



## ENTREPRENEURS' CROWDFUNDING FAILURE EXPERIENCES<sup>1</sup>

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### ABSTRACT

Entrepreneurs need to access the necessary capital to turn their project ideas into reality. Crowdfunding is a new alternative financing method that enables entrepreneurs to reach the capital. Crowdfunding helps project owners reach the masses quickly by using internet facilities without using other financing tools. In addition to the crowdfunding platforms operating in Turkey based on rewards and donations in the past, there have been significant developments regarding the Legislation of Share-Based Crowdfunding as of last year, and Share-Based Crowdfunding has been implemented in Turkey. In this study, the types of crowdfunding, crowdfunding practices in the world and Turkey, Share-Based Crowdfunding Legislation in Turkey, and the reasons for the failure of the project owners who failed to reach the desired funding amount are emphasized.

**Keywords:** Crowdfunding, Alternative Financing Method, Reasons for Crowdfunding Projects Failure

### ÖZET

Girişimcilerin proje fikirlerini gerçeğe dönüştürebilmeleri için gerekli finansmana erişim sağlamaları gerekmektedir. Fınnansmana erişim için gerekli alternatif finans kaynaklarından biri olan Kitle Fonlaması, girişimcilerin sermayeye ulaşmasını sağlayan yeni bir alternatif finansman yöntemidir. Kitle fonlaması; proje sahiplerinin diğer finansman araçlarını kullanmak zorunda kalmadan internet olanaklarını kullanarak hızlı bir şekilde kitlelere ulaşmasına yardımcı olmaktadır. Geçmişte yalnızca ödül ve bağış bazlı olarak faaliyet gösteren Kitle Fonlama Platformlarının yanı sıra geçtiğimiz yıl itibarıyla Paya Dayalı Kitle Fonlaması mevzuatına ilişkin önemli gelişmeler olmuş ve Paya Dayalı Kitle Fonlaması Türkiye’de hayata geçirilmiştir. Bu çalışmada kitle fonlamasının türleri, Dünya ve Türkiye’deki kitle fonlaması uygulamaları, Türkiye’deki Paya Dayalı Kitle Fonlaması Mevzuatı ve ödül bazlı kitle fonlama platformlarını kullanan ve istedikleri fon tutarına ulaşamayan proje sahiplerinin başarısızlık nedenleri üzerinde durulmuştur.

**Anahtar Kelimeler:** Kitle Fonlaması, Alternatif Finansman Yöntemi, Kitle Fonlaması Projelerinin Başarısızlık Nedenleri

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## INTRODUCTION

Entrepreneurs come across a lot of problems while converting their ideas into reality. The biggest problem in this period is that they cannot provide the necessary capital to make their ideas real. At the very beginning of their entrepreneurship activities, entrepreneurs may face some problems such as: lack of collateral and sufficient cash flows and attracting foreign capital (Cosh et al., 2009).

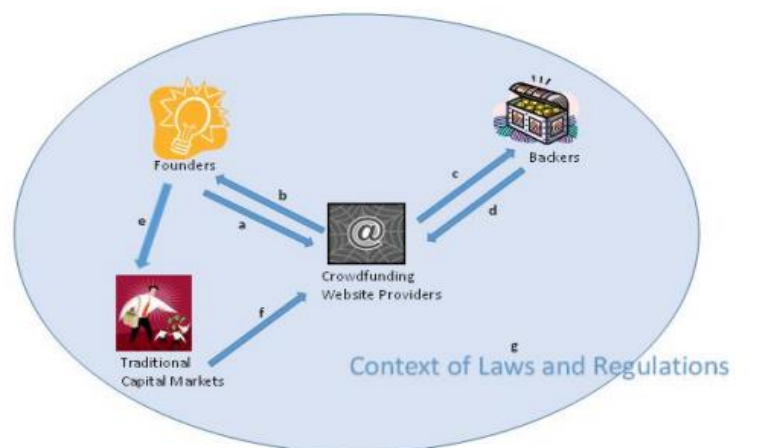
An alternative financing method has emerged where entrepreneurs can apply without the need for traditional funding to implement their ideas. Recently, some entrepreneurs have started to rely on the Internet to receive financial aid directly from the public ("crowd") instead of approaching financial investors such as business angels, banks, or venture capital funds (Kleemann et al., 2008; Lambert and Schwienbacher, 2010).

Crowdfunding is a new alternative financing method that enables entrepreneurs to reach capital (InfoDev, 2013). The Crowdfunding model helps founders to reach the masses quickly by using internet facilities without having to use other financing tools. Entrepreneurs who are likely to be crowdfunding can spread their ideas to large platforms at a cost-free manner and receive returns from different types of investors.

## 1. MAIN ACTORS OF CROWDFUNDING

Crowdfunding relies on the close collaboration between investors, intermediaries, and entrepreneurs (Valanciene and Jegeleviciute, 2013). Crowdfunding models include different players. The party that proposes ideas or projects to be financed is expressed as a founder. They want to use crowdfunding to get financial support from the interested parties and access the market directly. Then there are people (backers) who wish to support these projects financially and want to get a profitable return against this risk they take. These backers support projects by selecting projects that they see as hopes or projects that they find interesting. The third party is the intermediary that brings together those who want to present new project ideas using crowdfunding platforms and those who wish to support these initiatives with investment efforts (Ordanini et al., 2011)

The relationship between founders, backers, and website providers in the crowdfunding ecosystem is shown in Figure 1.



**Figure 1.** Crowdfunding Ecosystem

**Source:** Beaulieu, T., Sarker, S., & Sarker, S. (2015). A conceptual framework for understanding crowdfunding. Communications of the Association for Information Systems.



Figure 1 represents (Beaulieu et al., 2015):

- a: A founder publishes their ideas/projects on a crowdfunding website.
- b: The website provider provides space to define the project and features such as video publishing, contacting backers, traffic analysis tools to the project page, and integration with third-party payment processing systems to distribute money to the founders.
- c: Backers use the crowdfunding website to explore projects and decide whether to contribute or not.
- d: The website providers allow communication between backers and founders and provide a secure payment processing system to raise money from backers.
- e: The founders will continue to use traditional capital markets for some projects.
- f: Traditional capital markets will, in some cases, be directed to crowdfunding websites.
- g: All crowdfunding activities take place in the context of laws, regulations, and ethics.

### **1.1. Founders**

The term founder refers to individuals or groups who submit project ideas to crowdfunding platforms for funding. Various terms such as “creative”, “debtor”, “entrepreneur”, “firm”, “owner”, and “starter” have been used in the literature (Beaulieu et al., 2015). The phenomenon of crowdfunding stems from the unfulfilled funding needs of the founders. The founders undertake the role of presenting ideas for a product or project in crowdfunding, announcing these ideas in a remarkable way to supporters through crowdfunding platforms (Beaulieu et al., 2015).

### **1.2. Backers**

One of the important actors of crowdfunding is backers. The role of the backers in crowdfunding is not only contributing to the funding but also playing a significant role in testing the possibility of holding the product and project in the market and making decisions based on that. In addition, backers can disseminate their ideas about the project to their close circle to provide more funding to the project. For the term backers, a wide variety of terms are used in the literature, such as “consumer”, “contributor”, “crowdfunder”, “funder”, “investors” and “lender” (Beaulieu et al., 2015).

### **1.3. Website Providers**

In essence, technology provides crowdfunding; therefore, website providers play an essential and central role in the phenomenon. They provide the technology backbone that allows founders to expose their projects to many potential supporters (Beaulieu, 2015). In addition, crowdfunding has an important place among the components of crowdfunding web providers in terms of the implementation of agreement structures and legal requirements (Gelfond and Foti, 2012). Overall, the role of website providers is to create, control, and ensure the crowdfunding process runs smoothly for both founders and supporters. Website providers are the center of the crowdfunding ecosystem and interface with all stakeholders (Beaulieu et al., 2015). In crowdfunding, website providers are also positioned as intermediaries between founders and backers. Powers (2012) states that these websites exhibit business models and allow investors to make online contributions. The primary purpose of such websites is to connect people to entrepreneurs.



## **2. TYPES OF CROWDFUNDING**

Crowdfunding applications consist of four basic funding models widely used in the world. These funding models are grouped under two headings as non-financial and financial funding. Non-financial funding; fundraising applications based on donations, reward and pre-order; financial funding; equity and debt-based funding applications (İşler, 2014).

### **2.1. Reward and Pre-order Based Crowdfunding**

It is a crowdfunding model in which supporters provide support to venture projects in exchange for products or awards without monetary value (Çonkar and Canbaz, 2018). Reward and pre-order-based fundings are the most common forms of crowdfunding and are often used together. In the reward-based funding model, an entrepreneur who wants support for their project presents an award with no financial value in return for the support provided (Atsan and Erdoğan, 2015). In the reward model, funders are promised some product or benefit in return for their monetary contributions to the project. The reward model encourages participants to donate to a certain level in exchange for a product or related interest (Meyskens and Bird, 2015).

### **2.2. Donation-Based Crowdfunding**

Donation-based crowdfunding is the type of crowdfunding that investors who provide funds to crowdfunding platforms prefer to do specific charitable works without expecting financial interest. Instead, small donations are made to reach the required capital for the project. In this model, philanthropy, solidarity, and social support motivation come to the forefront (Cumming and Zhang, 2016). Donation-based crowdfunding includes social motivation to support others without expecting returns, simply contributing to the Project. It is a funding model based on philanthropy and altruism. Funders in this model are non-profit, charitable supporters (Griffin, 2012; Gulati, 2014).

### **2.3. Debt-Based Crowdfunding**

Debt-based crowdfunding is a method of borrowing in which the lender finances the project, and the borrower pays interest expenses. Funders both gain financial benefit and contribute to developing a new idea by supporting an initiative where they expect a fixed interest rate return (Çonkar and Canbaz, 2018). In debt-based crowdfunding, entrepreneurs collect the debt from the masses and assume the obligation to repay the debt with interest at the end of the specified period (Atsan and Erdoğan, 2015). In the debt model, individuals lend money to another individual or group in anticipation of their reimbursement. This crowdfunding model is used to fill institutional gaps where traditional financial institutions do not operate and offers alternative and financial assistance as a direct way to increase capital (Allison et al., 2013; Moss et al., 2015).

### **2.4. Equity-Based Crowdfunding**

Equity-based funding means that if the project is implemented in the face of the investments made by the investors, they will become partners in the project as shares. Funders will purchase shares issued by the company if they support the project. This model should be seen as equity capital. The model is mentioned as producing the most comprehensive positive output in economic terms (Çonkar and Canbaz, 2018).

In equity-based crowdfunding, investors provide financial support in exchange for stock or dividend payments. Accordingly, entrepreneurs seeking support for start-up capital give investors the right to vote or to hold operating shares in exchange for the support provided (Atsan and Erdoğan, 2015). Table 1 compares the types of crowdfunding based on contribution types of the investors, the return of the project funded, and the investors' motivation.



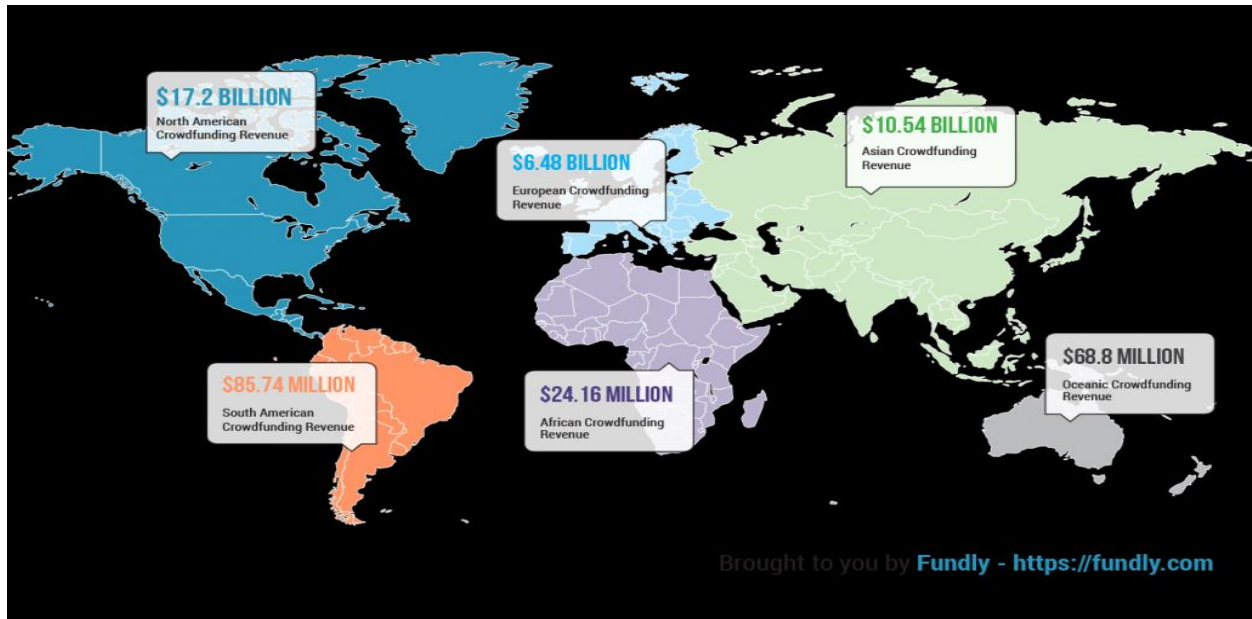
**Table 1.** Comparison of the Types of Crowdfunding

Types of Crowdfunding	Form of contribution	Form of return	Motivation of funder
Donation-based Crowdfunding	Donation	Intangible benefits	Intrinsic and social motivation.
Reward and Pre-order Based Crowdfunding	Donation / Pre-order	Rewards but also intangible benefits.	Combination of intrinsic and social motivation and desire for reward.
Debt-based Crowdfunding	Loan	Repayment of the loan with interest. Some socially motivated lending is interest-free.	Combination of intrinsic, social, and financial motivation.
Equity-based Crowdfunding	Investment	Return on investment in time if the business does well. Rewards are also offered sometimes. Intangible benefits are another factor for many investors.	Combination of intrinsic, social, and financial motivation.

Source: Collins, L., & Pierrakis, Y. (2012). The venture crowd: crowdfunding equity investments into business.

### 3. CROWDFUNDING FINANCING MODEL APPLICATIONS IN THE WORLD

It is seen that in recent years, entrepreneurs have started to use crowdfunding as a new innovative type of financing that provides them with the necessary funds to realize their ideas. With the donation, reward, equity, and debt models, crowdfunding is an alternative finance model consisting of innovative financial instruments and channels whose fund volume has increased since 2006 and exceeded 238 million US dollars at the beginning of 2017. The most successful countries in crowdfunding are the USA, England, Canada, Germany, France, Australia, Italy, Netherlands, Spain, and Japan (Ünsal, 2017).



**Figure 2.** Funding Volumes in the World (2019)

Source: Fundly. (2019). Retrieved from fundly.com: fundly.com



According to fundly.com this figure rose to 192.5 billion US dollars in 2019, with 34.4 billion US dollars total revenue. The same source gives those figures according to the continents (Figure 2). More than two thousand crowdfunding platforms operate in the world.

According to their crowdfunding values, the leading countries have changed as China, followed by the USA and the UK. The top 30 countries with respect to their crowdfunding volumes are presented in Table 2.

**Table 2.** Top 30 Crowdfunding Volume by Country

Country	Rank	Volume (\$)	Market Share
China	1	358.275.377,000	85.99%
United States	2	42.773.166,000	10.27%
United Kingdom	3	7.852.345,000	1.88%
Australia	4	1.148.516,000	0.28%
South Korea	5	1.129.918,000	0.27%
Canada	6	867.578,000	0.21%
France	7	734.888,000	0.18%
Germany	8	661.596,000	0.16%
Japan	9	348.650,000	0.08%
Netherlands	10	311.047,000	0.07%
Brazil	11	269.632,000	0.06%
India	12	268.580,000	0.06%
New Zealand	13	261.622,000	0.06%
Italy	14	267.412,000	0.06%
Finland	15	218.632,000	0.05%
Sweden	16	218.210,000	0.05%
Singapore	17	190.622,000	0.05%
Georgia	18	192.542,000	0.05%
Spain	19	178.319,000	0.04%
Mexico	20	151.094,000	0.04%
Chile	21	150.695,000	0.04%
Poland	22	158.296,000	0.04%
Ireland	23	118.661,000	0.03%
Chinese Taipei	24	103.502,000	0.02%
Latvia	25	102.449,000	0.02%
Belgium	26	101.004,000	0.02%
Estonia	27	90.271,000	0.02%
Indonesia	28	80.115,000	0.02%
Switzerland	29	85.670,000	0.02%
Lithuania	30	68.125,000	0.02%
<b>Total Market Volume (all countries)</b>			<b>416.671.657.150</b>

**Source:** Schmidt, J. (2020). Crowdfunding Statistics Worldwide: Market Development, Country Volumes, and Industry Trends. Retrieved from P2PMarketData: <https://p2pmarketdata.com/crowdfunding-statistics-worldwide/>



The crowdfunding system, which has become popular with the search for alternative finance after the mortgage crisis in the US, is expected to reach a fund size of 90 billion dollars in 2025 (Sakarya and Bezirgan, 2018). In another study, based on the research of the World Bank, it is estimated that the market will grow much faster and reach 100 billion dollars in 2020. Since the legal infrastructure related to Equity-Based funding is established in the USA and the system is widely used, a significant amount of crowdfunding in the world is made through this country. Platforms are becoming more and more common in Asian countries. It is stated that the volume of platforms that have become widespread in China and the Far East in the past five years has exceeded the fund volume of crowdfunding platforms in Europe.

The model with the highest volume of crowdfunding worldwide in 2019 was debt-based crowdfunding with \$ 232 Billion. The list is as follows (Vural, 2019):

1. Debt-Based crowdfunding with \$ 232 Billion (best-known examples are Kiva, Opportunity, Lendingclub, Prosper, GrowVC, etc.),
2. Reward-Based crowdfunding with \$ 3 Billion (best-known examples are Kickstarter, Indiegogo, RocketHub, Fundable, etc.),
3. Equity-Based crowdfunding with \$ 2 Billion (best-known examples are CircleUp, EquityNet, Sellaband, SellanApp, Appsfunder, etc.),
4. Donation-Based crowdfunding with \$ 1 Billion (best-known examples are Experiment, Donorschoose, Gofundme, YouCaring, Patreon, etc.).

As of 2016, there were more than 2000 crowdfunding platforms worldwide (Ünsal, 2017). The two largest crowdfunding platforms in the world are known as Kickstarter and Indiegogo. According to the latest statistical figures, \$ 4.3 billion of funds have been collected through Kickstarter, and \$ 3.83 billion of this fund has been successfully funded for projects. In addition, 163.398 projects have been funded through the same platform, and 355 of these projects have reached over 1 million dollars of funding. In Kickstarter, where more than 16 million people have supported projects until now, it is observed that 5.3 million people have repeated their support for different projects on the platform (Kickstarter, 2019).

**Table 3.** Crowdfunding Projects with the Biggest Funds

Name of the Project	Fund (\$)	Platform	Category of the Project
Pebble	20,338,986	Kickstarter	Design
Coolest Cooler	13,285,226	Kickstarter	Technology
Pebble 2	12,779,843	Kickstarter	Design
Kingdom Death: Monster 1.5	12,393,139	Indiegogo	PC Game
Flow Hive	12,212,833	Kickstarter	Technology
Peeble e-paper	10,266,845	Kickstarter	Design
Baubax	9,192,055	Kickstarter	Design
Exploiding Kittens	8,782,571	Kickstarter	PC Game
Ouya	8,596,474	Kickstarter	Design
The Everyday bag	6,565,782	Kickstarter	Design
Fidget Cube	6,465,690	Kickstarter	Design
Shenmue 3	6,333,295	Kickstarter	PC Game
Pono music	6,225,354	Kickstarter	Technology

**Source:** İstfonbul . (2019). Retrieved from Kitlesele Fonlama Nedir?: <http://istfonbul.iu.edu.tr/Home/What>

It is stated that every month approximately 10 million people visit Indiegogo, and the people who visit the platform come from 235 different countries and regions. Furthermore, in the platform where approximately 19 thousand projects are launched every month, 47% of the campaigns are managed by women. (Indiegogo, 2020). It is observed that 5 billion dollars of funds have been collected from 2 million campaigns so far in Gofundme, which is the most common donation-based crowdfunding platform in the world. In this



platform, which is supported by 50 million donors, it is shared that an average of 4 million dollars is collected daily (Smith, 2016). The 13 projects that have collected the biggest funds in the crowdfunding platforms in the world are given in Table 3.

#### **4. CROWDFUNDING FINANCING MODEL APPLICATIONS IN TURKEY**

The first crowdfunding platform established in Turkey in 2010 by Elif Unal and Cem Unal was ProjemeFON (Yegen, 2015). However, this platform changed its name to “Crowdfon” in 2013 and continues its activities with this name. In 2011, BiAyda; in 2013, Fonlabeni and Fongogo; in 2016, Invention and Arikovanı; in 2017 İdeanest and Fonbulucu platforms were launched (Ünsal, 2017). With the slogan “On behalf of the Power of the Masses”, the B'ayda platform closed in 2015 as it did not become sufficiently widespread due to the lack of legislation on Crowdfunding (Ünsal, 2017). One of the first successful projects using the crowdfunding model was the Zumbara project, which collected 10,000 TL of funds, and achieved its goal with this fund (Karaarslan and Altuntaş, 2015). Since 2010, interest in the crowdfunding model has increased over time. Many projects in technology, film/ video /documentary, photography, music, book/ magazine, design, environment, social responsibility, enterprise, game, and health have been funded.

In Turkey, due to legal regulations, only reward-based and donation-based crowdfunding practices were applied (Atsan and Erdogan, 2015). A draft law was submitted to the Turkish Grand National Assembly in January 2017 to make legal arrangements regarding the crowdfunding model by filling the gap in the legislation (Çubukçu, 2017). In the same period, the Crowdfunding Association was founded on November 11, 2016, to advertise the Crowdfunding model and contribute to legal studies (Ünsal, 2017). With the amendment in the Capital Market Law No. 6362 published in the Official Gazette on December 5, 2017, Crowdfunding has reached its legal legislation within the scope of the capital market in Turkey (Vural and Doğan, 2019).

The following can be said about Crowdfunding Platforms operating in Turkey (Ünsal, 2017):

- There are social projects that provide social benefit with creative projects,
- Project owners must be over 18 years old,
- The projects must comply with the principles of the platforms they apply for,
- A contract is signed with project owners to publish their projects,
- There is no fund guarantee for people who request funds,
- There are selective commissions that decide to publish projects,
- The intellectual property rights of the projects belong to the project owners,
- The duration of publication of each project is determined by the contract,
- If the targeted fund amount is collected, the project is considered successful, and it is entitled to receive the fund,
- Some platforms can transfer the fund to the project owner even in unsuccessful social projects,
- Expenses stated in the contract, and a commission between 0 and 13% is taken by the platforms,
- The responsibility of delivering the award promised by the project, which is successful in Reward-Based models, belongs to the project owner.

Some statistics regarding the number of campaigns carried out by crowdfunding platforms in Turkey, the target fund volume, the number of funds collected, and the number of campaign supporters are given in Table 4 from 2011 to 2017. As can be seen, the amount of funds collected through crowdfunding is relatively low in Turkey with respect to other countries.



**Table 4.** Crowdfunding Statistics in Turkey

Year	Fund Targeted	Number of Campaigns	Number of Supporters	Fund Provided
2011	631,400,000	51	464	56,120
2012	4,143,011,000	289	604	79,530
2013	1,896,923,000	91	370	39,575
2014	2,178,346,000	122	605	72,385
2015	2,446,632,000	105	297	47,740
2016	7,091,953,000	172	275	104,000
2017	1,761,100,000	37	20	3,000
Total	20,149,365,000	867	2,635	402,350

Although the concept is very new, there are 7 crowdfunding platforms in Turkey. These platforms are listed in Table 5 as; CrowdFon, FonlaBeni, FonGoGo, Invention, ArıKovanı, FonFinder, and Ideanest.

**Table 5.** Crowdfunding Platforms in Turkey

	Establishment Year	Commision	Projects Published	Projects Realized	Fund Targeted	Fund Provided
<b>CrowdFon</b>	2011	2,5%	381	16	80,250	84,221
<b>FonlaBeni</b>	2013	9%	68	43	148,415	162,670
<b>FonGoGo</b>	2013	7%	511	179	2,691,862	2,943,379
<b>Buluşum</b>	2016	-	14	14	460,790	460,790
<b>ArıKovanı</b>	2016	-	51	31	1,783,200	4,812,151
<b>FonBulucu</b>	2017	12,5%	146	11	90,800	177,436
<b>Ideanest</b>	2017	-	10	9	332,100	335,154

## 5. CROWDFUNDING FINANCING MODEL LEGISLATION IN TURKEY

The official recognition of crowdfunding as a modern method of financing and the need for legal arrangements in Turkey have been realized very soon. Crowdfunding was first included in the scope of the Capital Markets Board's (CMB-SPK) 2014-2016 Strategic Plan (SPK, 2014) under the goal of "Increasing Financial Product Diversity" No.1 in 2014 as follows:

“In order to meet the financing needs of companies, new alternatives will be brought to the market by evaluating the benefits and applicability of different financing methods in addition to going public. In this context, if certain criteria are met, modern financing methods such as the "crowdfunding" method, which allows companies to offer their shares to the public without being subject to the regulations regarding the public offering, are analyzed, and those deemed beneficial for the development of the market are envisaged to be implemented.”

In the same period, TSPB started to deal with the issue. The processes of crowdfunding, the risks and opportunities it offers, the legal infrastructure established in various countries, and the need for regulation in Turkey (İşler, 2014) were discussed in the "Indicator Fall 2014 (Gösterge Güz 2014)" and "Indicator Spring 2015 (Gösterge Bahar 2015)" booklets published by TSPB.

Today, money is collected from the participants for a new venture or a new project with the promise of partnership shares in the future in proportion to their participation which was not allowed in Turkey until a short time ago. Since such activities are within the jurisdiction of SPK in Turkey, although crowdfunding



seems to be able to be carried out in theory within the framework of strict capital market legislation and obtaining permits, it was not possible to do it in practice. For these reasons, on the public side, studies have been initiated by the authorized institutions to remove legal obstacles in the field of crowdfunding and to encourage crowdfunding activities by placing them on a legal basis. In this context, 6362 numbered Capital Market Law (CML) was studied, and changes in the Draft Law on December 26, 2016, including the date changes, were presented to the Presidency of the Grand National Assembly of Turkey. The amendments entered into force with the publication of Law No. 7061 on Amendments to Some Tax Laws and Other Laws (Law No. 7061) in the Official Gazette No. 30261 dated 05 December 2017. Thus, crowdfunding activity was defined in the CMB numbered 6362, and the legal basis for the sub-regulations to be made was established. Following the amendments in the law, the CMB has initiated studies on the preparation of the necessary sub-regulations within the framework of the new provisions of the CMB.

The issue of crowdfunding continued to be discussed by various parties in this process. On March 7, 2017, in Istanbul, a discussion panel by TSPB under the name of "New Financing Model in Capital Markets: Crowdfunding" was arranged before the changes in the law. Various legislations and practices of other nations were examined in this panel with the participation of public authorities, entrepreneurs with crowdfunding experience, and co-founders of various crowdfunding platforms in Turkey (Fongogo, CrowdFon, Keiretsu Forum, Arikovani), and other interested parties (Koç, 2017). Later, following the changes in Law, the 1st crowdfunding forum was held in Istanbul on May 8, 2018.

The CMB has carried out the preparatory work on sub-regulations together with other relevant institutions and organizations. In this regard, a project called "Support to Secondary Legislation Regarding Crowdfunding in Turkey" has been started by CMB and EBRD, and in this context, a financial support agreement has been signed. Later, the work on the sub-regulation draft was completed, and the CMB's press release dated 03.01.2019 (Capital Markets Board (b)) and the "Share-Based Mass Funding Communiqué Draft No III-35 / A.1" (the Draft Communiqué) has been shared and opened to the opinions and suggestions of other persons and organizations. This process continued until 04.02.2019. Within the framework of the thoughts and suggestions received, the CMB has entered the process of finalizing the Draft Communiqué.

During this period, the "Crowdfunding as an Alternative Financing Methods in Turkey" event was held on May 17, 2019, to create awareness about crowdfunding by CMB and PwC in the context of the activities funded by EBRD (PwC). In this event, the legal framework in Turkey for Crowdfunding and the best practices of the various regulatory authorities have been discussed.

Finally, the Communiqué on Share-Based Crowdfunding No. III - 35 / A.1 was published in Official Gazette No. 30907 and entered into force on October 3, 2019. In the press release published by the CMB on this issue (Capital Markets Board (c)), it has been announced that "Crowdfunding provides entrepreneurs with cheap financing, small savings opportunities to invest", that "innovative and technology-oriented enterprises that pass the pre-selection of the investment committee to be established within the platforms can make money in this way", that "the investors can collect up to 20 thousand liras (up to 100 thousand liras depending on the income level) in a year in a year through this channel". Another critical issue in the announcement of the CMB is that investor grievances can be prevented with the regulations and audits to be made.

## **6. DATA ANALYSIS**

This study aims to reveal the reasons for the failure of the project owners who are unsuccessful in fundraising on crowdfunding platforms. Semi-structured interviews were conducted with the project owners. and the answers given to identify the reasons for failure in the fundraising phase were analyzed. Table 1 and Table 2 provide general information about the project owners who failed in the crowdfunding process.

**Table 6.** Demographic Characteristics of Entrepreneurs

Participant	Education	Gender	Age	Target Fund Amount
Participant 1	University	Male	42	100.000,00
Participant 2	University	Male	39	150.000,00
Participant 3	University	Male	44	180.000,00
Participant 4	University	Male	24	6.000,00
Participant 5	University	Male	24	10.000,00

**Table 7.** Project Features

Participant	Venture Description	After Venture Failure
Participant 1	This is a project where people can list and buy the products, they are looking for by specifying the features they want and creating a demand according to the product they are looking for. At the same time, it aims to be a website where people can add their existing products and put them up for sale.	The project was put on hold due to a lack of funds.
Participant 2	The project emerged to cover the education and clothing expenses of children in need in villages outside the city.	Aid is delivered to the relevant villages on a small scale through associations.
Participant 3	The project is a system that can be mounted on off-road vehicles and brings 30 extra advantages. The macrobat tool saves 20% fuel, can turn from narrow distances, increases traction by at least 40%, prevents it from flipping, slipping, and overturning on ramps. It provides better braking.	The prototype of the tool has been completed using different sources. An investor is sought for mass production.
Participant 4	The project aims to publish only the news that can be of interest or interest to students on a single site. The project aims to establish a blog for students, which includes not only news but also information that will add value.	A website has been established with the means of the project owner, and efforts are being made to increase site traffic.
Participant 5	The project aims to identify certain walls in the streets upon agreement and paint on these walls.	The project was put on hold due to a lack of funds.

## 7. FINDINGS

Interview questions deal with three main topics, and these are the reasons for the failure of the projects, the effect of the project owners on the belief of the project owners after the unsuccessful funding process, and the paths followed by the project owners after the unsuccessful funding process. According to the answers given to the interview questions; It has been observed that participants have different feelings and thoughts in expressing the reasons for failure. At some points, the interviewed individuals gave similar answers to the questions; but the experiences of those are different.

### 7.1. Causes of Failure

The reasons for the failure of the project owners who participated in the interview were generally examined under four main headings as a result of the answers given. These are access to finance, lack of qualified team members, lack of promotion/marketing, and lack of knowledge about crowdfunding platform operation.

#### 7.1.1. Access to Finance

The development and continuation of the projects will be provided through financing. There are studies in the literature stating that the biggest failure of projects is not being able to raise funds. In the interview, the fact that the individuals stated that they could not continue the project due to the problems they experienced



in collecting funds as the reason for their failure confirms this situation. In addition, finding organizations to support the projects of entrepreneurs is important for the success of the project and the continuation of the project. In cases where there is a capital problem, the projects are left half-finished or cannot reach the desired level if they continue. However, it is not possible to say that only fundraising is the criterion of success. In addition, to fundraising, factors such as providing the necessary workforce and strong infrastructure of the project can be shown among the things that should be included in the project for the success of the project. Below are the answers given in the interview for the problems experienced by the unsuccessful project owners in raising funds.

Participant 2 stated that the biggest problem in the project was during the fundraising phase. The participant indicated that the project funding structure with rewarding is quite problematic. As a reward, he put Soma's famous halvah and honey from Bitlis as a reward because he was from Bitlis and conveyed that he had problems in raising funds because the rewards were too small. He stated that the project would be more remarkable if he placed a bigger reward.

Participant 3 stated that he had problems during the fundraising phase, and he applied to state institutions such as KOSGEB. Nevertheless, he mentioned that the supports received from such institutions could not provide any benefit in this sense since they are in minimal amounts. Participant 3 stated that the product is in prototype condition, and they are looking for investors to start mass production.

Participant 5 said that the biggest problem is still not being able to raise funds. He stated that he had difficulties in explaining the project to the investors, and while presenting the project to the platform, they received revised requests, and the process was prolonged in this way, so they lost a lot of time. When he was not successful in raising funds, he held meetings with the crowdfunding platforms staff and negotiated about adding different awards to the project, but there was no progress.

### **7.1.2. Lack of Promotion/Marketing**

As a result of the interviews, another reason for the failure of the project owners who failed in entrepreneurship can be shown as the inability to promote and market the project well. In the literature, studies are showing that small and medium-sized projects fail due to a lack of promotion and marketing. These studies have determined that situations such as applying wrong techniques rather than complying with traditional marketing techniques and while promoting the projects are among the reasons for failure. Therefore, the absence of the marketing department can be shown as a significant shortcoming in the failure of the projects.

The participant thinks that he did not elaborate on the project, and the project description was too general. He believes that the project would make progress if the project was detailed in a more specific area. The participant emphasized that details should be given specifically to the investors, such that certain walls or bridges will be worked on in the project and stated that he had difficulties in explaining the project to people.

The presence of an independent marketing department within the scope of the project in order to eliminate the promotional/marketing deficiencies of the project is essential both for the shortcomings in the area where the project will operate and for the success of the project. Furthermore, this will enable the project's development, the formation of a solid infrastructure and its reach to the broader environment, and thus help eliminate problems such as fundraising.

### **7.1.3. Lack of Knowledge About the Operation of Crowdfunding Platform**

Fundraising is seen as the most important source of success in the light of the studies in the literature and examples of failure is. However, another issue as important as fundraising is education. It is known that entrepreneurship is not unique to people with talents, it is not innate. For this reason, people who have been trained in entrepreneurship need to make more precise decisions at the stage of project development to



know which platforms to register, in short, which stages to follow. In addition, individuals who gain analytical thinking skills through education can achieve success in their projects as they will have sufficient knowledge about recognizing the field in which they will operate, seeing the deficiencies, providing adequate infrastructure in the creation of the project, and marketing. However, in this study, it was observed that participants did not have sufficient knowledge.

Participant 2 said that he applied to the platform and said that he never followed it, that he did not even remember it, and that there was no response. The project owner's lack of knowledge played a major role in the project's failure to reach the targeted funding amount on implementation.

Participant 4, on the other hand, stated that he opened the project for funding on the platform without any knowledge, for trial purposes, and that there was no progress after that stage.

#### **7.1.4. Lack of Qualified Team Members**

In projects, the entrepreneur may not always have sufficient knowledge. However, the project owner should employ and manage qualified, skilled, capable, and knowledgeable people who are competent in their field. The problems that will arise in the project should be prevented, and their solution should be facilitated; however, if the entrepreneur fails to establish a team while starting the project, the project may either end or not reach the desired level.

Participant 4 mentioned the lack of a team as one of the reasons for failure during the interview. He stated that they found writers for the blog voluntarily, and because they could not pay any fees, they had difficulty in finding an author, and even if they did, it was challenging to keep them in the team.

It is an issue that should be known that it is difficult to carry out the project by just establishing a team. The team to be established must have certain characteristics. It is important that the established team has technical competence. Making mistakes in accounting by people who do not have sufficient knowledge to carry out the works in the financial field may cause problems such as the termination of the project.

Participant 1 stated that they could not promote the project well, this was due to the lack of software developers in the part of the work, and they could not provide the professional team somehow.

Finally, besides the level of knowledge in the team established, the administrative process must also function properly. While developing the project, it may be beneficial for individuals to have an interactive relationship with other individuals, to increase their belief in the project, and to consult on strategic decisions. Entrepreneurs can help the project to be developed more efficiently by providing healthy business environment conditions to the employees.

#### **7.2. Failure's Impact on Commitment**

Individuals who are not successful in entrepreneurship perceive failure as an adverse event. Especially in Turkey, there are many entrepreneurs who consider failure as something to be ashamed of. In fact, it is possible to say that failure is as important as success stories. Because inferences can be made in order to detect the mistakes made in the projects and not to apply the methods that will cause these situations. There are many lessons that entrepreneurs should learn from failure, the most important of which is not giving up. It can be said that learning lessons from the mistakes made and not making these mistakes in other projects is another important lesson. Finally, making mistakes is not a bad thing; on the contrary, it should be known that it is a guiding situation. In this study, it was revealed that the interviewees did not consider the failure as a bad event. On the contrary, they wanted to continue the project if sufficient funds were provided. It has also been stated that some entrepreneurs see failure as a lesson.

Participant 1 stated that something does not die unless it is buried in the ground and that he will take the project as far as it can. He stated that when he has the power to finance himself as a company, he will try to get the project back on its feet, and if he can't do it himself, he will leave it to his son.



Participant 2 stated that his belief in helping continues because it has a spiritual side of his project. There was no change in his commitment in the project; he continued to deliver aid to the needy villages through associations.

Participant 5 said that his belief in the project did not disappear, but he could not realize the project in its current state, and he had to focus on a certain goal. Stating that he gained experience during the project process, and he is in the growth period now, he has learned slowly, and he will take firmer steps from now on.

### **7.3. The Ways Followed After Failed Funding**

People who fail to raise funds may leave their projects unfinished, give up on the project, or continue to try to develop it with their own means. Although everyone has a different answer about continuing the project, it is seen that their methods are similar. While some project owners are trying to raise funds using their close circles, others may leave their projects unfinished due to a lack of funds.

Participant 1 met with answers such as “We have met with many organizations like Chamber of Commerce, companies that provide mentoring support, web-based companies. Unlikely these companies only support if the production is tangible.”

Participant 2 only used the crowdfunding platform to raise funds. In addition, the participant, who actively uses social media, tried to collect donations as much as possible from the association pages and continued to deliver aid to certain rural neighborhoods, not as 54 villages.

Participant 3 explained the project to their acquaintances; He raised funds using his personal relationships. In that way, he found an investor and spent an 8-month maturation period for the project. He stated that the problem he is currently experiencing is not being able to establish a factory and to start a mass production because of the pandemic.

Participant 4 has opened its project to funding on more than one crowdfunding platform and has not used a different alternative finance source.

Participant 5 searched for investors using its own network, met many people during the fundraising process, and found investors. However, he could not spare much time for the project as his student life continued.

## **8. CONCLUSION**

In this study, the reasons for the failure of the project owners who used award-based crowdfunding platforms were examined in the interviews. The common view expressed by the entrepreneurs as the reason for the failure is the inability to reach the necessary financing to realize the project. Apart from the problem of access to finance, the reasons for failure can be listed as lack of qualified team members, lack of promotion/marketing, and lack of knowledge about the operation of the platform.

It is crucial to understand the causes of failure in entrepreneurship and to take precautions regarding these failures. Accordingly, for the entrepreneurs to meet their projects with the investors in the right way, it is necessary for the project owners to receive entrepreneurship education, conduct market research for the projects they will develop, and focus on the points they deem lacking. The fact that the individuals to be employed in the project are sufficient in terms of knowledge, skills, and experience is an important factor in minimizing project failure. For the investors to understand the project correctly and see the value of the investment, the infrastructure of the project should be solid, and the project should be detailed. Proper promotion and marketing and providing sufficient information to persuade the financiers may contribute to the success of the project. Since the entrepreneurs cannot dominate all the subjects in the project, it is necessary to effectively manage the people employed for the project and to guide them correctly in terms



of project goals. The healthy functioning of the business environment, strong communication among individuals, providing the necessary infrastructure, and increasing the belief of the employed individuals in the project will be effective in the development of the project. Entrepreneurs creating healthy working environment conditions for the people can help the development of the project.

As a result, before starting a project, it is vital for entrepreneurs to conduct market research, attach importance to employment, and benefit from the experience of unsuccessful people. The fact that the project is oriented to the needs of the market can also be shown among the criteria for success; because in the research, it has been stated that many of the unsuccessful people turn to the development of products for the areas that the market does not need. It also enables the entrepreneur to discover his strengths and weaknesses and to have an idea beforehand whether he will be successful or not.

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