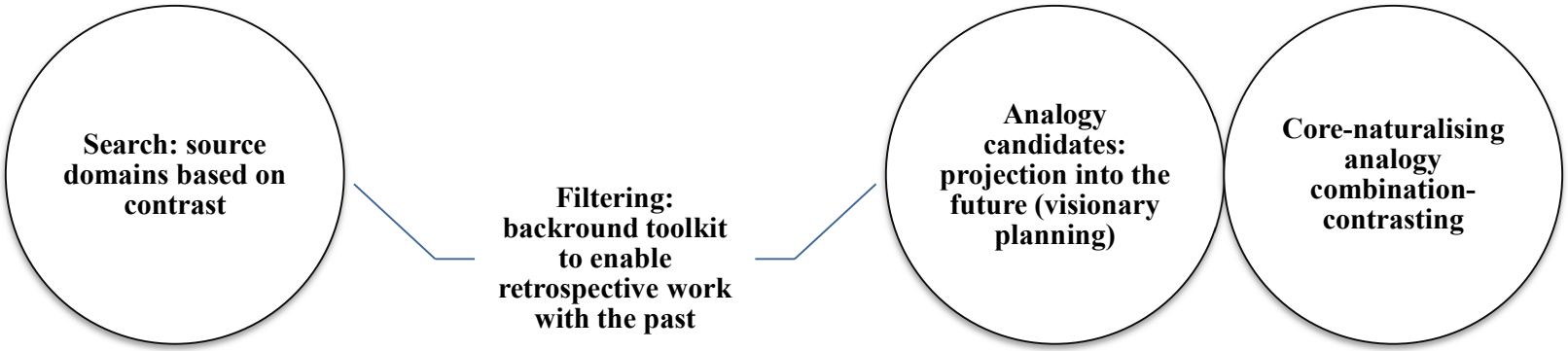
Analogy	Domain	Features	Element for the new form	Side	
Marketplace/ platform and networked business	Electronic market places (eBay)	Marketplace for money	Model and technological side	Lending side	
Betting/gaming	Gaming online	Interest rate betting/technology of exchange	Model and technological side		**Core element of the form – peer-to-peer**
Bond market	Business Lending	For individuals	Product and niche	Borrowing side	
Lending and borrowing	Retail banking	Communities – borrowing and lending together	Product and niche		
Product: ‘Unsecured personal loans asset class’					

As the table 20 above shows, the analogies that were brought together were taken from four different sources from three different domains: financial services, gaming, and online marketplaces. It has been commonly argued that analogies work best when the target domain

and the source domain map closely onto each other, drawing on deep structural parallelism between the analogy's source and target domains (Gentner, 1983; Gentner and Holyoak, 1997; Gavetti et al., 2005; Cornelissen et al. 2011). However, in the case of Alpha it is clear that the domains are different from each other and also that they are different from the target domain, but despite the differences, the analogies were organised together in a viable organisational form. What is also different in this case compared to the existing studies that the non-financial services elements were successfully organised together within financial elements in the financial services context. Therefore, the starting point of contrasting analogies enabled the process of divergence from existing domain – and hence the process of creative organisational design. This toolkit of diverse analogies permitted the coexistence of multiple perspectives (Oswick et al. 2002) and enabled a level of flexibility to help create a new form.

The figure 17 below demonstrates the process of search and filtering of analogy candidates from the background and sources domains to find a combination of naturalising analogy that can become a base for the new organisational form.

Figure 17: Analogy search and filtering in the process of the early moments in the emergence of new organisational forms



Despite those elements coming from different domains, the entrepreneurs recruit those elements from the environment and unite them into a working entity. In the early moments of search and filtering the analogies, analogising establish that link with the past, present and future generating meaning of a new form and contextualising innovation (Garud et al., 2014). Interviewee #70 (founder of Alpha) speaks about the action of projecting the future to the present in order to create innovation:

> "In order to be able to create something different, you need to have a view on the future. Because if we have a view on the future, then we can stand in the future and then we can create from that future."

However, the combination of analogies that they achieved did not emerge in isolation from the regulatory architecture as one of the main parts of the institutional infrastructure of the financial services. In terms of the background of their decision-making, search and filtering process, they always were aware that they were attempting to enter a highly regulated context, so it was crucial to specify their legal aspects as well as the product side. They were also aware that without clarifying the legal ambiguity it was not possible to receive necessary financial resources from venture capitalists[16]. From the very beginning, they were working closely with the lawyer as one of the founders as well as with external law firms to determine their views and construct the legality of their form. From the very early days, they wanted to avoid falling into the existing legal category of 'bank', but they knew that the form must be legal within this highly regulated context, interviewee #70 (founder of Alpha):

> "Because [Alpha] is not a bank, it is not subject to capital adequacy rules, which saves the company the cost of regulatory capital. Because like one of the first questions was well is this legal?"

This starting choice of 'not being a bank' was a contrasting analogy to the existing incumbents' legal category that drove the process of divergence within the regulatory

[16] Alpha founders were very efficient in searching for the venture capital to have enough funds to launch the platform

architecture. So, while the combination of the analogical elements from different domains discussed above enabled the founders to develop a form that was innovative within the niche in the financial services, the contrasting analogy within the regulatory architecture drove the transformations in the underlying institutional infrastructure. This initial process was a process of constructing the legality of this new form through the analogising with legal professionals and with the regulators. So the analogising from the legal side can be also characterised through search and filtering mechanisms, ones in which the legal professionals were significantly involved from a very early stage (e.g. one of the founders was a lawyer). The table 21 summarises the legal analogies that went through the filtering process.

Table 21: Alpha analogies (regulatory side)

Analogy (contrasting) (founders, lawyers)	**Quotes (founders of Alpha)**
Not a bank	*"So we wanted to be as regulated as possible to get as many ticks and badges, but we wanted to avoid being regulated as a bank. Was that if you don't take depositor's money on to your own balance sheet, you're not a bank."*
Not a collective investment scheme	*"Then we needed to avoid being a collective investment scheme."*
Lending and borrowing within legal activities	*"We were people from professional backgrounds wanting to do things correctly."*
Not a fund	*"Whether or not our lenders, our investors, whether or not they needed to be regulated as a lender."*
Not a payment provider	

This analogising process during Phase 1 resulted in the nascent scaffolding regulatory arrangement that enabled the form to anchor within the institutional boundaries of the regulatory architecture (Sutter et al 2017; Mair and Seelos, 2016). One of the founders of Alpha (interviewee #70) speaks about the regulation and the need to be included within the

legal architecture as the key element for loan-based crowdfunding to operate successfully compared to the incumbent banks:

> "So from our experience, we were very aware that banks consume a lot of capital, and so what you were always trying to find is how can we create a business that doesn't consume so much or require so much capital. When we built our business model, we had both a structural and an operating advantage compared to a bank. So the structural advantage was it wasn't a bank, and then because we weren't being regulated as a bank, we, therefore, didn't have the capital requirement of a bank. So that's the structural advantage, and then the operating advantage was at the time we were like five people in a barn, you know, by the time we launched we were, I don't know, twelve people maybe, and we were able to plug together technology."

Emergence of institutional scaffolding in the regulatory architecture for loan-based crowdfunding

Phase 1 of the emergence was the initial iteration of searching for non-financial analogies and financial analogies that enabled the idea of lending and simultaneous borrowing through technology to come into a material form. However, the founders and relevant actors needed to anchor their proposition in the regulatory space not only to show external audiences that they were a reliable and desirable exchange partner (Russo, 2001; Scott, 1987; Oliver, 1988) but also to construct an understanding of legality internally within their organisation. The founders arranged a variety of meetings with external law firms to establish a basic legal interpretation about the form that had started to emerge. Interviewee #70 (founder of Alpha) speaks about the close interaction with lawyers from a very early stage of the idea's development:

> "I went to see them [lawyers] and sort of said look, we're thinking of doing this and we've got no money, but will you help, and they were very kind and very generous. And I think it kind of intellectually it interested them, because they were like kind of going well we do all this banking, what the hell is that? What the hell is that? Anyway, quite quickly it became, they basically – we found someone who said yes, we think you can do it."

Overall, the legal professionals were positive about the legal side of the form but the main challenge was to get the official regulator's formal legal authorisation. The founder who was also a lawyer already had in mind a *legal analogy* – payments regulations that might be

applied to the loan-based crowdfunding. However, the FSA, as the regulator of the financial services during that period, was not interested in the peer-to-peer side of the model as one of the founders of Alpha (interviewee #4) confirms from their conversations with the FSA at that time:

> "The FSA still didn't, they weren't interested in talking to us about what is this peer-to-peer lending, they were just not interested."

Hence, given that the product was similar to the existing unsecured consumer credit products, the first step was to get the consumer credit licence from the OFT,[17] which was responsible for authorising consumer credit activities. However, the legal professionals also saw that loan-based crowdfunding might fall under the FSA responsibilities but outside existing legal categories. Interviewee #4 (founder of Alpha) speaks about this potential creation of a new legal category within the FSA's responsibility:

> "In virtually every sense. So very early on we tried to talk to the Office of Fair Trading because of it about unsecured credit which was, you know, consumer credit regulated by OFT. And the FSA because we felt that the potential areas of regulation that you could apply to this were nearer to what the FCA then was responsible for, and we had a whole legal analysis prepared as to why we didn't fit any of the categories that the FSA then regulated."

Hence, this phase demonstrated a potential 'legal opportunity window' for experimentation within the regulatory architecture.

However, given that there was no interest from the FSA during that period, the founders and lawyers creatively constructed a scaffolding legal arrangement based on analogical elements from the existing legal frameworks that allowed the form to anchor into the regulatory architecture. During this phase, the role the regulator (the FSA) in the analogising was in the form of a passive actor that followed their wider mandate to regulate the conduct of financial services providers, within the existing rules. So, while the founders received the licence from

[17] The Office of Fair Trading (OFT) was responsible for protecting consumer interests throughout the UK. Its responsibilities have been passed to a number of different organisations, including the FCA.

the OFT allowing them to offer unsecured consumer credit, they *extended* their initial practices into the payment protection insurance spaces (known as PPI),[18] so that they started to resemble insurance providers. So, through this extension, they were able to obtain a status as a general insurance provider from the FSA. This strategic move brought the regulator, new organisational actors and lawyers in a temporary consensus so the platform could have been opened to external audiences.

The legal status that the platform obtained was a general insurance intermediary as confirmed by the founder (interviewee #4):

> "That gave us FSA authorisation as a general insurance intermediary. But even though we were authorised as a general insurance intermediary. There was always a bit of tension between it as a product provider and it as an intermediary."

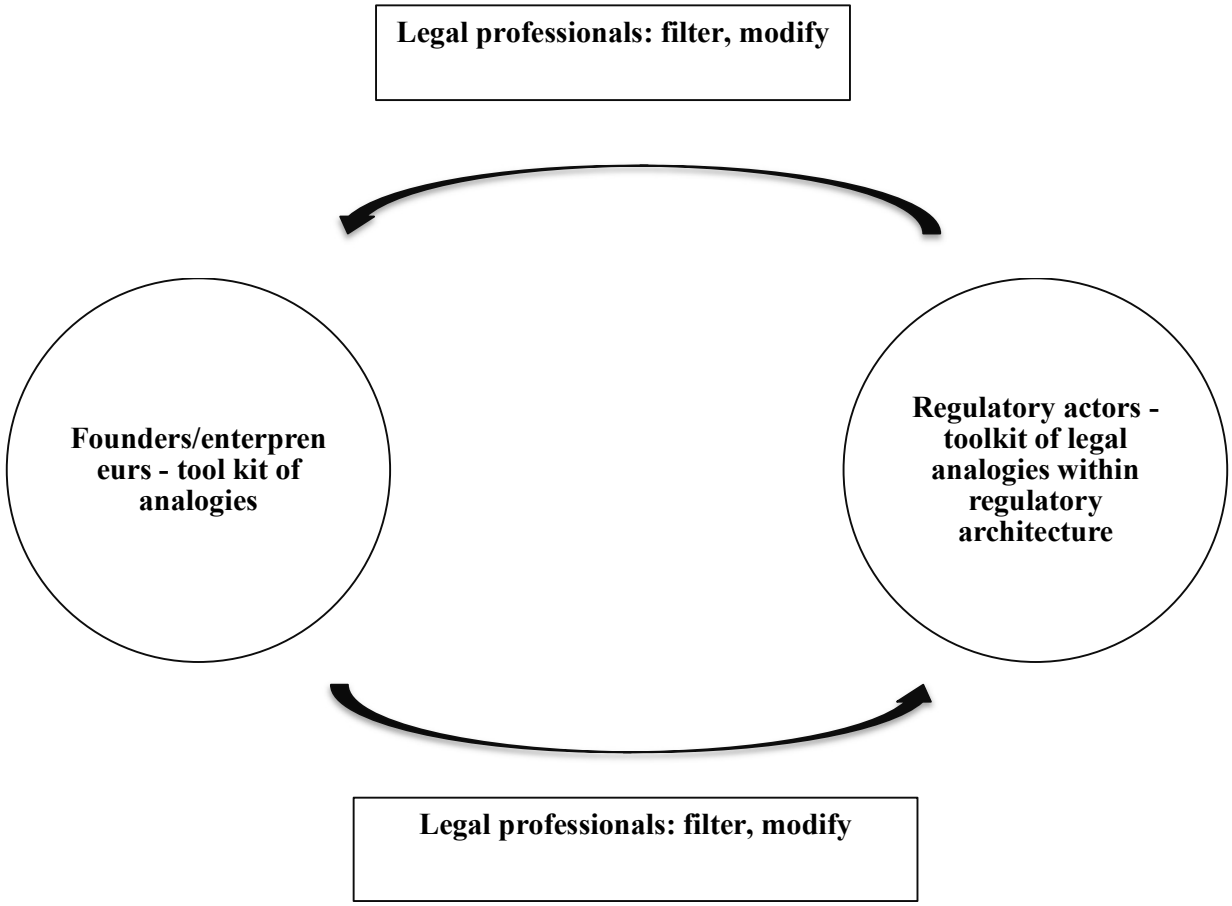
As a result, the scaffolding became that nascent regulatory institutional arrangement, a result of the iterative analogising among the founders, legal professionals and regulator. This process involved the search and filtering of analogy candidates in the legal context on the basis of the contrasting analogy 'not being a bank'. This search and filtering involved the legal professionals who became the actors that transferred the analogies in between the regulatory architecture and the niche space of the new form. This collective analogising enabled the anchoring into the regulated spaces through a deliberate extension of initial practices into an existing regulated space (insurance provider and consumer credit provider). As the founder of Alpha (Interviewee #70) pointed out:

> "That (without the legal side) would have killed it. And I remember having a drink with Richard that Friday evening, with him kind of going that was a near death experience when the media started to question if we are legal or not."

[18] PPI – which stands for payment protection insurance – was sold with loans, credit cards, mortgages and other types of credit, such as car finance or catalogue accounts. Some "stand-alone" PPI policies were also sold which weren't linked to particular credit (source: financial ombudsman, https://www.financial-ombudsman.org.uk/ppi/what-is-ppi.html) .

The figure 18 schematically shows the process. This combination enabled the opportunity for the analogical construction of the new form in the product niche and in the regulatory architecture.

Figure 18: Analogising and actors in the early moments of the emergence of the form (divergence phase)



In the main, this phase showed that the starting point of contrasting analogies enabled the emergence through *divergence* from the existing and incumbent forms (mainly banks in their retail banking segments). This case shows that in contrast to existing insights about the role of analogy to emphasise similarities between the source and target domains, the case of loan-based crowdfunding reveals how contrasting characteristics can enable experimentation, and how the core (naturalising) analogy can be based on contrasting features. While the same *divergence* can be seen on the legal side, the collective analogising with lawyers and regulators enabled a particular scaffolding to become a basis for convergence and future stabilisation during the next stages. Strategically applied contrasting analogising enabled entrepreneurs to locate their ideas within the institutional infrastructure in order to gain initial acceptance, yet maintain the inherent differences from incumbent forms and practices to enable the change. This mode of the contrasting analogising while providing a practical mechanism of analogy search also gradually became a cognitive mechanism, facilitating the process of creative institutional design.

5.3.2. Phase 2 (2009–before April 2014): Alignment through the common ground analogy blend of legal and product analogies

> *"It is like a building development. We expect firms to be the architects for each of the buildings: to choose the bricks; to find a layout that works for you; to make something that stands out for consumers. Our job is to be the structural engineer – that is, the person who takes a view of the safety and underpinning of the market. Someone has to say it's unacceptable to make a house of straw. Or that some structures are plainly unsuitable." (Christopher Woolard, Financial Conduct Authority, Director of Strategy and Competition)*[19]

Phase 1 resulted in the development of a nascent regulatory scaffolding within which the form of loan-based crowdfunding was anchored both in the product niche of financial services and within the underlying regulatory architecture. While this institutional design allowed its emergence in a particular form, this represented a temporary consensus among the actors. The financial crisis of 2007–2008 shaped the general regulatory architecture and the

19 www.fca.org.uk/news/speeches/getting-regulation-right

underlying meaning of the core regulatory concepts. This phase can be characterised as a period of *active collective analogising* in which the regulatory bodies became active participants in the iterative process of analogy shaping, as compared to Phase 1 where the regulators were less present. This phase demonstrated how collective analogising leads to common ground analogies, as compared to the contrasting analogies of Phase 1.

After the financial crisis of 2007–2008, the transformation in the regulatory architecture led to a new phase in how the regulatory actors made sense of niches in the financial services, new organisational forms versus incumbents and their underlying practices. The regulators started an active search for potential analogy candidates that could maintain the balance of the form's innovativeness and legality. The founder of Alpha (interviewee #4) explains how the financial crisis created a sense of mistrust in existing financial institutions:

> "Financial crisis 2007–2008 created an air of mistrust in financial institutions and the emergence of tech and Fintech kind of came from that because. Mistrust and because the existing savings, the existing world of savings and investment was not just untrustworthy but inaccessible."

As in the policy-making in general, the core analogy was necessary for the regulator to start constructing frameworks and specify rules around the new organisational form. The scaffolding developed during Phase 1 was not sufficient anymore given the wider transformations in the regulatory architecture shaping the underlying meaning of risk, innovation, competition and the legality of financial services. One of the lawyers (interviewee #40) explained how post the crisis non-bank organisations started to be considered as alternatives to the existing banks:

> "I wasn't aware of them until about 2012, and then even then I looked up what had been said about them and people we saying is this legal, there was a big question mark. And then I think post the crisis, people were like a bit more willing to look at non-bank alternatives, everyone was so upset with the banks that it was like you're kind of willing to let that guard down a little bit."

The wider discourse among regulators, MPs and lawyers started to intensify with general questions around loan-based crowdfunding as if this model is something new and if it is something innovative and can compete with incumbents? One of the regulators explains the way they started to define loan-based crowdfunding;

> "We don't want people to think this is the same as a savings account. There are other issues with provision funds – on one hand, they look a little bit like deposits, on the other hand, by pooling risk it brings in the idea that this thing may be looking more like a collective investment scheme. Instead of being exposed directly to individual loans, you're actually exposed to a pool of loans. It suddenly looks much more like an alternative investment fund but without all the fees and the regulatory protections which would apply."

As developed in Chapter 4, before the financial crisis of 2007–2008 the regulators' interpretation of a niche in the financial services was based on an analogy of a gap and a problem, while after the financial crisis the focus shifted into the analogy of a niche being a space for innovation. The shift happened in the understanding of the core legal concepts (part of the underlying regulatory architecture) of what is appropriate, legal and legitimate in the financial services, as well as what the regulator should be doing and focusing on in their mandate. Such core concepts as 'competition', 'innovation', 'risk' and 'technology' went through a period of rethinking of their underlying meaning as well as how these concepts can fit within the transforming regulatory architecture. These transformations coincided with the rearrangement of the regulatory bodies and with the wider focus of the government and policymakers on competition through innovation. It was the first time in the history of the regulation of the financial services that the regulator was given an official mandate for competition shaping how they understood what financial innovation is and what it means, and how to enable competition. The representative from the P2P association (interviewee #43) explains this dramatic shift:

> "Let me just take you back to 1999, 2000 when the UK legislation was going through parliament to formulise the powers of the FSA, the single financial services regulator. And at the time there were a few people who said the financial services regulator

> should have a competition objective as well as consumer protection and financial stability, making markets work fairly, all the rest. There weren't enough people onside and actually one of the reasons why it didn't happen then was the power of the central bankers and the way they see the world. Because back then, this is twenty years ago now, the philosophy was that you need a few big financial institutions."

The post the crisis period saw the transformation of the political agenda that focused on enabling competition through innovation.

Beta's founder (online archival source) explains this interconnected nature between the political agenda to enable competition through innovation and how loan-based crowdfunding fitted in the agenda:

> "The point was made that peer-to-peer could be a viable source of new competition in banking. That really hit home with their political agenda."

The official mandate to balance competition and consumer protection enabled the legal opportunity window for the second cohort of platforms to emerge using the available core analogy of Alpha's form and applying it within different niches in the financial services that became available as spaces for innovation. So the core analogy, in this case, was already available, requiring only subtle shifts; the second cohort constructed their propositions around this core analogy of being a loan-based crowdfunding platform. Hence, in 2010 two more platforms (Beta and Gamma[20]) emerged to anchor into the SME lending, consumer lending, and real estate lending niches – and then more followed. Beta's founder (online archival source) explains how the Alpha's template provoked the next iteration of the platforms' launches:

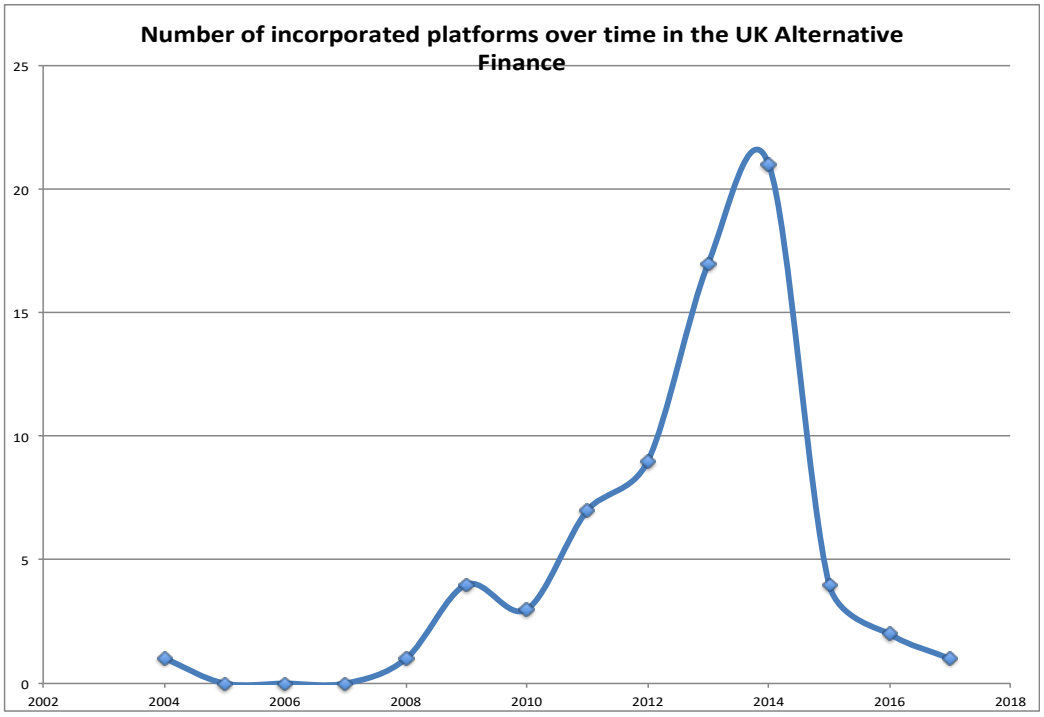
> "I had been thinking about whether the peer-to-peer exchange model could be applied to money for years, but these things take a while to digest and also it's all about timing and opportunity. The recession in 08-09 was a trigger if you like, as it felt like a time of complete change. Alpha had been going for a few years, which helped us and others in hacking down a few of the initial trees in the jungle. So although we weren't the first peer-to-peer lender, we feel we had a right to exist, because we came up with a completely different model. That's a challenge in itself because you're having to re-define the concept."

[20] Pseudonym

The legal opportunity window that was identified during Phase 1 by the founders of Alpha and lawyers emerged into the surface of the regulatory architecture. This legal opportunity window was solidified by the wider shift in the interest rate (base rate) by the Bank of England that influenced the savings and borrowing rates as a measure to improve economic conditions after the financial crisis. While this interest rate is a numerical valuation of the cost of borrowing and gains from lending and investing, for new organisational form this measure of lowering the interest rates became a symbolic tool to construct the legality within the regulatory architecture (see **Appendix 10** for the history of the Bank of England interest rate).

During Phase 2, the legal framework that guided the emergence was still based on the OFT licence but was officially identified as temporary – it was called "interim permission". Hence, "interim permission" shaped the temporary boundaries within which analogising might have driven the aligning process, and also limited new actors entering the niches. Figure 19 reports on the number of incorporated platforms over time.

Figure 19: Number of incorporated platforms over time in UK Alternative Finance[21]



Source: adaptation from CCAF report

The difference between Phases 1 and 2 is that the second cohort of platforms had guidelines in a virtuous cycle of institutional design, driving the shift from contrasting analogising towards similarities/alignment. The second cohort of loan-based crowdfunding platforms created those subtle differences without transforming the core analogy of a loan-based form. One of the founders of the platforms from the second cohort (interviewee#47) stresses the strategic importance of these subtle differences:

> "The fact we haven't lent three billion, we've lent 54 million, I can now see a difference between Beta maybe and us, because we are trying to do something quite niche and is trying to do it in a slightly different kind of way around the whole security frame. So this is part of where the market for us is we didn't – we knew that we wanted to be in the bigger stuff because we didn't think anyone was really playing there."

[21] Alternative Finance includes here equity crowdfunding, loan-based crowdfunding and invoice trading, but the majority of these platforms were loan-based crowdfunding.

They anchored in other niches such as secured commercial or unsecured business lending, they limited the crowd of lenders/investors, or they anchored in other very specific niche areas within property lending (e.g. commercial property development finance). Those moving into property lending niche used the same core analogy (naturalising analogy) for loan-based crowdfunding for property lending that emerged during Phase 1, further driving the alignment analogising. One of the founders of a property lending platform (interviewee #42) confirms the application of the Alpha's template:

> "The original idea came from a friend of mine, my original partner who's a chartered surveyor, who said to me have you seen the Alpha's model, and they were the pioneer."

While the anchoring in other niches happened on the basis of an available analogy from the first platform, the regulatory side opened up the legal opportunity window for collective analogising to make the regulatory architecture work actively. This process was characterised also by the establishment of the Peer-to-Peer Association in 2011, which became the official centre of the analogising among platforms, legal professionals and regulators with the goal of making the regulatory architecture work for them. One of the Alpha's founders (interviewee #42) speaks about the emergence of a whole industry and the establishment of the association as a necessary part of the process:

> "And the problem I suppose was that for a good four or five years we had no competitors, there was nobody else in the market for peer-to-peer lending. So it wasn't until other two platforms started in 2010, that suddenly we had an industry, and pretty quickly we started talking further to policymakers about proportionate regulation which would help inform both regulators and participants in the market. And we put together the trade body, the Peer-to-Peer Financing Association."

The second cohort of platforms purposefully developed the association to enable engagement with the regulatory and government actors with the idea of being included within the

regulated activities order governed by the Financial Services and Markets Act (2000).[22] As a basis for the engagement with regulators, the members of the association with the direct participation of lawyers configured their own self-regulatory principles. The establishment of the association enabled the interactive collaboration with the regulators. Beta's founder (online archival source) defines this process as unique and collaborative:

> "It's quite rare in financial services that you are able to have such a collaborative legislative process. Normally regulation is imposed after there has been a crisis or scandal."

The collective analogising with the regulators happened through official meetings, informal meetings and an informal conversation with senior actors within the regulator and the government bodies. One of the representatives from the P2P association (interviewee #43) describes how interactive the collaboration with the regulators was:

> "Platforms had bilaterals where they could but they found it more convenient and better actually. We could get meetings with senior people. We also had informal meetings like seven hours and breakfast meetings and where we invited the government body as well. Because at the time, they had a strong policy commitment to removing the barriers because they believed, they were very pro competition. They're the ones that put in the new competition objective."

One of the Gamma's representative (Interviewee #21) also confirms how interactive the communication with the regular was:

> "And so it was then that he was like this is not working so they went to the FCA just before launching and said look, we want to do this thing, do we need to be regulated."

The formation of the Association became the vehicle for collective action between the entrepreneurs who founded early companies and other groups of actors (e.g. other FinTech companies, lawyers, policymakers, regulators and researchers). This Association became the arena where actors were enabled to take part in the analogising, hence individual cognition

[22] The regulated activities are defined in detail in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544) (as amended) (RAO).

became a part of collective signification. This association became a device of constructing legitimacy and legality of loan-based crowdfunding form and became a base for approaching, educating and communicating with the regulatory actors.

This phase became the period of the emergence of a variety of FinTech, Alternative Finance conferences, roundtables and meetings. These events became one of the key 'platforms' for collective analogising among the actors driving the contrasting dynamics towards the 'common ground' as the analogical base. While loan-based crowdfunding was included within different themes across these events, one key process was highly visible: the alignment of analogies that constituted the product side and the legal side and the convergence towards a certain understanding and meaning of what the loan-crowdfunding form was. This process was highly dynamic, so the conferences' organisers were very flexible during the process of forming the agendas, inviting speakers and deriving topics because the convergence and underlying making were happening 'live'. Hence, this empirical observation adds to the studies focusing on the analysis of conferences as field-configuring events (e.g. Lampel and Meyer, 2008; Schüßler et al., 2015), by demonstrating that these events can also become a platform for collective analogising during the phase of the emergence of a new form.

During Phase 2, legal professionals (lawyers and legal consultants) were actively involved in translating the product analogies into the legal/regulatory language and feeding back the interpretations of the legal analogies to the actors developing the forms. As in Phase 1, the legal professionals filtered the candidate analogies and modified the existing ones but within the boundaries of the core analogy of Alpha's form. One of the representatives of the P2P

association (interviewee #43) identifies the key role of legal professionals in shaping the boundaries of the meaning around loan-based crowdfunding form:

> "It was the only heading under which they could include our activity, right? So the general heading was under consumer credit and if you weren't doing anything else. At that point, of course, we bring in the heavy guns, we bring in our regulatory lawyers and we said look, this is what they're telling us, what's wrong with our model? And they say well as far as we're concerned, reading the legislation, there's nothing wrong with your model. No, that was our lawyers came up with that idea and then we had to develop it. It's semantics, that's all it is."

The lawyers continued to be involved with the idea of shaping the form through discussion, but compared to Phase 1 they were also involved in blending the legal and product sides (e.g. at the stage of the regulatory business plan), so the analogising was based on aligning rather than contrasting strategy. One of the lawyers (interviewee #40) describes the intermediary role of lawyers between the founders and the regulators:

> "So we helped put together the regulated business plan, send it off, it would come back with questions and some of them were clearly legal questions, so I'd be involved in discussions with them. I didn't always agree with their answers but, you know, and how do you get the money through and how do you match the – so that was kind of mine. We looked at one where it was literally we have a business and now we want to turn it into a peer-to-peer business, how do we do that. Yes, it [the legal frameworks] will either be in the meeting, they'll have their books out or it's in my head."

A number of the second cohort platforms had internal as well as external communication with legal professionals depending on their size and stage of emergence, but all of them had a comprehensive conversation with them. Interviewee #43 (P2P association) observes the important role of the legal professionals in identifying the legality of loan-based crowdfunding:

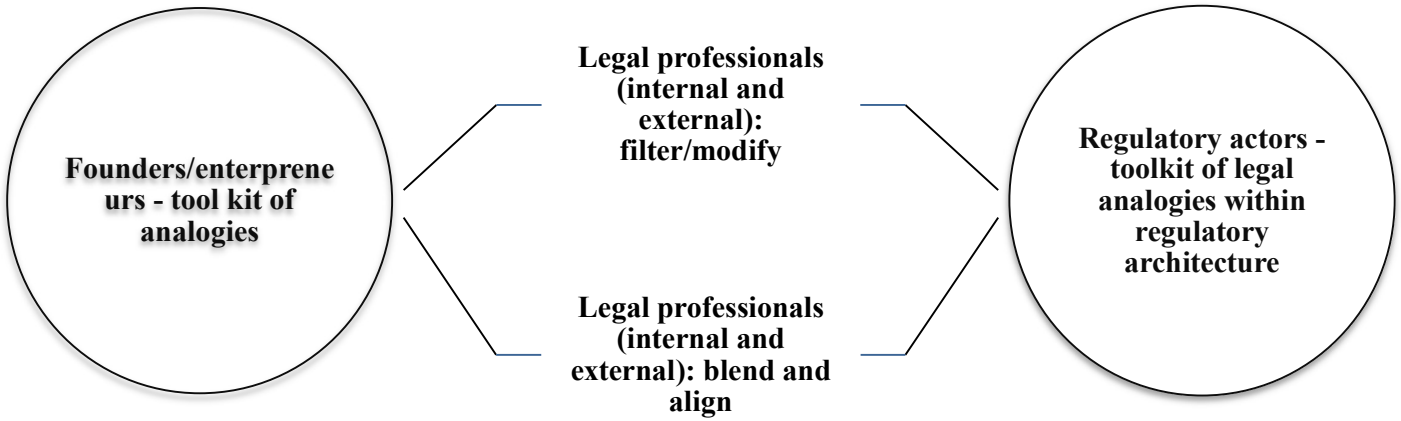
> "Yes, I've just found it more productive to have conversations with in-house lawyers where you can have a conversation that's says, well, give me an informed position on what the risks are and then collectively as a business we can understand what the risks are and make an assessment of that."

During Phase 2, the analogising among the founders, including legal professionals and regulators, were actively focused on finding the common ground so the two streams of product and legal analogies would have started to align. Interviewee #40 (lawyer) explains the role of lawyers in the process of finding the common ground meaning of loan-based crowdfunding:

> "So the regulator wants an opinion from the lawyers to say that we have considered whether it's a fund, and quite often the way the regulation is worded is like you can't definitively say one way or another. It was still in draft form, so we didn't really know what it was going to look like. Then really my view was looking at Alpha, Beta and Gamma, see how they had done it, kind of then trying to recreate that."

Figure 20 summarises the process and the roles of actors during Phase 2.

Figure 20: The analogising and actors in the early form emergence during Phase 2 (alignment)



Several individual actors within the Peer-to-Peer Association were closely linked to the regulators and the government (e.g. HM Treasury). So, the emergence of the association sent a signal to other newcomers that the establishment and legitimation of links to the regulators had created an accommodating institutional environment awaiting them. This signalling mechanism stimulated a large number of loan-based crowdfundings to enter the space, demonstrating that new organisational actors considered collective action as a way to establish a conversation with the regulator. New organisational actors were included in the regulatory conversation and rule-making. On the one hand, the new actors through this relationship with the regulator were able to identify and define the legality of their new innovative form in the financial services, and position it for themselves and external audiences; on the other hand, the regulator identified what particular form had emerged, what the role of the technological systems was, how new regulatory category could be used as a tool and a symbolic element for the regulator to legitimise their own structural and functional change after the financial crisis of 2007–2008.

This collective analogising partly satisfied their official legal mandate of innovation and competition that came to the surface of the regulatory architecture after the financial crisis for the first time in the history of the regulator of the financial services. Once the new regulatory framework that defined a new legal category had come into (known as article 36H), which included loan-based crowdfunding in the Regulated Activities Order, the regulatory actors started to use it as a template for balancing their mandates in terms of innovation/competition and customer protection with marketing integrity. Article 36H defined loan-based crowdfunding as “activity of operating an electronic system in relation to lending”.

Under this article, it was defined that platforms facilitating loan-based crowdfunding between two individuals or between individuals and businesses would be carrying on a regulated activity and would, therefore, require FCA authorisation. According to the regulator's archive of speeches: "Our objectives in doing so will be to get regulation right for the sector. We want to see competition, consumers appropriately protected, and successful and sustainable firms. If we can achieve that together – firms, consumers and regulator – we can look forward to an industry that has continued success."

The legal framework that emerged to regulate the loan-based crowdfunding within the regulator (the FCA) was the result of collective analogising, with a high level of ambiguity and openness to different interpretations that were mediated by legal professionals. According to the BWB[23] compliance blog (online archival):

> "The regulatory journey of platforms became one of the most involved and iterative of authorisation processes any firm could experience it was possible for quite different views of article 36H to be held by platforms, lawyers, consultants, HM Treasury, and the FCA. Legislation in isolation proved to be insufficient. FCA policy and platform practice had to adapt as more about the industry and business models were becoming evident. As such issues emerged over time, the changes occurred as a slow evolution rather than a big bang."

Phase 2 resulted in the alignment of analogies within the forms' product niches based on the core analogy – the first loan-based crowdfunding (Alpha form), with subtle modifications to anchor to slightly different niches within the financial services. During Phase 2, the umbrella term 'crowdfunding' was applied by the regulator, although the association and the founders of the platforms did not consider their practices to be 'crowdfunding'. However, they came into a consensus to establish a common ground within the terminology, so they used loan-based crowdfunding and peer-to-peer lending interchangeably.

[23] A regulatory consultancy that provides solutions to FCA and other regulatory issues.

While Phase 1 resulted in the development of the temporary regulatory scaffolding, significant transformations occurred in the regulatory side of analogising during Phase 2, enabling common ground to emerge aligning the two sides. This phase demonstrated how analogising enabled meaning-making about the legality and compliance of this new form, demonstrating how through the analogising the actors endogenously constructed both the definition of legal compliance and the population of compliant organisations (Suchman and Edelman, 1996). Loan-based crowdfunding through the shared interpretation among the audiences started to acquire a symbolic dimension (an evoked meaning) of an innovative financial service form.

In addition, during Phase 2, the government actors did not play an external dominant role of the influencer on the rule-making; rather, they were active participants in aligning analogies to find the common ground for the new organisational form. From this perspective, the law is not merely an instrument or tool working on social relations but is also a set of conceptual and ambiguous categories and schema based on analogies that help construct, compose, communicate and interpret the emerging organisational form.

5.3.3 Phase 3: Stabilisation (late 2014–2018) – analogy convergence and new legal category

Phase 2 involved an active collective process of analogising to develop common ground on which to base the aligning blend of product and legal analogies of the new organisational form. Phase 3 started after the official publication of article 36H when the platforms started to apply for the full official authorisation. Those who had interim permission (as a licence for consumer credit from the OFT) were allowed to continue their business, while new entrants had to apply for the full authorisation directly.

In addition to these two ways of going through the regulatory journey, some companies became creative in their ways of collaborating with the regulatory architecture and acquired the legal status of an appointed representative of a regulated company. An appointed representative status allowed loan-based crowdfunding to operate within their financial services niches without going through the official authorisation process, instead paying fees to a regulated company that also functioned as their local regulator doing their necessary checks and sign-offs. While this was a quicker way to enter the financial service niches and start functioning as a legal business, it limited the capacity to experiment within their practices, so the majority of loan-based crowdfunding actors went through the full authorisation journey.

Hence, the journey through the official authorisation was the key analogising process during Phase 3 driving towards the analogy convergence and stabilisation phase. During that time more than 100 platforms applied for the full authorisation in an attempt to converge the product and legal sides through the available legal opportunity window, and after that period the number of new actors dropped significantly within the loan-based crowdfunding form.

Overall, this process demonstrated how the regulatory architecture worked endogenously. This process was an evolutionary analogising among the actors through which they were learning by doing – converging the underlying analogies. The average length of the authorisation process was 12–18 months, also signalling the underlying and slow convergence process towards stabilisation. The article 36H regime became the basis of the regulatory authorisation but it was deliberately very ambiguous and open to interpretation. That was during Phase 3, when the new legal category reached a point of stabilisation. In contrast to Phase 2, during which the analogising led towards a blend of analogies and

common ground, Phase 3 was characterised by an explicit search towards similarities leading to convergence.

The starting point involved the submission of a regulatory business plan that was usually prepared and structured with a significant engagement of the legal professionals. They used their existing experience of summarising particular business areas in legal terms to filter them and to include in the plan. One of the founders of a loan-based crowdfunding platform (interviewee #14) explains the details of a regulatory business plan:

> "So they call it a regulatory business plan which is essentially a very, very detailed business plan talking about how you attract customers, how your fees, your charging structures work, your communications with customers, how you make revenue, what your products are, very, very detailed. They look at your cash flow forecast, your balance sheet, your P and L, all of your key policies, your credit policy, your wind-down plan, your clients' monitoring plan, they really go through everything."

The next stage of the authorisation involved a long process of communication with a case officer within the FCA who was responsible for the authorisation approval. This process involved a set of questions from the case officer to clarify particular areas without any detailed or specific rules, opinion or guidance. That is where the legal professionals played the role of interpreters and meaning mediators by converging the blend of analogies on the basis of similarities. One of the founders of a loan-based crowdfunding platform (interviewee #15) explains the process of iterative meaning evolving through collective work:

> "In this space and that (framework/regime) was really very much appreciated by the industry, but it meant that there were different interpretations. But we had to change the business model a little bit to make sure that we could comply with the interpretation at that time. Lots of back and forth. You know, it was really useful because they ask all the questions that, you know, everyone needs to know."

This process of analogising towards stabilisation involved not only an application through the regulatory business plan, but also visits from the regulators to explore particular areas of the business on the ground, as the interviewee #14 (loan-based crowdfunding) reveals:

> "We had a visit from the FCA and they, and to be fair, I mean they didn't really leave any stone unturned, so they really did go through quite thoroughly all of our policies, and actually seeing it in practice."

The subtle differences among the second cohort of platforms within the loan-based crowdfunding were unexpected to the regulator. The case officers who were allocated to different authorisation cases had to consult each other and learn through the authorisation process, converging together on the elements to reach stabilisation, to find similarities within the loan-based crowdfunding, rather than contrast it to existing forms as 'funds' or 'unregulated collective schemes'. Hence, the convergence was emerging on the basis not to contrast with existing forms (what loan-based crowdfunding is not) as what was happening during Phase 2, but to establish what the loan-based crowdfunding was as a new form. As one of the lawyers explains (interviewee #40), the understanding of what loan-based crowdfunding is by the regulator was split into two areas rather than across many as it was previously the case:

> "Because one of the things that the FCA has picked up on is the fact that sometimes what crowdfunders are doing now resembles banking and other times it resembles fund management."

The role of the legal professionals moved slightly from the idea involvement stage towards the mediation of the meaning during the authorisation journey. One of the lawyers (interviewee #40) describes the change:

> "Well yes, I mean each time the FCA would ask for a whole load of information, the client would tend to come back, one of my clients would come to me and say how do we answer all these questions, we'd prepare a pack back and send it back and each time my, you know, I was charging for my time."

They start to converge together the blend of analogies that reached common ground during Phase 2 and at the same time mediated the learning process through structuring and explaining the questions of the regulator and the answers of the loan-based crowdfunding

actors. One of the founders (interviewee #39) emphasises the important role of lawyers in the process:

> "You know, none of us are legal experts and so it's kind of, it's a bit hard. Like we've actually done reviews of it and like there's a number of us that understand it to a decent level of detail, but ultimately we're not lawyers and so I think that's, that's kind of one challenge."

The convergence of analogies among the actors resulted in a stable understanding around the product side within the niches, despite subtle differences among the platforms within the loan-based crowdfunding form, as well as in reaching a particular level of 'taken-for-granted' nature of the authorisation process and understanding this new legal category. One of the lawyers (interviewee #40) speaks about the converging understanding about loan-based crowdfunding:

> "It is like a niche, exactly. It's a business, just a normal business, it's a lending business, except they don't lend their own money. I'm like it's good for my practice because I'm like you earn more fees by advising these things, but I'm like fundamentally they do the same thing."

While the new legal framework (article 36H) was still open to a high level of interpretation, through the authorisation process, certain meanings converged among the actors. BWB compliance (online archival):

> "Over time, different interpretations of article 36H emerged. In the purest form of P2P lending, platforms facilitate a loan between a lender and borrower, where at least one party to the transaction is an individual. Very few business models were this vanilla. While the general understanding was that article 36H was drafted to capture the activity of the P2P industry, on some analysis, platform activities might go wider than this."

All actors involved felt positive about the stabilisation of the legal side of loan-based crowdfunding, creating consistency and bringing everyone to the same position, resulting in a convergence of analogies. Interviewee #19 (British Business Bank) speaks about this positive perception:

> "That (regulation) is something we welcome in the sector because obviously, it brings at least everybody on the same page. Because obviously people did different things and you can assess and one does that, one does the other and it's kind of, at least regulation can bring a bit more transparency and kind of making sure everybody's on, consistency for the investors as well. It's kind of getting there, kind of comfort – how do you deal with change, how do you do things, and how do you keep your niche."

An additional convergence instrument that was collectively developed through analogising among the peer-to-peer association members and the government was the tax wrapper Innovative Finance ISA (IFISA) – a new tax regime for loan-based crowdfunding form. Different tax wrappers could be used by lenders/investors in financial products and collectively it was perceived by the loan-based crowdfunding actors and legal professionals as another analogical element to construct legality – a necessary attribute of a legal financial service. That is where the collective analogising around tax regimes drove towards convergence.

Before this new tax wrapper was developed, it was possible to use three ISA[24] tax wrappers based on the underlying investment. Three types of ISAs existed at the time when IFISA was introduced – cash ISAs, stocks and shares ISAs and Help-to-Buy ISAs (now known as lifetime ISAs). Hence, the collective analogising based on those existing frameworks among the founders of the platforms, association members and certain individual actors (e.g. the Chancellor) within the government enabled the creation of a separate tax wrapper based on similarities within the form itself. The fact that loan-based crowdfunding loans were included in this tax wrapper moved them into a different investment "pot".

IFISA, as a new type of ISA wrapper, separated the loan-based crowdfunding loans from savings (deposits) and stocks (shares), moving them towards a separate part of the ISA

[24] ISA stands for 'individual savings account', a form of UK investment that is exempt from tax on its returns.

holdings of investors. The key role of a tax wrapper as a meaning defining tool is acknowledged by the actors from the loan crowdfunding platforms (interviewee #43 from the peer-to-peer association):

> "Because as well as regulation, you have to also think about tax in financial service products, as you know, because a lot of products for investors are tax-incentivised and also there are different tax regimes for bank savings and, you know, personal allowances and all the rest. So getting the tax regime right and trying to get the tax, the people who set the rules on tax and tax policies to recognise that this is a completely legitimate investment product."

For the government and the regulator, the development of this tax wrapper became a tool to converge the analogies around loan-based crowdfunding form as an innovative financial service, bringing competition into financial services and stabilisation to the regulatory architecture. The chancellor[25] at that time – George Osborne was the first in the government to introduce this innovative tax wrapper. George Osborne (former Chancellor, archival material[26]):

> "First, investment and tax. We're introducing the right tax regime for this new industry with major new incentives to encourage investment in start-ups and now we will allow peer-to-peer lending in ISAs. And we're backing you with public investment too."

Another important organisational actor that emerged during Phase 3 – the British Business Bank owned by the government – indirectly signified the convergence of analogies underlying the loan-based crowdfunding form towards the stabilisation. This bank was launched in late 2014 with the aim of bringing competition to the financial services in the UK, and promoting alternative ways of funding provision specifically to the SMEs through increasing diversity and educate companies about those funding options. Interviewee #19

[25] The Chancellor of the Exchequer is the government's chief finance minister and one of the most senior members of the Cabinet. They are responsible for setting levels of taxation and public spending across the UK and announce changes to these each year in the annual Budget statement. The Chancellor of the Exchequer has overall responsibility for HM Treasury. https://www.parliament.uk/site-information/glossary/chancellor-of-the-exchequer/

[26] https://www.gov.uk/government/speeches/chancellor-on-developing-fintech, 2014

from the British Business Bank stresses the role of loan-based crowdfunding of bringing diversity to financial services:

> "Obviously what we focus a lot is bringing diversity in the market, broadening the options from SMEs, so if it's not your main street bank, what other funding options are there for you, so it's kind of opening routes for you to have financing. It's increasing the capacity of financing as well, and then also part of the wider bank is kind of informing the SME what are your options, that's where we also have the business finance guide of saying if this is the type of funding."

Following these goals, loan-based crowdfunding specifically within its SME lending niche was perceived as an alternative, legal and innovative way of funding provision helping underserved customers (start-ups, SMEs, individuals). Interviewee #19 (British Business Bank) confirms this observation:

> "When I guess the platforms, what they're helping is a lot of, and the Fintech side and the crowdfunding is helping a lot more of the start-ups and the more people with no track record and less security, so at least people can take, use other ways to assess a business."

Several partnerships were created between the British Business Banks and platforms including Gamma, through which the bank provided funds that then were lent through the platform. These partnerships again confirmed the converged understanding of loan-based crowdfunding as a legal form. Interviewee #19 from the British Business Bank speaks about loan-based crowdfunding partnerships similar to other forms of finance distribution:

> "What we do is partnerships. So the same thing like even on the loan-based crowdfunding platforms and all the rest where we put money on platforms. So it's just, so it's more of a managed account and saying provided these are our requirements, any loans meeting these requirements, you can participate and use of funds for. But we don't become an active investor."

Another area where the convergence was and is still happening is the underlying technological structures and functions of the platforms' systems. One illustrative example is the automation of the lending function. The initial model was based on a bidding approach (in the early days of Alpha) through which investors were able to pick loans based on their

own decisions and the interest rate was derived through the auctioning mechanism. Phase 3 saw the wide shift across the loan-based crowdfunding towards one general approach – that the investor chose the parameters of loans (risk and return) and then the platform system diversified the amount across a number of different borrowers. Hence, the function of loan-based crowdfunding shifted from a matchmaker towards more of an actor who provides reliable due diligence and credit underwriting. Those two areas were identified in the regulatory frameworks as well. Interviewee #23 (research/conference provider) identifies this shift in the roles between an investor and a platform:

> "I mean various platforms have different ways of doing it but most of them, most of them have an automated way of investing where you basically give them your money, like tell them what risk you want and then they do it. In the case, you know, they do it for you. It's, you know, there's been from a retail side, you know, there often is a passive and has been a passive vehicle for investing for a long time."

As a result, this phase of stabilisation of the emergence of this new form of loan-based crowdfunding within the product niches and regulatory architecture, enabled by the collective analogising, is still ongoing. However, it is necessary to include several developments at the end of 2018 and 2019 that might be signs of the next phase, one that goes beyond the emergence stage and beyond the scope of this research project. One development is coming from the regulatory side through the reviews published by the FCA in the summer of 2018, in which they explicitly talked about restricting the type of investors to high-net-worth individuals and sophisticated investors, advising investors by professional financial advisors and restricting the retail investors that are allowed to lend through the loan-based platforms. This shows the first signs that the core analogy in the regulatory side of loan-based crowdfunding form as innovative lending is moving towards the analogy of high-risk investment product. FCA consultation paper defined (CP 18–20, p. 37):

> "P2P platforms should be held to the sorts of standards that certain investment managers and investment businesses are. We propose to bring P2P platforms more

> into line with the systems and controls requirements that apply to these types of firms."

Key individual actors within the FCA also started to point on the importance of consumers' protection mandate. Christopher Woolard[27] issued a statement alongside the review:

> "When we introduced new rules for crowdfunding, we said we'd review the market as it developed. We believe that loan-based crowdfunding can play a valuable role in providing finance to small businesses and individuals but it's essential that regulation stays up to date as markets develop. The changes we're proposing are about ensuring sustainable development of the market and appropriate consumer protections."

One of the lawyers (interviewee #47) also speaks about the changing role of a platform:

> "What I'm reading from it [FCA reviews] is, if ever a loan fails, the platform could be in the hoop for it. Rather than being a matchmaker that says we'll put someone who wants money together with someone who wants to get a return, and we'll put you together and you can get on with it yourselves. They have gone from that to say you're not just a matchmaker, if this doesn't end up in marriage, you're responsible for having put incompatible people together."

Another development within the UK local setting – the separation in 2019 from the European Union (EU), known as Brexit – might have an impact on the underlying regulatory architecture, including the financial services. These transformations may, in turn, drive a rethinking of underlying concepts and legal frameworks, potentially enabling and/or limiting the further evolution of new organisational forms.

In addition, there are several developments coming within the loan-based crowdfunding forms signalling a maturation process. A significant development within the product side is application by Alpha (the very first loan-based crowdfunding platform) for a banking licence, which they received in December 2018. While they will maintain their loan-based crowdfunding activities, this banking licence will allow them to blend their loan-based

[27] Executive Director of Strategy and Competition, Financial Conduct Authority.

crowdfunding and banking practices. This move is a significant transition from the very first contrasting analogy of ‘not being a bank’ directly to ‘being a bank’. So, this blend of two different analogical elements within the financial services that Alpha pioneered in 2004–2005 may enable the next phase of divergence within the loan-based crowdfunding form itself, potentially leading to the next iteration of transformations. Alpha’s blog (4 December 2018):

> “Our new bank will sit alongside its existing business, creating the world’s first hybrid peer-to-peer and digital bank offering customers a unique choice of products. Armed with our banking licence, we’re set to take on the traditional banks.”

This development diverges heavily from the first contrasting analogy that guided the emergence of this platform in 2004–2005. Interviewee #4 (founder of Alpha) speaks about the core idea in the early days of the emergence:

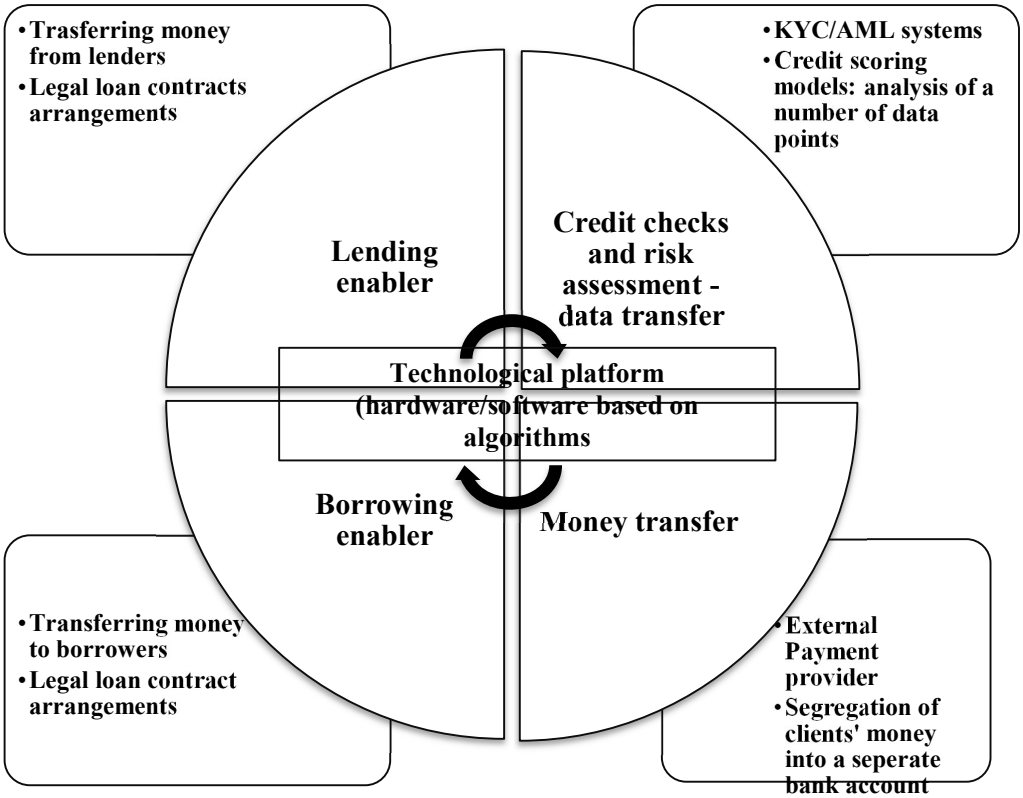
> “The idea was to remove a bank from the middle, you know, in the sense that a bank treats depositor’s money as its own and then determines the loan rate on the other side. So to remove them, as well as the capital adequacy requirements of banks which is kind of dead, and leave the upside with the lender receiving a better return on their money than through a bank deposit and with the borrower in terms of receiving the rate that’s right for them.”

Another significant development is Gamma’s initial public offering on the London Stock Exchange, which drove towards a stronger convergence within the elements of loan-based crowdfunding and stabilisation.

To summarise, Phase 3 resulted in the analogical convergence of the new organisational form of loan-based crowdfunding through iterative legal analogising among the actors, enabling a phase of stabilisation within the niches in the financial services (product side) and within the

regulatory architecture (new legal category).[28] The figure 21 summarises the elements of loan-based crowdfunding form at the stabilisation phase.

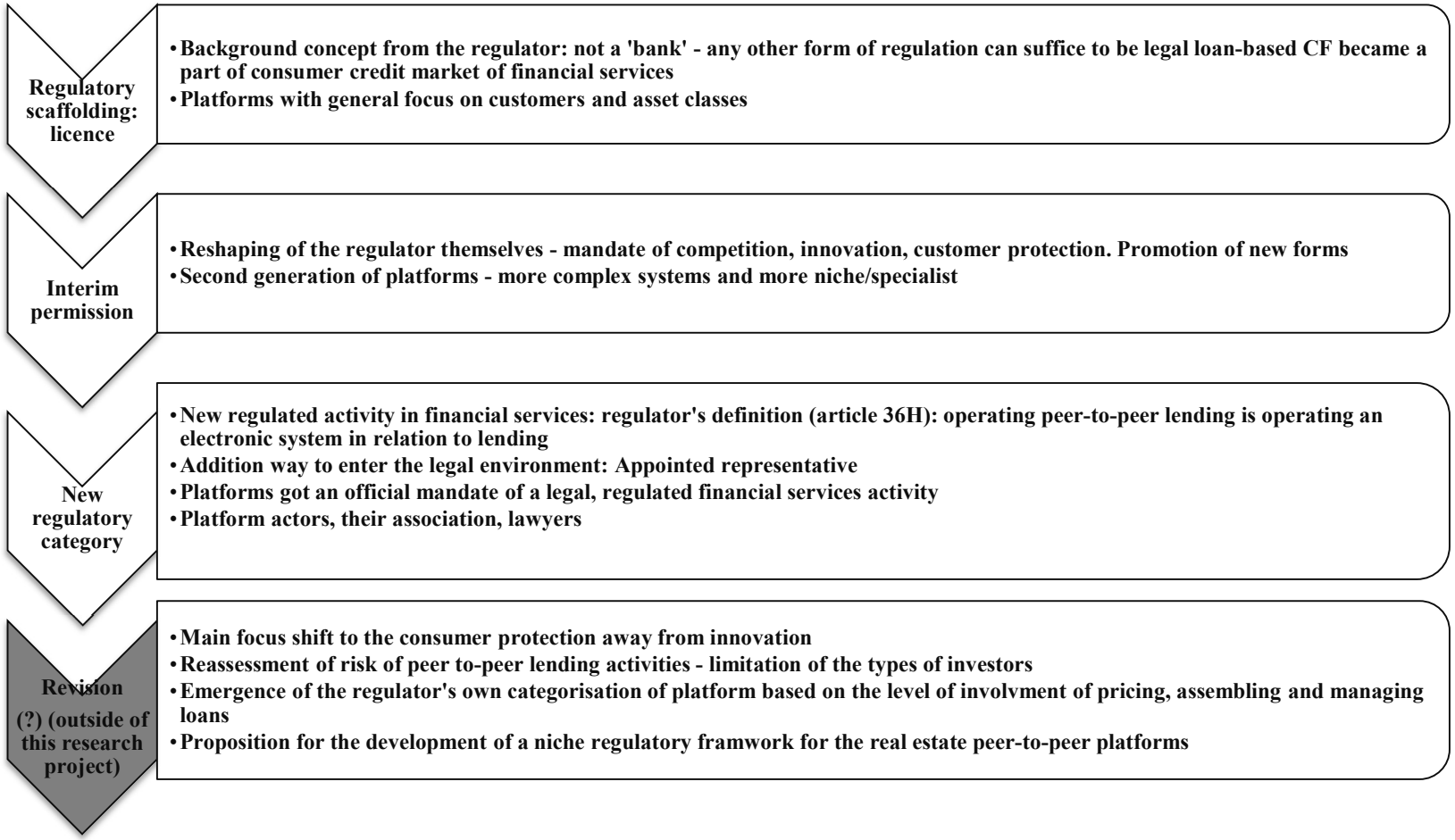
Figure 21: Underlying core elements (financial, non-financial, legal) and technical components of loan-based crowdfunding (stabilisation phase)



The figure 22 provides a brief summary of the stages during the legal/regulatory analogising and how legal ambiguity has been resolved leading to a new legal category of the regulated financial activities.

[28] It should be noted that the revisions from the FCA published in July 2018 had not resulted in any official reviews of the existing regulatory framework at the time when this chapter was drafted.

Figure 22: Phases of the analogising within the regulatory architecture



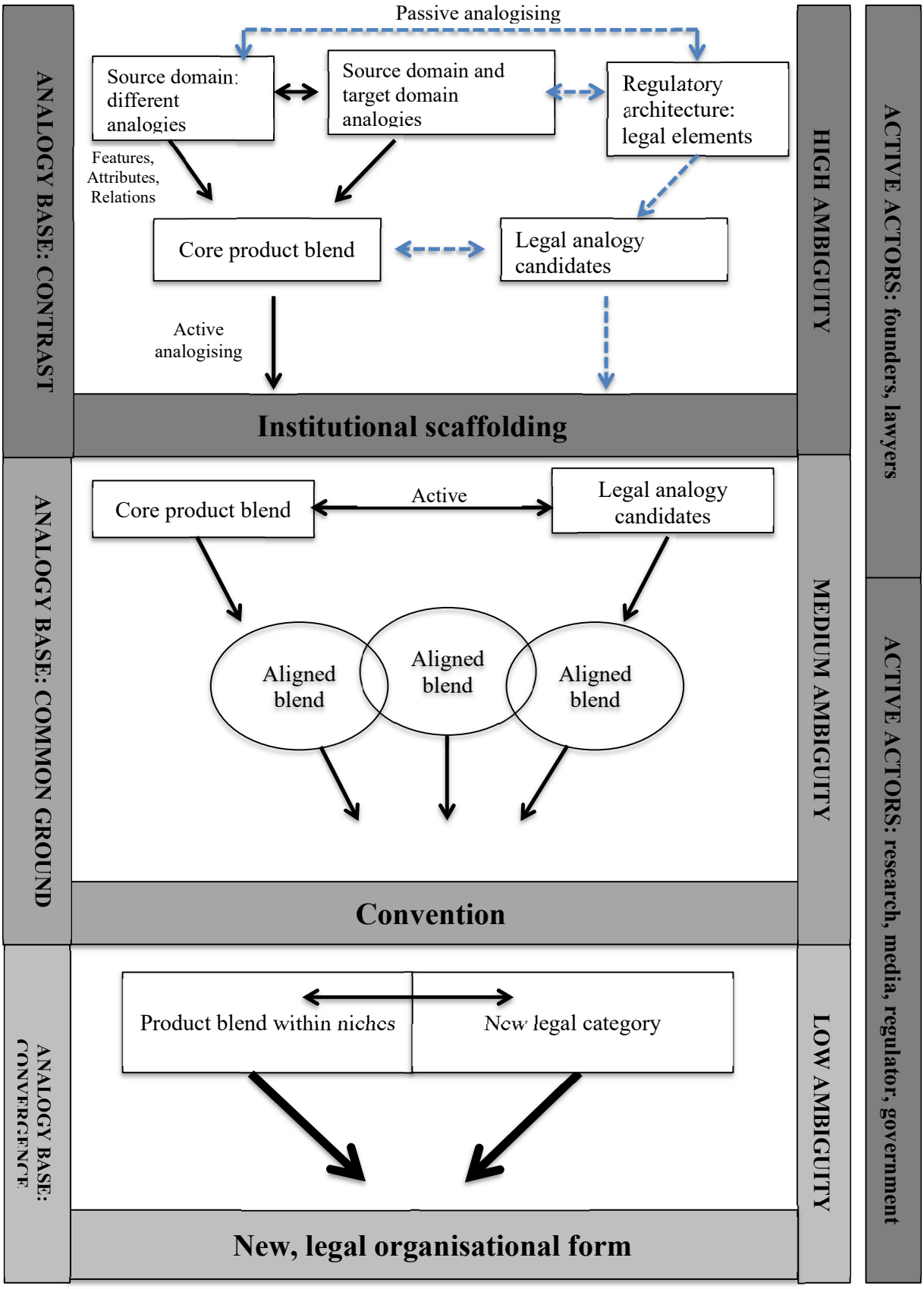
The analysis of Phase 3 contributes to the underdeveloped area around the evolutionary nature of the regulatory framework emergence together with the emergence of the new form it regulates. The authorisation process became the key analogising among the actors, shaping the legal and product analogies through a common ground towards a stable convergence and new legal category.

5.4. Discussion and conclusion

I began this research chapter with the question of what the role of analogy is in the emergence of new organisational forms in a highly regulated environment. My framework, which emerged inductively, identified three phases of the emergence through which the analogies played different roles, involving different actors in the process of analogising. As I discussed in the literature review chapter, it is necessary to bring back into the discussion the core argument around how 'naturalising analogies' or core analogies can be used to explain the process of how new institutions and organisational forms are reified, naturalised and made meaningful (e.g. Logue et al., 2016; Douglas, 1986).

This chapter, based on the empirical analysis of loan-based crowdfunding, adds a new perspective by revealing the role of analogy in enabling the emergence of new organisational forms in the niches in a highly regulated environment. Specifically, the findings uncover two main analogising processes on the *product* and *legal* sides through three phases: *divergence*, *convergence* and *stabilisation*. I also identified that during these phases different actors were involved with different analogical toolkits driving the emergence of a loan-based crowdfunding form. Figure 23 summarises the model.

Figure 23: Emergence of a form through analogising



The model above summarises how two modes of analogising of the product and legal sides started in the period of high ambiguity with a variety of different possibilities for a new form. During the phase one, legal analogising was a passive process leading toward institutional scaffolding, becoming a boundary process for a product analogising. Further, in the phase two both product and legal analogising became active processes, leading towards a convention and further to a new legal category and a new legal organisational form.

The granular empirical analysis allowed me to uncover a dynamic process in which analogising explains how the divergence from existing incumbent practices enabled the new organisational forms to anchor into the niches as spaces for experimentation and innovation and how the further phase of the stickiness of certain core analogies led to a convergence of those niche actors towards stabilisation. In contrast to previous studies, which mainly focus on the product analogies and how actors use these to make sense of their products towards one or two groups of actors, for example their customers, this study also focuses on the legal analogies and analogising with the regulators and legal professionals.

The study demonstrates that there are differences in the way that analogies are used with different actors and that this process is changing over time. The findings also show that legal analogies are the core analogies that shape the process of divergence from existing forms and practices, and at the same time enable convergence of different elements from different domains into a stable form. The role of legal professionals in this process is a specific role of becoming those actors who filter the analogies and the particular meaning between the new organisational actors and the regulators.

In the case of the emergence of new forms, there are two states that need to be balanced: "familiarity" and "novelty" (Bingham and Kahl, 2013). Some tension might exist when new forms are born in a highly regulated context: the new form should be distinct but the same time familiar and *legal* to be able to emerge in the first place. My study shows that the actors started with a contrasting analogy to create a sense of novelty and innovation compared to the existing incumbents and, at the same time, they worked with lawyers to find and construct a legal analogy in order to create and construct a new form that was legal. The study shows that multiple contrasting analogies have been used in the product side rather than one single analogy. From the legal side, the process of analogising went through a phase of regulatory scaffolding that by a process of collective analogising evolved into a new regulatory category to sustain the legality of the new form. The table 22 below summarises the analogy-formation process, the actors involved and the details about the chronological phases.

Table 22: Summary of the analogy-formation process

Phase 1	Actors	Analogical elements	Details
2004–2008	Founders, lawyers, fund providers	Loan-based crowdfunding is not a bank Lending to underserved individual customers High-risk activity Pure peer-to-peer activity Auction for lending Gambling eBay for loans	High uncertainty about the product and legal sides Different labels used in the conversations: loan-based crowdfunding, peer-to-peer lending
2009–April 2014	Peer-to-Peer Association, lawyers, regulators, MPs, conferences, founders, international actors, researchers, consultancy	New way of lending, new asset class, lending marketplace Niche in the financial services Financial inclusion Competitor to banks Alternative finance Growing movement to revolutionise banking and investing	Reduction of uncertainty around product with still high uncertainly around legal side Labels used: loan-based crowdfunding, peer-to-peer lending Loans marketplace
Late 2014–2019	Association, lawyers, regulators, MPs, conferences, founders, international actors, researchers, consultancy	Regulated financial activity Alternative finance Mature asset class Part of FinTech Participants that use technological innovations to create new market places Creator of new employment and financial inclusion Lending models	Reduction of uncertainty in the product and legal sides Labels: Regulator sticks to loan-based crowdfunding other actors mainly use peer-to-peer lending

Overall, the management of this emergence appears to exploit the dual sides of the familiar and the novel, as well as the legal and the illegal in a way that captures these states and shapes them through analogising with relevant actors. Overall, the study shows that analogy and analogising play an important role in the emergence process maintaining a balance between novelty and familiar ways of doing things in a context characterised by complexity, unpredictability and uncertainty. In this context of the highly regulated market, these organisations worked not only politically but also discursively to shape the meaning of their services and technologies.

The theoretical framework has important implications for scholarship on organisational emergence and connects the process with the context in which the emergence occurs. The findings contribute to a more 'realistic' approach towards understanding the emergence of new organisational actors (Aldrich and Fiol 1994; Aldrich, 2011) with innovative practices in a highly regulated environment. This takes place through a collective action of new organisational actors who are cooperating with professionals (lawyers) and regulators/policymakers to position their businesses as legal and sustainable. It shows how the period of high ambiguity and indeterminacy was guided by collective analogising to derive a certain meaning system around a new form, at the same time shaping the underlying regulatory architecture. The analysis adds to our wider understanding of the process that interrelate the regulatory architecture and the emergence of new organisational forms, showing that through a collective process of analogising, based on existing legal elements and frameworks, new organisational forms creatively construct a particular meaning of legality and compliance, which in turn shapes the way how regulators and policymakers construct their legal frameworks. Legal professionals acted as these 'meaning-shaping' intermediaries.

This process is similar to a conversation or a narrative creation among the participants. Indeed, the study by Abolafia (2010) developed a narrative construction perspective on how policymakers (the Federal Reserve Committee) select the facts, order the facts into a plausible narrative and negotiate a choice. This narrative is a sense-making process involving retrospective interpretation with a prior knowledge base. This process is produced from bits and pieces of institutionalised operating models, technical language, anecdotes and existing fragments of analytic storylines. This confirms the argument of this study that legal frameworks and policy construction are characterised by a high level of ambiguity open to interpretation in which analogies are the key mechanisms that drive the process of resolving the ambiguity. Analogies serve as a fundamental cognitive mechanism used to recombine innovations from disparate domains, and establish understanding and legitimacy by transposing conventions to the domain of the natural order: analogies naturalise social classification, help actors see one thing in terms of another (Douglas 1986, Cornelissen et al. 2011) and navigate order to design new strategic options (Garbuio et al., 2015, Haas and Ham, 2015).

As the findings demonstrate, different phases of emergence are characterised by different ways in which analogies are brought together. On the one hand, analogies provide the raw 'material' for the construction of a new organisational form; on the other hand, the process of analogising among diverse actors enables a particular path for experimentation and innovation to occur. The model demonstrates how a dynamic approach to analogising in the emergence of the new forms can explain how the unfamiliar becomes familiar but at the same time conceptually distinct (e.g. Hargadon and Douglas, 2001).

In addition to that, this study shows that analogising is a dynamic process, one that went through three phases in this case: first, the application of analogies from different domains enabled a new form to diverge from existing incumbent forms and enabled experimentation; second, the collective analogising with legal professionals and regulators enabled the transfer of analogies into the legal space, making possible the experimentation with legal elements, leading to the configuration of a new legal category; third and finally, this led to a period of convergence among the new organisational form and a period of stabilisation. During the first phase, the form started to emerge through divergence by a particular combination of the non-financial and financial elements. This adds to the understanding of how non-financial analogies can be enabled in the highly regulated context of the financial services through the collective construction of the regulatory institutional scaffolding. Previous studies explored the opposite direction of how financial analogies and templates enter the non-financial environment (e.g. Etzion and Ferraro, 2010; Glaser et al., 2016); this study provides unique insights into the opposite process.

Hence, the model developed in this chapter shows that new forms emerge and evolve gradually through which analogies balance legitimacy, legality and innovation through constant recalibration. Strategies effective in the early stages of emergence are unlikely to be as similar and effective in later stages. Analogising between regulators, government and organisations shows that law and legal frameworks inside the regulatory architecture are less coercive and more fluid, malleable and constitutive.

Social interactions permeate institutions with local force and significance (Hallet and Ventresca, 2006). The analysis of the early period of the organisational emergence is very important to revealing how the actors through collective meaning-making are solving the

ambiguity and navigate the considerable variance of organisational forms. Analogies are becoming the mechanisms to find the solution, solve the uncertainty and guide the decision-making around available choices. This process happens through official procedures such as authorisation from the regulator but also through numerous formal and informal arenas, such as conferences, roundtables and face-to-face meetings. In addition, the careful analysis of moments in history when innovations change the landscape of existing institutions offers the opportunity to observe these larger systems of meaning (Hardagon and Douglas, 2001).

In addition, the findings of the chapter speak to the emerging literature around institutional infrastructure (e.g. Greenwood et al., 2011; Raynard, 2016; Hinings et al., 2017). As Hinings et al. (2017, p. 171) point out: "Institutional infrastructure thus includes field governance arrangements, but also other cultural, structural and relational elements that generate the normative, cognitive and regulative forces that reinforce field governance, and render field logics material and field governance performable."

Findings from this case have demonstrated how regulatory architecture, as a part of the institutional infrastructure, is interrelated with the emergence of the new forms that it regulates. I demonstrate which particular elements and actors provide the underlying elements and how such elements are organised through analogising driving the process of emergence through three phases. Previous studies identify the main elements of institutional infrastructure as organisational templates, collective interest organisations, norms, categories, labels, regulators, informal governance bodies, field-configuring events and status differentiators (Greenwood et al., 2011; Hinings et al., 2017). This study provides a different approach by uncovering and systematically accessing the deeper layers beneath the elements discussed previously.

The findings help explain how different analogies can provide legitimacy and legality to novel forms through collective analogising and constitute the underlying basis for institutional design. Collective analogising can reshape social action so a new form can emerge and reach stabilisation. We can see that entrepreneurs through applications of analogies and collective analogising were part of the architecture from the very early days. In contrast to the previous studies reviewed earlier, we can see the niches in which actors were able to innovate, not only because of the resources redistribution but because the actors were able to cross the boundaries and participate in the construction of the regulatory architecture, hence the infrastructure that was considered outside of their domain (Woolley, 2014). It should not be neglected that this form is based on platform architectures and proprietary algorithms developed by individuals that participate in the main processes that define the form. Hence, the analysis of the very initial elements of the form might help to understand the logic of its algorithms that could shape the social dynamics that depend on them (Gellispie, 2015) and to draw connections between the design and the necessary infrastructure and public policies that will enable benefits (e.g. financial inclusion) rather than disadvantages to the wider communities.

The findings of this chapter also extend the insights of the emerging academic literature around crowdfunding. Most of the studies can be divided into two groups. First group started to develop a descriptive approach to study crowdfunding phenomena through first developing definitions, identifying typologies of crowdfunding and describing certain models of main platforms. These studies provided a good basis for a general understanding of crowdfunding but they neither delve into the deeper processes and differences of different types of crowdfunding, nor do they examine the roles of other actors that have participated in the process. The second group of studies use different types of crowdfunding as empirical

settings due to the easy access to large data sets to analyse the crowdfunding campaigns and test a number of different hypotheses – for instance, around different elements of campaigns, factors of success or failure – hence missing the potential of crowdfunding settings to research the phenomenon itself. The results of this study reveal that crowdfunding in general is not only a platform or a new type of innovative finance, but also a significant phenomenon whose emergence became a complex institutional design involving different elements and actors.

Hence, through the analysis of the very early moments of the emergence of new forms when innovative actors first begin to interact with the context of existing institutions (regulatory architecture), it is possible to identify the means by which new forms could be designed in a particular institutional context and how they shape existing institutions. We can understand how existing actions and institutional structures are the results of certain decisions and choices, some intentional, some implicit. This architecture does not emerge through a discrete event or by the actions of one or even a few key actors but the process consists of numerous institutions, resources and events, involving many actors where coordination among the actors takes place not so much through hierarchal mechanisms or the price mechanism but mostly through interactions (Van de Ven, 1993).

5.4.1. Conclusion

This study was motivated by a goal to more fully understand the role of analogy in the process of the emergence of new organisational forms in a highly regulated environment in which regulatory architecture plays an important role in the very early stages of emergence. To reach this goal, I analysed the emergence of the very first loan-based crowdfunding form. I showed that the emergence of a new organisational form is a process that is interrelated

with the wider context in which it is happening through collective analogising. This study adds to the conversation about the emergence of platform-based/technology-based actors, showing through the case of the loan-based crowdfunding that technology as such does not cause change. It is rather how technological elements are combined and filled with meaning.

This study also adds to the discussion of how micro-level elements, such as cognitive structures, beliefs and motivations, influence other social economic activities (Zahra and Wright, 2011; Eisenhardt, Furr, and Bingham, 2010). Considering the context of the emergence of new organisational forms and an analogy application as a particular mechanism, this study provides a clearer basis for identifying those mechanisms; it helps recognise the various micro-processes, offering a foundation for understanding how the creation of different organisational forms are linked to particular 'designs'. For entrepreneurs and founders, finding these designs can be challenging as they need to locate and describe their ideas by maintaining the balance between novelty and the traditional ways of doing things (Hargadon and Douglas, 2001). The mechanisms that they use to import and combine different elements and rationales of other forms and sectors may define success or failure of their innovative activities.

As this study shows, even in a highly regulated context, this process of building organisational forms does not simply follow written laws but involves collective analogising with legal professionals and regulators that enable and shape the construction of new systems of meaning, leading to convergence and certain stabilisation of the formation of the forms. This dynamic view of analogies may provide some theoretical insights into the boundaries of the underlying elements for a new organisational form.

Previous research acknowledged important mechanisms that bring elements together into one recognisable practice or business models – such as bricolage, reconfiguration, transposition and translation (Baker and Nelson, 2005; Czarniawska and Joerges, 1996; Powell and Sandholtz. 2012a). Yet while entrepreneurs can cobble 'whatever is at hand', it is particular analogical toolkit through analogising that shapes the boundaries. Analogies, I argue, can be cognitive and normative and can provoke innovation rather than limit it. Through a certain level of ambiguity and openness to interpretation, analogies can enable transformations by highlighting contrast rather than similarities in the product side as well as the legal side of organisational actors.

Hence, analogising as a process shapes the emergence and design of new organisational forms in phases. The model developed in this chapter shows a case when the first choice of analogies stressed contrast rather than similarities with existing incumbent forms and practices and legal frameworks to enable innovation in existing niches. This, in turn, can be characterised as an enabler of bottom-up experimentation. While, in later stages, when the first form emerged and gained a legal anchor through the scaffolding arrangement, this form became the core naturalising analogy for the second cohort of companies. So, analogising at this point started to shape the divergence/contrasting analogies prevalent towards converging and stabilisation.

Undoubtedly, the history of the emergence of loan-based crowdfunding is closely intertwined with increased government and public awareness of necessary improvements in the financial services and with wide debate on improving the regulatory architecture of the financial services; it is thus situated in an opportune moment for new forms' building and experimentation. I hope that by developing the processual approach to understanding how

new organisational forms emerge through analogising not only the product side but also the legal side I can offer a way to understand how using concepts from different domains to explain an innovative form can shape the phases of how innovation progresses and at the same time transform the underlying architecture that enables the emergence. The model shows that the use of multiple analogies and their transformation over time function as a guidance for actors involving in the forms' design. Initially, they provide forces for divergence, further leading to alignment and through later interplay towards stabilisation and compromise (Holyoak and Thagard, 1997).

Despite much progress in research on the interconnection between regulatory architecture and innovation, existing studies have focused mainly on how regulation, legal frameworks influence the process through which new organisational forms, products and services are created and introduced. Other studies focus on how organisational actors can influence regulation, but they pay more attention to how companies use direct political action, for instance, by lobbying to shape regulation, missing the analyses of how the connection can exist through normal economic activities and innovation.

Far less is known about how innovation and regulation are interrelated. Hence, the results of this chapter add into the missing knowledge by showing how a particular element – analogies and a certain collective process of analogising – demonstrate the iterative relationship between the regulatory architecture with the inherent ambiguity within systems of rules and the activities of actors who are regulated. I believe that this study adds to a more systemic approach of interconnections between the context/infrastructure and the emergence and existence of organisational actors, and shows that the value of infrastructure/architecture is more than a sum of its parts, extending beyond resource availability (Baum and Singh, 1994;

Van de Ven and Garud, 1993) institutional support (Barnett and Carroll, 1993) and technological breakthroughs only (Geroski, 2003). Analogising through the use of specific devices (analogies) that enable a connection between individual cognition and collective signification underpins institutions and guides practices. That is the process through which analogies become part of the generation of the field-level meaning system (Logue et al., 2016). Hence the concept of analogising provides a basis to broaden our understanding of organisations in their natural habitat (Woolley, 2014), connecting the emergence of forms to the context in which the process is happening.

Contribution for policy-making and practitioners

Overall, the analysis of the role of analogies, analogising process as well as the regulatory side of analogising, develops richer indicators of entrepreneurial activities, engages more fully with the context in which the emergence happens and also provides useful and timely discussion for policymakers and the government, a them to rethink the roles, toolkits and mechanisms they apply when developing regulations and policies for new organisations and innovations. The results might remind them that the choice of particular legal analogies and the process of legal analogising when structuring legal and policy frameworks can influence which particular information is taken into account and how it is filtered, and may lead to analogical persistence and blindness, restricting the ability to change the course of thought and action by policymakers and regulators.

This failure of analogising by decision-makers has important consequences for the wider society, as the financial crisis 2007–2008 demonstrated. On the one hand, analogising can enable the emergence and further adoption of innovation, forming a particular cognitive referent, but, on the other hand, the persistence of a particular analogy over time can prevent

the necessary transformation and lead to negative consequences, crisis or fraud. In addition, public policies and legal arrangement influence the perception of the riskiness of new companies as well as the understanding of which activities and practices are innovative and which are simply legitimate, opening or closing certain funding sources (e.g. tax schemes, institutional investments). In addition, policymakers may want to consider how and which particular instruments they can collectively develop with new actors to create a systematic coevolution between the innovation and underlying infrastructure. Policymakers should negotiate different options for their programmes and consider the impact of their policies on a whole field of organisations, not just individual organisations.

With regards to the wider phenomenon of FinTech, the study demonstrates that loan-based crowdfunding became the first case of unbundling financial services and bundling them with particular elements and processes from different sectors and with different technological systems, shaping the ways in which customers find, consume, pay for financial services and how they interact with financial services providers. The ability to unbundle services is one of the major drivers of the current growth in the FinTech sector, as traditional, incumbent financial institutions are disadvantaged in this case.

Consumers, rather than using a single financial institution for their needs, are beginning to choose services they need from a variety of FinTech companies (Lee and Shin, 2018). They can get a loan from a loan-based crowdfunding while using a payments provider to manage payments, invest in start-ups through the Equity crowdfunding and use robo-advisory for wealth management. Venture capitalists and other institutional investors are favourable towards FinTech companies and the level of investments has risen significantly over time. Many discussions point to the rise of the FinTech ecosystems that these companies are

building together with other actors and how this growth might shape financial institutions, consumers' behaviour and the nature of the competition.

In addition, many audiences speak about the social impact that these new companies may provide with regards to financial inclusion, the creation of jobs and serving underserved customers in the most efficient ways. But, at the same time, policymakers and regulators should not neglect the areas around consumer protection and privacy, the ways FinTech companies use and gather consumers' data, as well as the biases that might exist behind the algorithms and machine-learning techniques.

Hence, financial regulation continues to face a difficult task to balance the constraining and the enabling impacts of the legal frameworks in the context of the fast creation of new financial products and services, making the collaboration between regulatory agencies, incumbent companies and new actors a key process to understand the transformations and deal with those developments. While the FCA generated a number of projects to sustain their strategy to enable innovation and competition in the financial services and to work more closely with the actors of the FinTech community, there are some actions that might have been implemented to make the process of authorisation and the process of learning for the FCA easier and faster. For instance, the FCA could have created a special, dedicated team to focus specifically on new technology and platform-based actors rather than spreading the task across multiple departments.

The practical implications of this chapter include a contribution to understanding how entrepreneurs take their background and available developments in different sectors into account when deciding how to shape their ideas and develop them into viable economic

entities. How actors work with the available context, what elements they use, which particular relations they establish and build on influence their success, failure and also the form of their innovative activities. It also shows that the collective activities of innovators lead to more successful results to develop their innovations rather than individual actions (Van de Ven, 1993). As the case of loan-based crowdfunding actors shows, in some cases the underlying architecture and infrastructure may not be ready to support new forms, hence the actors become part of its creation. The case shows that in some cases the focus only on opportunity creation and recognition may not be sufficient to enable innovation. The ways that founders and related actors can evaluate the elements and dynamics in the underlying infrastructure and participate in its creation can help create opportunity and allow it to be recognised.

Further details of these contributions are discussed in Chapter 6, where I summarise my contributions and future research directions. Specifically, I aggregate the results of this study into six main themes that contribute to the studies of organisational emergence literature, to institutional theory, and to crowdfunding studies. Hence, the next chapter of this thesis discusses the final discussions, conclusions and future research paths.

Chapter 6 Discussion and conclusion

6.1. Introduction

This chapter summarises and re-emphasises the contributions of the full thesis. Previous chapters have included discussions and contributions under each chapter, but some of the conclusions have extended across different chapters. This chapter therefore draws together insights from the whole project, from the general motivation of the research project to the findings from the empirical chapters presented in Chapters 4 and 5. This chapter seeks to combine the key findings and synthesise a broader insight into the emergence of new organisational platform-based forms in highly regulated settings. These insights speak to the original motivation to research the emergence and early growth of new organisational forms based on platform technologies in highly regulated environments. In following this motivation, the project, which was based on analyses of loan-based crowdfunding in the UK between 2004 and 2018, addressed the following questions:

- *How is the formation and institutionalisation of a particular model of regulation (as a part of institutional infrastructure) connected with the niches' formation as a precondition of enabling new organisational forms to emerge?*
- *What is the role of cognitive tools such as analogies in shaping this emergence?*
- *What is the role of legal professionals in the process?*

I answered these three questions by connecting organisational emergence, institutional infrastructure, and cognitive tools (analogies) in my analysis. Therefore, this thesis contributes to organisational emergence literature, to institutional theory, and to crowdfunding studies.

The research started by conducting detailed fieldwork in financial markets in the UK to identify those very first niche platform-based actors that started to proliferate in the space. I

found that their emergence was not only driven by technological advances such as platform-based technological systems, social media, and automation, but also by the interaction and application of cognitive tools with regulators and legal professionals. Through this process, regulation became one of the crucial elements guiding the emergence. This conclusion confirms the initial intuition that new organisations enabled by technological systems and AI-based applications also require the necessary institutional infrastructure to support the process. These contributions were derived through an empirical analysis of the case, supported by an insightful historical analysis of the broader context of financial services in the UK. These contributions are hence situated at the intersection of theoretical development through the analysis of the empirical setting. Through this comprehensive analysis of our understanding of new forms of financial service based on technological systems, I also seek to produce significant conclusions for policymakers, regulators, legal professionals, and entrepreneurs.

Below, I summarise the core claims and conclusions from the chapters, discuss the findings, and address the limitations and possible future research directions.

Summary of the key findings and conclusions

Table 17 summarises the key claims and findings from each of the chapters and their connection with the research questions and the research literature.

Table 23: Summaries of two empirical chapters and key findings

Chapter	Method	Key findings and connection to research questions	Questions	Research focus
1) Regulatory moments and niche formation for new organisational forms: the transformation of the regulatory architecture in the UK from the 1980s to 2018	Qualitative analysis of archival materials, industry reports, academic research around the regulatory architectures of financial services, several speeches by government bodies, and interviews around the formation and transformation of the regulatory environment	The chapter proposed a theoretical model that shows the sequential, interconnected process of institutional layering in the regulatory architecture through the transformation of certain meanings of key concepts of financial markets enabling the formation of niches as spaces for innovative forms There were three phases, starting with Phase 1 – the blending of two layers within the regulatory architecture: self-regulation and statutory backing, allowing for a niche representing a resources *gap* in the financial services resource allocation Phase 2 saw consolidation within the regulatory architecture, as a result of which the statutory model of regulation was taken for granted and a sense of urgency was created around the existing non-occupied niches as *problems* that needed solutions Phase 3 demonstrated the opposite process of segregation within the regulatory actors, as well as the process of the unbundling of financial services and the wide emergence of new niche organisational forms anchored into the niches, which became *spaces for innovation and experimentation* and a basis for competition in the financial system	*How is the formation and institutionalisation of a particular model of regulation (as a part of the institutional infrastructure) connected with the niches' formation as a precondition enabling new organisational forms to emerge?*	*Regulation and legal architecture as a part of the institutional infrastructure of markets* *Organisational emergence and platform-based forms within the context* *Emergence of niches in the financial market, not as resource gaps but as spaces for innovation and competition for new niche platform-based organisations* *Innovation through regulatory architecture (not just through technology)*

2) The role of analogy in the emergence of new organisational forms in a highly regulated context: the process of emergence of loan-based crowdfunding in the UK .	The qualitative methodology was based on the exploratory case study at the field level – the analysis of the emergence of loan-based crowdfunding in the UK 2004–2018	The chapter set forth the role of analogies as certain devices/tools with cognitive elements that bring different elements into a recognisable form, maintaining a balance between novelty and tradition, and between legality and illegality It also argued for a concept of *collective analogising* that enabled the process of emergence by which different actors played certain roles in solving the indeterminacy of the product side and legal ambiguity. The results showed that analogising happens from the legal and product sides, leading towards stabilisation of the form within the niche and within its new legal category. Legal professionals played two main roles: first in the analogy filtering and search at the idea stage of the form; and second, they participated actively in the collective analogising within the legal side together with the entrepreneurs and the regulatory actors	*What is the role of cognitive tools such as analogies in shaping emergence?* *What is the role of legal professionals in the process?*	*Analogies as a base for collective meaning-making around innovation* *The role of legal professionals and regulator in the process of emergence of an innovative form* *Loan-based crowdfunding within the crowdfunding phenomenon – not a technological platform with a technological dominant design, but a new organisational form as a combination of analogical elements and legal meaning* *Innovation through regulatory architecture (not just through technology)*

Source: Author's summaries

In Chapter 2, I reviewed the existing studies focusing on the emergence of new organisational forms, the role of analogies, and the endogeneity and symbolic role of legal elements. I argued that past research into the emergence of organisational forms has developed across three wide research angles. First, it is seen as a process involving different elements combined from the same or different domains (e.g. Powell and Sandholtz, 2012a). Second, it is considered to be a process underpinned by specific identities, beliefs, values, and cognitive representations to give new forms particular meaning and to construct legitimacy for their audiences (e.g. Ruef, 2000; Fiol and Romanelli, 2012). Third, the emergence is not seen as happening in isolation from the wider environment, which provides the availability of particular elements cobbled together in populations of organisational forms (e.g. Hannah et al., 1989). However, despite bringing comprehensive insights, these areas are usually examined separately and remain incomplete. First, emergence is a collective process that goes beyond the purposeful strategies of specific organisations and individuals but instead demonstrates the emergence of this form as the collective distributed action. Through this joint action, the actors in the market/field interact and mobilise their resources and other actors in an attempt to outcompete alternative framings; political behaviour also plays an important role here (Hargrave and Van de Ven, 2006). Therefore, it is necessary to uncover different actors and their roles. Second, the emergence of a new form is a meaning-making process by which those actors solve high levels of ambiguity and uncertainty around the form's product and legal sides. This process is positioned in the socio-cultural and political context in which it is happening. Finally, in the current era of the emergence of platform-based organisations in a variety of economic sectors, it is necessary to study the emergence of this particular form to enrich the knowledge of institutions and organisations studies.

In combination, the two empirical chapters presented in this thesis (Chapter 4 and Chapter 5) offer insights into how new innovative organisational forms based on platform systems emerge in highly regulated settings and how regulation through cognitive tools based on analogising shapes (and is shaped by) the activities of entrepreneurs, legal professionals, and regulatory actors. Through this process, regulatory architecture becomes a limiting but, at the same time, enabling part of the institutional infrastructure for new innovative forms in the highly regulated setting to pursue their emergence and growth.

6.2 Lessons

6.2.1 Emergence of new organisational forms

A primary objective of organisational research is the development and elaboration of formal theories. Case study research focuses on a single event or setting to understand organisational dynamics, elements, and actors in-depth (Eisenhardt, 1989). Therefore, case study research is appropriate in the process of 'emergent theory' through which inductive reasoning is used to construct and describe theoretical insights achieved as a result of the empirical case study (Eisenhardt, 1989). This thesis, based on case studies, achieved this objective by developing new ideas about organisational emergence, cognitive tools (analogies), and regulation as a part of institutional infrastructure.

Before new organisational forms are recognised and standardised, there is a period of organising – a nascent stage characterised by a high level of uncertainty and ambiguity surrounding the main elements of the form and types of actors who are involved and regarding the roles they play. This early stage of formation can be considered as a period of experimentation with different elements and different inchoate pre-forms, which may or may not lead to an organisational form at all. Throughout the thesis, I aimed to delve into these

initial moments – the processes, mechanisms, and actors that shape the emerging organisations into a potential new form.

I hence contribute to the studies of organisational emergence and innovation by specifying certain elements (analogies) and processes that drive emergence, emphasising the role of analogies and developing the concept of collective analogising. I also further our understanding of how the phenomenon of emergence within niches should be studied across time and in a context by analysing regulatory moments within the underlying regulatory architecture (Chapter 4). I follow the suggestion of considering the phenomenon in a holistic way where the institutional contexts are not constant and have no given parameters but where co-evolution might exist between the emergence of new organisational forms and the institutional infrastructure. I used the insights developed in this thesis to analyse the process happening in financial markets – highly regulated and dominated by large incumbents during a long period, but entering a period of transition and questioning of key concepts, models, technological systems, and regulatory frameworks. My aim is that the findings and models from this study of financial services organisations in financial markets will clarify the processes in many other important societal sectors where we see the emergence and growth of similar types of platform-based, technologically enabled, niche, organisational actors.

6.2.2 Emergence as an analogising process

The existing literature on the emergence of new organisational forms has primarily focused on emergence as a founding process (Hannan and Freeman, 1977). Instead, I suggest that emergence can be explained as an analogising process. This study adds to our understanding of the emergence of new organisational forms in two main aspects. First, the emphasis on founding and on the birth and death rates of the population of organisational forms has overlooked the role different actors play in the emergence process (and not just founders).

Second, inclusion or exclusion of different elements within the form is a socially and collectively negotiated process. When the first of the loan-based crowdfunding organisations were formed, they were not considered as loan-based crowdfunding actors. Likewise, regulators and legal professionals did not have a precise understanding of what these organisations were providing. The form was created through a socially negotiated analogising process in which organisations and individuals participated collectively. Organisational forms thus emerge out of components from other markets and forms and then through analogising acquired their meaning. My contribution is the identification and analysis of how non-financial analogies can work together with financial market analogies in financial services at very early stages of emergence. I demonstrate that a particular combination of non-financial and financial analogies enable a degree of abstraction to create conditions for experimentation and innovation within a highly regulated setting of financial markets.

Further, as I demonstrated in Chapter 2, the studies that analyse the role of analogies usually focus on the role of analogy as a legitimation tool that a new (or old) organisation may use with their customers when they introduce a new product or service into the market. While this study supports these insights, it also extends them to the process of analogising within its legal side as central to the construction of legality – in other words, around the legal side of a new form. This process has not been investigated in all its details, even though legal meaning plays a vital role in attracting and maintaining the necessary material resources for new organisational forms to emerge and grow.

I uncovered these insights through the empirical data analysis in Chapter 5, which illustrated three phases of the emergence of loan-based crowdfunding during which analogies played slightly different roles. The period of experimentation with different inchoate forms was

driven less by the need to find a dominant technological design (for more detail, see for example Utterback and Abernathy, 1975; Anderson and Tushman, 1990) and more by the need to bring different elements together on the product side (e.g. certain product elements, models, and technologies) and on the legal side (legal concepts and legal frameworks). Therefore, analogies in this phase became a base for *institutional scaffolding* – nascent and temporary institutional arrangements open to interpretation, change, and experimentation but with an already established initial meaning around the product and legal sides of the emerging form. During phase two, legal analogising moved into an active phase where the formation of legal meaning (legality) of the emerging form happened, leading to the establishment of convention around a loan-based crowdfunding form with less uncertainty and but still open to some experimentation within this convention. During this phase, analogies played a role of a cognitive basis for *the convention* – the accepted or traditional method of doing something. The following phase led towards the next stage of early growth, in which the form acquired a specific institutionalised form within product niches and a new legal category within the regulatory architecture of financial markets. Therefore, managing the construction of meaning (or meaning-making) is an important issue for founders and managers of entrepreneurial firms to obtain resources and initiate early growth after emergence. Little emphasis has been placed in previous research on how entrepreneurs interact with the influence of the institutional infrastructure in which the emerging form is embedded. This research demonstrates that new organisational actors in highly regulated markets must not only focus attention on their competitors; they must also interact and shape the meaning with the regulators, the government, and the legal professionals.

Meaning-making

The analogising led, first, to a divergence in meaning from existing forms, followed by a convergence in meaning within its new form. Throughout the process, the meaning around

the new organisational form was broadened and shaped through the participation of other actors with their toolkit of analogies. The identified process of expanding meaning in the emergence of organisational forms is also seen outside the financial services. One example is the artificial intelligence that enables the formation of a variety of new forms across different markets. It is possible to distinguish two core analogies: intelligence as human intelligence, and intelligence as artificial based on computer/algorithm systems. At the current state of the peak of its emergence and growth, we can observe a high level of ambiguity that allows different actors from different markets (e.g. medicine; education) to extend and broaden the meaning of what we understand by the concept of artificial intelligence. We also have regulators from all these different markets who want to shape its legal and ethical meaning, broadening it further. The communication between all these actors has led to an expansion in the meaning of artificial intelligence. The high level of the broadening of the meaning may lead to the formation of sub-forms and the convergence of the meaning around them by bringing different analogies, because this will reduce ambiguity and help coordinate the actions of a diverse group of actors.

Resources

A new form cannot emerge if resources are not created among the actors involved. Three types of resources play an essential role in form emergence: social capital, monetary capital, and human capital. These resource environments have a socially constructed nature, enabling the entrepreneurs of new ventures to create something from nothing (Baker and Nelson, 2005).

Analogising has also been crucial in establishing social capital and monetary capital. Social capital is roughly defined as the goodwill available to individuals and groups (Adler and

Kwon, 2002). It is not the quality of an individual, but of relationships between different actors (Burt, 1997) and 'the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition' (Bourdieu, 1985, p. 248) – therefore, the source of social capital in the social structure within which the actor is located. Indeed, we can differentiate social capital from other types of resources by the specific dimension of the social structure underlying it; social capital is the resource available to actors as a function of their location in the structure of their social relations. The social capital concept has been analysed in organisation studies as an influential factor explaining actors' relative success in the facilitation of entrepreneurship (Chong and Gibbons, 1997), and the formation of start-up companies (Walker, Kogut, and Shan, 1997).

Analogising based on a mix of analogies functions as a boundary process through which information and opinions are exchanged between actors within the market, enabling that necessary social capital to be formed. The existence of an aligned blend enables disparate actors to organise and collectively coordinate action. Analogies are vehicles for organising within companies. Analogies play a crucial role in communication across actors and their professional boundaries (founders, lawyers, regulators, and investors), and thus facilitate coordination, the cornerstone of organisational functioning (Donnellon, Gray, and Bougon, 1986). Although the use and the meaning of the name of loan-based crowdfunding or peer-to-peer lending were contested and there is still a certain level of ambiguity over its definition, analogising has become the epicentre of inter-organisational action.

Monetary resources are a necessary part of a form's emergence and subsequent early growth. For these new platform-based actors, venture capital is the primary monetary source for

funding their development. While to get these resources it is necessary to convince venture capitalists of growth potential and future profitability, the legal side of a new form is also critical in this narrative given the context of financial markets. Therefore, the creation of a form's legality drives the monetary resources for these new organisations through resolving legal uncertainty and ambiguity. This process is different from the legitimisation of products and services for customers, and has not been studied in detail. In financial markets, this aspect of legality is crucial for an organisation to emerge and function, specifically with new products and also modern technologies. Hence, the settlement within the legal meaning becomes a key factor for the funders of these forms (e.g. venture capitalists; business angels) to decide whether to provide investments.

6.2.3 Legal professionals, analogies, and emergence

Through my empirical data analysis, I uncovered that meaning-making (analogising) around the legality of an emerging form is a crucial process from a very early idea stage. This insight into the legality aspect adds to existing studies about the product legitimacy that is necessary for a new form to emerge. Analogising is a collective process involving different actors. Specifically, I have shown that the lawyers are active participants in translating legal analogies into the elements of a new form, feeding these meaning back into emerging legal frameworks. The regulator also plays a different role as a participant in the meaning-making process around innovation, as compared to the traditional understanding of a regulator as an authoritative actor imposing rules on the organisation it regulates.

Based on this, I developed a concept of a collective analogising by different actors, focusing on the specific role of the regulators and lawyers that enabled this new organisational form to shape the existing legal frameworks and develop a new legal category. These results, while confirming the critical role of analogies for the legitimacy of new organisational actors, show

that analogies do not only work when close similarities exist between the source and target domains; they also work when certain combinations of analogies from different fields allow a particular degree of ambiguity. This ambiguity, or area of greyness in meaning, may enable innovation. I also found that analogising happens from the legal and product sides, leading towards stabilisation of the form within the niche and within its new legal category, constructing the legitimacy and legality of a new form. 'Naturalising analogies' – or, as I named them, 'core analogies' – within the product and legal side became those balancing and boundary creating devices. These devices balance the meaning of novelty versus familiarity and legality versus illegality guiding the process of how new institutions and organisational forms are reified, naturalised, and made meaningful (e.g. Logue et al., 2016; Douglas, 1986).

Entrepreneurs are usually considered as key actors in the process of creating the meaning of an emerging form – which can be a strategic process or can occur by chance. What has been neglected and underdeveloped in the existing analysis is the role of other actors, specifically professionals. In the case of highly regulated markets, those professionals are in most matters related to connecting legal and organisational fields. This study helps investigate these nuances and reveals a more specific role for legal professionals in the emergence of new forms based on technologies and platforms. In the case of the very first loan-based crowdfunding platforms, legal professionals encountered a paradoxical situation in which an initial and traditional step was to think about this organisation within the meaning of existing frameworks, legal concepts, and definitions. However, due to the high level of ambiguity surrounding this new organisational form as these new forms went through a period of experimentation and inchoate product development, legal professionals had to think creatively through legal analogising to enable innovation. But this legal experimentation,

while creative, was still limited within the idea that this form must be legal within this highly regulated market.

With the exception of a few texts (e.g. Lefsrud, 2012), existing studies of emergence and innovation neglect a more detailed analysis of the role of the legal professionals in this process. Usually, studies assume regulation to be an external factor which is a given in the external environment and focus on technologies, founders, and in some cases funders of new organisations, neglecting the role of the legal professionals as builders of a new innovative form. Another focus is on the professionals within their own field and dynamics within it. For example, one area looks at how new forms of professional organisations are created (Suddaby and Greenwood, 2005), or how new practices emerge (Anand, Gardner, and Morris, 2007), or how professionals expand their professional jurisdiction (Greenwood and Suddaby, 2006).

However, professional fields and organisational fields (specifically in highly regulated markets) are interrelated, and the role of professionals may be crucial for the existence of new organisations and the form they take. Suddaby and Viale (2011) have provided the initial idea that field-level organisational change should be re-conceptualised as a process composed of the ecology of multiple, often overlapping 'projects' of both professionalism and institutionalisation. The authors argue that professionals become those behind-the-scenes actors of transformation who exchange resources, meaning, and commitments with other institutional actors, such as the state or policymakers. These activities might enable the entry of new actors and the introduction of nascent new rules and standards that recreate the boundaries of the field, as well as manage the social capital within the field (Suddaby and Viale, 2011). The case of loan-based crowdfunding demonstrated that, from the early

moments of the emergence of a new form, legal professionals guided the way the founders decided the product side of their organisation through legal analogising. At the same time, and also through legal analogising, legal professionals started to rethink the meaning of certain legal frameworks and their skillset. Laws are one of the key organising principles, not only of highly regulated markets but also of other markets. In general, laws organise the legal boundaries of competition and cooperation, the rules of exchange, what is defined as a product or service, and the organisational forms that participate; in other words, laws create the legal infrastructure for markets (e.g. Pellandini-Simányi and Vargha, 2019). Regulatory frameworks shape new forms by providing cognitive and normative categories and certain modes and templates for answering new regulatory questions (e.g. Djelic and Quack, 2007).

Legal professionals are those actors who work directly with these elements and interrelate with entrepreneurs to guide their action. Hence legal professionals themselves become entrepreneurs together with the founders, who through this collective meaning-making process through legal analogising create new (and reshape existing) legal frameworks to enable new forms to emerge. Legal professionals become key organisers and coordinators who translate legal terms into real actions, while at the same being transformed themselves (e.g. through shaping their professional boundaries and jurisdictions). They also transmit the emerging meaning to a diverse range of actors who participate in the process, creating an aligned understanding into a shared framework of meaning around new forms. Besides legal terms, they need, for example, to interpret technological aspects of new organisational actors and align these meanings and this knowledge within existing legal frameworks and categories (or create new ones). They become those behind-the-scenes marshals who are a part of the underlying infrastructure of organisational emergence. The case of this thesis is a starting point to uncover how legal professionals institute and re-establish themselves as professionals

through the previously described legal analogising in the era of the growth of platform-based and AI-based actors. At the same time, while participating in the creation of the legality and legitimacy of these new forms based on technological transformations, they start to reconfigure their legal professional field. One ongoing process is the emergence of Regulatory Technology (RegTech) and other related innovations within the regulatory landscape. The current understanding of RegTech is that it provides the management of regulatory processes within the financial industry through technology. The main areas of RegTech include regulatory monitoring, reporting, and compliance to help businesses comply with regulations efficiently and less expensively.[29] In other words, RegTech offers the use of new technologies (e.g. report automation, visual analytics, robotic process automation, and business process management (BPM)) to solve regulatory and compliance burdens more effectively and efficiently.[30] The case of loan-based crowdfunding shows that legal professionals are not offering a set of predefined legal services to achieve necessary compliance, but are constructing the meaning of compliance together with new organisations providing a multidisciplinary legal approach. This approach means that new actors now emerging in the financial market not only require an understanding of certain aspects of financial services regulation, but also a converged mix of financial regulation, data regulation, and competition regulation. One of the reasons for this is that, in most of the cases, a new legal meaning should be created regarding the legality of a new form rather than classifying it into existing legal frameworks and categories. Undoubtedly, these dynamics are at an early stage of development, opening up a fascinating area for studying the interaction between the legal professional and organisational fields, as well as the potential impact of platform-based, AI, and technological automation systems on both sides.

[29] https://www.investopedia.com/terms/r/regtech.asp.
[30] Institute of International Finance: https://www.iif.com/Innovation/Regtech.

This thesis thus laid out the initial results surrounding the interconnected relationship between legal and organisational fields around new platform-based emerging organisational forms. The results contribute to the underdeveloped analysis of the role of legal professionals as institutional infrastructure builders – a certain type of intermediary participating in meaning-making activities through transporting and, at the same time, potentially transforming (intentionally or unintentionally) the elements and ideas between the legal environment and organisational actors. Besides, the results question the dynamics through which the mutual constitution of professional and organisational fields/markets are reciprocally linked through analogising and analogies in the early stages of the forms' emergence and early growth.

The overall argument of this section is that the emergence and early growth of a new form based on new technological systems and platforms in a setting that is highly regulated and mature is a complex undertaking. This process involves multiple levels of change, including dominant systems of regulation, underlying belief systems, and appropriate templates of organising. This inherently complex and intricate process involves collective and distributed action and conflict. The core analogy or blend of analogies that maintains the agreed underlying meaning of a form are also opened for change – and transformation that may lead to change – in existing forms and the emergence of new ones. While processes of emergence, for purposes of elucidation, can be reduced to simplified analytical frameworks, it is necessary to stay aware that collective outcomes are not linear. New organisational forms represent compromises and agreements, and in some instances of contestation they represent truces.

6.2.4 Institutional layering, regulatory architecture, and niches

The regulatory architecture of markets is a significant base element of the institutional infrastructure of markets in which a new form is emerging. As Chapter 4 of this thesis uncovered through a historical analysis of the regulatory moments in the UK's financial markets from the 1980s to 2018, the development of this type of architecture impacts the form's emergence. The analysis uncovered the specific process of institutional layering – a kind of institutional change in which new institutions are added on top of or alongside existing ones. Institutional layering does not mean that new arrangements overlap with others; rather, arrangements interact with each other, leading to significant and unpredictable transformations (Mahoney and Thelen, 2010; Streeck and Thelen, 2005). Layering occurs when new rules are attached to existing ones, thereby changing how the original rules structure behaviour (Schickler, 2001; Thelen, 2003). Layering does not introduce wholly new institutions or rules but instead involves amendments, revisions, or additions to existing ones. These transformations can have significant consequences for actors working within such a layered arrangement.

This thesis uncovered how layering in financial markets changes the meaning of the critical underlying concepts of financial services and regulation, and how actors, in turn, may respond to these layered arrangements by shaping them and changing the underlying infrastructure. I identified three phases that enabled the layering of the institutional arrangements, different actors, ideas, mandates, and goals. For instance, such key concepts as *risk, competition, innovation*, and *stability* were reconfigured through the collective questioning process during such events as the Big Bang reforms and the financial crisis of 2007–2008. This process, in turn, enabled a rethink of the core substance of financial services, as well as of the boundaries defining which services are regulated (legal) financial

services and who can provide them. Besides, this process provoked discourse about the urgency of necessary change and how innovation may happen in a highly regulated context. These results confirm the endogenous nature of the interrelationship between laws, legal categories, policies, and the organisational fields they regulate. The effects of legal frameworks are often indirect, diffuse, and take time to appear. This endogenous type of interrelationship happens through the legal meaning-making around new forms.

Chapter 5 of this thesis uncovers the role of legal analogies and legal analogising as a crucial part of the process of emergence of a new innovative form. The case of loan-based crowdfunding demonstrated that analogies became a base for the formation of a new legal category for the form to become valid, recognised, and legal economic activity within financial markets. This insight shows that the definition of legal terms and conditions under which entrepreneurs can make and provide their products and services impacts the process of legitimation of the form's product and services. I have shown that legal analogising is collective and that different audiences participate in the meaning-making process about the notion of the legality of innovation. I demonstrate that the role of regulator, and the way regulators participate in the development of legal frameworks around a new, technology-based financial provider, is a more nuanced iterative and interactive than has been demonstrated by previous studies. The analysis of this collective meaning-making process through analogising the legality of a new form uncovered how certain analogies became core or 'naturalising' analogies to position loan-based crowdfunders in the regulatory space. This process is a strategic multi-player process based on micromechanisms of analogical blends that are nuanced and pliable rather than simplistic and rigid. The analysis showed how regulatory categories are not only created by powerful incumbents, regulators, and legal

professionals, but also by niche innovation organisational actors, with the purpose of achieving specific goals and stabilising particular meaning.

In addition to the institutional layering process within the regulatory architecture of financial markets, I extended the conceptualisation of niches, not only as structural gaps in resource allocation available within the periphery of the field but also as those spaces in which active experimentation may occur. Through the transformation of the main concepts of market and field, these niches/spaces may become areas for innovation, enabling the emergence of small niche actors. Overall, the analysis showed a dynamic process model of layering that connects dynamics in the wider institutional environment with the process of organising elements into recognisable organisational actors within the environment. These insights demonstrate the endogenous character of the interaction between regulatory architecture and organisational actors rather than a one-way top-to-bottom relationship between laws and organisations.

6.2.5 Crowdfunding research and the financial innovation focus

Crowdfunding research is a multidisciplinary academic field covering a variety of research questions (see the overview in Chapter 2). However, despite their significant number of studies, existing studies on the subject do not provide an institutional lens regarding the *emergence* of the crowdfunding phenomenon. All studies use crowdfunding forms as a given and start their research and analysis using the existing features, characteristics, structures, and interfaces of crowdfunding platforms. Without better theorising of the emergence of these new forms and of the elements and actors that participated in the process, we may miss several key areas around crowdfunding – for instance, why crowdfunding has different forms; how they interact with institutional actors and incumbent forms; why they use specific interfaces; why they apply certain technological and organisational systems; and why some platforms may fail, among other areas. Without uncovering these missing gaps, the

existing literature will remain incomplete. While my research offers a rich and in-depth study of the emergence of only one form of crowdfunding (loan-based), its approach and insights might be replicated to study other forms of crowdfunding within the same geography and across different countries.

My research reveals the very early decision-making process of the founders of the very first platforms, demonstrating how and why a certain choice was made and which elements were brought together at the initial ideas stage. Further, I uncover how the institutional infrastructure enabled and shaped the very first form and transformed further iterations, shaping interfaces, specifying types of customers, and (therefore) the way the services can be delivered. Existing studies also forget about the crucial role of regulatory actors and frameworks in the emergence and functioning of crowdfunding platforms and the way they decide pricing mechanisms and structures of campaigns. They do not take into account the fact that regulation, legal definitions, and legal categories are key factors that impact on crowdfunding design because crowdfunding functions within financial markets. This knowledge might be helpful to develop the topic of crowdfunder and crowdfundee behaviour, specifically its signalling and herding aspects. For example, why are crowdfunding campaigns structured in a certain way? Why is specific language used? Why do certain categories of customer participate more in different forms of crowdfunding? I also reveal that lawyers and legal professionals are key actors at each stage of the process – an aspect that is neglected in the majority of crowdfunding studies, which speak only of the founders, their decisions, and the customers/investors using the platforms.

The overall conclusion is that the case of this thesis adds significantly to the existing body of crowdfunding research through theorising loan-based crowdfunding as a niche organisational

form within financial markets. The emergence of this form was enabled, not only by technological advances and platforms, but also through a broader transformation in the institutional context, transforming the meaning of critical financial concepts. This extensive rethink and the collective meaning-making process happened through many historical regulatory and political events by means of which founders, legal professionals, customers, and regulators participated in constructing the cognitive infrastructure surrounding this new form.

My analysis also adds to the conversation regarding financial innovation literature (e.g. Lerner and Tufano, 2011; Tufano et al., WEF, 2015; Vulkan et al., 2016**)** and how regulation is connected with innovation and the sustainability of financial markets (e.g. Mayer, 2015). The main argument is that regulators should not underestimate the fact that the financial system is transforming itself, so it is necessary for the regulatory and the government to evolve the regulatory and policy frameworks while simultaneously learning about these transformations, hence maintaining the iterative process of innovation and the regulation that regulates it. The financial system is a dynamic system that requires policymakers, financial services providers, and regulators to identify what function each part of the financial system is supposed to perform, and then make sure each part has the structure, ability, motivation, and incentives to do so (Mayer, 2015).

The primary source of innovation in financial markets in the current phase is the proliferation of similar types of organisations which use platforms, other technological systems, and AI in their attempt to reshape financial markets. In most cases, these actors develop their products and services through close interaction with regulation and legal frameworks – through the meaning-making process. My thesis provides initial insights into the background of these

transformations: how the first form emerged, who participated in it, the role of regulations, and the main factors behind and the barriers to emergence and early growth.

6.2.6 Reproduction of platform-based financial innovations and legal frameworks

This thesis focuses on the case of one country (the UK) and the processes that occurred within its institutional and societal settings. However, the insights into the very early formation processes, elements, and interactions give us a basis for analysing how these organisations can be reproduced in other countries, as well as how the legal frameworks can be adapted to enable the process. The UK as a country is the very first case in the world of the emergence of loan-based crowdfunding and equity-based crowdfunding – those first, niche, platform-based actors in the period with nascent technological advances demonstrating the critical role of institutional infrastructure. The UK's regulatory architecture is a pioneer in many of the activities associated with enabling regulatory initiatives (Project Innovate, Regulatory Sandbox) and frameworks. These new legal frameworks include, for example, article 36H of the regulated activities order to regulate loan-based crowdfunding, or modification of existing frameworks through inclusion of non-readily resalable securities promoted through equity crowdfunding and a simplified bank license process for digital banks. These frameworks have enabled the further development and emergence of other platforms and algorithm-based organisations across a variety of niches in the financial services (payments, security, and insurance). The UK's example became a template for other countries to replicate the regulatory environment, which enables the emergence of innovative organisations in financial markets. It is evident through the analysis of the professional media sources and conferences' observations that more than 20 countries – including Hong Kong, Singapore, and Malaysia – have started to replicate the regulatory initiatives and collaborate with the UK's financial regulator (the FCA).

One of the latest developments in 2018–2019 was the Global Financial Regulation Network (GFIN) led by the FCA, which aims to create a global regulatory sandbox for FinTech start-ups seeking global expansion.[31] We can see that these steps demonstrate a growing understanding of the role of regulation as an enabler of innovation in finance, rather than just as an external tool of the government to regulate and protect consumers. The final impact of these initiatives is yet to be seen as we are at the very early stages of their introduction.

As this thesis demonstrated in Chapter 4, certain developments ('regulatory moments') may also enable different institutional processes (in the case of the UK, institutional layering) and niches within financial markets. In other words, the results have shown that direct copying of regulatory initiatives and frameworks may lead to other forms of innovative organisations compared to the base country. Similar arguments are applicable in the opposite direction: replication of new forms within financial markets may not lead to the same regulatory transformations. As Chapter 5 showed, the process of emergence of loan-based crowdfunding through analogising was a collective and distributed process through which the elements from different domains were cobbled together into a legal, financial services form. Bottom-up decisions of entrepreneurs were interconnected either directly or indirectly (through other actors, including legal professionals) with the decisions made by policymakers and regulators that affected the market at a macro level.

Regulatory architecture, financial markets, systems of law – each of these can take a very particular shape in a specific country. It is therefore crucial to take into consideration two main issues before replicating regulatory initiatives, forms, or both. First, it is vital to have a deep understanding of how such practices, forms, and frameworks worked in the original

[31]The GFIN's key ideas are regulatory cooperation; speed to market –(the global sandbox could reduce the time it takes to bring ideas to new international markets); governance; and emerging technologies/business models: https://www.fca.org.uk/publications/consultation-papers/global-financial-innovation-network.

setting. This point implies a critical assessment of what might seem a very successful initiative on the surface but has been through a sophisticated line of interactions between actors at different levels and stages. The second issue is that even successful initiatives need to be adapted to the institutional conditions of the recipient country (Kostova, 1999; Nasra and Dacin, 2010).

In this respect, we can think about the concept of *translation* through which ideas are translated into objects sent to other places that are different from the places where they emerged. They are then translated into new kinds of objects and actions and, if repeated, might stabilise into institutions, which in turn can be summarised through abstract ideas, and so on (e.g. Czarniawska and Joerges, 1996). The question of how theses initiatives, policies, and frameworks might be translated in the receiving settings where the resources, history, or the legacies of prior institutions are different thus remains an exciting area of research (Raynard et al., 2013). Comparative studies will show if and how this process of translation may involve different types of actors and may lead to different forms of innovation, policies, and legal frameworks.

6.3 Limitations

This study is based on rigorous research design, methods, and extensive data collection; however, it has some limitations. The research and analysis are built on a single case of the UK's financial market and regulatory context. While a single field-level case provides considerable depth and detail, the question of the generalisability of the results and conclusions may arise. I believe I have addressed specific areas regarding its limitations, and that future research will eliminate them.

First of all, the goal of this research was to develop a theory about the very early moments of new organisational emergence within the context in which the process is happening. Therefore, the goal of the research was to develop a theory rather than to test an existing one. To address this goal, a single case study is appropriate. Besides, the UK as an empirical setting was the very first country in the world to see the emergence of loan-based crowdfunding and certain regulatory transformations around it. This fact therefore strengthens the results and conclusions of this research. I have also positioned the UK in its appropriate historical, political, and economic context – I analysed the era before the emergence with a specific focus on the shift in the main paradigms that drove policymaking and regulation to understand how these transformations might have contributed to the outcome. Further empirical research in other countries and systems of law will be valuable to address the issue of the generalisability of this study.

Further, the research is based on the analysis of organisations that succeeded in their aims to develop their legal, economic activities in the financial markets. This focus, however, comes at the expense of conclusions that may be derived from cases of how entrepreneurs were unsuccessful in their attempts to create new organisations. These attempts may have followed other paths, for example through different analogies within the product and legal sides that did not become core/naturalising analogies. Future research in this direction will add valuable insights.

Next, I accomplished the data collection in less than two years – a period that is long enough to capture specific dynamics, but still does not represent a longitudinal study over many years. While this reduces the insights into how the process will unfold as a result of the next iteration of regulatory transformations, the emergence of other technology-enabled

organisations, and the activities of incumbents, this two-year period addresses the goals of the research to explore the emergence and early growth stages. I also collected archival and historical data to expand the time horizon into the past, and I used interviews and analysis of reports to expand the horizon.

Finally, the case is based on data from the financial services market – one of the most highly regulated settings, where the degree of involvement by regulation, legal professionals, and regulatory actors in the process of emergence might be different in comparison to other empirical settings. This market has several unique features: the government regulation that specifies core elements, practices, and functions of financial services organisations; the need for a significant technological and market infrastructure; the availability of data about the customers; and a small number of large incumbent firms. Even so, studying financial markets offered advantages for exploring the research questions of this study, and I do not consider that this limitation affects the generalisability of the core ideas of my thesis, which were aimed at uncovering the role of regulation and regulatory actors in the process of emergence. First, financial markets enabled me to study the emergence of a platform-based technology-driven niche form from its inception through early growth. Second, the fact that only one firm was present in the market for a long period before other platforms entered the space increases the probability that I analysed all the necessary information about the very early stages of emergence and early growth. Third, the process was happening relatively fast, so I was able to view changes 'live' and capture necessary details after the form's emergence and development of the regulatory framework. However, additional future research in less regulated settings will add a comparative element to the research topic.

Naturally, the limitations discussed above provide a base for future research directions. In the next section, I discuss promising future research paths that can develop the contributions of this thesis further and position it within the wider research community.

6.4. Future research directions and final conclusion

This section maps the avenues of future research and provides the conclusion of the thesis. As we have seen through the dissertation, insights from this case can help us understand the emergence and early growth of the loan-based crowdfunding in the UK. Apart from that, however, a close analysis of the elements, actors, and processes of how loan-based crowdfunding emerged as a new organisational form can reveal more general observations regarding organisational emergence, platform-based forms, institutional infrastructure, and cognitive tools. A granular observation of how this first form of platform-based niche actors emerged in those spaces for innovation and how it was interrelated with the transformations in the regulatory architecture can provide more general insights into how the platform and algorithm-based organisations interact with their wider institutional context and which institutional material is applied to drive the emergence. Hence, it is possible to use the insights of this thesis to develop a general research agenda for future research.

The discussion outlined in the previous section suggests several issues and related questions that will provide an opportunity for further research. Based on this work, I have identified eight directions for future research that arise as central to understand the ongoing developments of the empirical phenomenon, generalise the results of this thesis, and extend its theoretical insights into other geographies. As I discussed in the previous section, case studies might suffer from an ongoing question about how well the findings can be generalised

to different contexts. By identifying future directions, I show that, despite this limitation, the results can provide generalisable conclusions.

I therefore summarise possible future research areas below. This list is not exhaustive and covers some key research aspects arising from this thesis. At a general level, more empirical research is needed to develop these insights and to determine which processes are similar or different and why. Table 24 summarises the details.

Table 24: Future research directions

General theme	Propositions for future research
Extension of loan-based empirical setting	• How ongoing changes in regulation impact on further developments after the early growth stage • How certain technological advances might impact on the next stage • Comparative study: track regional comparisons and or different regulatory environments and the emergence/early growth of loan-based crowdfunding
Extension of crowdfunding as an empirical setting (specifically equity-based)	• Comparative study within crowdfunding in between crowdfunding forms (e.g. loan-based versus equity based) and across different contexts • Extend analysis on analogies into the algorithms and technological systems that drive the platform, in addition to the analogues that shape the platforms in a more field-level sense
Regulation and innovations in highly regulated settings: current regulatory moments Legal endogeneity	• The emergence of other forms of FinTech organisations (e.g. AI-enabled) within the financial markets through regulatory transformations (e.g. PSD2[32]/Open Banking Legislation started in 2018 across the EU)
Legal analogies and analogising: the role of legal professionals	• Further elaborate the concept of analogising with specific focus on legal side to uncover the role of regulatory actors and legal professionals in building new forms and fields/markets beyond financial services
Performativity of financial markets and analogies: finance theory co-creates financial markets	• Extend the analysis of how through this process of collective analogising theoretical assumptions and models become naturalised as a part of social reality of financial market actors • Explore the mechanisms of how and why performativity might be enabled and persist in the market and which elements and actors may play key roles in this process • Extend this analysis of how financial markets analogies enter non-financial markets
New categories formation: legal and product	• Develop the analysis into the process of new categories emergence in highly regulated settings. How is the process of the emergence of new legal categories and new product categories similar or different?

[32] https://www.fca.org.uk/publications/policy-statements/ps17-19-implementation-revised-payment-services-directive.

Role of state/regulator	• Develop research to uncover the role of the government, regulators, policymakers, and other related authorities as active participants in the emergence of innovation rather than external actors imposing the regulatory and policy frameworks on organisations using a top-down approach
Research design	• Application of computational tools (e.g. topic modelling method) to accomplish large volume text analysis

In the next parts, I discuss these themes in more detail.

6.4.2. Extension of research within a loan-based crowdfunding empirical setting

Chapter 5 of this thesis provided a nuanced analysis of the early stages of emergence and the early growth of the loan-based crowdfunding form. It showed the actors, their tools, and the primary process of meaning-making through analogising the product and legal sides at the emergence and early growth stages. The analysis stopped in 2018 when the UK regulatory frameworks started to go through the next cycle of revisions by the FCA. Some of the affected areas included governance arrangements, systems and controls, marketing restrictions, types of customers, risk management, and mortgage and property loan-based crowdfunding.[33] It would be valuable to observe how these revisions might shape the next stage of this form's development and how this might provoke a failure or institutionalisation of the existing core analogies beneath this form.

The thesis showed that the emergence of this innovative form was not only enabled by technological advances, but also through institutional and cognitive processes. However, digital technology and platform-based systems are still a part of the process; therefore, another direction within this area is to analyse the way the next wave of the technological developments might shape the development of the loan-based crowdfunding form. This form started to emerge when the Internet, social media, and platform-based technologies became a significant and low-cost part of the technological infrastructure enabling certain processes in the lending provision that were not possible before – for example, how new algorithmic systems of identity recognition, fraud prevention, credit assessment, risk analysis, and portfolio management might shape the way actors make sense of the underlying core

[33] FCA PS19/14: https://www.fca.org.uk/publication/policy/ps19-14.pdf.

features. In terms of this thesis, might these technological developments provoke a rethink of the core analogical elements and legal categories?

This direction of research will be a valuable add-on to develop the literature around organisational forms, analogies on different stages of development, and the interconnection between different elements of the institutional infrastructure in which the forms operates.

6.4.3. Extension of research within crowdfunding as an empirical setting (equity-based crowdfunding)

The loan-based crowdfunding form analysed in this thesis was the first form to become a part of the financial market through anchoring itself in the regulatory architecture through legal analogising, leading to a new legal category. During my fieldwork for this thesis, I uncovered that another regulated form of crowdfunding – equity-based crowdfunding, which emerged later in 2011–2013 – went through a similar, but at the same time different, process. A nuanced analysis into the area of equity-based crowdfunding will therefore add valuable knowledge regarding how and why the different process of emergence might occur within similar institutional infrastructures and under a common umbrella of crowdfunding activities. What is the role of analogies, both financial and non-financial, in the process? What was the initial core analogy that shaped the next stage of the meaning-making process of participating actors?

Another focus in this research direction might investigate the algorithms and technological systems that drove the platforms (loan-based and equity crowdfunding) in addition to the insights of this thesis on a more market/field level approach. It would be valuable to understand which analogies were applied inside their technological systems and functions to extend the research into the ‘black box’ of platforms. This research inquiry will require

detailed data about the technological design of platforms as well as observations of how (and by whom) these platforms operate daily across different functions (e.g. risk analysis; the application process; running of fundraising campaigns). All these questions and comparative studies with loan-based crowdfunding have the potential to provide significant insights into organisational emergence, institutional infrastructure, the role of regulation, and cognitive tools. Besides, a comparative study in different contexts of loan-based and equity crowdfunding will also add interesting conclusions about how and why these forms had similar and different dynamics in various settings.

6.4.4. Regulation and innovation in highly regulated settings

The thesis analysed the emergence of very early forms of technology-enabled organisational forms and interconnection with regulatory transformations, providing a base for developing this line of the research further. One focus might look at the current regulatory transformations happening in the UK and the European Union and how this is connected with the change in the forms and practices of the incumbent organisations and new actors. One of the central developments is the Second Payment Services Directive (PSD2), a fundamental piece of payments-related legislation in the European Union, which entered into force in January 2016 and into the national laws of the member states in January 2018. PSD2 is considered to be an evolution of existing regulations for the payments industry and related services, including banking. It aims to increase competition, bring new types of payment services into scope, and improve customer protection and security. The idea behind the transformation is that customers will have the option to share information about how they operate their bank account with organisations that will work to deliver an improved banking service. One of the propositions is that customers will have control of their data and who will use it. Another view is that the improvements can be achieved, for example, by offering comparisons and switching services to customers so they can identify the best financial

products and services. Some opinions about the impact of this legislation are that banking will be transformed, as other service providers (including platforms such as Amazon and Facebook) will be able to use payment and bank account data from customers that had previously only been used by banks.

At the current time, we see the very early stages of the impact of the legislation on financial services; the discussion around it is ongoing. As Christopher Woolard, the former executive director of strategy and competition within the FCA, states:

> "Technology and innovation are changing not only the markets we regulate but also the way in which we regulate".

It is therefore the best time to start observing these early moments regarding the main actors, definitions, and framing, and how regulators, policymakers, incumbents, and new actors participate in the process. Will we observe contestation or an evolutionary process? Will we see new forms or will incumbent forms transform? Given the fact that this legislation has been introduced in different countries, it is valuable to observe several cases with different regulatory contexts to track how and why the developments will be modified (or be similar).

In the case of loan-based crowdfunding, the legal framework emerged from the bottom-up during the interactions between entrepreneurs, legal professionals, regulators, and case officers within the regular's departments. The case of the PSD2 framework starts from the imposition of a top-down approach by governments. The latest discussion between regulatory actors is that this legislation will not only enable open banking, but will also 'open finance' at the more general level of financial markets, including other financial services beyond banks.[34] Will this approach allow a similar level of interaction between actors as in the case

[34] https://www.fca.org.uk/publications/calls-input/call-input-open-finance.

of loan-based crowdfunding, demonstrating the process of legal endogeneity (Edelman et al., 1999) or will it provoke less interactivity in the meaning-making around this regulation? Will this framework enable external actors to participate in financial services and the regulatory architecture of this market?

6.4.5. Legal analogies and analogising: the role of legal professionals in building new forms and fields/markets beyond financial services

My theoretical insights emerged from the particular context of the UK's financial services market. Still, I believe some of the underlying mechanisms are present in other settings, particularly legal analogies and analogising as a collective process of meaning-making around new forms and their practices.

To add to my discussion of future research directions, I propose comparative case studies. One group can analyse the emerging platform and AI-based organisations in one setting; another group can delve deeper into the practices of technology-enabled organisations in different regulated fields such as health care, the property market, or utilities. These insights will improve our understanding of similarities and differences in how legal analogical elements can be strategically applied to construct new forms, and by what type of audiences. Further research can also compare how legal analogising, and the role of legal professionals, is similar (or different) in less regulated markets. Besides, it is essential to observe the process over time to understand how the meaning of specific analogical blends might change and what the consequences for the development and functioning of organisations might be. Operating over all these interactions, legal professionals act as an important market-structuring actor conveying the legality of a new form and building awareness of and affecting the acceptance of the new form while also shaping its future development.

Another research focus is on the legal professionals themselves. As I discussed in the previous chapter, the case analysed in this thesis is a starting point for uncovering how legal professionals institute and re-establish themselves through the previously discussed legal analogising as professionals in an era of the growth of platform-based and AI-based actors. One on-going process is the emergence of Regulatory Technology (RegTech) and other related innovations within the regulatory landscape. The current understanding of RegTech is that it uses technology to manage the regulatory processes within the financial industry. The main areas of RegTech include regulatory monitoring, reporting, and compliance, which claim to help businesses comply with regulations efficiently and less expensively.[35] In a nutshell, RegTech offers financial institutions the opportunity to enhance their regulatory environment through the implementation of technologies, including report automation tools (e.g. AxiomSL's ControllerView, Wolters Kluwer's OneSumX), visual analytics, robotic process automation (RPA), next-generation data architecture, and business process management (BPM) that can help to achieve further automation, efficiency, and transparency. Therefore, one of the questions may ask how these initial technological applications might shape the meaning of the core legal practices, legal knowledge, and skillset within the legal professional field itself.

In the past, the boundaries between different legal specialities have been clearly defined. However, due to the emergence of technology-driven organisations, the legal guidance they require is less about niche areas and more about comprehensive guidance across a variety of legal areas. The following quotation by Andrew Bailey, the former head of the FCA and currently Governor of the Bank of England, acknowledges this trend in financial services:

[35] https://www.investopedia.com/terms/r/regtech.asp.

> "The boundary between providing mostly unregulated technical infrastructure to deliver financial services and providing regulated activities is increasingly narrowing. This also raises questions around whether financial regulators have the necessary tools and techniques to effectively oversee those organisations."

One of the questions can therefore explore how the boundaries between different legal specialities and regulatory areas (e.g. data protection and financial services regulation) will be shaped. Different question closer to the case of this thesis will ask how this will develop the way legal professionals apply legal analogies towards new organisations with which they work, and how this will shape the organisational form.

6.4.6. Performativity, financialisation, financial markets, and analogies

The idea of performativity comes from economic sociology, which defines a performative theory as a theory that influences the social reality it aims to describe (e.g. Callon, 1998; Latour, 2005; MacKenzie, 2004). For instance, Callon's work is based on the idea that economics itself is a part of the infrastructure of modern markets: ". . . economics, in the broad sense of the term performs, shapes and formats the economy, rather than observing how it functions" (1998, p. 2). Such research from a performativity perspective covers different markets (e.g. Cochoy, 2008), auction design (e.g. Muniesa and Callon, 2007), carbon trading (e.g. Callon, 2009), and financial markets (e.g. MacKenzie and Millo, 2003; MacKenzie, 2004; 2006; 2007), demonstrating the performative role of economics. MacKenzie's (2006) research provides an insightful analysis of modern financial markets. The study demonstrates how different financial models such as the Black-Scholes-Merton model, the Modigliani and Miller theory, and Markowitz's work on the selection of optimal investment portfolios have co-created different areas of the financial markets transforming them, despite a variety of unrealistic assumptions (for example about investors' rationality). For instance, futures markets could not exist without the theoretical foundations provided by finance theory (MacKenzie, 2006). One of the critical conditions of this performativity is the

existence of certain material elements such as the means of calculation (MacKenzie, 2006), technological networks, clearing systems, order-matching algorithms, and the definition of the roles of the market participants (e.g. MacKenzie, 2004). Therefore, financial markets are an example where theoretical formulas based on certain assumptions are applied on a day-to-day basis; with the rise of trading platforms, algorithmic systems, and AI, this trend is becoming more and more taken for granted, going beneath the visible market exchange relationship. Finance theory has become incorporated into the infrastructures of financial markets in technical, linguistic, and legitimate ways (MacKenzie, 2006; p. 250).

The case of this thesis analysed the emergence of new forms in financial markets through analogies and analogising. This approach may contribute to the performativity debate of financial markets. The loan-based crowdfunding case has shown that the product (including its platform technology and algorithms) and legal aspects of this new form went through the collective analogising meaning-making process that resulted in a legally functioning economic activity. The technological base and algorithmic system of this form in itself are based on certain assumptions, for example how transactions should be structured, how the specific roles of the actors should be defined, and how risk/return parameters should be calculated. Through this process of collective analogising, these assumptions and models become naturalised as a part of the social reality of financial markets. Therefore, by exploring this idea of the role of analogies as elements of the institutional infrastructure and as a lens used by the actors, we can explore the mechanisms of how and why performativity might be enabled and persist in the market. Further, we can apply this analysis to nonfinancial markets as well as to financial markets. We can explore how current applications of trading mechanisms and platforms, algorithms and automation, and financial market elements across nonfinancial markets in themselves enable the process of analogising of certain theoretical assumptions from financial markets of how organisations, markets, and market exchange

should be performed. How will this process change the existing relationship and roles? Will it enable change and the emergence of new forms? Will it allow the creation of new markets? This line of inquiry extends the application of financial analogies to nonfinancial settings (e.g. Glaser et al., 2016). It also analyses to what extent the applications of financial market analogies might shape the practices of incumbent actors and how financial analogies might be leveraged by new actors entering nonfinancial markets.

6.4.6. A new category formation

Another direction will focus on the formation of new categories in highly regulated settings in which it is possible to observe the process from the product and the legal side. The case of this thesis demonstrated how analogising drove the emergence and early growth of loan-based crowdfunding, so this form had a new legal category within the regulatory architecture of financial services. This observation creates a base for developing this line of inquiry into the formation of categories, those cognitive devices that coordinate actors within the markets they operate. It is therefore possible to start with financial markets where other financial technology organisations have proliferated after loan-based crowdfunding and have started to co-exist with traditional, incumbent financial institutions, establishing their product and legal categories. These actors navigate through this market and its regulatory architecture, shaping it rather than dramatically changing it. How can this emergence of new categories be possible in the first place? What essential elements, actors, and dynamics enable this formation? Pursuing this line of inquiry brings the opportunity to fill a blind spot – first, about the *emergence of new categories* of platform-based actors; second, about uncovering how this is interconnected with their institutional infrastructure (regulatory architecture); and third, to demonstrate how the lens of conceptual blending may provide valuable insights into these blind spots especially regarding the emergence, innovation, and creativity in highly regulated markets.

This research focuses on exploring these areas through applying the conceptual blending lens to study if and how the product and legal aspects of a new category emergence of digitally enabled organisations have different characteristics and different audiences involved. Hence, the ultimate research question may ask: "*What is the role of conceptual blending in the process of emergence of a new category of platform-based organisations in a highly regulated context*?"

Research and studies in organisation science have started to uncover the role of categories in structuring and orderly coordinating complex markets and market actors that become cognitive representations used by different actors (Durand and Paolella, 2013). Categories have been recognised as interfaces or the consensus of certain features and elements shared by an audience regarding some entity (service, product, policies, etc.). The role of market categories has been shown to play a significant role in economic life in different markets (e.g. automobile; mutual funds; wine) by simplifying complex situations and driving beliefs and expectations about organisations' characteristics and behaviours their status, interests, and identities (Rao et al., 2003; Powell and Colyvas, 2008). Categories also act as institutions. These institutions enable exchange, shape economic outcomes, and influence actors' perceptions of comparability and commensurability (e.g. Zuckerman, 2004) and the value of products (e.g. Zuckerman, 1999). Sociocognitive categories establish systems of meaning and shape the identities and interests of actors. Categories define characteristics of conformity and nonconformity in markets, developing expectations about what should be included and what should not (Douglas, 1986; Zuckerman, 1999).

However, while we see an increase in the study of these general features and roles of categories in structuring markets and systems of classification, we do not see enough insights into the *emergence* of new categories (Durand and Khaire, 2017). One idea that guided

previous studies is that categories are imposed on organisations by external audiences, and organisations should adopt them to gain legitimacy. Hence, the research has overemphasised the constraining nature of established categories and underemphasised the role of the organisations themselves in the categorisation process. Organisational actors may use categorisation as a strategic tool (Kodeih et al., 2019; Durand, Granqvist, and Tyllström, 2017; Durand and Paolella, 2013; Rhee, 2015). Recently, research has started to argue that organisations do not always comply with categories but often try to shape category systems (Negro, Koçak, and Hsu, 2010; Kodeih et al., 2019); however, they still do not delve into the question of how the formation of new categories happens. This area is timely to explore in the era of the rapid emergence of digitally enabled and platform-based actors in established and regulated markets that shape the established categories and generate new categories of their own. The formation of new categories should therefore be studied to uncover the processes through which new organisations become recognised and how nascent categories become homogenised in people's minds, becoming a part of existing systems of classification (Kennedy and Fiss, 2013).

This area opens up another gap that this study will aim to address: the differences and interrelations between products and legal categories. The existing studies focus mainly on product categories and miss the exploration of the unique settings of regulated markets such as financial services, where the legal categories are one of the defining factors of the emergence and functioning of new organisations as legal and valid economic entities. Regulatory frameworks designed to maintain the boundaries between categories of activity prohibit certain types of actors from engaging in certain kinds of activities, shaping the way market actors operate (Funk and Hirschman, 2014). It has been acknowledged that regulatory categories may differ from product categories as regulatory categories are defined explicitly

in the text of laws, rules, and policies; as long as they remain on the books, regulatory categories can still have consequences (Funk and Hirschman, 2014). However, they are still subject to reinterpretation over time, influencing the consensus among the members of a field/market and the emergence and functioning of firms (Ozcan and Gurses, 2018).

This research direction therefore answers two general calls. One is the need to study the emergence of categories (e.g. Khaire and Wadhwani, 2010; Durand and Khaire, 2017), with a specific focus on platform-based organisations, which can be similar to (but at the same time different from) the existing systems of categories, enabling the emergence of new categories. I follow the typology of Durand and Khaire (2017), who distinguish between category emergence and creation.[36] The second call is to study the emergence of product and legal aspects that might have different characteristics and audiences involved (Ozcan and Gurses, 2018), but which at the same time might be closely interrelated.

The theoretical approach that can be used to address the research goals is based on the arguments from the theory of conceptual blending. This theory has its roots in psychology and cognitive linguistics and has been proposed as a fundamental cognitive process, guiding the creation of a broad range of creative processes and artefacts in which analogies may play the essential role of cobbling elements together (Fauconnier and Turner, 1998; 2002; Hutchins, 2005). The initial theory was developed by Fauconnier and Turner (1994; 1998; 2002), who have proposed that conceptual blending is based on the merger of two or more input spaces into a blended space. They show that blending is a general cognitive operation operating over categorisation, the making of hypotheses, inference, and the origin and

[36] According to the authors, emergence is the formation of a category from the elements that are external to the existing market, while a new category creation consists of redesigning cognitive boundaries around a subset of elements within a pre-existing category system of the market.

combining of grammatical constructions. Blending can also be detected in the evolution of socio-cultural models and other aspects of linguistic and non-linguistic behaviour.

The selection of inputs for conceptual blending happens through different processes that can have different outcomes for the blended space. The selection of domains to be blended and the focus of comparison are crucial. Conceptual blending might be based on the comparison of similar domains, with an emphasis on the similarity that might not produce highly creative and innovative outcomes. In contrast, disanalogous reasoning, by focusing on the dissimilarities between similar domains, can reveal unacknowledged attributes as a basis for new insights and innovation (Oswick et al., 2011). In essence, conceptual blending theory suggests that the analogical correlation of mental inputs or frames sets up a number of blending processes by which the imaginative capacities of meaning construction are evoked to produce emergent and new meanings (Cornellisen and Durand, 2012). It should be noted that a small number of organisation scholars have started to study analogies as a basic element for institutions, innovation, and systems meaning (e.g. Glaser et al., 2016; Logue et al., 2016).

This initial overview provides evidence for how conceptual blending can be used in organisation studies to uncover the emergence of new categories and how to connect individual cognition and collective signification. In addition, this lens can demonstrate how analogies enable the generation of new categories as a device of conceptual blending and as multi-level properties. In this study, therefore, conceptual blending is an appropriate tool for discovering how the emergence of a new category might happen as a collective process and how this may shape deeper systems of meaning – a basis for the infrastructure supporting the emergence.

6.4.7. The role of the state/regulator, policymakers, and authorities in the emergence process

The case of loan-based crowdfunding in the UK and the analysis of the regulatory moments before its emergence have started to uncover the role of the government, regulators, policymakers, and other related authorities as active participants in the emergence of innovation. This analysis differs from the understanding that regulators are external actors imposing the regulatory and policy frameworks on organisations using a top-down approach.

Following the wider changes in the economic paradigm in the 1980s and then further transformations due to financial crisis of 2007–2008, the authorities started to play two main roles in the emergence of this first niche platform-based form. First, they stayed as formal regulators of this emerging form; and, second, they become innovators together with entrepreneurs. As regulators, they had to develop a formal legal framework for loan-based crowdfunding as a new form of lending through platforms (Article 36-H), establish formal authorisation process, and define specific requirements for technological systems.

However, the regulator and the authorities also played the role of innovators. The following quotation by the director of strategy and competition defined the role of the regulators as active participants in bringing innovation and in building the necessary legal elements for innovation:

> "It is like building development. We expect firms to be the architects for each of the buildings: to choose the bricks; to find a layout that works for you; to make something that stands out for consumers. Our job is to be the structural engineer – that is, the person who takes a view of the safety and underpinning of the market. Someone has to say it's unacceptable to make a house of straw. Or that some structures are plainly unsuitable." (Christopher Woolard, Financial Conduct Authority, Director of Strategy and Competition)

This role became visible and significant after the financial crisis of 2007–2008, when the financial regulator experienced an organisational transformation itself, getting a new mandate to enable competition and innovation within the financial markets. The meaning of risk, innovation, and competition as well as the priority of them to the authorities experienced critical changes. The summary of the main objectives emphasised the importance of competition and innovation:

> "The FCA has a strategic objective in law to make markets in financial services work well. To do that we look at the integrity of markets, consumer protection and have a duty to promote competition in the interests of consumers. We do a number of things to promote competition – market studies that take a fundamental look at how markets are operating, we enforce competition law, and review our own rules where they unduly inhibit competition. We also promote innovation." (Christopher Woolard, Financial Conduct Authority, Director of Strategy and Competition)

The FCA started to communicate and consult with entrepreneurs regularly, bringing together loan-based crowdfunding and other FinTech actors either through market conferences or through roundtable discussions at the regulator's offices. The discussions covered a variety of areas, but the primary process that was happening was this collective meaning-making around organisations, practices, and products and the legal sides of those organisations. The FCA also organised Project Innovate in 2014 as a means of encouraging innovation in the financial services market, aiming at competition and growth by supporting both small and large organisations in developing their products. Project Innovate covered six general areas: the Regulatory Sandbox, the Request Innovation Hub Support, the Advice Unit, RegTech, the Engagement, and the Global Financial Innovation Network. Project Innovate became a platform for the regulator to interact with entrepreneurs to make sense and learn about emerging organisations and products. The guiding questions behind these actions were not about imposing and fitting in these new organisations into existing frameworks, but about how these two aspects (new forms and legal frameworks) could be balanced or how new frameworks should be developed to enable sustainable innovation in financial services. The

authorities aimed to educate themselves about new developments and become the engineers of regulatory infrastructure to support those developments. There are different opinions regarding the results of these activities and the reasons behind them, but, compared to other countries, the UK's approach is considered to have been one of the most proactive and has started to be copied elsewhere. This role of the government/regulator can therefore be referred to as a *regulation engineer* for financial innovation and its organisational forms. The case of this thesis is thus a starting point for extending the analysis of the role of the authorities into a wider research of its role in the emergence of forms and markets beyond financial services.

In the existing literature, scholars acknowledge that governments, regulators, and authorities play an important role in shaping the ways new forms emerge and function and in the way markets and organisational fields emerge, grow, and disappear (Fligstein, 1996). Through regulation, they can change the power balance between the actors (Fligstein, 1996). While governments can do it through direct legislation impacting the flow of resources, they can also become active participants in shaping meaning and in constructing the cognitive infrastructure for markets and forms – a role that requires further and more precise exploration. This meaning-making process might also shape how the regulator functions as an organisation, which tools are used, and which skills are required from those actors who work within the regulatory organisations.

Another area will explore the specific analysis of the regulatory incubators or regulatory sandboxes organised by regulatory bodies and their impact on both sides of the equation: regulators activities around legal frameworks for innovation and the activities of entrepreneurs. The primary purposes of these sandboxes are to improve firms' understanding

of regulatory expectations (e.g. the applicability of the existing regulatory framework to innovative practices); to increase the knowledge and understanding of the authorities about financial innovations (the risks and the opportunities); to inform their approach to the regulation and supervision of financial innovations through direct testing; to foster innovation; and to reduce the cost and time of entering the market. The UK financial regulator is the very first regulator in the world that officially and formally organised this type of sandboxes in 2016, through which start-ups can engage with regulators to understand the legal side of their business at a very stage.[37] The regulator can also understand which innovations are emerging and how to approach them from a legal perspective. Through this testing, organisations have an opportunity to trial their product or service with real customers and make changes before they commit to a full market launch.

Within this area of research, we can also explore how this type of regulator activity is developing across other legal jurisdictions. Other countries around the world (e.g. the Netherlands, Denmark, the US, and Singapore) have started to replicate this type of sandbox at their country level, as well as to develop a global sandbox known as The Global Financial Innovation Network (GFIN) initiated by the FCA in the UK. It would therefore be valuable to conduct comparative studies of different dynamics and types of financial innovations that these sandboxes enable and shape and whether these innovations shape these legal environments in the same or in a different way.

[37] The sandbox seeks to provide firms with the ability to test products and services in a controlled environment; reduced time-to-market at a potentially lower cost; support in identifying appropriate consumer protection safeguards to build into new products and services; and better access to finance:
FCA, https://www.fca.org.uk/firms/regulatory-sandbox.

Regulatory sandboxes enable formal interactions between organisations and authority, while another type of less formal interaction known as the innovation hub[38] provides a point of contact for organisations to raise enquiries with regulators on FinTech-related issues and to seek guidance on regulatory and supervisory expectations (e.g. authorisation process or licensing requirements). It would be valuable to explore how this less formal interaction and meaning-making process impacts on the forms and practices of technology-enabled financial service providers and if/how the results of these interactions influence the traditional incumbents.

We can therefore extend the analysis of the role of the regulator and government authorities in the emergence of new forms and markets in three main directions.
The first stream will investigate the mechanisms through which the regulators and the government participate in the emergence of forms and markets. What are the formal tools, and what are the informal tools? What are risks, resource distribution, and power distribution? What are the differences between the highly regulated and less regulated market? The second stream is the analysis of the origins and historical roots of those government activities and formal interventions. The role of ideas, ideologies, social movements, and the translation of international frameworks into local settings are vital in shaping the political discourse, political actors, and meaning of legal regimes (Campbell, 2002). Finally, the research would be incomplete without an analysis of the internal dynamics within the authorities as organisations. How do these interactions impact on their internal processes of policymaking, mandates, and structures? In all these three streams of analysis, it is also valuable to compare different countries and analyse how different historical origins

[38] www.esma.europa.eu.

have resulted in various legal frameworks and policy regimes (Campbell and Pedersen, 2014).

This focus on the role of the state in the formation of new forms can therefore ask questions about what organisations, actors, or group of actors influence the government externally and internally in its understanding of an emerging form and innovation and the regulation needed. Further, we can explore the effects of the different types of government activity (application of existing laws; development of new legislation; direct investment; direct interactions with entrepreneurs through round tables; sandboxes and agencies) on the processes of formation and the extent to which the pace of formation depends those activities. The same inquiry can be applied to the questions surrounding the wider formation and transformation of markets in which these forms emerge and develop. To extend these insights, it is also essential to study the proposed areas in different countries that will reveal this complex iterative relationship between policies, regulation, organisations, and markets. These research directions will help explore how innovation (the emergence of new forms and markets) is interrelated with the regulatory architecture and how the existing markets can be disrupted through regulatory transformations.

6.4.8. Research design

The research design of this thesis was based on a field-level case study within the UK. This type is well suited to identify these early moments of emergence and growth, as the country was the very first country in the world to see the emergence of this form and to create formal laws regulating it. Thus, the extent to which the processes identified in this thesis are similar or different in other geographies that differ in their legal systems and the phase of development of the form can only be established by further comparative analysis. For instance, comparison can be made between the systems of law and where the state has a

stronger or weaker position in developing and imposing regulations on organisations. These questions open up an important area of research into the different legal systems and innovations they suppose to regulate.

Besides a comparative research design, a different methodological approach can be developed that is based on text mining research strategy such as topic modelling (Schmiedel et al., 2019). This technique is still evolving but has already proved to be insightful for management theory research combining quantitative analysis with qualitative interpretation (Schmiedel et al., 2019). The idea behind topic models is that meanings emerge out of relations between words rather than separate, single words (DiMaggio et al., 2013). For instance, topic modelling algorithms can enable researchers to identify high-order concepts from texts, to develop inductive classification systems through statistical analysis of the usage of words, and to understand online audiences, practices and cultural dynamics (Hannigan et al., 2019). This technique has specific automation features that deal with larger amounts of data compared to human readers. These automation algorithms can be very helpful in studying the application and use of analogies over time, in identifying different actors who apply them, and in finding hidden thematic structures. It can also help generate broader theoretical concepts by using statistical associations of words in a text. This is known as latent topics – clusters of co-occurring words that jointly represent higher-order concept without the need to use pre-defined dictionaries or interpretive rules (Hannigan et al., 2019). This feature can be very useful when studying large amounts of archival materials specifically related to the regulatory area.

Together, these future research projects will complement both other existing studies and the present study. They will move us further towards a more refined understanding of the

platform and algorithm-based forms, and more broadly towards a better comprehension of the interrelation between technological, institutional, and cognitive dynamics through which organisational actors emerge and are shaped.

6.5. Final conclusion

This research was motivated by an attempt to understand the processes of emergence of organisational forms based on my research interest of studying the early moments of organisational emergence in the period of flux around structures, technologies, and meanings. I was curious about how new organisations based on platforms and now AI technologies are navigating their way in established and regulated settings. I followed the direction of research that studies phenomenon in time and space, aiming to uncover specific nuances of the emergence process. Following this general research goal, I conducted a longitudinal study of a platform-based organisational form (loan-based crowdfunding) within a setting of a highly regulated market of financial services. This setting provided me with data, insights, and unexpected observations to contribute to the theorisation of emergence and to provide necessary conclusions for policymakers, regulators, and entrepreneurs.

In conclusion, the thesis demonstrates that the emergence of new organisations and their forms is a complex process that is happening through close interaction with the surrounding institutional environment and its infrastructure. Platform-based and AI-based organisations use technological systems and funding for those systems as a key element of their development and growth. Still, technology is only a part of a toolkit for emergence and early-growth. Meaning-making around forms, the legal frameworks to support them, and technologies are key elements that drive the process. Emergence is thus a collective process in which different audiences are involved, with their own motivations and intentions shaping

the process across the time. Emergence is a historically and contextually embedded process where a variety of actors are involved in making it happen. My study also informs policy by directing attention towards the elements, actors, conditions, and processes that underlie the more visible and discussed drivers of the emergence of new organisations, innovations, and markets. I believe this thesis and the future research areas it indicates will enable us to study the process of emergence as a collective process in which regulation and policymaking is a part of it rather than an external and fixed variable.

List of abbreviations and glossary

Crowdfunding – Crowdfunding; the term crowdfunding is used to describe a number of ways in which people and businesses (including start-ups) raise money, typically through an internet-based platform[39].

Equity Crowdfunding (equity crowdfunding/investment-based crowdfunding) – financial service activity enabled through platforms where investors can invest directly in businesses by buying investments such as shares or debentures.

Loan-based crowdfunding or P2P lending (Peer-to-Peer lending) – financial service activity through which people and institutions lend money directly to consumers or businesses, aiming to make a financial return from interest payments and the repayment of capital over time. There are three types of P2P lending: P2P consumer lending, P2P business lending, P2P property lending

Donation-based crowdfunding – unregulated types of crowdfunding when people can donate money for a particular cause, event. Charity without expecting anything in return other than the satisfaction of having contributed towards something they feel is worthwhile.

Reward-based crowdfunding – unregulated type of crowdfunding involves individuals contributing comparatively small amounts of money to projects in return for some kind of reward. Rewards can range from something simple such as a thank-you postcard to a production version of the crowdfunded product.

[39] crowdfunding definition is still contested and varies among different audiences and the regulator. Here I provide the official definition from the latest FCA reviews

Alternative finance - include financial channels, processes, and instruments that have emerged outside of the traditional finance system such as regulated banks and capital markets. Examples of alternative finance include reward-based crowdfunding, Equity crowdfunding, P2P lending, invoice trading, and third-party payment platforms

P2PFA[40] – the peer-to-peer lending association - the UK's self-regulatory body for peer to peer lenders formed in 2011

UK crowdfunding Association (UKCF) - The crowdfunding association across different configurations of crowdfunding (reward, equity, loan-based) formed in 2012

SIB – The Securities and Investments Board was the regulatory authority for investment business under the Financial Services Act 1986. The Financial Services Authority (FSA) replaced the SIB.

FSA – The Financial Services Authority was the UK's financial services regulator from 2001 to 2013

FCA – The Financial Conduct Authority is the UK's financial services regulator

OFT - The Office of Fair Trading (OFT) was a non-ministerial governmental department that was established by the Fair Trading Act 1973 and was closed in 2014. OFT served as the UK's 'economic regulator' through its main objectives of ensuring consumer protection and competition law within the UK.

[40] In 2020 the P2PFA became a part of Innovate; new name is 36H

BoE - The Bank of England is the central bank of the UK

PRA – The Prudential Regulation Authority regulates and supervises around 1,500 banks, building societies, credit unions, insurers, and major investment firms. The PRA was formed in 2013 following the disbanding of the FSA through the Financial Services Act (2012). The PRA is part of the Bank of England and is responsible for prudential regulation.

FPC – The Financial Policy Committee was established in 2013 as a part of the Bank of England and as part of the new system of regulation brought in to improve financial stability after the financial crisis. The committee identifies, monitors and takes action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC also has a secondary objective to support the economic policy of the Government.

KYC/AML – know your customer and anti-money laundering procedures applied by financial services organisations when they register investors

Institution as generally understood in the *new* institutional theory, i.e. the formal rules, the more-or-less taken-for-granted norms, and the cultural values and beliefs that guide the actions of individuals and organisations in a specific context (Greenwood et al., 2008; Scott, 1995).

IFISA – is a tax wrapper introduced in 2016 as a relatively new form of Individual Savings Account (ISA), which allows UK consumers to benefit from tax-free interest on their peer-to-peer loans

BBB – The British Business Bank formed in 2012 and owned by the UK government. The main goal is to provide financial support for SMEs and start-ups in the UK.

Big Bang – is a phrase to describe a series of measures implemented by the Thatcher's government in the 1980s that significantly transformed the rules and the architecture of financial services in the UK

Macmillan gap - the lack of financing for SMEs and start-ups was first recognised in the UK as the 'Macmillan gap' in 1931, and subsequently as the finance gap or patient capital gap**.**

Credit agency and credit scoring - a credit agency is a for-profit organisation that collects data about individuals' and businesses' debts and assigns a numerical value called a *credit score* that indicates the borrower's creditworthiness. This information is used by financial services provider in making a decision, for example about giving loans.

'Twin Peaks' regulatory architecture – this system is based on the two peak regulatory authorities. The first peak is the "system stability" regulator, is responsible for creating and enforcing prudential regulations, with the goal to prevent a financial crisis. The second peak is responsible for overseeing financial conduct and protecting consumers of financial products and services.

GDPR - The General Data Protection Regulation (GDPR) standardises data protection law across all 28 EU countries and imposes strict new rules on controlling and processing

personally identifiable information (PII)[41]. In the UK the framework started to be applied from May 2018.

MiFID ll - The markets in Financial Instruments directive II (MiFID II) is a legislative framework developed by the European Union to regulate financial markets across the EU countries and improve protections for investors with the aim to improve the financial systems after the Financial crisis 2007-2008. The framework affects the investments firms, banks, financial advisors, etc. In the context of crowdfunding, the framework is relevant to the Equity crowdfunding platforms.

Sophisticated, high net worth investors, retail customers – three types of customers categorised in the financial services industry. Sophisticated investor - a high-net-worth investor who is considered to have a depth of experience and market knowledge that makes them eligible for certain financial promotions. High net worth investors are those who had, during the financial year, an annual income to the value of £100,000 or more; or they held, throughout the financial year, net assets to the value of £250,000 or more.

Small and Medium Enterprises (SMEs) - there is no agreed definition of small and medium-sized enterprises (SMEs). The term has been further diversified as small firms, medium-sized firms, and micro firms. Therefore, as an umbrella terminology, 'SMEs' is used in this thesis in order to differentiate them from large firms.

Statutory instruments - major laws in the UK pass through Parliament in the form of bills. Once bills have progressed through all of their stages they become Acts of Parliament. Acts

[41] https://www.forbes.com/sites/quora/2018/02/14/what-is-general-data-protection-regulation/#78f467ee62dd

of Parliament often confer powers on Ministers to make more detailed orders, rules or regulations by means of statutory instruments[42].

Statutory Regulation - the process of checking by a government organization that a business is following official rules

[42]https://www.parliament.uk/documents/commons-information-office/l07.pdf

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Appendices

Appendix 1 Detailed overview of the interviews

Table A 1: Detailed overview of the interviews

Type of interviews	#	Date	Location	Type of organisation/field	Interviewees' position
in depth	1	May-17	London, UK	Research	Researcher
in depth	2	Jun-17	Oxford, UK	Law	Academic
in depth	3	Jun-17	London, UK	Research + events organisation + news	Events Organiser
in depth	4	Jul-17	London, UK	Law	Founder
in depth	5	Jul-17	Cambridge, UK	Research	Director + Head of Policy
in depth	6	Jul-17	London, UK	ECF	Manager
in depth	7	Jul-17	London, UK	P2P research	Researcher
in depth	8	Jul-17	London, UK	ECF	Head of Products
in depth	9	Jul-17	London, UK	ECF	Founder
in depth	10	Jul-17	Phone	Research+Consulting	Principal Consultant
in depth	11	Jul-17	Phone	Research + events organisation +policy	Head of Events
in depth	12	Jul-17	Phone	Research + events organisation	Head of Policy Research
in depth	13	Aug-17	Three Bridges, UK	Law	Head of Law advisory
in depth	14	Aug-17	London, UK	P2P	Founder
in depth	15	Aug-17	London, UK	Property P2P	Chief Operating Officer
in depth	16	Aug-17	London, UK	Research (ECF)	Head of Research
in depth	17	Aug-17	London, UK	P2P	CMO
in depth	18	Aug-17	London, UK	P2P (ethical focus)	Head of Operations
in depth	19	Aug-17	London, UK	Government Body	Head of Investments
in depth	20	Sep-17	Oxford, UK	Investment platform for positive/social investments	Head of marketing and communications
in depth	21	Sep-17	Oxford, UK	Investment platform for positive/social investments	CEO
in depth	22	Sep-17	London, UK	P2P	Head of

Type of interviews	#	Date	Location	Type of organisation/field	Interviewees' position
					Communications
in depth	23	Sep-17	Skype (phone)	Research + events organisation	CEO
in depth	24	Sep-17	Gravesend, UK	Property P2P	CEO
in depth	25	Sep-17	London, UK	Property P2P	Founder
in depth	26	Sep-17	London, UK	Property P2P	Founder
in depth	27	Sep-17	London, UK	Research + events organisation + news	Chief Editor
in depth	28	Sep-17	London, UK	ECF	Business Development Executive
in depth	29	Oct-17	London, UK	Financial advisory+compliance	Consultant
in depth	30	Oct-17	London, UK	Property P2P	Operations Director
in depth	31	Oct-17	London, UK	Financial advisory+compliance	Complinace Manager +Compliance consultant+Consultant
in depth	32	Oct-17	London, UK	ECF	Founder
in depth	33	Oct-17	London, UK	Law	Partner
in depth	34	Oct-17	London, UK	Law	Partner
in depth	35	Oct-17	London, UK	Property P2B	Founder
in depth	36	Oct-17	Phone	Private debt asset manager specialising in technology enabled lending	CEO
in depth	37	Oct-17	London, UK	Government Body	Former CEO
in depth	38	Nov-17	Phone	Donation CF	Founder
in depth	39	Nov-17	London, UK	P2P	Chief Risk Officer
in depth	40	Nov-17	London, UK	Law	Partner
in depth	41	Nov-17	Skype (phone)	Reward CF	Founder
in depth	42	Nov-17	Phone	P2P	Founder
in depth	43	Nov-17	London, UK	Association	Former Head of the association
in depth	44	Nov-17	London, UK	Donation+Reward CF	Founder
in depth	45	Nov-17	Phone	Reward CF	Founder
in depth	46	Nov-17	London, UK	Online social	CEO

Type of interviews	#	Date	Location	Type of organisation/field	Interviewees' position
				donation platform	
in depth	47	Dec-17	London, UK	P2P	COO
in depth	48	Dec-17	Phone	Reward CF	Campaign Strategy Manager
in depth	49	Dec-17	Phone	P2P	Founder
in depth	50	Dec-17	Phone	Reward CF	Head of Product
in depth	51	Dec-17	London, UK	Online social donation platform	Founder
in depth	52	Jan-18	Phone	Direct Lending	Founder
in depth	53	Jan-18	London, UK	Financial advisory+compliance	Managing Director
in depth	54	Jan-18	Phone	ECF	Founder
in depth	55	Jan-18	London, UK	P2P	CEO
in depth	56	Oct-17	Phone	P2P + Property CF	Founder
in depth	57	Nov-17	E-mail answers	P2P	Head of Communications
in depth	58	Jan-18	London, UK	Direct lending investment platform	Head of Business Development
in depth	59	Feb-18	Phone	Lending for employees	Founder
in depth	60	Feb-18	London, UK	News	Founder
in depth	61	Feb-18	Phone	Donation CF	Head of Product
in depth	62	Mar-18	London, UK	Association	Head of Policy
in depth	63	Mar-18	Phone	News	Founder
in depth	64	Mar-18	London, UK	P2P	Marketing Manager
in depth	65	Feb-18	Email+ meeting	Credit agency	Head of Corporate and Business
in depth	66	Mar-17	London, UK	Law	Partner
in depth	67	Sep-17	Phone	Property P2P	Founder
in depth	68	Apr-18	London, UK	ECF	General Counsel
in depth	69	Jun-18	London, UK	regulatory infrastructure consultancy/compliance advice	Head of financial services
in depth	70	Jun-18	London, UK	P2P	One of the founders and also early days before fintechs

Type of interviews	#	Date	Location	Type of organisation/field	Interviewees' position
in depth	71	Jul-18	London, UK	P2P property	Founder
in depth	72	Aug-18	Phone	P2P property	Communications manager
in depth	73	Aug-18	Phones	P2P property	Compliance and customer manager
in depth	74	Sep-18	London, UK	Law	Head of Law advisory
snapshot	75	Oct-16	Crowdfest 2016	Law	Partner
snapshot	76	Mar-17	Altfi 2017	ECF	Analyst
snapshot	77	Mar-17	Innovate Finance 2017	Research	
snapshot	78	Oct-17	lendit	P2P	Founder
snapshot	79	Oct-17	lendit		CEO
snapshot	80	Oct-17	lendit	P2P	Founder
snapshot	81	Oct-17	lendit	P2P	Marketing Executive
snapshot	82	Oct-17	lendit	P2P	Chief Risk Officer
snapshot	83	Oct-17	lendit	P2P	Director
snapshot	84	Oct-17	lendit	P2P	General Manager
snapshot	85	Oct-17	lendit	P2P + ICO	Founder
snapshot	86	Oct-17	lendit	Research + events organisation + news	Chief Operations Officer
snapshot	87	Oct-17	lendit	Credit agency	Business Development Manager
snapshot	88	Oct-17	lendit	Bad credit loan (small)	Chief Product and Marketing Officer
snapshot	89	Oct-17	lendit	P2P	Founder
snapshot	90	Oct-17	lendit	P2P	Founder
snapshot	91	Oct-17	lendit	P2P	Founder
snapshot	92	Oct-17	lendit	P2P	Founder
snapshot	93	Oct-17	lendit	Law	Partner
snapshot	94	Oct-17	lendit	P2P	VP Business Development
snapshot	95	Apr-18	Innovate finance 2017	P2P	Founder
snapshot	96	Apr-18	Innovate finance 2018	Law	Members of Communications team

Type of interviews	#	Date	Location	Type of organisation/field	Interviewees' position
snapshot	97	Apr-18	Innovate finance 2018	Law	Lawyer
snapshot	98	Apr-18	Altfi 2018	P2P	Head of Communications
snapshot	99	Apr-18	Altfi 2018	Direct lending investment platform	Head of Business Development
snapshot	100	Apr-18	Altfi 2018	Assets backed fixed income investments	
snapshot	101	Dec-17	Reshaping Financial services	Bank	Analyst
snapshot	102	Dec-17	Reshaping Financial services	Regulation	Member of Regulation team
snapshot	103	Dec-17	Reshaping Financial services	Research	Researcher
snapshot	104	Jan-18	IFISA 2018	Property P2P	Founder

Appendix 2. The list of data sources used for the analysis of the evolution of the UK Financial Services and regulation from the 1980s to 2018

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Appendix 3. Data structure summaries for the phases two and three in Chapter 4

Phase 2 (2001-2012)

Table B 1: Data structure summaries for the phases two and three in Chapter 4

Phase 2 (2001-2012)

First order codes (elements)	Second-order themes	Aggregated processes
Main events (Financial crisis 2007-2008)	Aggregation (statutory layer dominates) New layers of actors New layers of practices New layers of ideas about competition, risk, consumers and financial service providers	*Bundling of regulatory bodies and financial services* *Universal model of regulation* *A niche is a 'problem'* for the whole economy
Acts/legal frameworks (e.g. Financial Services Act)		
Actors (e.g. Universal Banks)		
Organisational forms (niche technology based actors emerge)		
Regulatory bodies (FSA)		

Table B 2: Data structure summaries for the phases two and three in Chapter 4 Phase 3 (2013-2018)

First order codes (elements)	Second-order themes	Aggregated processes
Main events (Changes in regulatory bodies)	Segregation New layers of actors New layers of practices New layers of ideas about competition, risk, consumers and financial service providers	*Unbundling of regulators and certain financial services* *Twin Peaks model of regulation* *A niche is a innovation to bring competition*
Acts/legal frameworks (e.g. Financial Services Act 2012, Open Banking 2018)		
Actors (e.g. new FinTech actors, systemic risk banks, digital banks)		
Organisational forms (FinTech emergence and growth)		
Regulatory bodies (FCA, PRA, BoE)		

Appendix 4. Phases and events (extended version)

Table C 1: Phases and events (extended version)

Timelines	Focus	Problem	Regulated actors	Regulatory structures	Regulatory frameworks	Existing paradigm
1980s	Self regulation under statutory regulation; Institutional and functional approach towards regulation	Investor protection	Five different areas of financial services; futures broking and dealing, financial intermediation, investment management, life assurance broking, and securities broking, Asset managers and banks	Self regulatory organisations (SROs) under SIB; Bank of England – 'conduct of business'; OFT regulates consumer credit organisations – 'economic regulator' with the mission to safeguard consumers choice across the entire marketplace and that all markets work in fair and open competition with each other	Financial Services Act 1986 Banking Act 1987 Insurance Companies Act 1982	Government and policy making ideas are based on free market paradigm – a shift from Keynesian's ideas
1990s	Self regulatory organisations under the statutory regulation based on three tiers structure of standard: ten high level principles and two tiers of rules	Investor protection	Investment businesses, banking, insurance	Self regulatory organisations mergers – three organisations under the SIB; finally the end of self regulation		European Union directives around particular capital requirements and reporting – additional cut around self regulation

Timelines	Focus	Problem	Regulated actors	Regulatory structures	Regulatory frameworks	Existing paradigm
2000s	Unitary structure; principles based regulation; supervision	Customer protection; "treating customers fairly" approach; reactive approach	Investment businesses, banking, insurance, mortgage, financial advisors	One big regulator (FSA) to maintain statutory and unitary regulatory system across investment business, banking and insurance Removal the responsibility for bank regulation from the Bank of England, the U.K.'s central bank; the Bank of England became independent and was given duties to set up monetary policy/interest rates	Financial Services Act 2000 European Union legislation The FCA handbook of rules	European Union provides the frameworks – the FSA uses copy-out approach in the handbook
After the financial crisis 2007-2008 -	Intrusive supervision; Commitments to challenge financial services organisations' own judgments about their businesses	Financial stability: one strategic objective, three operational and regulatory principles; strategic objective to ensure that the relevant markets function well; plus three operational objectives: secure an appropriate degree of protection for consumers	Investments, insurance, banking and new forms such as Peer-to-peer lending activities	Three structures: prudential – PRA and the Bank of England Conduct+ consumer credit organisations from the OFT – the FCA	Financial Services Act 2012 + Financial Services and Markets Act 2000	National supervisors became more harmonized with the EU regulatory frameworks

Timelines	Focus	Problem	Regulated actors	Regulatory structures	Regulatory frameworks	Existing paradigm
		protect and enhance the integrity of the UK financial system promote effective competition in the interests of consumers				

Appendix 5. International regulatory frameworks (the Basel Accords) applied to banks

Table D 1: International regulatory frameworks (the Basel Accords) applied to banks

Name	Date	Details
Basel I	The 1988 Accord	Banks that operate internationally are required to maintain a minimum amount (8%) of capital based on a percent of risk-weighted assets
Basel II	1999	Expansion of the rules for minimum capital requirements, framework for regulatory review, as well as set disclosure requirements for assessment of capital adequacy of banks. Incorporation of the credit risk of assets held by financial institutions to determine regulatory capital ratios. Divided bank capital into three tiers. refining the definition of risk-weighted assets, which are used as a denominator in regulatory capital ratios, and are calculated by using the sum of assets that are multiplied by respective risk weights for each asset type. The riskier the asset, the higher its weight; Regulatory supervision is the second pillar of Basel II that provides the framework for national regulatory bodies to deal with various types of risks, including systemic risk, liquidity risk, and legal risks. The market discipline pillar provides various disclosure requirements for banks' risk exposures, risk assessment processes, and capital adequacy, which are helpful for users of financial statements.
Basel III	2009-2010	In response to the Financial Crisis to address the regulation, supervision and risk management within the banking sector; banks are required to maintain proper leverage ratios and meet certain minimum capital requirements. Issues such as financial stress, risk management, transparency. A focus at the individual bank level in order to reduce the risk of system-wide shocks. Minimum tier 1 capital from 4%-6% The Committee completed its Basel III post-crisis reforms in 2017, with the publication of new standards for the calculation of capital requirements for credit risk, credit valuation adjustment risk and operational risk.

Appendix 6. Evolution of the organisational forms – funding providers for the start-ups in the UK

Table E 1: Evolution of the organisational forms – funding providers for the start-ups in the UK

Period	Organisation	Features
Late 19th-early 20th century	Investment trusts in the UK with the first one emerged (Foreign and Colonial) in 1868 with the aim to help the 'investor of moderate means' have 'the same advantage as the large capitalists in diminishing the risk of spreading the investment over a number of stock". An **investment trust** is a company that raises money by selling shares to **investors** and then pools that money to buy and sell a wide range of shares and assets Trusts diversified risk by buying shares in other companies. Some of the trusts still exist surviving and rearranging their core activities through financial crises, wars etc.	Core idea – develop new types of investors Form of collective investment Currently, investment trusts are categorised as closed trusts compared to open unit (funds). They are listed companies and their stocks can be bought or sold on the stock exchange. An investment trust is a company that raises money by selling shares to investors and then pools that money to buy and sell a wide range of shares and assets
During and after the second World War	Trusts reduced the capital provision to risky enterprises and focused mainly on the large listed companies; structural change in the trusts' investments	Gap in the capital provision to small and risky companies
1931	The Macmillan report with regards to the crisis of 1929 uncovered the gap in the capital provision to the SMEs; Investments of relatively small amounts of money were riskier and more costly for lenders, which put small businesses seeking loans at a disadvantage (Macmillan Gap covering the range of 5,000 -200,000 pounds). Structural change in the banks' assets	This report became the basis for the creation of a new organisation/institution – Industrial and Commercial Finance Corporation in 1945 This institution became a part of the political environment
1945	Industrial and Commercial Finance Corporation (ICF) Finance Corporation for Industry (focus on large corporations) (FCI)	the ICF was originally established by the Bank of England and relied on the existing banks. The 'big five' used this dependency to undermine the competitive threat that it posed, and it was only when the crowdfunding was free to compete head on with the main banks that it was able to meet the demand from SMEs.

1960-1980	only sources of venture capital were the small business arms of the clearing banks, merchant banks which specialised in small business clients and ICF (now Venture Capital firm - 3i)	
1980s	Special lending schemes from clearing banks, Government sponsored the Loan Guarantee Scheme Early VCs Individual investors (later known as Business Angels)	1976 – one the most famous examples of a business angel investment, on account of its success, was made in *The Body Shop*
1987	ICF was renamed Investors in Industry (3i) and became a private limited company	The key idea about a capital provision to small and medium, risky businesses was transformed and the organisation focuses on the buyouts (later stage companies)
1990s	VCs, Business Angles, Business Angel Networks	
2000s	VCs, Business Angles, Business Angel Networks, Accelerators	While the very first business incubator emerged in 1996 (the Sussex Innovation Centre), the main explosion of the accelerators happened after 2005
2011	VCs, Business Angles, Business Angel Networks, Accelerators First Equity crowdfunding	

Appendix 7. Organisations related to financial regulation in the UK

Table F 1: Organisations related to financial regulation in the UK

Organisations	Areas of responsibilities
The Financial Conduct Authority (FCA)	The **FCA** regulates the financial services industry in the UK. Its **role** includes protecting consumers, keeping the industry stable, and promoting healthy competition
The Prudential Regulation Authority (PRA)	The PRA is a part of the Bank of England and responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA regulates approximately 1,700 financial firms. The PRA has two statutory objectives: 1. To promote the safety and soundness of these firms; and 2. To contribute to the securing of an appropriate degree of protection for policyholders (for insurers)
The Financial Policy Committee (FPC)	The FPC is a part of the Bank of England. The FPC Identifies, monitors and takes action to remove or reduce systemic risks to maintain the resilience of the UK financial system.
The Bank of England (BoE)	The BoE is the central bank for the United Kingdom. It acts as the government's bank and the lender of last resort. It issues currency and oversees monetary policy.
The Competition and Markets Authority (CMA)	The CMA is an independent non-ministerial department promoting competition for the benefit of consumers, both within and outside the UK.
The Payments System regulator	The Payment System Regulator is a subsidiary of the FCA functioning as the independent economic regulator for the payment system in the UK. It was created by the Financial Services (Banking Reform) Act 2013. The PSR has been fully operational since 1 April 2015. The PSR is the world's first economic regulator for payments.
Her Majesty's Treasury (HM Treasury)	The British government department responsible for developing and executing the government's public finance policy and economic policy. It maintains control over public spending, setting economic policy and working to achieve strong growth.

British Business Bank	A state-owned economic development bank established by the UK Government. Its aim is to increase the supply of credit to small and medium enterprises as well as providing business advice services
The Department for Business, Energy and Industrial Strategy (BEIS)	The Department is in charge of developing and delivering an industrial strategy and leading the Government's relationships with businesses, along with securing affordable and clean energy supplies to the country.
The Financial Services Compensation Scheme (FSCS)	The FSCS is a non-profit-making independent body, created under the Financial Services and Markets Act 2000 (FSMA). It is funded by levies on authorised financial services firms. It handles claims for compensation from consumers when regulated firms become insolvent.
The Financial Ombudsman Service	The Financial Ombudsman Service deals with complaints from consumers about most financial matters. It was established in 2000
The Department for Work and Pensions (DWP)	The DWP is responsible for welfare, pensions and child maintenance policy.
The Pensions Regulator	Regulates occupational pension schemes
The UK Competition Network (UKCN)	The UKCN is an alliance of the Competition and Markets Authority (CMA) with all the UK regulators that have a specific role to support and enable competition within their sectors.
The UK Regulators Network (UKRN)	The UKRN is an association of 11 regulators from the United Kingdom’s utility, financial and transport sectors

Appendix 8. Transformations in the consumer credit regulation in the UK

Table G 1: Transformations in the consumer credit regulation in the UK

Date	Regulation	Regulator	Impact	Role of legal frameworks
1974	Consumer Credit Act 1974 (CCA, 1974)	Office of Fair Trade Firms had to to be licensed by the OFT before they can offer credit.	The Consumer Credit Act 1974 (CCA74) was the first law in the UK that brought together all consumer credit related products under a regulatory framework. One of the main objectives of this law was to increase competition and protect borrowers introduction of the publication of the true cost of lending' it also imposed conditions and procedures which credit companies had to follow when advertising or selling credit; distinguished the features of borrowers, imposed the max limit of the financial sum, defined credit agreement – contract between the parties involved in the transactions	Defined and categorised "consumer credit" as a legal category Defined the "consumer credit'' organisational forms Structured the legal agreement between the parties of the transaction Created boundary setting for those who can participate in the agreement
2006	Consumer Credit	Wider	The underlying	Regulator's role shaped from a license provider into the

Date	Regulation	Regulator	Impact	Role of legal frameworks
	Act 2006 (CCA, 2006)	information gathering powers to the OFT	license approach was questions and became similar to the authorisation process by the Financial Services and Markets Act 2000. The OFT was able to impose a deeper 'fitness' test for assessing the suitability of applicants. Also assessment of the applicant's competence and the preparedness for running a credit business.	authorisation provider
2012-2014	Financial services Act 2012, in force 2014	OFT replaced by the FCA in the consumer credit space	The regulation of the consumer credit market passed to the Financial Conduct Authority. Regulation is in the form of the FCA rules rather than the form of legislation. FCA 'Permission' replaced the old licensing system; proactive regulation rather than reactive	The regulator as an authorisation provider with a different approach to the markets' in the form of proactive strategy compared to a reactive approach Rule –based regulatory approach is supported by six principles
2014 -	The regulatory framework	FCA	FCA took over the regulation of Equity	Hence the regulatory framework is a toolkit of historical variations (layering), rearrangements of existing frameworks of related

Date	Regulation	Regulator	Impact	Role of legal frameworks
	consists of the Consumer Credit Act 1974 (CCA) and its secondary legislation, the Financial Services and Markets Act 2000 (FSMA) and its secondary legislation, and rules and guidance in the FCA Handbook, including the Consumer Credit sourcebook (CONC)[43].		crowdfunding and Peer-to-peer lenders	markets and rethink of symbolic elements towards innovation through competition

[43] https://uk.practicallaw.thomsonreuters.com/8-502 9749?transitionType=Default&contextData=(sc.Default)&firstPage=true&comp=pluk&bhcp=1

Appendix 9. Detailed coding on the phases for the empirical Chapter 5

Table H 1: Detailed coding on the divergence phases (Chapter 5)

2nd order themes	1st order codes	Quotes
Contrast product analogy	Ebay for loans/money	"A sort of eBay for loans, if you like, that's the idea" (Interviewee #14, Founder of Loan-based crowdfunding).
		"EBay is another good example with retail, if you like, of connecting the people selling the goods with people that are actually wanting to buy the goods" (Interviewee #14, Founder of Loan-based crowdfunding).
		"So right from the beginning, it was like a kind of eBay, a reverse eBay essentially where, so we would say OK, this business is at nine percent based on the risk band, but then if you came in, say if there was a lot of demand for the loan and you wanted to lend to that business" (Interviewee #21, representative from a Loan-based crowdfunding).
		"But the original idea was eBay for Money which would involve people essentially auctioning either a borrowing request or auctioning their money. And the original idea was that borrowers would put up a profile and a reason for needing to borrow. And very quickly we realised that the British people would not do that, it's very un-English". (Interviewee# 70, Founder of Loan-based crowdfunding)
		"The rise of e-commerce has enabled individuals to access goods more transparently, from a variety of platforms such as Amazon and eBay. A similar opportunity is present in the small business marketplace. For example,following the financial crisis traditional financial institutions retrenched from lending.This presented an opportunity for alternative finance providers to help an underserved SME market" (APPG (2015) APPG FinTech. Financial Inclusion Meeting Briefing Minutes)
		"This all changed in 1995 with the launch of eBay. Making the most of the opportunities to easily connect people online, they developed a simple low–cost consumer–to– consumer model for auctioning and bidding for goods online.Just like eBay functions as an online marketplace that facilitates exchange between sellers and buyers, the majority of modern crowdfunding happens through online platforms." (Nesta (2013) Working the Crowd. Report)

2nd order themes	1st order codes	Quotes
		"But we thought, you know, what if eBay did money, what would happen if eBay did money, so that was one further question. The second kind of thing he said is why is it that companies often get a better deal on money than individuals, why should that be the case, and that got us exploring corporate lending and..." (Interviewee #70, Founder of Loan-based crowdfunding)
	online betting/auction	"This all changed in 1995 with the launch of eBay. Making the most of the opportunities to easily connect people online, they developed a simple low–cost consumer–to– consumer model for auctioning and bidding for goods online." (Nesta (2013) Working the Crowd. Report)
		"In a traditional financial services world, you know, a bank creates a product which is profitable for the bank and then seeks to market it, there's no attempt to balance the interests of depositors and the interests of borrows, it's an attempt to make money for the bank. And that's not what peer to peer finance businesses are doing, they're trying to enable people to reach a fair bargain for both parties. And that's something I think it's fair to say regulators still done grasp". (Interviewee#4, Founder of laon-based crowdfunding)
		"Next, we looked at Betfair. And so Betfair now runs the largest exchange in the world for doing that and are growing really successfully, so they were going through great growth. And we kind of thought well look, they've built all the technology, they were doing more trades on that platform per day than the London Stock Exchange" (Interviewee #70, Founder of Loan-based crowdfunding)
	bond market for individuals	"So you'd offer your money in a three-year market to A-grade borrows or B-grade borrowers and C-grade borrowers, and the offers effectively would create a supply curve in each market. And then when borrowers came along to bid, we would make sure that the platform would take ten pounds from each lender's offer up the supply curve, so that every lender in that market got some money away to a borrower and therefore was diversified. But also it was fair that not everybody, you know, no one lender got all of the demand". (interviewee#70, Founder of loan-based crowdfunding)

2nd order themes	1st order codes	Quotes
		"And all of these borrowers were high grade borrowers, prime. We had a theory that if you looked at say Money Supermarket who had three tiles of loans available, one for people with a good credit rating, people with fair and people with poor. And because these were unsecured personal loans, we ignored the second two tiles and just looked at the good, and then figured that you could not, it wouldn't be fair to people at either end of the spectrum in the good category, to charge them all the same amount". (Interviewee #4, Founder of Loan-based crowdfunding)
		"The bond market, and on a bond market it's, it can be global, it can be liquid and people can choose to invest or not, and that's taken some of that ping. And so what he [founder] said is well why can't we have a bond market for individuals" (Interviewee #70, Founder of Loan-based crowdfunding).
		"Credit score, we actually use our own credit score, because you can get credit scores from the Euro, but we actually use the underlying characteristics to build our own credit score. And then we'll put you in to a various risk category and offer you a quote which is a price basically and how much it's going to cost you per month, what the APR is" (Interviewee #14, Founder of Loan-based crowdfunding)
		"And then the products that we offered were based on people's propensity to take on risk. And so Alpha always been a very prudent lender, so we only really lend to people who are very, very good with their money. So in financial services that's prime and super prime customers, that terminology" (Interviewee # 17, representative of loan-based crowdfunding).
	collective lending	"So the original business model was very, very direct peer to peer. So it was very active on the part of the investor, so they we selecting individuals to lend to based on criteria that the individual borrower was sharing about themselves and the rate which that borrower was charged was arbitrated directly between the investor and the borrower" (Interviewee # 17, representative of loan-based crowdfunding)
		"So traditionally it was individual retail investors lending to individual customers, and with that we were able to grow the business quite substantially but what we were never sure about was certainty of fundin" (Interviewee # 17, representative of loan-based crowdfunding).

2nd order themes	1st order codes	Quotes
		"The fourth bit was more obviously, just that the observation that people had been lending and borrowing in communities for centuries and that wasn't a new idea, right" (Interviewee #70, Founder of Loan-based crowdfunding).
Contrast: legal analogy	Not a bank/not a deposit/not savings account	"But the idea was to remove a bank from the middle, you know, in the sense that a bank treats depositor's money as its own and then determines the loan rate on the other side. So to remove them, as well as the capital adequacy requirements of banks which is kind of dead, and leave the upside with the lender receiving a better return on their money than through a bank deposit and with the borrower in terms of receiving the rate that's right for them. So to some degree it was disintermediation, although of course Alpha is still an intermediary, but it's what I would call a thin intermediary". (Interviewee #4, Founder of Loan-based crowdfunding)
		"Actually obviously it's not saving, it is investing, but we see it as on the safer end because the levels of returns are more stable, more predictable and they sort of suit someone who's looking to get in to investing but is not quite comfortable with the stock market". (interviewee #14, Founder of Loan-based crowdfunding)
		"We are not proposing to include loan-based crowdfunding platforms within the remit of the FSCS. When looking at the amount of loss investors might suffer if a platform failed and the amount that would be covered by the FSCS, we did not consider that there is justification to include loan-based crowdfunding within the FSCS jurisdiction at this time." (FCA 2014 ps14-04 Final Rules)
		"We have also observed that some websites refer to the investments in loan agreements almost as if they are deposits. For example, the use of comparisons with deposit rates and references to investors as 'savers' may be problematic. As loan-based crowdfunding is not directly comparable to holding money on deposit, given the additional risks ". (FCA (2013) cp-13-13)
		"We wanted to be as regulated as possible to get as many ticks and badges, but we wanted to avoid being regulated as a bank… we were not a bank" (Interviewee # 70, founder of loan-based crowdfunding"
	not a collective investment scheme	"So we were like well that's easy, we'll just leave it in a client money account at a bank, so that was quite easy. Then we needed to avoid being a collective investment scheme" (Interviewee #70, Founder of Loan-based crowdfunding).

2nd order themes	1st order codes	Quotes
		"Is it [loan-based crowdfunding] the same as collective investment schemes? No, it's not, because people can choose and see where they lend their money pretty well" (Interviewee #43, Representative from the P2P Association).
	not a fund	"Because what they're saying is you're giving, the lender is giving the platform authority to lend on these certain criteria and then they'll automatically match it. When the criteria fits, they'll automatically match it, which is very subtly different to a fund, subtly different". (interviewee #40, Lawyer)
		"And the FSA because we felt that the potential areas of regulation that you could apply to this were nearer to what the FSA then was responsible for, and we had a whole legal analysis prepared as to why we didn't fit any of the categories that the FSA then regulated". (Interviewee #4, Founder of Loan-based crowdfunding)
		"Because what they're saying is you're giving, the lender is giving the platform authority to lend on these certain criteria and then they'll automatically match it. When the criteria fits, they'll automatically match it, which is very subtly different to a fund, subtly different" (Interviewee #40, Lawyer)
Regulatory Scaffolding	OFT license	"So very early on we tried to talk to the Office of Fair Trading because it about unsecured credit which was, you know, consumer credit regulated by OFT" (Interviewee #4, Founder of Loan-based crowdfunding)
		"Registered with the Office of Fair Trading as, at least as an administrator in consumer credit, even though we weren't doing consumer credit. It was the only heading under which they could include our activity, right. So the general heading was under consumer credit and if you weren't doing anything else" (Interviewee #42, Founder of Loan-based crowdfunding)
		"Despite the fact it wasn't a consumer credit business, it was debt administration was the licence you needed. If you licensed as a consumer credit debt administrator and you can carry that forward and you'll be treated as authorised, but you still have to go through the assessment process." (Interviewee#13, Lawyer)
		"So we had to make sure that they weren't, they didn't need to be regulated as a lender. So we knew we could get that licence, we didn't actually need it technically but we got it" (Interviewee #70, Founder of Loan-Based crowdfunding)

2nd order themes	1st order codes	Quotes
	PPI/insurance provider	"And they were throwing money at borrowers, but when all was said and done, Alpha still was able to deliver a better return to lenders and a better interest rate to borrowers, amazingly. Now of course we've since learnt that banks, retail banks were using payment protection insurance to subsidise the high rates to savers and lower rates to borrowers". (Interviewee #4, Founder of Loan-based crowdfunding)
		"FSA weren't interested in this initially because they thought we were just unsecured credit, even though we had authorisation to offer general insurance, and ironically we chose to offer payment protection insurance because the market kind of forced it on people and we didn't think that was fair, but the market was therefore preconditioned to want it. But also that gave us FSA authorisation as a general insurance intermediary". (Interviewee #4, Founder of Loan-based crowdfunding)
		"But of course they by then had skin in the game, they had already authorised us for something, which obliged us to tell them everything we did. So they we sitting on this very tick folder of explanatory material that clearly they hadn't read, or at least the right, you know, not everyone in the FCA of course had read it". (Interviewee # 4, Founder of Loan-based crowdfunding)
		"Then that was, we were among very few lenders at that time or sources of consumer loans at that time to have no early repayment charges. The payment protection insurance policy that we offered was deliberately devoid of the tricks that the industry had used to get out of having to pay on any claims, and as a result the insurance company said, you know, you're unlikely to sell many of these policies. And we didn't, we only sold a hundred and fifty, but that was enough to get the FSA authorisation. So we didn't, we weren't there to sell payment protection, but some people did want it obviously" (Interviewee #4, Founder of Loan-based crowdfunding)
		"And that was a real problem and we knew PPI was wrong and we knew dah, dah, dah, whatever else, we did sell PPI because we also had to make money but we did it in a – our PPI was a fair product, but banks put in all sorts of things. As with everything we did, we took out all of the hooks, you know, you could repay your money when you wanted, we'd give you the pro rata repayment back etc" (Interviewee # 70, Founder of Loan-based crowdfunding)

Table H 2: Detailed coding on "Alignment" phase (Chapter 5)

2nd order themes	1st order codes	Quotes
Common ground	SMEs lending (Business loan-based crowdfunding)	"It's evolving and people know what peer to peer is, that's the most important thing. So now I can walk in to a meeting and say we work in peer to peer, in business lending." (Interviewee #47, Founder of Loan-based crowdfunding))
		"The turn of the decade has seen the application of the model to other areas previously dominated by large funders. These included investing for equity in start-ups and lending to businesses." (Nesta (2013) Working The Crowd, Report)
		"And so it was set up in 2010 and the three cofounders, they actually quit their jobs a year before and they kind of spent a year getting, kind of getting ready for launch. And the kind of premise was small businesses were struggling to access finance." (Interviewee #21, Representative of Loan-based crowdfunding))
	Unsecured consumer lending	"Most Peer-Peer are still unsecured personal loans." (Nesta, 2014. Understanding Alternative Finance 2014, Report)
		"That's kind of from the market side, and I think from the investor side there was a feeling that these loans would be higher risk and the likes of Alpha and Beta weren't particularly focusing on these areas because the retail investors weren't wanting products with that high a level of risk, at least with an aggregate. But the investments were quite like that and..." (Interviewee #39, Representative of Loan-based crowdfunding))
	Peer-to-Peer association	"I mean the big job we had to do was to try and get statutory regulation to come in because it's no good, voluntary is no good in a new market like this because it's all about public confidence."(Interviewee #43, Representative from the P2P Association).
		"It's interesting really, yes, because the P2PFA was set up before we were a member and the main purpose probably at that time was around getting FCA regulation for the sector. That was achieved and then the focus was on having its members have a very high bar of, you know, transparency and accountability and everything else but also pushing for the ISA, so they were working with HM Treasury a lot and the FCA in order to get the ISA for the sector, which happened. And now, yes, I mean some have questioned really the purpose of the P2PFA" (Interviewee #14, Founder of Loan-based crowdfunding)

2nd order themes	1st order codes	Quotes
		"So he [one of the founders of Alpha], in conjunction with a couple of other people, set up an independent trade body called the Peer to Peer Finance Association and that trade body lobbied for greater regulation of peer to peer" (Interviewee #17, Representative of Alpha (loan-based crowdfunding)).
	conferences/meetings/roundtables	"So you try and reach out to the speakers that you know you want, you reach out to them early and then you just, you pay attention to what's happening and then you reach out to new people as things come. What you don't want to get in a situation is I think, you know, having a full agenda and having some big news and not being able to really cover that." (Interviewee #23, Research and Conferences)
		"Platform operators have also engaged openly with policy and regulatory officials through events like the Peer-to-Peer Finance Policy Summit in December 2012" (Nesta (2013) The impact of regulation on crowdfunding).
		"I joined at the very start and then I'd say six months later, so early 2014, we did our first summit and the theme for that summit which was in London, and the theme for that was all about matching this sort of wave of institutional demand with appropriate opportunities within the crowdfunding sector, and really that was very much peer to peer. So that happened and then around the same time our Data company was born" (Interviewee #27, Columnist at the Information Provider and conferences
	market/industry reports, special media sources	"And at the outset, our Data company was just sort of charting volumes within the P to P lending sector and within the crowdfunding sector to a degree, and charting growth statistics, I guess around how quickly those platforms were growing their numbers. So sort of quite top level stuff but, you know, they've obviously used the standing that they developed by doing that to, you know, now offer a far more institutional grade set of analytical tools specifically for the lending sector, Data does also do some work in the equity crowdfunding sector, but increasingly it is more of a debt-focused entity" (Interviewee #27, Columnist at the Information Provider and conferences)
		"I mean Nesta has been working in the area for about five years now, and over these last five years, we annually release these industry reports" (Interviewee #1, Nesta researcher).

2nd order themes	1st order codes	Quotes
		"So the company was founded in late 2013 by a perdon who is also the adventurous investor, so he's a columnist for the FT. So yes, so he began the company, it began as a sort of very simple Word Press new site I suppose with a number of different contributors.". (Interviewee #27, Columnist at the Information Provider and conferences
	British Business Bank investments through loan-based CF	"Like we are just there to catalyse the market and fill in the gaps where they exist and also increase the capacity, rather than oh we are there to take over from everybody, all over investors" (Interviewee # 19, Representative of the BBB)
		"Obviously what we focus a lot is bringing diversity in the market, broadening the options from SMEs, so if it's not your main street bank, what other funding options are there for you, so it's kind of opening routes for you to have a financing. It's increasing the capacity of financing as well, and then also part of the wider bank is kind of informing the SME what are your options, that's where we also have the business finance guide of saying if this is the type of funding... What we do is partnerships with platforms" (Interviewee # 19, Representative of the BBB)
		"No, exactly, they're pure business, and that's why they got a lot of institutional investor on there as well and a lot of that. So that's why I think they've done a good job obviously which speaks for itself, you know, but they've done the right thing in terms of getting the right venture funds to support them, getting the right team behind them, I think they've done the right thing"(Interviewee # 19, Representative of the BBB)
		"So it's slightly different with the British Business Bank, they actually take up a percentage of the loan. So they lend up to kind of twenty percent on the loan and then the rest is filtered through"(Interviewee #21, Representative from Loan-based crowdfunding)).

Table H 3: Detailed coding on "Alignment" phase continued (Chapter 5)

2nd order themes	1st order codes	Quotes
analogy blend (product and legal)	Peer-to-Peer association rules of conduct	"When you see our new operating principles, you'll see there's quite a few things in there which don't exist in the FCA regime at all. I mean at the moment we've already got it there, we've had it for several years. We've got, first of all you can only promote net returns to your investors, you can't say they're going to get twenty percent back" (Interviewee #43, Representative from the P2P Association).
		"in other words make sure they've got really robust systems, just a bank would, for deciding who does and doesn't get a loan, OK. But it's in no one's interests with platforms out there just lending to anyone. But another thing is we think there should be total transparency for investors, so what's happening to their money. " (Interviewee #43, Representative from the P2P Association).
		"We got a lawyer who looks over the principles to make sure they're robust" (Interviewee# 43, Representative from the P2P Association)
		"So our real operating principles which, as I was saying, will happen in the next two weeks, are really I think the gold standard for peer to peer lending and they set a strong, a really good template of what the FCA regime should look like when it gets there."(Interviewee #43, Representative from the P2P Association).
	Interim permission	"it was helping with the interim permission, but before that there wasn't really anything there anyway, so it was still in draft form, so we didn't really know what it was going to look like. So all it really was, was helping them to..."(Interviewee #13, Lawyer).
		"So we knew the regulation was coming and it was just going to be a question of when and how much. So when we started, because I said the most important things we need to do and it's good perhaps for any business, is be very process-driven. So we really from day one assumed that we would be FCA regulated, that that's how we work and operate. So our mindset was not about how do you get away with things or push the boundaries or whatever, our mindset was how do we do this if the regulator was sitting next to me in a chair." (Interviewee #47, Founder of Loan-based crowdfunding)

2nd order themes	1st order codes	Quotes
		"But it [Interim permission limitation] stopped new entrants to the market." (Interviewee #13, Lawyer)
	The regulator (FCA) mandate: competition (innovation) and consumer protection	"We aim to advance our operational objectives of consumer protection, effective competition and market integrity" (FCA 2016, CP16-04)
		"The point was made that peer-to-peer could be a viable source of new competition in banking. That really hit home with their political agenda(Founder of Loan-based crowdfunding), (online archival source)
		"The challenge is to ensure proper competition and transparency. Competition increases the range and diversity of offerings in the market, while transparency means that customers can understand those offerings and the differences between them. FinTech offers solutions for both these challenges." (APPG (2016) APPG FinTech Stepping Forward for Fintech Report)
		"As many here will know, our innovation story began in 2014 with the launch of Project Innovate. The purpose of Innovate was and remains to help firms tackle regulatory barriers to innovation, be it through clarifying regulatory expectations, examining our own rules or enacting policy changes, to give them space to innovate in the interest of consumers." (FCA (2018) Regulating innovation)
		" You need to have regulation inside, but competition usually does seventy/eighty percent of the job." (Interviewee# 43, Representative of P2P association)
	regulator -loan-based crowdfunding is a new way of lending	"And we're also now seeing the emergence of new models of intermediation – crowdfunding, P2P and other forms of non-bank lending that have quickly become an important source of funding for small and mid-cap firms." (FCA (2015) Regulation - supporting vibrant markets)

2nd order themes	1st order codes	Quotes
		"In October 2011, the Chancellor of the Exchequer announced that he had asked the Treasury "to work on ways to inject money directly into parts of the economy that need it such as small businesses" and to "help solve [the] age old problem in Britain: not enough long-term investment in small business and enterprise" (Nesta (2011) Beyond the banks report)
		"ECF from the very begining was not a new financial service, however, loan-based CF created a new way as the platforms first time connected both sides: lenders and borrowers". (Interviewee #75, Representative of the FCA)
	Lawyers- legal structures blend	"Well yes, I mean each time the FCA would ask for a whole load of information, the client would tend to come back, one of my clients would come to me and say how do we answer all these questions, we'd prepare a pack back and send it back and each time my, you know, I was charging for my time" (Interviewee #13, Lawyer).
		"I was thinking about it for ages, I was thinking and going this is all really quite familiar because of my background, and I was like ah OK, I'm going to structure it like a syndicated loan agreement. And so I did, so I basically took the wording from the MMA standard and imported it in to my documents, and the FCA were like OK, that works" (Interviewee #40, Lawyer)
		"I wasn't aware of them until about 2012, and then even then I looked up what had been said about them and people we saying is this legal, there was a big question mark. And then I think post the crisis, people were like a bit more willing to look at non-bank alternatives, everyone was so upset with the banks that it was like you're kind of willing to let that guard down a little bit" (Interviewee #40, Lawyer)

2nd order themes	1st order codes	Quotes
		"The way through because again you're going back to your lawyer when you were answering FCA questions. if they say yes or no, then they've put a – it's all down to interpretation. How have you interpreted the rules, and then they go we don't think you've interpreted them correctly. Well how can I do this? We don't think you interpreted them correctly" (Interviewee #26, Founder of Loan-based crowdfunding)
		"Yes, it will either be in the meeting, they'll have their books out or it's in my head. So the FCA wants an opinion from the lawyers to say that we've considered whether it's a fund, and quite often I say it could be but it's low risk, you know, because you can never say the fund – the way the regulation is worded is like you can't definitively say one way or another, you just say, I say that's medium risk, that's low risk, that's medium risk" (Interviewee #40, Lawyer)
		"We don't have in-house lawyers, we have used different lawyers for different pieces, so for the consumer credit agreements, the subscription agreements we have for our investors and so on. Well we work with some of the same people but we've worked on sort of typically a case by case basis" (Interviewee #39, Representative from Loan-Based crowdfunding)
	Alpha prototype	"I suppose we sort of looked at Alpha and said OK, we'll...Well we were already, sort of from day one. So at the very beginning it took time to find a lawyer who could actually Understand what we were trying to do. we ended up actually with one of Alpha's initial key internal legals who was now working elsewhere and he understood exactly what we were trying to do and helped us put that framework together" (Interviewee# 26 , Founder of loan-based crowdfunding).
		" I mean he was earning good money but didn't particularly enjoy it. And basically heard, because we weren't the first obviously as you know, but when we first started with the idea, it was only really Alpha had a sort of notable presence, and in the consumer space it was only really Alpha" (Interviewee #14, Founder of Loan-based crowdfunding)

2nd order themes	1st order codes	Quotes
		"So the original idea came from a friend of mine, my original partner who's a chartered surveyor, who said to me have you seen the Alpha model, and I said no, right, and they were the pioneer..." (Interviewee #42, Founder of Loan-based crowdfunding)

Table H 4: Detailed coding on "Stabilisation" phase (Chapter 5)

2nd order themes	1st order codes	Quotes
Convergence	Securitisation	"We're also seeing some firms explore the potential of securitisation. From a regulatory perspective, this creates some interesting issues. In the post-financial crisis world, loan securitisation wherever it comes from is always going to be something that we need to think about, even if it is of a modest scale." (FCA (2016) Getting regulation right)
		"And just really the sort of, you know, the first securitisations had just happened, so the more, you know, really that maturation of the online lending space was really, you know, that felt like that was a big piece as well." (Interviewee #23, Research and Conference)
		"Many alternative finance models reporting over 25-30% of funding coming from mutual funds, pension funds, asset managers, family offices, broker-dealers and banks among others. In the longer-term, the bifurcation of the supply side of alternative finance is likely to continue with institutional funders co-investing alongside retail investors." (CCAF (2017) Entrenching Innovation, Report)
	Institutional funding and partnerships	"Exactly, they're pure business, and that's why they got a lot of institutional investor on there as well and a lot of that. So that's why I think they've done a good job obviously which speaks for itself, you know, but they've done the right thing in terms of getting the right venture funds to support them, getting the right team behind them, I think they've done the right thing" (Interviewee #19, Representative of the BBB)
		"The growth has come in part from the increase in institutional investment. The UK Alternative Finance Industry Report noted that by 2015 32% of peer-to-peer loans to consumers were funded by institutional investors" (Wheatley, M (2015). FCA: Regulation - supporting vibrant markets, Speech)

2nd order themes	1st order codes	Quotes
		"So I think it's a two-way street, but partnerships are the way that I think most, most banks are going to seek that. Some will try and to it all themselves and I think if they, you know, so this is the big challenge for banks. The smartest people coming out of the business schools or the technology schools today" (Interviewee #23, Research and Events)
		"Because most of our loans are two years, every time we bring a borrower onboard, they're probably going to get two years of credit insurance premiums coming through, so they love it too. But it does also mean for us, we have a partner and we work very closely with them, who will give us insights in to issues and problems." (Interviewee #47, Founder of Loan-based crowdfunding)
	recognised types and features of Loan-based crowdfunding	"Firms that operate or plan to operate peer-to-peer lending platforms or peer-to-business lending platforms (which we refer to as loan-based crowdfunding platforms in this paper)on which consumers can invest in loan agreements (which we refer to as P2P agreements)" (FCA (2014), ps14-04 Final Rules)
		"Loan-based CF: people lend money to individuals or businesses in the hope of a financial return in the form of interest payments and a repayment of capital over time (this excludes some business-to-business loans)" (FCA, 2014, ps14-04 Final Rules)
		"We use the term 'loan-based crowdfunding' for concision, to cover a number of different models". (FCA 2014, ps14-04 Final Rules)
		"The Peer-to-Peer Property Lending model was only categorised as an independent model from 2015 onward (previously captured within Business Lending) and has proven to be one of the largest drivers of the UK's alternative finance industry." (CCAF (2017) Entrenching Innovation, Report)

2nd order themes	1st order codes	Quotes
		"As market consolidation accelerates there is greater pressures on alternative finance platforms to distinguish themselves through better services and more innovative products, whilst simultaneously responding to emerging regulatory and supervisory demands. Consequently, the industry has witnessed a considerable level of product and business-model innovation over the last year. 2016- year of many new business models, challenge to distinguish themselves and respond to emerging regulatory demands." (CCAF (2017), Entrenching Innovation, Report)
		"P2P lending for real estate finance also emerging. One of the fastest–growing markets within the P2P business lending model is secured lending for real estate mortgages and developments. For this particular section of the market, which was analysed separately, we found that the average business loan amount is considerable higher at £662,425 with an average loan term of 10 months." (Nesta (2014) Understanding Alternative Finance, Report)
	underlying process and elements	"So we meet face to face all the people that we're lending our monies to, that's one of the most important things. Because if we can't buy the management team, it doesn't matter how good the business is because they'll be an issue." (Interviewee #47 , Founder of Loan-based crowdfunding)
		"So to be able to take and use that, you require a degree of underwriting ability and you require a degree of data manipulation and so on that not all companies have, and typically the newer providers are more able to work with that both from a technology point of view of ingesting the data and from a data science point of view of actually turning that into something you like." (Interviewee #39, Representative of Loan-based crowdfunding)

2nd order themes	1st order codes	Quotes
		"Yes, we put a lot of data in from the credit bureaus and other sources. Someone told me the other day that it's something like forty thousand bits of data, data points per loan, but all of that is kind of automated now through our models" (Interviewee#21, Representative of Loan-based crowdfunding)
		"Yes, it's a new way, it's trying to bring together all the good things that a bank used to do, all the great stuff that peer to peer can do, financial technology and what that can bring and the, you know, the fact you can go on to a platform on your mobile phone and just pledge thirty thousand quid." (Interviewee #47, Founder of Loan-based crowdfunding)
	government analogy: loan-based crowdfunding and financial inclusion	"The second priority, and the one I want to focus on today, is the broader importance of supporting vibrant markets. So, as you look forward, you want profits for good firms without the envy and unrest that's created in the past. But that means you also need exits for poor firms. And you certainly need a context that supports useful innovation." (Wheatley, M (2015) FCA, Regulation - supporting vibrant markets, Speech)
		"On the debt side, it's interesting because on the one hand the argument is the same where you're bringing capital to SMEs or consumers who wouldn't otherwise have access to it, and actually then you have the flipside of the argument which is why well haven't they got the access, haven't they got good enough credit." (Interviewee #40, Lawyer)
		"Moreover, while the Government's SME referral scheme is still in development, a number of alternative finance platforms have formed bilateral referral partnerships with banks to source high quality borrowers and fund more SMEs". (Nesta (2015) Pushing Boundaries, Report)

2nd order themes	1st order codes	Quotes
		"The UK is a world-leader in the field of FinTech. One reason for this is its pioneering approach to regulation of the sector, and the regulators should be commended on initiatives such as the FCA's 'sandbox' and the Bank of England's 'accelerator', which capitalise upon their substantial expertise" (HL 66 (2018), Research Paper, The House of Parliament)
		"The objective is to make this APPG an incredibly successful and forthright one in getting its message through to Government, whether this be on improving social & financial inclusion or on the range of other issues we choose to focus on". (APPG (2015) Minutes Meeting)
		"We believe that loan-based crowdfunding can play a valuable role in providing finance to small businesses and individuals but it is essential that regulation stays up-to-date as markets develop. "The changes we're proposing are about ensuring sustainable development of the market and appropriate consumer protections." (Woolard, C. (2018) FCA, Comments on new loan-based rules)
		"FinTech has only been mentioned a couple of times in Parliament, however given that it covers so many different areas of our lives it is important to have a Parliamentary focus on this so that we can have a proper insight into the policy and regulatory areas affecting the space. Some of the key areas of focus concerning FinTech include: Digital currencies, Crowdfunding and peer-to-peer lending, Mobile and internet banking, Speedy completion of Broadband, Financial and digital inclusion, a sound regulatory framework" (APPG, Inaugural AGM and Election of Officer Meeting. 2015)

Table H 5: Detailed coding on "Stabilisation" phase continued (Chapter 5)

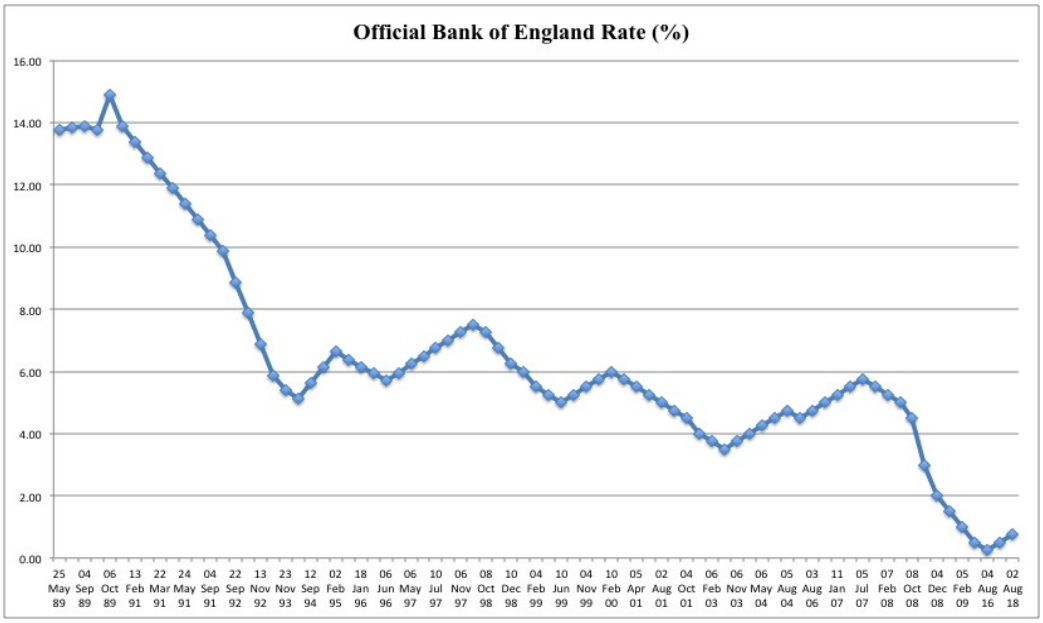
2nd order themes	1st order codes	Quotes
New legal category	Tax wrapper (IFISA)	"Because as well as regulation, you have to also think about tax in financial service products, as you know, because a lot of products for investors are tax-incentivised and also there are different tax regimes for bank savings and, you know, personal allowances and all the rest. So getting the tax regime right and trying to get the tax, the people who set the rules on tax and tax policies to recognise that this is a completely legitimate investment product" (Interviewee #43, Representative of the P2P Association)
		"So you can now put peer to peer loans in to an innovative finance ISA, so it's a new category and that's completely, as long as you've got authorisation from the FCA..." (Interviewee #43, Representative of the P2P Association)
	New legal framework - article 36H (lending through loan-based crowdfunding) and authorisation	"We accept that loan-based crowdfunding includes peer-to-peer lending and we also use the term 'P2P agreement' as shorthand to describe the loan agreements arranged. Firms can use the term 'peer-to-peer' where that is appropriate for their business model, so long as their communications are fair, clear and not misleading." (FCA 2014, PS14-04 Final Rules)
		"The scope of regulation of loan-based crowdfunding under article 36H of the RAO is limited by the statutory definition of article 36H agreements under article 36H(4). Certain types of loans are not article 36H agreements, even if facilitated in ways described in article 36H of the RAO by firms operating loan-based crowdfunding platforms. The distinction between article 36H agreements and other loans depends on a number of factors including the type of lender and borrower, the amount of the loan and its purpose from the borrower's perspective. For example, in general, if both parties to a loan are corporates then the loan would not be an article 36H agreement and falls outside of regulation, including CASS" (FCA (2016), cp16-04)

2nd order themes	1st order codes	Quotes
		"As for the algorithms that relate to allocating investments, their main interest in that is, well for peer to peer they were saying if you don't have at one point, and they were inconsistent on this, but at one point they were saying if you don't have an algorithm that allocates lenders to borrowers, then we don't think you're even conducting a regulated activity. Because part of the definition of operating an electronic system in relation to lending, is that the electronic system must be capable of determining which loans are made available to lenders and to borrowers." (Interviewee #13, Lawyer)
	loan-based crowdfunding within RAO	"Well for peer to peer specifically as opposed to securities regulation, the law was new and they decided the best way to introduce the law which had had a good sense at its heart but it was applied badly, was that they created the new regulatory regime, said this is a regulated activity, and as of a certain date you're going to need to be regulated." (Interviewee #13, Lawyer)
		And the other thing about it was they wanted regulation, they wanted to be regulated. They were quite happy that they weren't regulated, but they wanted to create their own regulatory regime, and they managed to create enough noise in political circles, that they were able to achieve that. All of the early adopters of peer to peer lending in the UK. So that they made some very good contacts at the Treasury and the UK created a new regulatory regime." (Interviewee#13, Lawyer)
		"From April 2014 there will be a new regulated activity of 'operating an electronic system in relation to lending' (article 36H) (i.e. operating a loan-based crowdfunding platform)." (FCA (2013), CP-13-13)

2nd order themes	1st order codes	Quotes
		"The Regulated Activities Order and Financial Promotion Order have been amended to include Article 36H agreements within the scope of our rules; so the websites and details of loans will be considered to be financial promotions subject to our rules." (FCA (2014) ps14-04 Final Rules, Report)

Appendix 10. Bank of England rates from 1989 to 2018

Figure A 1: Bank of England rates from 1989 to 2018



Source: Bank of England

Appendix 11: Policy brief based on the study (example)

POLICY BRIEF [Example]

Financial regulation in the era of technology-based organisations: enabling innovation and consumer protection.

Author: Kamila Nigmatulina

Abstract

The financial services sector is experiencing fast transformations, mainly driven by new organisations that apply emerging technologies to deliver financial services (known as FinTech). These transformations are shaping the existing market structures, creating a new relationship between the organisations involved and opening up opportunities to develop new alternative product and services. These organisations have emerged in a variety of segments of financial service, including blockchain-based digital assets, new Robo advisory services in wealth management, online capital raising organisations such as peer-to-peer lending, crowdfunding,, initial coin offerings (ICOs), new payment systems, e-money, and digital banks. Global fintech investment rose to $111.8b in 2018, while the UK's funding grew up to $20.7b, and accounted for the majority of fintech funding for the European region[44].

While these innovative transformations are emerging and developing at a fast pace in the market, the regulatory and policy infrastructure has also started to address these transformations. Without necessary changes in the institutional infrastructure that supports the innovations, it is impossible to achieve necessary results that provide benefits for the economy and consumers. These create both: opportunities and challenges for financial regulators who must balance several institutional goals and obligations.

The UK's regulatory system (specifically the Financial Conduct Authority (FCA)) became the pioneer on a global level that has started to initiate the regulatory innovation agenda since 2013 across many different activities. This Policy Brief summarises the UK's main initiatives in the regulatory infrastructure that have been in place and proposes recommendations of how other countries who want to learn from these initiatives may think about using some of them.

[44] https://home.kpmg/xx/en/home/media/press-releases/2019/02/global-fintech-investment-hits-record-in-2018.html

Findings and summary

1. Size and impact

Financial services play an essential role in the UK economy. In 2018, the financial services sector contributed £132 billion to the UK economy, 6.9% of total economic output. The sector was largest in London, where 49% of the sector's output was created. There were 1.1 million financial services jobs in the UK, 3.1% of all jobs. The sector contributed £29 billion in tax in the UK in 2017/18[45].

2. Historical background

After the financial crisis 2007-2008, the UK financial services went through a vast institutional transformation of the regulatory system that, together with necessary technological innovation enabled the proliferation of a wide range of FinTech players after 2014.

Table 1 below summarises the developments in the UK regulatory environment from the 1980s to 2018, demonstrating how certain events enabled macro-level transformations in the whole system of financial services.

[45] https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06193

Table 1: Phases and description of the events, regulators, ideas, and paradigms

Phases	Key events	Main legislations (local)	Actors: regulators	Niches/Gaps	Type of regulation	Wider paradigm underlying the policy-making	Ideas behind regulatory frameworks
1980s–2000	Secondary Banking crisis 1974 Series of bank collapses in the 1990s Bank of England was given and then lost the banks' regulation	The Banking Act 1979 The Financial Services Act 1986 The Building Societies Act 1986 The Bank of England Act 1998	SIB and SROs Bank of England	Macmillan Gap, unsecured consumer lending	Self-regulation + layers of statutory regulation	Neoliberalism and monetarism Market paradigm	Investor protection
2001–2012	Financial Crisis 2007–2008 Further consolidation of the banking sector due to bailouts	The Financial Services and Markets Act 2000	FSA, Bank of England, Treasury – supervisory function (tripartite system)	Macmillan Gap, early-stage start-up financing, unsecured consumer funding	Statutory regulation model dominates	Neoliberalism as a dominant layer	Two dominate: consumer protection and financial fraud prevention Two others present: market confidence and public awareness

2013–2018	Key structural change of the regulatory model **2014** – The British Business Bank was formed, owned by the government with the goal of helping to fill the gap through indirect funding **2014** - FCA takes over OFT	The Financial Markets Act 2012	FCA, PRA, FCP (twin peaks system) Treasury – supervisory function	Macmillan Gap, early-stage start-up financing, unsecured consumer funding, property development funding, mortgage lending	Statutory regulation model split	Neoliberalism as a dominant layer	Good functioning of the market, based on consumer protection, integrity, and competition Additional element to competition: innovation
	2016 - Brexit vote 2016						

Source: Author's analysis of archival materials from the BoE, the FSA, the FCA, and the government

The phase from 2013 to 2018 is the main period of the current, key structural transformations within the regulatory infrastructure and also the period of initiation of the key innovative projects by the FCA. The general political agenda shifted towards the initiation of competition through innovation in financial services. Within this period the regulators themselves started to see the importance of becoming embedded and part of the innovation process itself: either by working together with entrepreneurs on new businesses and necessary frameworks or by building in-house technical capacity to take advantage of the tools, products and services that can enhance supervisory, compliance and reporting functions.

2.1. Era of segregation and unbundling (2013–2018)

The period between 2013- 2018 an be characterised as a phase *segregation and unbundling* of the layers within the regulatory architecture, within the underlying key concepts driving the meaning of financial services (e.g. their risk) as well as within the organisational forms of financial services. However, the period of questioning provoked by the financial crisis 2007–2008 did not affect the core layer of the underlying infrastructure: the statutory model of regulation maintained its role as the institutionalised model of regulation. Hence, phase three is the period of unbundling, segregation and blending of certain financial services as well as of the regulatory architecture within the wider taken-for-granted model of the statutory regulatory architecture. First, a certain boundary was created between the systemic-risk organisational actors and non-systemic actors, setting a different set of requirements for each. Hence, the layer of *systemic risk* became the driving element setting particular regulatory frameworks, as well as splitting the functions previously consolidated within the FSA.

Second, the meaning of the concept of *competition* became an element of the underlying infrastructure as a solution to the problems caused by the crisis. Unlike in previous phases, the meaning of *competition* transformed from a general organising feature of the market, that can be present or not, into the key solution that might establish trust and confidence in the financial services and organisations, as a basis for a stable and efficient market for the benefits of consumers. That is the meaning that was established to signify the new element of competition to enable sustainability of financial system:

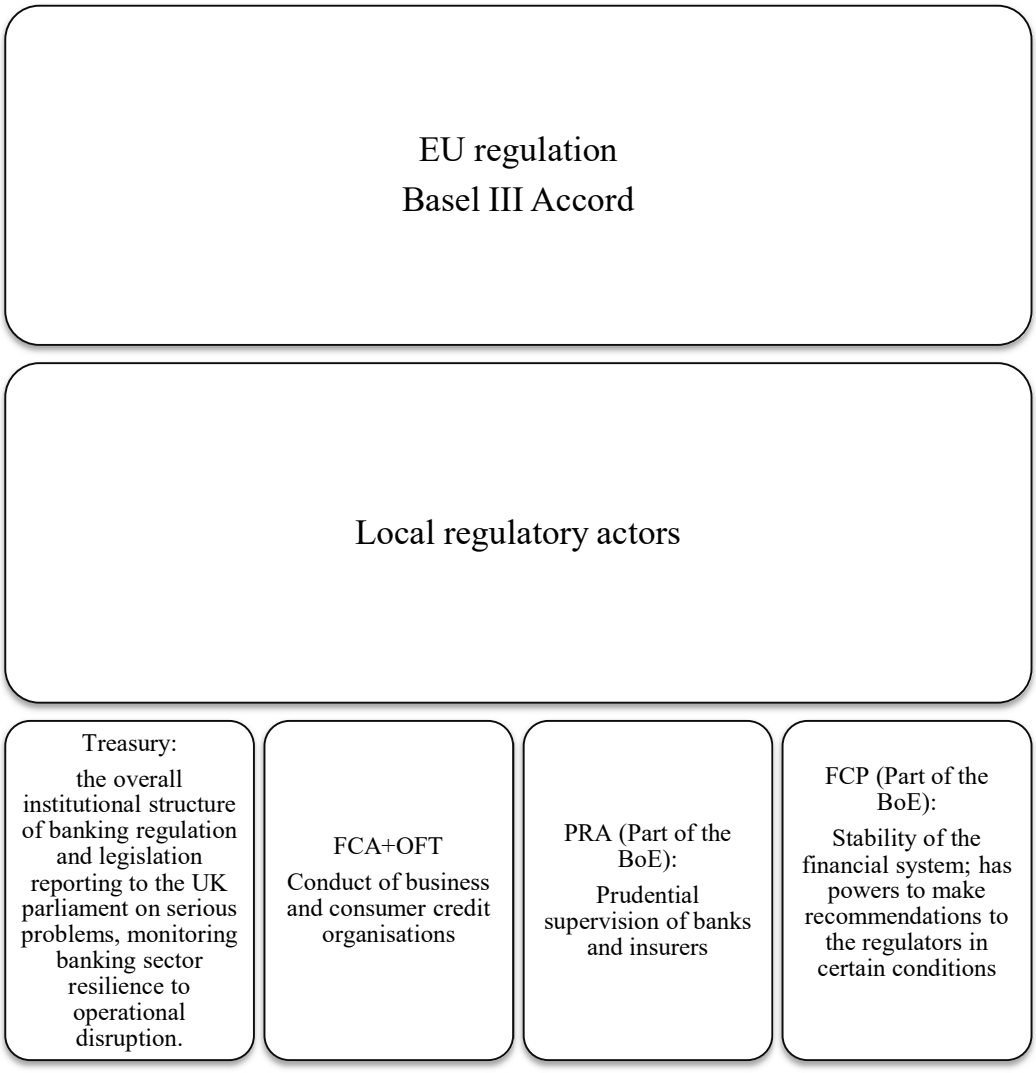
Competition will be an important new feature of the regulatory remit, incorporated in a way that goes significantly beyond the current FSMA framework. This will provide a significant

step forward in terms of recognising the importance of competition in delivering good outcomes for consumers of financial services" (HM Treasury: CM 8012, 2011).
Previously, the FSA, as one big regulatory actor, followed the underlying idea that it was better for crisis prevention and for the stability of the financial system to have a few big financial institutions who could come together for private discussion and solve problem of the crisis. Additionally, the concept of *competition* was blended with the concept of *innovation*. This competition-innovation blend embodied the new role of new small organisational actors, embedding the meaning of their activities as beneficial for the whole financial system. Third, similarly to the Big Bang period 1980s, when technological elements became an integral part of the underlying infrastructure, the concept of *technology* underwent a rethink of its meaning within financial services and organisations. It was not a breakthrough in technology *per se*, but the application of platform-based technological systems and algorithms to risk assessment processes, credit scoring, and the automation of particular activities, which acquired the symbolic meaning of innovative elements.

Regarding the regulatory framework: the Financial Services Act 2012 defined the regulatory model, the split of responsibilities among regulatory organisations, and their goals and principles. The model of regulation oversaw the unbundling of two main areas of regulation: stability and market conduct. This split was based on the underlying boundaries between systemic-risk and non-systemic-risk types of organisational actors within the financial system. This model, that has prudential and conduct regulation within different regulators, is known as the 'Twin Peaks' model (Shmulov, 2015). The overall system of regulation consists of different layers of regulation, starting from overarching standards agreed by international bodies (such as Basel III Accord), and from EU directives. Various European laws that substantially influence the UK regulatory architecture set minimum requirements for the regulation of banks and banking services in the European Economic Area. Further, the primary source of legislation governing the regulation of banking and financial services in the UK is the FSMA. Parliament, together with the HM Treasury, by means of primary and secondary domestic legislation, defines the local governing frameworks. Further, the UK's regulatory actors: the Bank of England, the PRA, FCA and the Financial Policy Committee (FPC) within the Bank of England implement their roles of regulating the financial system within the UK. In sum, the current model of local regulatory architecture defines the PRA as the prudential regulator, the FCA as the regulator of the conduct of business and the FPC as the committee within the BoE that monitors the risk of another crisis by identifying and

taking action to remove or reduce systemic risks. The FPC has a secondary objective, which is to support the economic policy of the government. The regulatory actors have a number of formalised objectives and principles that drive their activities and regulation-making processes; however, these principles are high level, ambiguous and open to interpretation, potentially leading to their having different meaning among different audiences. Figure 1 summarises the layers and actors.

Figure B 1: The multi-level and multi-layered structure and actors of the regulatory system in the UK, 2013–2018 (Policy Brief)



While the regulatory actors were segregated according to the categories of systemic and non-systemic risk, an additional significant transformation blended the FCA with the OFT. This was when the concept of *consumer protection* was brought back into the official mandate. The official memorandum to the Consumer Credit Order 2013 clearly summarised:

- The Government believes that there should be fundamental reform of the regulatory regime for consumer credit to better protect consumers engaging with this market. The Government's vision is that consumer credit regulation:
- Is able to flex to keep pace with a fast-growing innovative market;
- Has the powers and resources to protect consumers from actual and potential detriment;
- Puts a proportionate burden and manageable burden on business, and is tailored to the unique nature of consumer credit markets; and
- Delivers a well-functioning market which meets consumers' needs.

Transferring responsibility for consumer credit regulation to the FCA will mean that for the first time conduct of business regulation of all retail financial services will be under one roof. (Explanatory memorandum to the FSMA 2000 (regulated activities) (amendment) (no.2) order 2013 and the Financial Services Act 2012 (consumer credit) order 2013)

Therefore, at the moment, the FCA is responsible for the prudential regulation of those financial services firms not supervised by the PRA such as asset managers and independent financial advisers. The FCA has "rule-making, investigative and enforcement powers" that it uses to regulate the financial services industry. The FCA is also responsible for promoting effective competition, ensuring that relevant markets function well, and for the conduct regulation of all financial services firms

2.2. The FCA Innovate initiatives

The key initiatives started in October 2014 through the Project Innovate within the FCA. This initiative started as a small start-up within the FCA with a small team of 2-3 people in 2014. This team is continuously growing, reaching several hundred people across different subunits within the FCA. Now it is called Innovate and provides support, engagement and policy services to enable healthy competition and innovation in financial services. Table 2 below summarises the FCA's Innovate activities.

Table I 1: The FCA's regulatory initiatives

Initiative	Main functions	Year
Regulatory Sandbox	Space for organisations to test new businesses in a regulatory environment using sandbox tools: restricted authorisation, individual guidance, informal steers, waivers and no enforcement action letters	End of 2015
Innovation Hub: Direct support team Advice Unit Events	 A dedicated team and contact for innovator businesses Assistance in preparing and making an application for authorisation Explanation of regulatory frameworks and their application The Advice Unit provides regulatory feedback to firms developing automated models to deliver lower cost advice and guidance to consumers. Workshops. Innovation sprints, consultation processes, monthly showcase events	2015
Conferences/meetings	External conferences: constant collaboration and learning from industry	2015
RegTech	Analysis of the applications of technology to simplify the regulatory processes including compliance and reporting	2015
International engagements: International agreements between regulators Global Regulatory Sandbox	 Co-operation agreements and frameworks with overseas regulators	 2015 2019

Innovation Hub

The Innovation Hub provides two primary services. First, it offers direct support for innovative firms who are trying to launch new products into the market that might benefit consumers, and the second it is the centre of the FCA's innovation policy.

These services help new or non-regulated businesses understand more about their regulatory frameworks, their meaning, as well as help firms that are already regulated.

The Direct Support function of the Innovation Hub offers the following services to firms that meet the criteria[46]:

- A dedicated team and contact for innovator businesses
- Help for these businesses to understand the regulatory framework and how it applies to them
- Assistance in preparing and making an application for authorisation, ensuring the company understands the regulatory regime and what it means for them
- A dedicated contact for up to a year after an innovator business is authorised

The Innovation Hub identifies areas where regulatory frameworks need to adapt to enable further innovation in the interests of consumers.

Advice unit

The Advice Unit provides regulatory feedback to companies developing automated models to deliver lower-cost advice and guidance to consumers.

In addition to the above, through international engagement, the Innovation Hub supports the FCA's competition objective by promoting the UK as a centre for innovation in financial services. It does this by:

1. Facilitating the entry of innovative overseas firms to the UK, thereby increasing innovation and competition in UK financial services markets.
2. Facilitating the expansion of UK-based innovative firms into overseas markets, making them potentially more sustainable challengers in the UK.

The FCA has signed co-operation agreements and frameworks with overseas regulators to support the above.

Regulatory Sandbox

The FCA launched its Regulatory Sandbox in late 2015 to initiate a place for businesses to test new ideas and to understand the regulatory requirements to establish and grow their

[46] https://www.fca.org.uk/firms/innovate-innovation-hub

services that will benefit consumers. The FCA was the world's first regulator to launch a regulatory sandbox for financial services, following its commitment to innovation. The sandbox is open to authorised firms, unauthorised firms that require authorisation and technology businesses that are looking to deliver innovation in the UK financial services market. The sandbox provides access to regulatory expertise and a set of tools to facilitate testing. The tools include restricted authorisation, individual guidance, informal steers, waivers and no enforcement action letters[47].

In 2019 the Global Regulatory Sandbox (GFIN) was launched. The GFIN is a network of 50 regulatory organisations. The GFIN seeks to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries, for example, a pilot for firms wishing to test innovative products, services or business models across more than one country.

RegTech initiative

In 2015 The FCA launched RegTech initiative to explore how regulatory requirements and technology could come together to simplify the process of compliance and reporting for businesses.

Engagement events

Besides, Innovate created a variety of engagement events[48]. **Roundtables** that asks for feedback to improve operations. **Surgeries that** provide support to businesses experiencing specific and common issues working with the regulatory framework. **Thematic workshops** that use industry experts to discuss emerging trends in the sector and consider the potential impact from a regulatory perspective. **Innovation sprints** to bring together multiple stakeholders to address and collectively solve a specific problem identified. **Monthly 'Showcase Events'** - to allow firms to talk through potential solutions to common issues. **Events and conferences** to enable a wide range of stakeholders to participate and engage in a variety of issues, topics and themes. **Consultation processes** that openly invite input and perspectives from a whole range of stakeholders, from industry experts and practitioners to the general public. In addition to the above FCA-led events, the regulator is

[47] https://www.fca.org.uk/firms/innovation/regulatory-sandbox-tools
[48] https://www.fca.org.uk/firms/innovate-innovation-hub/events

often invited to events such as workshops, roadshows, roundtables, conferences and panel sessions – hosted by other organisations that support innovation in financial services.

3. Emerging recommendations

The developments and transformations within the UK regulatory and policy environment demonstrate these initials steps of how regulators can become active participants in the innovation process. Several other factors specific to the UK factors influenced the current trends:

- Much of the financial services industry in the UK is international, providing services to governments, corporates and individuals throughout the world.
- The English legal system,
- The UK's time zone,
- Good connectivity
- The historical status of London as an international financial centre
- Membership of the EU helped to maintain the status of London as Europe's financial centre

The challenge of designing effective regulation is that the rules will have to reflect the features and understanding of each specific financial service and the risks arising from alternative forms. Policies and regulations will have to vary in many dimensions to help maintain efficient service delivery that is also safe to the customers and the overall system. Regulatory changes often are needed to enable the successful emergence and adaptation of innovations to encourage their use and increase competition among their providers. Other economies have started to replicate the UK's initiatives to achieve their goals of creating innovative, competitive and sustainable financial services. However, it is not an easy task, and simple replication may not lead to the same results as in the country of origin. Hence, based on the findings of the study, I provide the following recommendations for the policymakers in the countries, regions that consider developing innovative regulatory practices.

Initial/Preliminary stage:

- Before replicating activities from the UK's regulator, it is necessary to analyse the historical developments within the local regulatory infrastructure that defined specific macro-level legal frameworks and definition/understanding of main concepts and processes.

- Before replicating financial innovations, it is necessary to work in collaboration with the regulator to enable the regulatory and policy environment can be created to support the development of sustainable market delivery.

Next stage: when certain activities are in place:

- Constant communication with the ecosystem members, including industry players, entrepreneurs, academics and others.
- Financial literacy and education for the consumer: borrowers and investors. The detection of fraud, data leaks, and cyber criminality.
- Create cross-disciplinary teams within the regulator's organisation (e.g. strategy and competition together with enforcement and supervision)
- Create cross-disciplinary partnerships across different regulatory bodies (e.g. financial services regulator with information/data regulation, competition regulator)
- Constant revision of existing initiatives and goals through direct communication with market participants and indirectly through research and analysis of changing market

Conclusion

Financial innovations require necessary regulatory infrastructure to emerge and develop. The design of regulatory regimes is critical. The challenges for regulators are to protect against systemic risks, ensure compliance with legal frameworks, and maintain an innovative and competitive market. The debates about efficient regulatory models have been going for many years, specifically around the basis of regulation: a form or a function (Armour et al., 2016). Hence, it is crucial to take into consideration how the underlying meaning of a key concept may affect the activities of organisations, and how this, in turn, may shape the form and functions of the regulatory actors and hence the implementation of legal frameworks. It is also essential to think about how the activities of organisations may provide unexpected applications of existing regulation. From the regulator's point of view, it is necessary to think about innovation that can be ambiguous and ambivalent within existing regulatory categories, so it is necessary to analyse the underlying elements that are bundled together, to understand their legality and not simply reject or accept according to predefined criteria.

Additionally, specific events, while causing a short-term negative impact on the economy, may provide favourable conditions for the growth and emergence of innovative organisations in the longer-term, presuming that the underlying infrastructure maintains its enabling elements and dynamics. Regulators should not underestimate the fact that the financial system is transforming itself, so it is necessary for the regulatory and the government to evolve the regulatory and policy frameworks. At the same time, they learn about those

transformations, hence maintaining the iterative process of innovation, and the regulation that regulates it. The financial system is a dynamic system requiring that policymakers, financial services providers and regulators identify what function each part of the financial system is supposed to perform, and then make sure that they have the structure, ability, motivation, and incentives to do so (Mayer, 2015). Regulation both shapes and is shaped by the emergence and developments of financial innovations. At the same time the changes in regulation induce responses in financial innovation and institutional changes, which in turn feedback into the dynamics of regulatory architecture. Hence, policymakers, regulators, organisations and other related audiences should recognise that financial innovations cannot be efficient without concurrent changes in the infrastructure (technological, institutional) supporting them. Besides, when existing policies and regulatory initiatives are used as templates in other countries, it is crucial to understand how these should be translated into the local settings rather than replicated to achieve necessary goals.