

Chapter 2

ALTERNATIVE TO CROWDFUNDING IN ENTREPRENEURSHIP FINANCE IN TURKEY¹

Aslı AFŞAR²

Introduction

Individuals in developed countries usually rely on entrepreneurship to improve their lives and get rid of poverty. However, access to legal capital that is required to start entrepreneurship is an important problem in these countries, because they cannot access to the current finance methods such as bank credits, venture capital owners and informal investors in developed countries. The traditional finance sector is often eager to raise funds for large-scale companies. On the other hand, alternative financing such as venture finance and/or crowdfunding focuses on young and innovative companies with growth potential. (Bruton vd., 2015: 9). Alternative financial sectors, which are strong, transparent and appropriately regulated, help young and small companies gain financial sources by providing more stable fund flows throughout the business cycle, thus significantly contribute to sustainable economic growth. In economic terms, crowdfunding is a viable alternative to entrepreneurs' traditional financial methods of SMEs, and represents an important instrument which will accelerate entrepreneurship, economic development and job creation (Rossi, 2014, 17). Crowdfunding method allows the ideas that do not attract the attention of traditional financial institutions to be financed. In this system, entrepreneurs are obtaining a new finance source with funding by using internet based tools with prize, donation and/or investment based options. Crowdfunding does not only have the financial advantage for entrepreneurs. Its other advantages are briefly: it allows to develop a concept and test it, protects from risks, allows a brainstorm, is a marketing tool, make it possible to pre-sale, is free, creates a form where project launchers can join the audience, a convincing idea, can enhance an entrepreneur's profile and provide an improvement in his or her reputation (Rossi, 2014, 15-16). In spite of many advantages of crowdfunding, it also has some potential risks such as: trust issue for the method, failure to reach the campaign targets, entrepreneurs' reluctance in publicizing details of a pre-production project, in the event that the same network of supporters reaches more than one, the risk that the network ultimately stops providing the necessary support, asymmetric information, moral hazard and the possibility of negative selection (Bradford, 2012: 68).

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²Assoc. Prof. Dr., Anadolu University, aafsar@anadolu.edu.tr

important gap of funding for innovative enterprises and provides the most gains per project. These data demonstrate that grand funds can be improved through share-based crowdfunding platforms. In Turkey as well, first and anticipated regulations and active usage of share-based crowdfunding system is expected to trigger economic benefits. Number of such enterprises will go up as more investors come to the scene and increasing number of successful examples will draw more and more investors. Possibility of access to easy and comfortable funding will positively affect the entrepreneur spirit of the society and pave way for increasing job opportunities and employment. Crowdfunding will disperse the capital to the base by drawing the savings of masses who are distant to investment atmosphere. Potential investors, benefiting from technology in order to expand their horizons and rapid increase in access to funding will bring along an efficient system mechanism for the establishment of new enterprises, new job opportunities and inclusive economic growth. After analysing the practices in the world, we can list the requirements for the realization of positive expectations from crowdfunding in Turkey and for the success of the system as follows; Entrepreneurs looking for capital have to choose the right platform and contract. There is a tendency in investors towards funding the projects that have the strongest support as the crowd perceives these projects as bearing better quality. Pack behaviour in crowdfunding may prove rational or irrational. Investors can have non-financial motivations such as supporting an individual enterprise or an idea due to their desire to raise funds for a company they established in order to realize an idea. Most important aspect of crowdfunding is that they are key predators that make coming up with a new idea or creating a new service possible. But it requires the active involvement of all the people who are related with incentivizing new enterprises.

As more data is gathered about crowdfunding in Turkey, more research on the subject can be carried out. It provides an important scope for understanding how crowdfunding platforms influence the campaign results of market mechanism and entrepreneur performance and how mechanisms for reducing asymmetrical information, moral hazard and possibility of adverse selection can be used. Besides, since crowdfunding rules between countries change in time, there is wide field for studying the causes and consequences of the changes in the design of the market.

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