

Unveiling Equity Crowdfunding Dynamics: An Exploration of Entrepreneurial Finance Horizons

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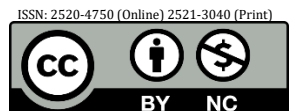
Abstract

Equity crowdfunding is an emerging form of entrepreneurial finance that has gained significant attention in recent years. It enables startups and small businesses to collect funds from many investors through online platforms. While equity crowdfunding has the potential to overcome traditional funding barriers and democratize access to capital, there is a lack of consensus on its effectiveness and impact on startups and the wider entrepreneurial ecosystem. This paper provides an overview of leveraging equity crowdfunding for entrepreneurial financial support. It discusses the concept of equity crowdfunding, its evolution, and the benefits and drawbacks of this form of financing along with some comparative analysis. It also reviews the existing literature on equity crowdfunding and highlights its practical implications, limitations, and policy implications. Furthermore, the paper discusses the regulatory environment of equity crowdfunding and its impact on entrepreneurs and investors. The research concludes with recommendations for entrepreneurs considering equity crowdfunding as a source of financing. The study's results highlight the pivotal influence of regulatory frameworks on equity crowdfunding outcomes, suggesting that a favorable regulatory environment correlates with increased success rates, creating a supportive ecosystem for entrepreneurs and investors. Policy makers can contribute significantly to providing regulatory clarity to ensure that entrepreneurs have access to equity crowdfunding for a financing option.



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1. Introduction

Entrepreneurial finance studies how entrepreneurs raise, allocate, and manage financial resources to achieve their business goals. The traditional sources of entrepreneurial finance include personal savings, family and friends, venture capital, angel investing, and bank loans. However, these traditional sources of financing have limitations in terms of accessibility, cost, and risk. Equity crowdfunding has surfaced as a substitute funding option that addresses some of these limitations. Equity crowdfunding is a form of crowdfunding where investors provide funding to startups in exchange for equity in the company. Entrepreneurial finance is an important study area for developing startups and small businesses. The emergence of crowdfunding has transformed the financing landscape, providing an alternative source of capital for entrepreneurs. Equity crowdfunding has gained significant attention as a means of financing startups and small businesses. This paper aims to review the literature on equity crowdfunding, its history, features, benefits, and drawbacks. Additionally, the paper will highlight the practical and policy implications of equity crowdfunding for entrepreneurs and policymakers. Equity crowdfunding platforms align the capital needs of entrepreneurial ventures with the capital offerings from investors (Buttice and Vismara, 2022). Crowdfunding has become a rapidly growing alternative for financing new business ventures in today's market. This growth is linked to advancements in information technology and computer networks. Crowdfunding provides a means for financing various projects, including those related to business, culture, social causes, sports, and charity, using the internet. It is especially significant for individuals with creative and innovative ideas who need more financial resources to bring them to fruition (Leonski, 2022). Equity crowdfunding is a new and increasingly important funding source for startups and small businesses. Research in this area is crucial because it possesses the capability to democratize the availability of capital, promote economic growth, and create jobs in underserved communities. Equity crowdfunding also has the potential to disrupt traditional models of entrepreneurial finance, leading to significant economic implications. However, unique challenges and risks associated with equity crowdfunding must be carefully managed to ensure its effectiveness and avoid financial misconduct. Overall, the topic "*Unveiling Equity Crowdfunding Dynamics: An Exploration of Entrepreneurial Finance Horizons*" is essential and innovative but requires careful consideration and management.

1.1. Purpose of the Research

This research investigates equity crowdfunding in entrepreneurial finance, aiming to provide entrepreneurs with a comprehensive understanding of its funding mechanism, advantages, disadvantages, and regulatory landscape. Despite the increasing popularity of equity crowdfunding for startups, a nuanced understanding of its pros and cons needs to be improved. The complex regulatory environment across countries challenges entrepreneurs, emphasizing the need for comprehensive research to guide informed decisions. The study seeks to offer insights into the practical implications of equity crowdfunding, addressing the gaps in understanding and providing a comparative analysis of leading platforms to assist entrepreneurs in choosing suitable financing options.

1.2. Research Objectives

The research addresses some crucial objectives related to equity crowdfunding and entrepreneurial finance. Firstly, it seeks to evaluate the effectiveness of equity crowdfunding in overcoming traditional funding barriers. Secondly, the study aims to analyze the evolution of equity crowdfunding platforms, examining historical developments, key milestones, and factors influencing their growth. Additionally, the research will comprehensively analyze the benefits and drawbacks associated with leveraging equity crowdfunding for entrepreneurial

finance. Furthermore, the study intends to explore success rates, investor demographics, and industry distributions. Lastly, the research will investigate the regulatory environment surrounding equity crowdfunding, assessing its impact on entrepreneurs and investors, and providing recommendations for policymakers to enhance the regulatory framework supporting entrepreneurial ventures. The research paper will try to find answers to the following questions:

- i. To what extent does equity crowdfunding effectively overcome traditional funding barriers, and how does it contribute to democratizing access to capital for startups?
- ii. What are the key milestones and external factors influencing the evolution of equity crowdfunding platforms over time?
- iii. What are the unique benefits and drawbacks associated with equity crowdfunding for entrepreneurial finance, and how do these compare with traditional funding methods?
- iv. How do success rates differ between equity crowdfunding and traditional funding, and what variations exist in investor demographics and industry distributions?
- v. How does the regulatory environment surrounding equity crowdfunding impact entrepreneurs and investors, and what recommendations can be proposed to policymakers for enhancing the regulatory framework?

1.3. Problem Statement

This research confronts the central challenge of understanding the dynamic landscape of equity crowdfunding in entrepreneurial finance. Despite its growing significance, a notable gap exists in comprehensively analyzing its effectiveness, evolution, benefits, drawbacks, and regulatory implications. The study aims to bridge this knowledge void by delivering insights into the influence of equity crowdfunding on startups and the broader entrepreneurial ecosystem. Through a methodical examination, the research endeavors to provide actionable recommendations for entrepreneurs and policymakers, contributing to an analysis of equity crowdfunding's dynamics and its impact on shaping the entrepreneurial finance landscape.

1.4. Materials and Methods

The research methodology employed in this study is a literature review of existing research on equity crowdfunding in entrepreneurial finance. The review includes academic articles, industry reports, and policy papers. The literature review provides an in-depth exploration of the concept of equity crowdfunding, charting the development and examining the diverse models associated with this fundraising approach. The review also examines the benefits and drawbacks of equity crowdfunding for entrepreneurs and investors and the regulatory landscape for equity crowdfunding. Additionally, the literature review highlights the practical implications of equity crowdfunding for startups and small businesses and the limitations of the current body of knowledge. Entrepreneurial finance is critical in supporting the growth and development of startups and small businesses. However, traditional forms of financing, such as bank loans and venture capital, can be challenging to obtain, especially for early-stage and high-risk ventures. Equity crowdfunding enables startups and small businesses to raise funds from many investors through online platforms. This paper aims to provide an overview of equity crowdfunding as a source of entrepreneurial finance. It begins by defining the concept of equity crowdfunding, its evolution, and the various models of equity crowdfunding. It then discusses the benefits and drawbacks of equity crowdfunding for entrepreneurs and investors. The paper also reviews the existing literature on equity crowdfunding, highlighting the practical implications of the research and the limitations of the current body of knowledge. Finally, the paper concludes with policy implications and recommendations for future research.

2. Literature Review

2.1. History and Features of Equity Crowdfunding

The inception of equity crowdfunding traces back to the year 2000 with the pioneering proposal emerging in Russia. Envisaged as a platform to oversee crowd-investing processes, the initiative aimed to assist entrepreneurs, start-ups, and small businesses through a computerized database, furnishing information on business projects and offering professional advisory services to investors. The proposed funding model involved individual agreements, later deemed precarious by the start-up accelerator YCombinator. The actualization of an equity crowdfunding platform materialized in 2007 with the launch of the Australian Small Scale Offerings Board (ASSOB) in Australia. Presently rebranded as Enable Funding, this licensed equity-raising platform has successfully garnered over \$150 million for 176 private companies. The first equity crowdfunding venture in the United States was ProFounder, which introduced a tool in 2011 for start-ups to secure investments directly on the site. However, its operations were subsequently halted following the implementation of federal legislation regulating equity crowdfunding. Equity crowdfunding has its roots in crowdfunding, which involves raising insignificant amounts of money from many people. The first equity crowdfunding platform, Crowdcube, was launched in the UK in 2011. Since then, equity crowdfunding has gained popularity globally, with platforms like Seedrs, Kickstarter, Indiegogo, and Republic (Ozuna, 2020). Crowdfunding has become a widely embraced alternative means of funding for startups and small businesses. Estrin et al. (2018) explained that- equity crowdfunding provides entrepreneurs with an online platform that functions as a social media marketplace, enabling them to connect with a large pool of potential investors willing to provide financial backing in exchange for a share of ownership. Equity crowdfunding differs from traditional funding options for start-ups, such as business angels and venture capital, as it targets a broad group of small investors who may not have extensive experience in assessing investment opportunities (Aleksandrina and Roosenboom, 2020). Equity crowdfunding has several features that distinguish it from traditional forms of financing. First, equity crowdfunding provides entrepreneurs access to a large pool of potential investors, including non-accredited investors who may need access to traditional financing sources. Second, equity crowdfunding allows entrepreneurs to raise capital without giving up control of their company. Third, equity crowdfunding allows entrepreneurs to validate their business ideas and attract early adopters and advocates. According to Cicchiello (2019), as a recent entrant in entrepreneurial finance, equity crowdfunding has proven its capacity to fund young, innovative companies and small and medium enterprises, contributing to economic growth and employment generation in both advanced and emerging economies. Entrepreneurial financing is crucial for small, innovative, and startup businesses, which often encounter various challenges. Crowdfunding represents one of the latest financing innovations that relies heavily on modern technology. Compared to traditional funding methods, this innovation leverage technology to a greater extent, enabling them to reach potential funders more quickly and benefit from active networks, such as frequent interactions between investors/funders and firms (Miglo, 2022).

2.2. Regulatory Environment of Equity Crowdfunding

The regulatory environment of equity crowdfunding significantly impacts the platform's success and the confidence of investors and entrepreneurs. It varies across different countries and regions, with some jurisdictions having more developed regulatory frameworks than others. Equity crowdfunding in the United States falls under the regulatory purview of the Securities and Exchange Commission (SEC) through Title III of the Jumpstart Our Business Startups (JOBS) Act. This framework allows entrepreneurs to raise up to \$5 million in 12 months from many individual investors, subject to specific eligibility criteria and disclosure

requirements. This legislation introduced a set of regulatory adjustments aimed at enhancing funding accessibility for small businesses (Cummings et al., 2020). In the European Union, equity crowdfunding is subject to the European Crowdfunding Service Provider (ECSP) Regulation, which provides a standard set of rules for crowdfunding platforms and investors across the EU. This framework sets out requirements for platforms to register with national authorities, conduct due diligence on projects and investors, and disclose certain information to investors. Other countries, such as Australia, Canada, and New Zealand, have also implemented regulatory frameworks for equity crowdfunding, often focusing on investor protection and preventing fraud and misconduct.

2.3. Challenges and Opportunities of Equity Crowdfunding

Equity crowdfunding faces several challenges that limit its potential as a form of entrepreneurial finance. First, equity crowdfunding platforms may need help attracting high-quality startups and investors as they compete with other traditional sources of financing. Second, equity crowdfunding platforms may face legal and regulatory challenges that increase operational costs and limit their ability to operate globally. One of the primary challenges of equity crowdfunding is the potential for fraud or other forms of financial misconduct. Because it is a relatively new phenomenon, there needs to be more regulation and oversight, which can increase the risk of fraudulent activities. Moreover, entrepreneurs may need help gaining exposure to many potential investors, as there is significant competition for funding. Cumming (2021) found that companies located in remote areas are more inclined to initiate equity crowdfunding campaigns rather than going public with an IPO, and they have a greater likelihood of successfully concluding an equity crowdfunding campaign of completing an offering through equity crowdfunding. In contrast, women entrepreneurs, often perceived as facing financial hurdles in traditional entrepreneurial markets, do not experience increased likelihood of fundraising success equity crowdfunding. Again, Cicchiello et al. (2022) described that equity crowdfunding presents a promising channel for women entrepreneurs to acquire funding. Governments should capitalize on this potential to identify and eliminate the underlying obstacles contributing to the historic inequality in female entrepreneurs' access to finance. Investors seem to prioritize associations with well-informed third parties, including investors from previous funding rounds, in addition to the entrepreneur's signals. Entrepreneurs who cannot furnish details regarding their quality and historical performance, should know that pre-financed startups are more likely to succeed on equity crowdfunding platforms. If the platform approves, entrepreneurs are advised to emphasize their association with fellow investors, as it can enhance their likelihood of achieving success. Additionally, it is suggested that platforms ought to enhance transparency regarding their selection procedure and furnish comprehensive information on whether they consider prior financing as a selection criterion to reduce information asymmetries (Kleinert et al., 2020).

2.4. Securing Funds through Equity Crowdfunding

Equity crowdfunding has gained significant attention recently, allowing entrepreneurs to secure funds from an extensive array of investors. It provides a platform for entrepreneurs to access funding from their wider circle of acquaintances, such as family, friends, current shareholders, and clients. At the same time, it also allows them to secure additional funding from a broad range of individual investors who are willing to invest in exchange for a share in the business. According to Aleksandrina and Roosenboom (2020) this approach enables almost anyone to engage in funding innovation and enjoy the advantages of potential future value growth, a prospect that was previously limited to individuals with high net worth. It is revealed that the primary challenge for entrepreneurs seeking equity finance for their startups through crowdfunding on the internet is the significant information asymmetry faced by investors.

Entrepreneurs need help securing equity finance for their startups becomes challenging for entrepreneurs as external investors cannot directly assess the quality of these startups. Hence, investors base their investment decisions on discernible characteristics of entrepreneurs and startups that indicate the hidden quality of the startup (Piva and Rossi-Lamastra, 2018). Due to the uncertainty, the primary factor causing information asymmetries that hinder entrepreneurs from obtaining equity funding is soft information, affecting the outlook of the entrepreneurial firms. Gathering soft information is essential for financing new ventures, yet it poses higher costs for investors compared to complex information about entrepreneurial projects. Estrin et al. (2022) explored that the significant transaction costs associated with obtaining, presenting, and interpreting soft information limit the availability of equity capital, particularly for ventures in their early stages. However, equity crowdfunding (ECF) platforms are specifically developed to streamline the provision, exchange, and interpretation of soft information. As a result, ECF platforms can help potential investors identify appropriate equity funding opportunities for new ventures. The regulatory landscape for equity crowdfunding varies across countries, with some countries having more stringent regulations. It is argued by Piva and Rossi-Lamastra (2018) that- if moral hazard concerns linked to the limited ability of investors to supervise a company, compared to traditional funding options like bank loans or venture capital financing, hold significant importance, firms ought to refrain from using crowdfunding. Again, in equity crowdfunding, entrepreneurs openly appeal for funding from an unidentified online crowd. On the contrary, when seeking venture capital financing, entrepreneurs need to proactively recognize potential investors in advance, leading to increased search costs (Miglo and Miglo, 2019).

2.5. Equity Crowdfunding in USA

2.5.1: Equity Crowdfunding Landscape in the United States: In 2016, a pivotal change transformed equity crowdfunding in the United States. Previously restricted to accredited investors, the landscape opened to all citizens, eliminating asset limitations. Investors gained the option to engage through licensed brokers or SEC-registered platforms, marking a significant regulatory shift.

2.5.2: Federal Legislation and Oversight: The U.S. regulates equity crowdfunding at the federal level, requiring all portals to register with the SEC. This ensures market integrity and protects investor interests. Federal regulations set a fundraising cap of \$1 million for issuing companies within a year. Individual investors face limits, with a maximum investment of \$100,000. The detailed investment structure allows varying percentages of income or net worth based on specific thresholds.

2.5.3: State-Level Initiatives and Considerations: While federal regulations govern equity crowdfunding, some U.S. states have taken steps to enact or consider their crowdfunding laws. This localized approach seeks to facilitate investments within specific states, exempting them from federal oversight. State-level interventions acknowledge regional nuances, allowing tailored regulations to address individual states' unique needs and challenges, providing a more flexible framework (Equity Crowdfunding News, 2022).

3. Results

3.1. Benefits and Drawbacks of Equity Crowdfunding

The benefits of equity crowdfunding include access to a extensive array of investors, reduced transaction costs, and the potential for increased exposure and marketing opportunities. Investors make significant contributions and entrepreneurs seeking capital depend entirely on the investment patterns of a diverse group of investors. It is also found by Kazem and Volkmann (2020) that- entrepreneurs are inclined to opt for equity crowdfunding when they require a

larger capital infusion. However, equity crowdfunding also has drawbacks, including dilution of ownership, regulatory compliance costs, and the potential for fraud.

Table 1 provides a concise overview of the benefits and drawbacks associated with equity crowdfunding, shedding light on crucial aspects that shape its impact on entrepreneurs and investors alike.

Table 1: Summary of Benefits and Drawbacks of Equity Crowdfunding

Aspect	Benefits	Drawbacks
Access to Diverse Investors	Increased capital accessibility for a broad range of entrepreneurs.	Dilution of ownership for existing shareholders.
Reduced Transaction Costs	Lower costs compared to traditional funding methods.	Regulatory compliance costs can be significant.
Potential Marketing Opportunities	Exposure and marketing potential for startups.	Potential for fraud and financial misconduct.
Democratization of Funding	Opportunity for diverse entrepreneurs to access funds.	Challenges in managing relationships with numerous investors.

Source: KingsCrowd, Statista

Interpretation:

Access to Diverse Investors:

Benefits: Equity crowdfunding significantly expands the pool of potential investors for startups and small businesses. Allowing individuals from diverse backgrounds to invest increases the accessibility of capital for entrepreneurs who may struggle to secure funding through traditional channels. This democratization of capital access fosters innovation and entrepreneurship by providing opportunities for underrepresented groups to participate in investment.

Drawbacks: However, one of the main drawbacks of this aspect is the dilution of ownership for existing shareholders. As more investors contribute to a company's funding through equity crowdfunding, the ownership stake of the original founders and early investors is diluted. This dilution can diminish the control and decision-making power of the founding team, potentially leading to conflicts over the company's direction.

Reduced Transaction Costs:

Benefits: Equity crowdfunding offers the potential for significantly lower transaction costs compared to traditional funding methods, such as venture capital or angel investment. By leveraging online platforms, companies can reduce the need for intermediaries and streamline the fundraising process, thus cutting down on associated costs. This reduction in transaction costs makes equity crowdfunding a more accessible and cost-effective option for startups and small businesses.

Drawbacks: Despite the apparent benefits, significant regulatory compliance costs are associated with equity crowdfunding. Navigating the regulatory landscape, ensuring compliance with securities laws, and maintaining transparency can incur substantial company expenses. These regulatory compliance costs can offset some of the initial cost advantages of equity crowdfunding, particularly for smaller businesses with limited resources.

Potential Marketing Opportunities:

Benefits: Equity crowdfunding platforms expose startups and small businesses to a broad audience of potential investors, customers, and partners. This exposure can provide valuable marketing opportunities, allowing companies to showcase their products or services and attract stakeholder interest. Additionally, validating market appeal through crowdfunding campaigns can enhance brand awareness and credibility for startups.

Drawbacks: However, there is also a potential downside in the form of fraud and financial misconduct. The openness and accessibility of equity crowdfunding platforms may attract fraudulent actors seeking to exploit unsuspecting investors. Without proper due diligence and

regulatory oversight, there is a risk of fraudulent activities, which can undermine trust in the equity crowdfunding ecosystem and harm investors and legitimate businesses.

Democratization of Funding:

Benefits: Equity crowdfunding promotes the democratization of funding by allowing a diverse range of entrepreneurs to access capital. This inclusivity enables individuals from various backgrounds, including women, minorities, and individuals from underserved communities, to participate in the growth of promising ventures. By breaking down barriers to entry, equity crowdfunding creates opportunities for underrepresented entrepreneurs to realize their business ideas.

Drawbacks: Nonetheless, managing relationships with numerous investors can challenge entrepreneurs. Unlike traditional funding sources, which often involve a smaller group of institutional investors, equity crowdfunding campaigns may attract many individual investors. Effectively communicating with and managing the expectations of this diverse and dispersed investor base can be demanding and time-consuming for entrepreneurs, potentially diverting their attention from core business activities.

In summary, while equity crowdfunding provides valuable benefits, its drawbacks underscore the need for careful consideration, regulatory awareness, and strategic planning by entrepreneurs.

3.2. Success Rates of Leading Equity Crowdfunding platforms in the United States

Successfully navigating the crowdfunding landscape is a key challenge for startups seeking capital infusion. The metric for a triumph in funding lies in a company achieving its minimum funding goal. Conversely, a funding round is deemed unsuccessful if the minimum goal is not met or if the campaign is withdrawn. In such instances, startups are obligated to return received capital to investors, who, in turn, do not acquire a stake in the company. The success rates of crowdfunding platforms in 2022 (table 2) shed light on this dynamic.

Table 2: Success Rate of Leading Equity Crowdfunding Platforms in the United States from January 2022 to May 2022, by selected platform

Platform	Success Rate	Strengths and Observations	Unsuccessful Rate	Considerations and Insights
StartEngine	90.8%	<ul style="list-style-type: none"> Highest success rate Attractive for proven success 	9.2%, Lowest	<ul style="list-style-type: none"> Demonstrates strength in minimizing unsuccessful campaigns
Republic	86.8%	<ul style="list-style-type: none"> Strong performance, close to StartEngine Attracts both investors and businesses 	13.2%	<ul style="list-style-type: none"> Low rate of unsuccessful campaigns Generally supportive platform for crowdfunding
Wefunder	86.5%	<ul style="list-style-type: none"> Competitive success rate Robust option for crowdfunding 	13.5%	<ul style="list-style-type: none"> Relatively lower rate of unsuccessful campaigns More favorable environment for entrepreneurs
Netcapital	81.4%	<ul style="list-style-type: none"> Moderately high success rate Viable option for participants 	18.6%	<ul style="list-style-type: none"> Moderately high rate of unsuccessful campaigns Assess factors contributing to lower success
SeedInvest	73.7%	<ul style="list-style-type: none"> Lowest success rate among listed platforms Consider factors impacting success 	26.3%	<ul style="list-style-type: none"> Highest rate of unsuccessful campaigns. Consider potential challenges

Source: KingsCrowd, Statista

Between January and May 2022, StartEngine had the highest rate of successful equity crowdfunding rounds among crowdfunding platforms in the United States. The share of

successful rounds on the California-headquartered platform was 90.8, compared with only 73.7 percent on New York-based Seed Invest. The success of startup funding campaigns hinges on various factors, including effective marketing, the size of the platform’s user base, founder recognition, platform selectivity, and other nuanced elements. As companies navigate the crowdfunding ecosystem, understanding these dynamics becomes integral to achieving funding goals (Appendix I).

3.3. Equity Crowdfunding Regulations in Different Countries

The analysis reveals diverse regulatory approaches, impact on market development, and unique challenges faced by equity crowdfunding in each country. The success of the U.K. is attributed to a combination of relaxed oversight, self-policing by platforms, and attractive tax incentives (Cicchello et al., 2021; Alhammad et al. 2021). In contrast, the U.S. faces restrictions on investment amounts and limitations on eligible investment entities. Canada needs to work on fragmented regulations, hindering market growth. New Zealand's laissez-faire approach has proven successful, while Australia faces challenges with company structures. For equity crowdfunding to thrive, supportive and adaptive regulations are crucial, allowing platforms, companies, and investors to shape market best practices (Rose, 2019). Table 3 represents a comparative analysis of equity crowdfunding regulations in some major countries of the world.

Table 3: Comparative Analysis of Equity Crowdfunding Regulations in Different Countries

Country	Regulatory Approach	Investment Limits	Disclosure Requirements	Exclusion of Investment Vehicles	Tax Incentives
United States	Title III regulation crowdfunding (Regulation CF)	Up to \$1.07 million per 12-month period	Reduced disclosure; restricted to very early-stage companies	No investment companies or special purpose vehicles	Various alternatives like Reg A+ and Reg D
Canada	Provincial regulations; 13 sets of rules	Accredited investors and exemptions	Crowdfunding Exemption imposes cost and disclosure burden	Allowed for accredited investors, family, friends	Limited impact; burden for startups
United Kingdom	Relaxed oversight by the Financial Conduct Authority	Varies; SEIS and EIS tax incentives	Platforms screen companies for quality; reduced disclosure	No investment companies or special purpose vehicles	SEIS and EIS tax incentives
Australia	Regulatory framework for public and proprietary limited companies	Unspecified	Complaints about limitations for private companies	Limited to public and proprietary limited companies	Regulatory concerns for private companies
New Zealand	Laissez-faire; no specific disclosure requirements	No cap for ordinary investors	No specific information disclosure requirements	Not restricted; robust to concerns	No specific regulatory requirements

Source: KingsCrowd, Statista

Interpretation:

United States:

The US adopts a Title III regulation crowdfunding model with restrictions on capital raised—up to \$1.07 million in any 12-month period. The approach emphasizes reduced disclosure, making it accessible for early-stage companies. Similar to the UK, investment companies or special purpose vehicles are excluded. The US offers Reg A+ and Reg D offerings, resembling a "light IPO" capital raising. Despite constraints, platforms like WeFunder, StartEngine, and Republic showcase adaptability.

United Kingdom:

In the UK, equity crowdfunding benefits from a regulatory approach with relaxed oversight by the Financial Conduct Authority (FCA). Investment limits vary, including tax incentives like SEIS and EIS. Platforms maintain quality standards by screening companies before crowdfunding, resulting in reduced disclosure requirements. Exclusion of investment companies focuses on direct investments, and the effectiveness is attributed to regulatory leniency and commercial incentives like tax breaks.

Canada:

Canada's equity crowdfunding is shaped by provincial regulations, resulting in a fragmented environment with 13 sets of rules. Investment limits cater to accredited investors, with exemptions for family, friends, and associates. The 2016 Crowdfunding Exemption could be better, imposing a significant cost and disclosure burden. The challenge lies in limited growth due to varying provincial regulations, highlighting the need for a cohesive regulatory framework.

New Zealand:

New Zealand has a laissez-faire regulatory approach to equity crowdfunding, marked by the absence of specific disclosure requirements. No investment caps for ordinary investors contribute to a flexible environment. Equity crowdfunding companies have no stringent information disclosure requirements. New Zealand's scene is robust, showcasing adaptability without heavy regulatory intervention, thanks to the Financial Markets Authority's hands-off approach.

Australia:

Australia, the recent entrant, operates with a regulatory framework tailored for public and proprietary limited companies. While investment limits are unspecified, challenges arise from complaints about limitations for private companies. Equity crowdfunding is limited to public and proprietary limited companies, posing challenges for private companies and underscoring the importance of accommodating various structures. In the competitive landscape of startup acquisitions, choosing the right crowdfunding platform has become pivotal, with distinct advantages and unique investor audiences shaping campaign outcomes. The discussed equity crowdfunding platforms of 2021 offer varying benefits to campaigns, emphasizing the importance of platform selection for startups seeking financial support (Cicchello et al., 2021; Alhammad et al. 2021; and Rose, 2019).

3.4. Best Equity Crowdfunding Platforms of 2021 Worldwide

In the competitive landscape of startup acquisitions, choosing the right crowdfunding platform has become pivotal, with distinct advantages and unique investor audiences shaping campaign outcomes. The discussion on equity crowdfunding platforms of 2021 (table 4) offers varying benefits to campaigns, emphasizing the importance of platform selection for startups seeking financial support (Equity Crowdfunding News, 2022).

Table 4: Best Equity Crowdfunding Platforms of 2021 Worldwide

Country	Platform	Fee Structure and Details
UK	Seedrs	Seedrs implements a new fee structure, incorporating a 6% fee on all funds raised, a £2,000 completion fee (excluding VAT), and a 0.5% payment processing fee.
UK	Crowdcube	Crowdcube charges a 7% success fee (excluding VAT) solely on the amount successfully raised. Additionally, a completion fee, averaging between 0.75% and 1.25% of all funds raised, is applied. This fee includes variable costs from third-party payment providers and the expenses of fund collection and distribution.
Sweden	FundedByMe	FundedByMe imposes a listing fee of SEK 29,000 (EUR 2,900) upon successfully completing the application process. They also apply a platform fee of 8% (excluding VAT) on the amount successfully raised. All fees are payable to Fundedbyme Crowdfunding Sweden AB.
USA	Wefunder	Wefunder charges up to 7.5% of the total funding volume for Regulation Crowdfunding. Regulation D incurs up to a 20% Carried Interest, while Regulation A+ does not have any fees.

USA	SeedInvest	SeedInvest applies a placement fee of 7.5% and an equity fee of 5.0% on funds raised, with payment required only upon successful fundraising. Additionally, they offer reimbursement of up to \$3,000 for accounting fees upon campaign launch.
USA	StartEngine	StartEngine charges 7%-12% of the total capital raised for Regulation Crowdfunding offerings. An extra 2% fee is applied on funds raised in equity, along with collecting \$10,000 in deferred revenue when the offering is complete.
USA	Republic	Republic charges companies only if they successfully reach their funding goal, including a 6% fee on the total funds raised in cash and a 2% fee as a Crowd Safe (equity).
Finland	Invesdor	Invesdor's pricing is structured with a fixed up-front listing fee and a percentage-based success fee for successful funding rounds. In some rounds, an administrative fee of up to 1% may be charged from the investor.
Italy	Mamacrowd	Mamacrowd selectively admits only 5% of candidate companies to maintain a high-quality standard. It boasts an extensive network of partners, collaborating with validated companies from their portfolio. Mamacrowd has successfully launched over 125 projects, engaging a substantial investor base of 97,000+ contributors and accumulating investments surpassing €90 million.
Germany	Companisto	Companisto applies a performance-based commission of 15% on the collected investment sum for the entire handling of the financing round. This includes costs for the entire payment processing. Additionally, a fixed administration fee of 0.65% of the funding sum is charged for all administrative activities carried out by Companisto for the company.

Source: KingsCrowd, Statista

4. Analysis and Discussion

While regulatory frameworks can help to provide clarity and protections for investors and entrepreneurs, they can also create additional compliance costs and administrative burdens for crowdfunding platforms and businesses aspiring to secure funding via equity crowdfunding ((Ferreira et al. 2022). The paper is intended for investors, policymakers, and intermediaries (platforms), guiding investors to navigate through various crowdfunding regulations and assisting intermediaries in coordinating and aligning rules and norms. As such, policymakers must balance promoting innovation and growth in the equity crowdfunding industry and ensuring that investors are adequately protected (Equity Crowdfunding News,2022). From the data it is found that the equity crowdfunding landscapes in the United Kingdom, the United States, Canada, New Zealand, and Australia are shaped by distinct regulatory approaches. In the U.K., regulatory leniency and tax incentives contribute to an effective crowdfunding environment, emphasizing quality control through platform screening. The U.S. adopts a Title III model with reduced disclosure requirements, fostering adaptability among leading platforms. Canada faces challenges with fragmented provincial regulations, hindering growth and highlighting the need for a cohesive framework. New Zealand adopts a laissez-faire approach with no specific disclosure requirements, proving adaptable and successful. Australia, a recent entrant, faces challenges with limitations for private companies, emphasizing the importance of regulatory frameworks accommodating diverse company structures for equitable crowdfunding participation (Lukkarinen, 2020; Ziegler et al., 2020). The research focused on comparing success rates in countries with varying degrees of regulatory stringency. The data consistently indicated that countries with more favorable and supportive regulatory frameworks experienced higher success rates in equity crowdfunding campaigns. For instance, in the United Kingdom, where regulatory oversight is relatively relaxed, platforms like Seedrs and Crowdcube have consistently achieved high success rates, fostering a thriving equity crowdfunding ecosystem. Conversely, countries with stringent regulations witnessed comparatively lower success rates. In the United States, where regulatory constraints, such as the \$1 million cap under Title III crowdfunding, exist, success rates have shown some constraints. The data underscores the need for policymakers to consider regulatory clarity and flexibility to optimize the effectiveness of equity crowdfunding as a financing mechanism.

5. Conclusion

Equity crowdfunding can be attractive for entrepreneurs seeking to raise capital for their startups and small businesses. According to Cicchiello et al. (2021), equity crowdfunding has positioned itself as a newcomer in the entrepreneurial finance market and proves instrumental in supporting the initial funding stages of entrepreneurial projects and offers consumers a compelling opportunity to become investors, utilizing their financial acumen to their advantage. The literature suggests that equity crowdfunding offers benefits such as access to an extensive array of investors, reduced transaction costs, and potential marketing opportunities and exposure. However, entrepreneurs must carefully evaluate the benefits and drawbacks of equity crowdfunding, consider the regulatory landscape in their country, and seek professional advice and guidance to navigate the regulatory requirements successfully (Rose, 2019; Lukkarinen, 2020; & Equity Crowdfunding News, 2022). Despite the potential benefits of equity crowdfunding, the literature also highlights some drawbacks, such as the potential dilution of ownership and the potential for fraud. Therefore, entrepreneurs must weigh these factors carefully and make informed decisions regarding financing options for their businesses (Estrin et al., 2018). Despite providing valuable insights into equity crowdfunding, the limitations of the study highlight the need for further research to fully understand the impact of equity crowdfunding on startups, small businesses, and the entrepreneurial ecosystem. The ultimate effectiveness of equity crowdfunding as a solution to persistent financing challenges remains to be seen, but the emergence of equity crowdfunding in an increasingly digital economy opens avenues for policymakers to engage with entrepreneurs and investors. Research suggests varying levels of entrepreneur willingness to adopt online fundraising, with some avoiding public exposure and others strategically using social media to enhance profiles and attract investment (Lukkarinen, 2020; and Equity Crowdfunding News, 2022). It is also suggested by the existing literature that equity crowdfunding can be a feasible means of financing for startups and small businesses, if entrepreneurs take the time to understand the concept and carefully evaluate its benefits and drawbacks. As the regulatory landscape for equity crowdfunding continues to evolve, entrepreneurs must stay abreast of these changes to ensure compliance and access to this form of financing. The research highlights the importance of careful evaluation and suggestions for entrepreneurs seeking to access this form of financing and provides a valuable foundation for further research on this topic.

5.1. Recommendations

When contemplating equity crowdfunding as a financing avenue, a comprehensive evaluation of its benefits and drawbacks is paramount. While equity crowdfunding can increase capital accessibility, businesses must weigh the potential dilution of ownership. The allure of reaching a diverse pool of investors should be balanced against the inherent risk of diluting existing shareholders' stakes. Understanding the nuanced dynamics of this financing form is vital for making informed decisions that align with the company's long-term objectives. Navigating the regulatory landscape for equity crowdfunding is another critical aspect of the decision-making process. Companies should conduct a thorough examination of the regulatory environment in their country. Understanding the costs and benefits of compliance is essential, as regulatory requirements can significantly impact the feasibility and success of equity crowdfunding campaigns. Seeking professional advice becomes instrumental in deciphering complex regulatory frameworks, ensuring that businesses adhere to legal requirements while maximizing the benefits of crowdfunding. The potential marketing opportunities associated with equity crowdfunding should be considered. Startups and growing companies can leverage crowdfunding as a financing mechanism and a powerful marketing tool. The exposure gained through crowdfunding campaigns can significantly enhance a company's visibility, attracting

attention from both investors and the broader market. However, this potential upside should be weighed against the potential for fraud, emphasizing the importance of implementing robust due diligence measures to safeguard the integrity of the fundraising process. To navigate the intricate regulatory requirements of equity crowdfunding, seeking professional advice becomes a cornerstone of prudent decision-making. Legal and financial experts can provide invaluable guidance, helping businesses understand the nuances of compliance and mitigate potential risks. Professional support is particularly crucial when considering the disclosure requirements imposed by regulatory bodies, ensuring that companies balance transparency and protecting sensitive business information.¹⁵ In essence, a holistic approach to equity crowdfunding involves meticulously evaluating its multifaceted landscape. By carefully weighing the benefits and drawbacks, understanding regulatory implications, leveraging marketing opportunities cautiously, and seeking professional guidance, businesses can position themselves strategically to harness the potential of equity crowdfunding while mitigating associated risks.

5.2. Limitations of the Study

The study on equity crowdfunding dynamics provides valuable insights, but it is crucial to acknowledge its limitations. One of the primary limitations is the small sample sizes in the reviewed studies, which may restrict the generalizability of the findings to a broader context. Additionally, the focus on specific aspects of equity crowdfunding may overlook critical contextual factors that could significantly impact the dynamics of equity crowdfunding campaigns. Therefore, future research should adopt a more comprehensive approach that considers the broader context and how contextual factors interact with different aspects of equity crowdfunding. Another area for improvement is the absence of data over an extended period, which makes it difficult to understand changes over time. Future research should prioritize collecting data over an extended period to better understand equity crowdfunding dynamics. It will enable researchers to analyze how various factors change over time and how these changes impact equity crowdfunding dynamics. Furthermore, the paper lacks an in-depth exploration of how investors make decisions and does not compare findings with different groups. Future research should explore these areas to gain valuable insights into equity crowdfunding dynamics. By comparing the findings with various groups, researchers can identify key differences and similarities in how different groups approach equity crowdfunding, which can help inform best practices. Lastly, there is a potential for bias in the data, which raises concerns about the accuracy and reliability of the results. Therefore, future research should address potential sources of bias to enhance the accuracy and reliability of the results. Researchers can use various data sources and methods to cross-validate the findings and ensure that the results represent the broader population. In summary, it is essential to recognize these limitations for a careful interpretation of the findings and to identify potential areas for future research that can enhance academic rigor. Prioritizing data collection over an extended period, adopting a comprehensive approach, exploring investor decision-making, comparing findings with different groups, and addressing potential sources of bias should be prioritized in future research. By doing so, we can better understand equity crowdfunding dynamics and inform best practices that can benefit everyone involved in equity crowdfunding campaigns.

5.3. Policy Implications

Research on the current topic has significant potential benefits for businesses and professional practices. It offers valuable insights into the effective utilization of equity crowdfunding, providing entrepreneurs and investors with strategic advantages and increasing access to diverse funding sources. The research also has broader implications for equity crowdfunding

policy and regulations, aiming to create an environment encouraging innovation while safeguarding investors from fraudulent activities. According to the study findings, policymakers can take several measures to promote the growth of equity crowdfunding as a form of entrepreneurial finance. Firstly, providing incentives such as tax benefits and educational initiatives can diversify the funding sources available to businesses and promote innovation. Secondly, harmonizing regulations and reducing barriers to cross-border investment in equity crowdfunding can expand and diversify the equity crowdfunding landscape. Thirdly, increasing regulation and oversight can help address the potential for fraud in equity crowdfunding while minimizing the risk of information asymmetries. Finally, policymakers can focus on eliminating underlying obstacles contributing to the historic inequality in female entrepreneurs' access to finance and capitalize on the potential of equity crowdfunding as a promising channel for women entrepreneurs to acquire funding and ensure equal opportunities. Overall, policymakers play a crucial role in fostering a supportive regulatory environment for equity crowdfunding. By considering the recommendations based on the study's findings, they can help promote the growth of equity crowdfunding as a form of entrepreneurial finance while ensuring investor protection and eliminating barriers to entry for underrepresented groups. The study also contributes significantly to entrepreneurial finance and crowdfunding, deepening our understanding of the factors influencing the outcomes of equity crowdfunding initiatives and their broader economic effects.

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Conflict of Interest

The author declares no conflict of interest.

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Appendix I

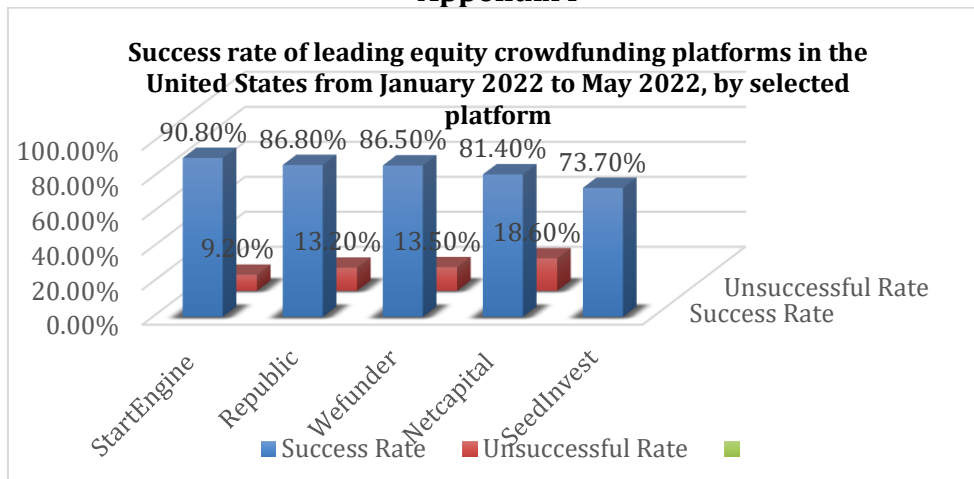


Figure 1: Success Rate of Leading Equity Crowdfunding Platforms in the United States from January 2022 to May 2022, by selected platform (Source: KingsCrowd, Statista)

Interpretation

For the period between January 1, 2022, and May 31, 2022, StartEngine emerged as the leader, boasting an impressive 90.8% success rate. Republic and Wefunder closely followed, with success rates of 86.8% and 86.5%, respectively. In contrast, SeedInvest lagged behind, closing fewer than 75% of its fundraising rounds successfully. While success rates are pivotal, it's crucial to consider the volume of raises hosted by each platform. StartEngine, with the highest success rate, hosted 209 raises, whereas Wefunder, with slightly lower success, facilitated 229 raises. On the other hand, SeedInvest, with the lowest success rate, hosted only 19 raises. The disparities in the number of deals hosted underscore the diverse crowdfunding landscapes across platforms.

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