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Can equity-based crowdfunding be a fast and effective financing model for early-stage startups?

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ABSTRACT

Nowadays, with the developments in the field of information, communication, and technology, we see that the way of doing business has changed in many sectors, and startups are the ones leading this change. For this reason, the importance of startups for national economies is increasing daily. One of the most fundamental conditions for increasing the number of successful startups in countries is access to the financing that startups need. Especially for early-stage startups with limited access to traditional financing instruments, providing financing from alternative sources becomes very important. For this reason, alternative financing models such as crowdfunding have become more important for startups today. This study investigated the importance of crowdfunding, its types, and, in particular, whether equity-based crowdfunding can be used effectively in financing early-stage startups. In the study, the general survey model and document analysis technique were used to examine the campaigns and campaign details of platforms with equity-based crowdfunding licenses. The findings obtained were classified according to their purpose. As a result of the research, it was concluded that equity-based crowdfunding can be used to finance seed and early-stage startups, and that the average amount of funding that startups need in the early stage can be obtained with very short campaign periods.

KEYWORDS

Crowdfunding; equity crowdfunding; seed and early-stage startup financing

Introduction

Nowadays, startups, which we define as innovative, fast-growing, scalable, and technology-efficient ventures, are becoming companies that cause or lead change in almost every sector. In other words, a startup is defined as a new formation capable of rapid growth or a new business model or business idea that can be preferred for investment purposes (Ries, 2011). Startups work closely with technological innovations to improve people's well-being and provide solutions to current problems. Despite the inherently high risk that startups have, they have become a trending type of business in the world. In addition to their innovative and fast business models, their positive contributions to countries' economies were also very effective in their becoming a trend

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(Susilo, 2020). In this context, companies that start their activities as startups and offer innovative solutions in their sector in a short time cause the way they do business to change. For example, a startup without any restaurants can receive and deliver hundreds of thousands of orders a day via its mobile application, while a startup with no accommodation facilities can mediate the accommodation of hundreds of thousands of people annually (Altundal & Başar, 2020). For this reason, one of the basic conditions for doing business in some sectors is to receive the services of such successful startups. In fact, traditional businesses that are not members of these platforms face a significant disadvantage against their competitors. We can multiply these examples for many sectors. For this reason, in recent years, startups and their innovative solutions have gained importance in almost every sector. In parallel with the increasing importance of startups, the number of incubation centers and acceleration programs of public institutions, universities, and corporate companies, where startups are clustered and supported, is increasing day by day. The main purpose of these centers is to increase the number of successful startups in their sector.

The most important feature of startups that are considered successful is that they have the potential to grow rapidly by producing high value-added products or services and to increase their company value to over a hundred million or even a billion dollars in a short time. In recent years, many policies have been implemented in developing and emerging economies to increase the number of successful startups. Startups that can be defined as successful can be defined as those that operate on a global scale/can operate on a global scale, whose product or service is accepted by the market, have received investments from important funds or individuals, and whose company value increases with each investment round. The goal of startups that are considered successful in this context is to become unicorns. In the ecosystem, the term unicorn is used for startups with a company value of over one billion dollars. In recent years, the number of unicorn companies in the world has been increasing rapidly, and as of September 2023, there are over 1,200 unicorn startups worldwide (CB Insights, 2023).

One of the most important conditions for a startup to become a unicorn is to obtain sufficient financing at the right time. For example, while the total investments made in startups in Türkiye between 2010 and 2020 were in the range of 50 to 150 million USD annually, it reached 1.69 billion USD in 2021, 1.74 billion USD in 2022, and approximately 1 billion USD in 2023 (StartupCentrum, 2023). While not a single unicorn emerged in Türkiye between 2010 and 2020, that is, for 10 years, at least six unicorns emerged after 2020. We can also say that, after 2020, the number of startups in Türkiye that cannot become unicorns but whose value exceeds 100 million dollars or whose growth rates, sales figures, and revenues have increased regularly for the last 3 years has increased. Such successful startups are defined as “gazelles”

(Ahmad, 2006; Cristofaro et al., 2023). The increase in the number of startups defined as both unicorns and gazelles in Türkiye during this period shows us how important access to financing and investment amounts are in the success of startups.

Giardino et al. (2023) emphasized in their study that the entrepreneurship ecosystem is as important as access to financing in the emergence of unicorns. This may explain the reason for the increasing number of unicorns in Türkiye after 2020, with the development of the entrepreneurship ecosystem and the increase in investment opportunities. For this reason, the increase in investments in startups in Türkiye from year to year has enabled more startups to be successful, and this has created a positive impact and contributed to the development of the ecosystem.

In addition, some public policies have been developed in Türkiye after 2020 to further develop the entrepreneurship ecosystem and create more unicorns. For example, the legal regulations necessary for the implementation of equity and debt-based crowdfunding applications were made in this period. Equity-based crowdfunding platforms established following the legal regulations have enabled more startups to announce their projects to investors and raise funds. While the total number of investments made in startups in Türkiye in 2023 is 353, 57 of them consist of funds collected through equity-based crowdfunding platforms. In addition, investors had the opportunity to invest in startups with smaller amounts and got to know startups more closely. While this situation has increased the interest in startups, it has opened the door for many startups to raise funds in a short time and fund the activities necessary to become a unicorn.

In the light of the information given above and when looked at on a global scale, the countries with the most and most successful startups are also the countries that make the most investments in this field, produce technology, and sell this technology to the world. China, Estonia, Japan, Singapore, South Korea, the United States, and Western European countries are among these countries. This study aims to evaluate the issue in Türkiye, which is in the league of developing countries. For this reason, when we look at the startups that have been successful in their sector in Türkiye in the last decade, the number of startups established, and the amount of investment made in these startups has increased significantly. In parallel with the investments made in startups, there are many startups in Türkiye with a company value of over 100 million dollars, but there are seven unicorn startups with a company value of over 1 billion dollars. These companies are Dream Games, Getir, Hepsiburada, Insider, Papara, Peak Games, and Trendyol (Techinside, 2023; Webrazzi, 2024).

As in other developed and developing countries, the importance of startups is increasing daily in Türkiye, and a number of support programs are implemented by the public and private sectors to increase the number of successful

startups in this field. The public institutions that provide the most support to startups in Türkiye are The Scientific and Technological Research Council of Türkiye, Small and Medium Enterprises Development Organization of Türkiye, and development agencies, while there are also technology development zones, techno parks, incubation and preincubation centers within many public and foundation universities, and acceleration and preacceleration programs implemented by the private sector.

One of the most fundamental criteria for startups to be successful is to access the financing they need at the right time and in the right amount. In fact, many startups that have the potential to be successful have to cease their activities because they cannot access sufficient financing (Ullah & Taylor, 2007). In particular, early-stage startups' limited assets and cash flows and high risks are among the main obstacles to their growth by borrowing. A significant portion of the funds in banks, which constitute the largest part of the financial system, is transferred to large enterprises with lower risks and the potential to show more collateral against the loans they receive. For this reason, it becomes very difficult for early-stage startups to access financing sources and investors (Poyraz & Tepeli, 2016). According to pecking order theory (Myers & Majluf, 1984), firms follow a preferential order when choosing their sources of finance—first, internal resources; then, debt; and last, the issuance of new equity (Zeidan et al., 2018). However, because startups have limited and high-cost borrowing opportunities, they may have to turn to partnership-based financing methods, contrary to the pecking order theory (Kyereboah-Coleman, 2007; Sapienza et al., 2003). Although startups apply to financing methods such as venture capital, angel investors, crowdfunding, grants, and incentives, which are more suitable, the opportunity to access financing in this area is limited.

Crowdfunding, which has emerged in parallel with the developments in technology in recent years, is a financing method that has the potential to provide significant financing for startups. Although some examples that can be considered crowdfunding emerged many years ago, the model close to today's model was first used in the United States in the 2000s and then in the European continent. In Türkiye, the crowdfunding model started to be used in the 2010s based on rewards and donations (Vural & Doğan, 2019). After the Capital Markets Board was authorized to regulate crowdfunding and crowdfunding platforms in 2017, the "Draft Communiqué on Equity-Based Crowdfunding," which established the legal infrastructure of the partnership-based crowdfunding model on January 3, 2019, paved the way for the equity-based crowdfunding method in addition to the reward and donation type.

In this study, crowdfunding, types of crowdfunding, and the usability of these methods in financing startups are discussed in general, then the different types of methods are explained, and the changes in the amount of funds raised and the number of successful campaigns after the introduction of equity-based

crowdfunding in Türkiye, which is considered to be more suitable especially for seed/early-stage startups, are compared with the previous periods and the effectiveness of the method is revealed.

Literature review

Although crowdfunding dates to the 1800s, the closest examples of its current application date back to the early 2000s. For this reason, the studies conducted between the early 2000s and the 2010s mostly focused on the purpose of the model, the way it is applied, its advantages and disadvantages for startups or small and medium-sized enterprises, and the types and how they should be applied. These studies also tried to identify the factors that motivate investors and fund demanders, which are the parties of the method (Agrawal et al., 2011; Assenova et al., 2016; Atsan & Erdoğan, 2015; Colombo et al., 2015; Moritz & Block, 2016; Sequeira et al., 2007).

Crowdfunding has developed especially with the widespread use of the internet and has become a new and alternative financing model for startups (Vulkan et al., 2016). Crowdfunding is a form of financing that has different types. For example, while donation and reward-based crowdfunding methods are mostly used to finance social projects, equity- or debt-based crowdfunding methods are used to invest and obtain returns (Vismara, 2019). While the main motivation of investors in reward and donation-based crowdfunding is reward hunting, cooperation, social responsibility, and emotional bond, the desire to obtain more returns comes to the fore in equity- and debt-based crowdfunding (Cholakova & Clarysse, 2015; Ercan, 2017). While the donation-based crowdfunding model is in harmony with social entrepreneurship models (Lehner, 2013), reward, equity-, and debt-based crowdfunding types are in closer harmony with traditional venture capital (Mollick, 2013). Although crowdfunding has a generally accepted definition, its application may vary depending on the country. While reward and donation-based crowdfunding platforms are subject to the easiest regulations in almost every country, it seems that equity- and debt-based crowdfunding are subject to stricter control and regulation (Ata, 2018).

The fact that the amount of funding needed by seed and early-stage startups can be met by crowdfunding offers some opportunities for startups. While crowdfunding is an opportunity to increase the number of successful startups and diversify financing sources (Paschen, 2017), some criteria must be considered for the effective implementation of the method (Ata, 2018). One of the basic criteria is for a startup participating in a campaign to explain and promote its project/business idea effectively and accurately. In addition, having a successfully completed project, having an accepted incubation or acceleration program, receiving investment from a well-known investor, and investment by angel investors or venture capitalists (Kleinert et al., 2020) are

very important factors in the positive outcome of the campaign. However, it is known that investors have different expectations for different sectors in equity-based crowdfunding. For this reason, a startup that launches a crowdfunding campaign should consider the dynamics of the sector in which it operates and the indicators about which investors care (Johan & Zhang, 2022). Although it is very important to create social relations and networks in crowdfunding campaigns, the promotion of an effective investor or venture capital company's involvement or support in the process will have a positive impact on the campaign (Li et al., 2023).

Crowdfunding platforms where startups launch campaigns also play an important role in the success of the crowdfunding campaign. Platforms that use both traditional media tools and new-generation media tools together to promote startups' campaigns reach more investors. In addition, the ease of application and legal infrastructure of crowdfunding also play an important role in helping the system reach large audiences. With a crowdfunding method that reaches large audiences, small investors will be able to join the system and raise funds for startups. This will increase the number of successful startups and make significant contributions to the country's economy (Anbar, 2020; Zengin et al., 2017).

The sociodemographic characteristics of investors investing with crowdfunding are also shown among other important factors in the campaign process (Pierrakis, 2019). Tenner and Hürsch (2021) revealed in their study that those who invested with crowdfunding consisted of educated people under the age of 50 and university graduates, and there was no difference in terms of gender. However, some previous studies have stated that crowdfunding investors are predominantly men (Hervé et al., 2019; Mohammadi & Shafi, 2018; Pierrakis, 2019). Yu and Fleming (2021) stated that crowdfunding is more likely to be implemented in urban regions with highly educated populations and revealed that although crowdfunding is used more frequently in these regions, a successful crowdfunding campaign has a greater impact on startups located in poor regions. Whether a crowdfunding activity is considered successful or unsuccessful is measured by collecting the desired funds within the specified period (Deng et al., 2022; Mumcu & Ataman Berk, 2021). While collecting the targeted fund is the main criterion for the success of the campaign, other criteria include the number of investors participating in the campaign, collecting more funds than the requested fund, and the duration of access to financing (Deng et al., 2022).

It is also important to carry out campaign processes specific to the type of crowdfunding used. For example, in an equity- and debt-based crowdfunding campaign, the investor focuses more on how to get a return from the investment and how to exit the investment, while in donation-based crowdfunding, the donor is more interested in the social outcomes of the project. For this reason, equity-based crowdfunding is different from other types of

crowdfunding in terms of risk and campaign processes (Mochkabadi & Volkmann, 2020).

In other words, we can say that equity-based crowdfunding involves investment decisions with the expectation of a potential return on investment. Therefore, the risk–return equation of stake-based crowdfunding means that it has higher risk compared to reward-based crowdfunding (Bapna, 2019), where funders receive material or nonpecuniary rewards in return for their financial support or receive a refund if the funding limit is not reached. Additionally, equity crowdfunding investors face large information asymmetries when evaluating startups for investment purposes. Considering this, it should be known that there is a high risk in equity-based crowdfunding investments, especially in angel investments and venture capital investments in early-stage startups (Ahlers et al., 2015; Bapna, 2019; Mochkabadi & Volkmann, 2020).

Crowdfunding

Crowdfunding can be defined as a new financing technique that enables entrepreneurs with an innovative business idea or project to obtain the financing they need to realize their ideas by using internet tools (crowdfunding platforms; Ata, 2018). Kleemann et al. (2008) defined crowdfunding as “an open call for financing through the internet to support entrepreneurs and their ideas, using methods such as donations, rewards, lending, pre-sales, or shares.” As can be understood from the relevant definition, crowdfunding is divided into four subheadings in terms of the way it is implemented. These are:

- reward-based crowdfunding,
- donation-based crowdfunding,
- debt-based crowdfunding, and
- equity-based crowdfunding.

Different regulations and requirements exist for each type of crowdfunding method, including reward, donation, debt, and equity-based crowdfunding. Although the implementation and logic of the system are similar in many developed and developing countries, the regulations in these countries are different from each other.

In reward-based crowdfunding, the most frequently applied model in the world, financial supporters are rewarded with a product or service that is the output of the project in question at a lower price with earlier delivery conditions or with a special gift. In reward-based crowdfunding, backers do not lend money or become partners with the project owner. For this reason, this method is the least regulated and most frequently used type in all countries (Ekici et al., 2019).

In donation-based crowdfunding, the participant is involved in the system based on social benefit or philanthropy without expecting any financial benefit from the project. In donation-based crowdfunding, participants often support social enterprises and innovative business ideas that offer smart solutions that will benefit the public in the long term.

In the debt-based crowdfunding model, funders lend money to project owners (entrepreneurs) with the expectation of receiving a certain fixed return and collect the principal and interest return from the entrepreneur at a predetermined maturity. Debt-based crowdfunding is the method that raises the most funds in terms of financial amount. In 2015, \$25 billion of the approximately \$35 billion of crowdfunding on a global scale and \$23.6 billion of the approximately \$26 billion of crowdfunding in the United States in 2016 were obtained from the debt-based crowdfunding model (Ekici et al., 2019).

In equity-based crowdfunding, financial supporters become partners of the companies of the project owners who request funding with a certain percentage in return for the funds they provide. This method is more risky than other methods because the financial backer does not receive a product or have a fixed return expectation. However, it has the potential to generate a high income if the venture is successful and the company value increases to high amounts. In the equity-based crowdfunding model, where the risk is particularly high for the investor, it is the most strictly regulated method in all countries where it is applied due to the related risk.

What is similar in all the types of crowdfunding listed above is the parties involved in the system. In all types of crowdfunding, there are three parties: crowdfunding platforms that mediate crowdfunding, entrepreneurs (or project owners) who request funds, and investors (or donors) who supply funds.

Through the platforms that bring the parties together in crowdfunding, the entrepreneur first becomes a member of the crowdfunding platforms, organizes a promotional text describing the project, and writes the amount of financing they need to realize the project in the relevant section. The crowdfunding platforms then check the content, make the relevant edits, and publish the project on their websites for a certain period (for example, 30 days or a maximum of 60 days for equity-based crowdfunding in Türkiye). With the announcement of the project on the relevant platform, the financing collected and the remaining days for support are instantly displayed on these platforms so that the participants can see how much financial support has been collected and how much financing is left (Altundal & Başar, 2020).

Implementation principles of equity-based crowdfunding in Türkiye

Equity-based crowdfunding is defined as an investment system created to collect the financial resources needed by business ideas or initiatives that plan to produce technological products and services with high added value

and competitiveness. In other words, this type of crowdfunding is an equity-based crowdfunding method that allows equity investment and profit sharing in businesses or projects. Because there is no reward or fixed return for the investor in this model, lawmakers have put forward the necessity of a more comprehensive regulation in this area compared to other types to prevent investors from being victimized. This has caused equity crowdfunding to develop less and have a lower transaction volume than other types of crowdfunding investments. However, in recent years, especially with the increase in the number of successful startups, the use of the method has become widespread. In this model, investors invest by assuming the risk of failure or loss of startups as in other equity investments (Nesta, 2012, as cited in Anbar, 2020; Kirby & Worner, 2014).

In equity crowdfunding, instead of reaching only one investor or a limited number of investor groups, entrepreneurs have the opportunity to meet their financing needs by collecting small amounts of funds from a large number of investors in a faster way and by keeping the management of their business. In equity-based crowdfunding, the entrepreneur launches a campaign (shares sales process) through the crowdfunding platform of which they are a member to raise the funds they need. Information such as the company's unit share price, the number of shares subject to the sale, the targeted fund amount, the duration of the campaign, the share of the shares subject to the sale in the capital, the purpose for which the money from the sale will be used, and various financial data about the business are shared with investors. A campaign is deemed "successful" if the amount of funds collected from investors during the campaign period reaches or exceeds the targeted fund amount. Successful campaigns follow the relevant regulations, and the funds collected are transferred to the company within a certain period of time (Anbar, 2020; Onur & Değirmenci, 2015). In addition to the presentation they prepare for investors, financials and other factors related to their initiatives, crowdfunding platforms, which have a share in their campaigns, also play an important role in the success of startups' campaigns. For this reason, entrepreneurs should examine all alternative crowdfunding platforms before starting the campaign process and start the process with the platform that is most suitable for them and has a high success rate. In this way, the campaign period will be managed more effectively and efficiently, benefiting both startups and investors.

As mentioned above, although equity-based crowdfunding has been used effectively since the early 2000s, especially in developed economies, the Communiqué on Equity-Based Crowdfunding in Türkiye was first published in the Official Gazette dated October 3, 2019, and numbered 30,907 and entered into force. Within the scope of this communiqué, only the procedures and principles of equity-based crowdfunding are regulated. However, the "Communiqué on Crowdfunding," which entered into force after being

published in the Official Gazette dated October 27, 2021, and numbered 31,641, both determined the procedures and principles regarding debt-based crowdfunding and aimed to eliminate the problems arising in practice regarding equity-based crowdfunding. In this context, the most recent communiqué on equity and debt-based crowdfunding is the Communiqué on Crowdfunding published in the Official Gazette on October 27, 2021. In this communiqué, both the principles regarding the platforms and the General Principles Regarding the Equity-Based Crowdfunding Activity are addressed, and all aspects of how it should be regulated are discussed. In the second part of this communiqué, under the title of “Principles Regarding Platforms,” principles regarding the establishment and listing of platforms; principles regarding the conditions to be sought in the founders, partners, and board members of the platform; principles regarding outsourcing and its scope; and changes in the shareholding structure of the platform, investment committee, and delisting are regulated. In the third section of the same communiqué, under the heading “Principles Regarding the Activities of Platforms,” general principles, activities that platforms cannot perform, activities of platforms located abroad, and platform membership procedures are regulated. In the fourth section of the relevant communiqué, under the heading “General Principles Regarding Equity-Based Crowdfunding Activities,” investment limits in equity-based crowdfunding, principles regarding fundraising through equity-based crowdfunding, details of the campaign process of equity-based crowdfunding, and fund utilization locations in equity-based crowdfunding are explained and regulated.

As stated in Article 15 of the relevant legal regulation, “Real persons who are not qualified investors may invest a maximum of 50,000 Turkish Liras through equity-based crowdfunding within a calendar year. However, this limit may be applied as 10 percent of the investor’s annual net income declared to the platform, provided that it does not exceed 200,000 Turkish Liras.” The specified amounts are updated every year in accordance with the principles specified by the regulatory and supervisory authorities. The specified investment limit is not applied to qualified and institutional investors involved in the implementation of this method.

Among the institutions that applied to engage in equity-based crowdfunding in Türkiye, five companies in 2021, three companies in 2022, and three companies in the first half of 2023 received licenses and were entitled to start their activities. [Table 1](#) shows the platforms with equity-based crowdfunding licenses in Türkiye and the dates of their listing.

Investors who wish to invest in startups through the equity-based crowdfunding method must first become a free member of the platform with an e-mail and mobile phone via the platforms established by the aforementioned companies. Then, they complete the process by completing the investor registration form and their E-Government

Table 1. Platforms with equity-based crowdfunding license in Türkiye.

Name of companies	Activity type	Listing date
Vakıf Yatırım Menkul Değerler Inc.	Equity-based crowdfunding	April 1, 2021
Global Kitle Fonlama Platformu Inc.	Equity-based crowdfunding	April 8, 2021
Halk Yatırım Menkul Değerler Inc.	Equity-based crowdfunding	September 30, 2021
Dijital Kitle Fonlama Platformu Inc.	Equity-based crowdfunding	October 14, 2021
İnfo Yatırım Menkul Değerler Inc.	Equity-based crowdfunding	November 25, 2021
Fongogo Kitle Fonlama Platformu Inc.	Equity-based crowdfunding	January 6, 2022
Girişim Kitle Fonlama Platformu Inc.	Equity-based crowdfunding	February 24, 2022
Basefunder Kitle Fonlama Platformu Inc.	Equity-based crowdfunding	July 21, 2022
Global Menkul Değerler Inc.	Equity-based crowdfunding	March 21, 2023
Ecofolio Kitle Fonlama Platformu Inc.	Equity-based crowdfunding	April 13, 2023
Nar Kitle Fonlama Platformu Inc.	Equity-based crowdfunding	May 5, 2023

Source: Adapted from Capital Markets Board of Türkiye (2023).

verification in the security and logins section of their profiles created on the platform. After completing the process, investors can access all campaigns on the platform, make investments, ask questions, request more information/documents, request meetings, and make transactions in a safe, fast, and easy way. Investors who want to get a share (invest) from the campaign on the platform's page can click on the invest button, determine the amount to be invested on the page that opens by clicking on the invest button, click on the pay button, and when they check the box that they have read and accepted the risk notification form, they can make the payment transaction securely by choosing one of the electronic funds transfer or credit card options (Fonbulucu.com, accessed August 1, 2023).

As explained above, the rights of investors who invest through the website are registered by the Central Securities Depository & Trade Repository of Türkiye (MKK) on behalf of the investor without the need for any signature, transaction, or procedure after the campaign period ends. Investors can instantly monitor their current investments and remaining investment limits via MKK. If the funds requested in the campaign on the platform cannot be collected and the campaign fails, the investments made are returned to the investor without any deduction.

The detailed regulation and monitoring of the equity-based crowdfunding communiqué in Türkiye, the ease of investing, and the user-friendly design of the platforms both reassure investors and encourage startups that want to raise funds to use the system. In fact, a large number of entrepreneurs and investors started to benefit from the system in the last quarter of 2021, and this number continued to increase in 2022. By 2023, a total of 49,201 investors invested through these platforms in the first 6 months of the year. In the results section of the research, data on the number and amounts of platforms, startups, and investors operating within this system are presented in detail.

Aim and method of the study

Aim of the study

The aim of the study is to determine whether it is possible for seed and early-stage startups to raise enough funding to finance their operations through equity crowdfunding. In addition, by examining the performance of equity-based crowdfunding platforms (those that are licensed and authorized to operate), which act as a bridge between the investor and the entrepreneur, it is aimed to determine how much of the total financing requests of the startups are successfully concluded and their contribution to the entrepreneurship ecosystem.

Method of the study

The research design in the study was based on the general survey model, which is one of the survey models. The general survey model is a method that is conducted on the whole universe or a group, sample, or sample to be taken from it to make a general judgment about the universe in a universe consisting of a large number of elements (Karasar, 2005). In the study, the “Fonbulucu crowdfunding platform (Dijital Kitle Fonlama Platformu A.Ş.),” which has mediated the most investments by making the first and most equity-based crowdfunding campaign until today, was taken as a sample because it represents a large part of the universe.

Single or relational scans can be conducted with general survey models. The single survey model was used in this study because it is suitable for the subject of the research. In the single survey model, in addition to instant situation determinations (instant survey), temporal developments and changes (temporal survey) can be determined. In the temporal scanning (monitoring) approach, the variable whose temporal development or change is to be determined is taken from a certain starting point on the same elements or units and observed continuously or at certain intervals. In this study, equity-based crowdfunding investments were analyzed in 2021, 2022, and the first half of 2023 with the temporal scanning model. This approach is particularly suitable for situations where comprehensive observations are desired to be made on the depth and breadth of the subject and concluding inferences are made.

The data used in the study were obtained through document analysis. Document analysis is one of the qualitative research methods used to meticulously and systematically analyze the content of written documents (Wach & Ward, 2013). In other words, document analysis is a systematic method used to examine and evaluate all documents (for example, advertisements, agendas, attendance records, invitations, meeting minutes, manuals, notes, books and brochures, diaries, journals, magazines, newspapers, works of art, organizational reports, survey data), including printed and electronic materials

(Labuschagne, 2003). Because the document analysis technique can be used as a stand-alone data collection method in scientific studies as well as in combination with other data collection methods (Yıldırım & Şimşek, 2005), it was used in this study together with the single screening model. Thus, the findings of the study were presented more clearly and presented in tables.

Like other methods used in qualitative research, document analysis requires the examination and interpretation of data to make sense, create an understanding of the subject matter, and develop empirical knowledge (Corbin & Strauss, 2008). While the data obtained from the study are given under the title of results, the results are interpreted comparatively in the conclusion section.

Results

As can be seen in Table 1, there are 11 equity-based crowdfunding platforms in Türkiye that are licensed by the relevant institution. However, the total number of campaigns and the number of successful campaigns on these platforms are different from each other. The “Fonbulucu equity-based crowdfunding platform,” which first started its activities in this field, is the platform that has raised the most funds and realized the most successful campaigns within a period of approximately three years from the beginning of the application to the present day. When Tables 2 through 4 are analyzed, the details of the campaigns carried out from the start of the equity-based crowdfunding method in Türkiye in 2021 until today (June 2023) can be seen.

Table 2 shows that only one crowdfunding platform actively organized a campaign in 2021. A total of 21 campaigns were launched in 2021, 18 of which were successful and 3 of which failed to raise the targeted funds. In this context, the success rate of the 2021 equity-based crowdfunding campaign was 85 percent, the total amount of funds transferred to 18 initiatives in accordance with the relevant regulations was 19,577,254 TRY (Turkish Lira), and the average annual investment amount was 1,087,625 TRY.

Table 3 shows that seven crowdfunding platforms actively organized campaigns in 2022. A total of 66 campaigns were launched in 2022, of which 48 were successful, 12 were unsuccessful, and 6 were ongoing. In this context, the success rate of the equity-based crowdfunding campaign in 2022 was

Table 2. Türkiye’s equity-based crowdfunding campaign results in 2021.

Name of platform	Total number of campaigns receiving funding	Share in total campaign funded	Total number of successful campaigns	Share in total successful campaigns	Number of failed campaigns	Number of ongoing campaigns at the end of the period	Total investment amount (Million TL)
Fonbulucu	21	100%	18	100%	3	—	19,577,254.00
Genel Toplam	21	100%	18	100%	3	0	19,577,254.00

Source: Adapted from Fonbulucu (2021).

Table 3. Türkiye's equity-based crowdfunding campaign results in 2022.

Names of platforms	Total number of campaigns receiving funding	Share in total campaign funded	Total number of successful campaigns	Share in total successful campaigns	Number of failed campaigns	Number of ongoing campaigns at the end of the period	Total investment amount (Million TL)
Fonbulucu	44	67%	37	77%	7	–	156.92
Fonangels	8	12%	6	13%	–	2	29.4
Fongogo	6	9%	2	4%	4	–	10.4
StartupBurada	3	5%	2	4%	–	1	8.2
Fonlabüyüsün	2	3%	1	2%	–	1	9
Efonla	2	3%	–	0	1	1	–
Basefunder	1	2%	–	0	–	1	–
Genel	66	100%	48	100%	12	6	213.92
Toplam							

Sources: Adapted from Fonbulucu (2022) and StartupCentrum (2022).

80 percent (ongoing campaigns were excluded), the total amount of funds transferred to 48 initiatives in accordance with the relevant regulations was 213.92 million TRY, and the annual average was approximately 4.46 million TRY. In 2022, the demand for crowdfunding increased, and when we look at the percentage of success, it is seen that the Fonbulucu crowdfunding platform came in first in terms of both the number of transactions and the funds raised. When we look at the total number of successful campaigns, we see that the Fonbulucu crowdfunding platform alone realized 77 percent of the total successful campaigns. The Fonangels crowdfunding platform ranks second, with 13 percent. In other words, we can say that 90 percent of the successful campaigns in 2022 were realized by two equity-based crowdfunding platforms.

The annual success rates of the platforms themselves are: Fonbulucu, 84 percent; Fonangels, 75 percent; Startupburada, 66 percent; Fonlabüyüsün, 50 percent; Fongogo, 33 percent; Efonla, 0 percent; and Basefunder, 0 percent. However, because there are ongoing campaigns as of the end of the year, it can be said that the campaign success rates of some platforms will increase after the successful completion of these campaigns.

Table 4 shows that seven crowdfunding platforms actively organized campaigns in the first half of 2023. A total of 48 campaigns were launched in the first 6 months of 2023, of which 33 were successful, 3 were unsuccessful, and 12 were ongoing. In this context, in the first half of 2023, the success rate of equity-based crowdfunding campaigns (excluding the ongoing ones) was approximately 92 percent, the total amount of funds transferred to 33 initiatives in accordance with the relevant regulations was 275.026 million TRY, and the annual average was approximately 8.4 million TRY. In the first half of 2023, we see that the demand for crowdfunding has increased. We can also say that the campaign success rate, the number of transactions, and the average amount of funds transferred to startups increased significantly in the first half of 2023 compared to previous years. In the first half of 2023, the total number of investors participating in the investments realized through the

Table 4. Türkiye's equity-based crowdfunding campaign results in first half of 2023.

Names of platforms	Total number of campaigns receiving funding	Share in total campaign funded	Total number of successful campaigns	Share in total successful campaigns	Number of failed campaigns	Number of ongoing campaigns at the end of the period	Total investment amount (Million TL)	Cumulative total number of investors (Person)
Fonbulucu	23	48%	17	52%	—	6	206.29	41.291
Fonangels	8	17%	5	15%	1	2	35	3.123
Basefunder	5	10%	3	9%	—	2	5.1	773
StartupBurada	4	8%	4	12%	—	—	17.4	2.019
Efonla	4	8%	1	3%	2	1	0.536	147
Fongogo	3	6%	2	6%	—	1	4.8	1.248
Fonlabüyüsün	1	2%	1	3%	—	—	5.9	600
Genel Toplam	48	100%	33	100%	3	12	275.026	49.201

Sources: Adapted from Fonbulucu (2023) and StartupCentrum (2023).

crowdfunding platform reached approximately 50,000 people, which shows that the equity-based crowdfunding method is used with interest by many investors and has significant potential.

The equity-based crowdfunding method was launched for the first time in Türkiye with a campaign on May 11, 2021. For this reason, looking at the total investments made in the Turkish startup ecosystem in 2021, 2022, and the first half of 2023 and the investment stages will reveal more clearly how available the equity crowdfunding method is for startups and investors. In [Table 5](#), the amounts invested in startups in Türkiye in the mentioned years are given in terms of investment phases.

[Table 5](#) shows that the median value (median) of seed-stage investments made in Türkiye is approximately 300,000 USD. In the same way, it is seen that the average investments obtained from the investments made through equity-based crowdfunding platforms in the years mentioned above are in line with these figures and even above them when we look at 2023.

When [Tables 2](#) through [4](#) are examined, it is seen that the Fonbulucu crowdfunding platform is significantly effective in the total campaigns organized and in the successful campaigns. For this reason, it is possible to make generalizations and interpretations about the ecosystem based on the data obtained with all the campaign details of the Fonbulucu crowdfunding platform for the first half of 2021, 2022, and 2023 in [Table 6](#). Previous studies (Ralcheva & Roosenboom, 2016; Vismara, 2016) have similarly made inferences about the ecosystem based on the most active platforms in different countries.

When [Table 6](#) is analyzed, it is seen that the Fonbulucu crowdfunding platform has achieved a campaign success rate of 85 percent and above every year since its first year of operation. This rate is quite successful in terms of startups' access to finance. It is also observed that the number of campaigns, the amount raised, and the number of investors have increased steadily every year. Each year, funding was realized above the total amount

Table 5. Türkiye's startup ecosystem investment details between 2021–2023/6.

Years	Investment phase	Number of investments	Investment amount (Million USD)	Average investment amount* (Million USD)	Median investment amount* (Million USD)
2021	Seed	299	156.2	0.62	No data
	Early stage	43	417.6	10.4	No data
	Growth stage	2	428	214	No data
2022	Seed	297	281.5	1.06	0.3
	Early stage	34	218.4	6.86	2.25
	Growth stage	10	1,240	124.9	17.5
2023 first half	Seed	150	79.1	0.638	0.28
	Early stage	12	28.9	3.2	3
	Growth stage	2	110	55	55

* Investment amounts are based on the announced initiatives.

Source: Adapted from StartupCentrum (2023).

Table 6. Fonbulucu equity-based crowdfunding platform campaign details between 2021–2023/6.

	2021	2022	2023/6
Total number of investment rounds	21	44	17
Total number of successfully funded investment rounds	18	37	17
Successful funding rate	85.71%	84.09%	100%
Total amount of targeted funds (TRY)	19,315,000.00	163,519,000.00	188,500,000.00
Total amount of funds collected (TRY)	24,349,575.00	189,255,516.00	259,086,686.00
Total amount of transferred funds (TRY)	19,577,254.00	156,924,165.00	206,299,733.00
Total amount of funds returned (TRY)	4,772,321.00	32,331,351.00	52,786,953.00
Average returned funds rate	19.59%	17.08%	20.37%
Average investment amount (TRY)	1,159,503.57	4,301,261.73	15,240,393.29
Average number of investors per campaign	654	1	2
Average number of qualified investors per campaign	23	119	312
Average rate of qualified investors per campaign	3.27%	10%	13.72%
Average qualified investment rate per campaign	30.4%	40%	38.36%
Average investment round duration per campaign (days)	30.2	30.5	14
Average funding request rate per campaign	126.2%	117.4%	137.4%
Average ratio of shares offered per campaign	8%	13%	15%
Average share ratio transferred per campaign	10.56%	17.19%	20.3%

Source: Adapted from <https://invest.fonbulucu.com>.

requested. While the number of qualified investors (professional investors) in investments has steadily increased over the years, the funding amount of qualified investors in total investments has approached 40 percent on average. This amount shows that qualified investors played an important role in the success of the campaigns. In other words, although the interest of qualified investors in equity crowdfunding has increased along with that of individual investors, we can say that qualified investors are more prominent in total investment amounts.

Another noteworthy detail in Table 6 is the average number of days that campaigns were successful. While it was 30 days on average in 2021 and 2022, the campaigns in the first half of 2023 were completed in as little as 14 days. The short duration of the campaigns should be considered as a very important factor, especially for entrepreneurs. In the table, it is seen that successful campaigns received more demand than the funds requested by the startups. In addition, although the average number of shares offered in the table is around 10 percent, it shows that each year, entrepreneurs are willing to invest more than the demand by giving a higher share (around 15 percent on average).

Discussion

When we look at the size of the funds provided to startups through crowdfunding in recent years, it is seen that it is a financing method that is rapidly becoming widespread around the world. In addition to being a new financing tool for startups, crowdfunding is also seen as a marketing tool, as it gives them the opportunity to announce and promote their business or projects to large audiences (Angerer et al., 2017). The size of crowdfunding, which was

approximately 2.7 billion dollars on a global scale in 2012, reached approximately 35 billion dollars in 2015 (Ata, 2018) and is estimated to exceed 100 billion dollars by 2025 (Yeniova, 2022). In this respect, it reveals the fact that crowdfunding has been an important financing method for funding initiatives and projects in recent years.

Founded in 2009 and operating on a global scale, Kickstarter, the most popular crowdfunding platform today, has become the most successful crowdfunding platform in the world by raising 100 million dollars in 2011, 300 million dollars in 2012, 1 billion dollars in 2014, and 5.16 billion dollars in total as of 2020. The success rate of the projects campaigned on this platform is 37.89 percent (Davidson & Poor, 2015; Mumcu & Ataman, 2021).

Considering that the crowdfunding method is applied in four different ways, considering each method separately will provide a more accurate interpretation of the method. The reward and donation-based crowdfunding methods are the easiest methods to implement and are generally used in social campaigns. Therefore, it can be said that the amount of funds obtained through these methods is quite limited. Sakarya and Bezirgan (2018) compared three crowdfunding platforms operating in Türkiye with one of the most popular crowdfunding platforms abroad and revealed the percentages of successful projects in different fields in Türkiye and abroad. The findings of the study show that while approximately 30 percent of the projects published in Türkiye based on rewards and donations were successful, approximately 36 percent of the campaigns on the platform operating abroad were successful. In addition, while the average amount per successful project in Türkiye is 144 USD, this amount is 7,967 USD abroad. Therefore, this study emphasizes that equity-based crowdfunding has a greater potential to provide the financing needed by startups and aims to contribute to startups, investors, and theoreticians by sharing equity-based crowdfunding practices and results in the Turkish ecosystem.

While the debt-based crowdfunding method cannot be actively used in Türkiye, the equity-based crowdfunding method has been actively used since May 2021. Looking at the equity-based crowdfunding method in 2021, it is seen that the success rate of the total campaigns was 85 percent, and the average investment amount received by the startups was approximately 123,000 USD. In 2022, the campaign success rate was 85 percent, and the average investment amount was approximately 270,000 USD, while in the first half of 2023, the success rate (excluding the ongoing ones) was approximately 92 percent, and the average investment amount was approximately 425,500 USD. It is seen that the campaign success rates realized in the 3-year period from the first year of the method to the present day are considerably higher than the reward and donation-based rates. There is also a significant difference between reward and donation-based crowdfunding and equity-based crowdfunding in terms of the average amount of funds raised. For this reason, it is

seen that equity-based crowdfunding can be used especially in the financing of seed and early-stage startups, while reward and donation-based crowdfunding methods are insufficient to raise the desired amount of financing; in other words, their use is not very meaningful for startups in need of financing.

For equity-based crowdfunding to be available for startups, the most basic criterion is the successful execution and termination of the campaign. An effective business model, an effective management team or founder, an effective advertising and promotional activity, precampaign preparation processes, and the potential contributions of the crowdfunding platform in the campaign process play an important role in the success of a campaign (Aggarwal et al., 2021; Angerer et al., 2017; Micic, 2015).

To understand more clearly that the equity-based crowdfunding method can be used for seed and early-stage startups, it would be useful to examine [Tables 5 and 6](#) together. When the relevant tables are analyzed, it is seen that the average investment amounts obtained by angel investors, venture capital firms, corporate venture capital firms, and venture capital investment funds in seed and early-stage equity crowdfunding platforms in Türkiye are close to each other.

Considering that the average investment raised through equity crowdfunding in the first half of 2023 is 15,240,393.29 TRY (6-month average exchange rate is taken as 19.75 TRY) or 771,665.50 USD (6-month average exchange rate is taken as 19.75 TRY), it is seen that this figure is well above 280,000 USD, which is the median value of seed stage investments in the entrepreneurship ecosystem in the first half of 2023, given in [Table 5](#). In addition, it is seen that in the first 6 months of 2023, 162 startups were invested in 164 investment rounds in the Turkish startup ecosystem; a very significant portion of the investments made were below 1 million USD, and only one investment over 10 million USD was realized (StartupCentrum, 2023). From this point of view, it is seen that the financing collected through equity-based crowdfunding platforms is sufficient for seed-stage investments and that the system has the ability to collect funds in an amount that will meet the needs of early-stage startups in case of sufficiently detailed campaigns and promotions. In fact, in the first 6 months of 2023, some of the campaigns successfully completed on the Fonbulucu equity-based crowdfunding platform raised over USD 1 million. This shows that the model can be used for early-stage startups.

In addition to raising the amount of funds that startups need, how many days it takes to raise the funds is also important. In practice, the campaign duration of the platforms is limited to 60 days, but when we look at the average fundraising days of successful campaigns given in [Table 6](#), it is seen that this period is less. While the Fonbulucu equity-based crowdfunding platform successfully completed its campaigns in an average of 30 days in 2021 and 2022, the campaigns in the first half of 2023 were completed in as little as 14 days. The short duration of the campaigns should be considered

a very important factor, especially for entrepreneurs. This is because the due diligence period for angel investors, venture capital companies, corporate venture capital companies, and entrepreneurs sometimes lasts for months, and there are cases where no investment is made at the end of the process. Therefore, starting from the reality that access to finance is as important for entrepreneurs as access to finance, it can be said that equity crowdfunding provides many advantages to entrepreneurs in terms of timing.

As stated by Ralcheva and Roosenboom (2016) and Vismara (2016), it is known that some platforms are more effective and stand out. In fact, the process management of some crowdfunding platforms before and during investment has a direct impact on the success of startups in raising funds (Herve & Schwienbacher, 2019). For this reason, it is an important factor on which crowdfunding platform startups will launch their campaign. In Türkiye, among the equity-based crowdfunding platforms, it is seen that the Fonbulucu crowdfunding platform has more campaigns and is more successful. As of August 2023, 11 active crowdfunding platforms had conducted 88 successful campaigns. The Fonbulucu crowdfunding platform, which was the first among the equity-based crowdfunding platforms to start operations, conducted 72 successful funding campaigns: 18 in 2021, 37 in 2022, and 17 in the first half of 2023. In this case, we can say that 81 percent of the total successful campaigns were carried out by a single platform. This situation shows us that the success rate of the number of campaigns published on platforms can increase when attention is paid to other effective topics such as effective communication and management, network, relations with qualified investors, and promotion, as in some previous studies (Angerer et al., 2017; Li et al., 2023; Ralcheva & Roosenboom, 2016; Vismara, 2016).

In addition to the effectiveness of the platforms, the business idea of the selected startups and how the entrepreneurs convey this business idea to the investors are also important for the success of the campaigns. In other words, we can say that how effectively startups present their products, services, and business models before starting the campaign and how effectively they convey themselves to investors are important factors. Johan and Zhang (2022) stated that there are indicators that investors take into account different expectations for different sectors with equity-based crowdfunding and that project owners using the system by taking these into account will make significant contributions to success.

In addition, the use of traditional media tools, together with new-generation media tools such as social media, is also very important for the success of the campaign. The campaigns of the Fonbulucu equity-based crowdfunding platform have been analyzed in detail, and it has been observed that they effectively use social media as well as events such as meetings and webinars to reach investors both before and during the campaign.

To reach more investors, campaign owners should use their personal connections effectively in the early stages of the campaigns; startups should have successfully completed an acceleration or incubation program before; they should have patents, and so on protecting their business ideas, and their products should be commercialized. The fact that the startups have patents and so on protecting their business ideas, that their products are commercialized, that they offer solutions to global needs and problems, that the revenue model is effectively communicated, and that a known investor or other angel investors are involved in the investment can be listed as other factors that are effective in the success of the campaigns (Leyden et al., 2014; Ralcheva & Roosenboom, 2016; Vismara, 2016).

Conclusion

In recent years, the widespread use of information, communication, and internet tools has increased the interest in crowdfunding. Although the crowdfunding method differs in the way it is applied, it is seen that the reward and donation-based crowdfunding model generally supports social priority projects by collecting small amounts of funds. Debt and equity-based crowdfunding, on the other hand, are mostly used to finance startups. As stated in the study by Sakarya and Bezirgan (2018), the average success rate of the funds raised through the reward and donation-based methods in Türkiye is 30 percent, and the amount of funds is around 144 dollars. Since 2021, the equity-based crowdfunding method, which started to be implemented in Türkiye, has had a campaign success rate of over 80 percent every year since its implementation. In addition, when we look at the amounts transferred to startups with this method, it is concluded that it is close to the average investment amounts made to startups in the early stage (including the seed stage) in the Turkish entrepreneurship ecosystem. For this reason, we can state that the equity-based crowdfunding method is a fast-financing method due to the short fundraising period and its suitability for the financing of early-stage startups.

The success of equity-based crowdfunding depends as much on the effectiveness of the platforms as it does on the startups' ability to accurately communicate their business models. Therefore, crowdfunding platforms and entrepreneurs should aim to reach their investors through the right communication channels. As Li et al. (2023) pointed out, social networks, entrepreneurs, and the network of platform managers are highly influential in campaign success.

Paschen (2017) stated that crowdfunding provides some advantages for startups and that equity-based crowdfunding is especially suitable for startups in the development stage, while the donation-based method is suitable for startups in the seed stage. The result obtained from this study shows that equity-based crowdfunding is suitable for both seed and early stages.

Therefore, the study presents results that are different from Paschen's (2017) study. The difference can be explained by the fact that the entrepreneurship ecosystem in each country has different dynamics.

Prior to the implementation of equity crowdfunding in Türkiye, Ata (2018) and Anbar (2020) predicted that the equity crowdfunding platform would be a useful and potential fundraising method for startups by providing the necessary legal infrastructure and implementation. The results obtained from the study confirm the predictions of these researchers. For this reason, policy makers should quickly make legal regulations and regulations that allow startups, investors, and other stakeholders of the ecosystem to transact effectively and quickly. So much so that, in the approximately two-year period following the issue of the share-based crowdfunding circular in Türkiye, 144 startups received funding through this method (StartupCentrum, 2021, 2022, 2023). Policy makers can contribute to the development of the process by offering some incentives or tax exemptions to crowdfunding investors to further increase the number of equity-based crowdfunding investments.

One of the most important points to be considered in the equity-based crowdfunding method is the valuation of the startup included in the campaign. Because this model is a partnership-based model, an undervalued share rate will disadvantage the entrepreneur, and an overvalued share rate will disadvantage the investor. For this reason, one of the most important points that investors who invest with platforms using this method will pay attention to is how the value of startups is obtained. In addition, to understand this system more clearly and to provide ideas for future campaigns, future studies can examine the reasons and motivations that lead startups to the equity-based crowdfunding system, especially individual investors' opinions about this system. In addition, conducting studies on the financial success of the startups that have raised funds by utilizing the system, such as the company values they have reached over the years and the exit price if they have exited, will make significant contributions to investors, entrepreneurs, and the literature on how effective the method is/is not.

Limitations and future research directions

In this study, whether equity-based crowdfunding can be used effectively in financing early-stage startups was evaluated through equity-based crowdfunding platforms implemented in Türkiye. In addition, the main criterion for success was whether the startups reached the funding they targeted at the beginning of the campaign. However, in order to implement and develop the system in a sustainable manner, it is of great importance to evaluate the investor's investment motivation, risk–return expectation, average investment amount and frequency, and opportunities to exit the investment. For this reason, in future studies, comparing the practices in different countries,

including different success criteria in the study, and examining the subject in terms of investors' behavior and investment motivations, will contribute to closing this gap in the literature.

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