

# A literature Review on Awareness and Factors of Consumers Behaviour Towards Crowdfunding

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## Abstract

Crowdfunding, which has made it possible for individuals to directly support others who need financial assistance in an emergency, has changed the landscape of traditional fundraising in recent years. This has helped to break down barriers and fuel the rising trend of individual giving. The aim of this research is to identify the awareness and factors that affect consumer behavior towards crowdfunding. This study explores the awareness and different possible factors that affect consumer behavior towards crowdfunding. The methodology used in this research is based on previous studies conducted on consumer behaviors, awareness, and attitudes towards crowdfunding. Findings show more awareness among consumers towards donation and reward-based crowdfunding. This research suggests that crowdfunding websites should be redesigned to prevent online fraud and corruption in order to encourage consumer engagement.

**Keywords:** Crowdfunding, Literature Review, Consumer Behavior, Fintech, Shariah Compliance.

## Introduction

Crowdfunding is the practice of using small donations from many people to finance a business without utilizing regular channels. These businesses can either start up or initiate new projects by obtaining the essential boost to their cash flow. The majority of these campaigns take place on online platforms, incorporate deadlines for fundraising, and specify particular financial objectives. There are four types of crowdfunding: equity-based, debt-based, reward-based, and donation-based (Johnson, 2023).

Donation-based crowdfunding allows supporters to contribute money without expecting anything in return.

- Peer-to-peer lending is a component of debt-based crowdfunding, where backers lend money that must be repaid with interest by a predetermined deadline.
- In rewards-based crowdfunding, backers receive something in return for their support, and what they receive depends on the amount of money they contribute.

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- With equity-based crowdfunding, contributors obtain shares of the company in exchange for their contribution, with the number of shares based on the amount of money given (Johnson, 2023).

This paper is divided into four major sections. Following this introduction, Section 2 explains the research methodology used and how the study focuses on five key areas to measure consumers' awareness and behavior towards crowdfunding. Furthermore, Section 3 briefly examines previous studies on awareness and behavior of consumers towards crowdfunding in different regions and within different time frames. Finally, Section 4 concludes the study, highlighting the limitations encountered during the research and suggesting research questions for future studies.

## **Methodology**

This research uses previous studies conducted on the behavior and awareness of consumers towards crowdfunding. This study focuses on 5 areas (Fintech, Shariah compliance, equity-based, reward-based, and general crowdfunding) and examines the influence of these key areas on consumers awareness and behaviors towards crowdfunding. Further inferences are also made in regard to the approaches used by entrepreneurs and the subsequent results of their behaviors. The previous studies used covers different regions and period of time. Thus, it covers 30 different articles within different time frames. The criterion in choosing these articles stems largely from their impact on the overall discussion of crowdfunding in academia. As such, a preference was set for articles with the most citations. However, recent articles were also given preference in order to compile the most recent findings. These two core criteria allow us to develop a progressive understanding of our focus areas of crowdfunding.

## **Comprehensive Examination of Existing Literature**

### **Fintech**

The role of fintech in the implementation cannot be ignored due to its influence, which resides at the very core of crowdfunding implementation. Therefore, it is necessary to identify the various gaps in the literature that assess the manner in which studies related to the role of fintech are approached. Cai (2018) conducted a bibliometric review on the application of fintech in the field of crowdfunding and found that due to the novelty behind fintech, there is minimal theoretical basis on which it is often discussed, with researchers opting for a more practical approach.

Regarding the connection between fintech and crowdfunding, due to the facilities that fintech provides to the various parties involved in the crowdfunding process, it exacerbates crowdfunding as an alternative to traditional financial intermediaries instead of eliminating the need for intermediaries entirely. However, it can be argued that crowdfunding platforms minimize the potential favoritism that can plague the

effectiveness and efficiency of asset allocation by traditional modes of financial intermediation, as these platforms create a more direct link between founders and backers. At times, these links may be established through an algorithm that studies the interests of potential backers to connect them with founders they may be interested in. Such objective reasoning, though possibly hindered by syntax errors in the code or the 'reasoning' of the algorithm, is often diminished by regular updates. The increase in efficiency in the intermediary stage of capital acquisition would contribute to an overall more efficient capital market. However, further studies are required to quantify the impact of the growth of the crowdfunding sector on traditional intermediaries (Cai, 2018). In other words, how much business do traditional intermediaries lose to crowdfunding alternatives, and whether their other sources of income are sufficient to accommodate higher expectations of performance.

As fintech gains a more prominent role in the global economic ecosystem, its impact on the various sub-categories of the finance field must be carefully observed. It is abundantly clear that it has established a strong foothold within developed nations with sufficient infrastructure to facilitate widespread and consistent applications of fintech. However, as most existing branches of finance must adapt their existing functions to accommodate fintech applications, budding fields such as crowdfunding have the luxury of applying fintech from the start. This provides a unique advantage to the parties participating in crowdfunding as they can forgo the adaptation step entirely and maximize the potential benefits attained from the integration of fintech within their capital acquisition and investment processes.

To understand the extent to which crowdfunding processes benefit from fintech operations, Baber (2019) observed the impact of its use in terms of customer retention through the observation of crowdfunding investors of Islamic banks situated in the United Arab Emirates and Malaysia. Through this study, it was found that customer perceptions of convenience in conducting transactions and being informed in regard to Shariah rulings on relevant products are positively impacted by fintech applications. Due to the ability of Islamic Banks to provide services in a convenient manner due to fintech, and the benefits of crowdfunding allowing for Islamic Banks to bolster their reputation as a source of capital for entrepreneurial ventures, it can be inferred that the application of fintech within the crowdfunding context would allow for a significant increase in customer retention. This would, in turn, allow for the Islamic Bank industry to further grow their customer base as well. However, further research would be required to understand whether the target customers of Islamic banks would value convenience over competitive returns that they would attain from conventional alternatives.

Furthermore, research conducted by Biancone, Secinaro, & Kamal (2019) indicates that fintech also serves as a catalyst in the implementation of crowdfunding due to the various filtration processes that can be carried out in a secure and verifiable manner.

Technological progress in the Islamic world is a strong determinant of the extent to which entrepreneurs, particularly those spearheading start-ups, can appropriate the use of crowdfunding as a capital acquisition tool. Though the field of crowdfunding has been growing at an unprecedented pace, it is still hindered by inefficiencies that other sources of funding such as the stock market are heavily impacted by. One such hindrance arises from information asymmetry. To mitigate this uncertainty, a machine learning approach was utilized by Yeh & Chen (2020) to analyze data collected from Indiegogo dating to the period between 2015 and 2017, assessing various factors such as the presentation of an investment opportunity by the entrepreneur and performances in terms of raising capital in earlier stages of funding or that of previous projects. This conforms with the findings of Hornuf & Schwienbacher (2018) as well. However, it is further suggested that the amount of human capital available to the founder of a project also serves as a significant factor. Further findings show that the network of contacts available to the founder serves as a strong indicator for the success of the project as well, alongside the experience of the founder in the field that encapsulates their business venture. This further contributes to the theory regarding the confidence that investors need to ensure that the founder has sufficient capability to continuously develop their product to meet the needs of a wider market or at the very least maintain their current level of demand.

### **Shariah Compliance**

The concept of crowdfunding is ideal for the growth of the global trade sector as it allows various facilities for businesses at every stage of their existence. This enables businesses at the point of inception, as well as long-established conglomerates, to further grow and evolve their operations, leading to the discovery and implementation of new innovations. It is a unique solution to the capital acquisition problem, which is commonly encountered, especially by businesses still in their infancy. Crowdfunding also provides a promising alternative to conventional financing methods, allowing for a Shariah-compliant method of acquiring the required capital, thereby enabling companies to attain or retain a Shariah-compliant classification by the appropriate rating authority, assuming the other Shariah screening requirements are met. These requirements consist of the company itself not providing or facilitating products prohibited by Shariah Law, such as any business related to gambling, extreme uncertainty, non-Halal food (e.g., alcohol, pork, incorrectly prepared meat products, etc.) (Biancone, Secinaro, & Kamal, 2019).

In the past ten years, crowdfunding has grown significantly and has been integrated into the Islamic financial system to expand the Islamic capital market. An extended technology acceptance model (TAM), which considers attitudes toward technology, perceived usefulness, perceived ease of use, and perceptions of attitudes toward technology, along with the external variable of Shariah compliance, was used in the study to examine people's attitudes and intentions toward crowdfunding in Malaysia.



In contrast, perceived usefulness is substantially correlated with contributor satisfaction with the crowdfunding platform. The study indicated that perceived ease of use has a major impact on attitude and the desire to participate in crowdfunding. Additionally, Shariah compliance influences attitudes and intentions toward using crowdfunding in a favorable way. According to the path coefficients, perceived utility and simplicity of use both favorably affect attitudes and intentions toward crowdfunding, respectively. The report emphasizes the significance of Shariah compliance in crowdfunding to satisfy customer demand, but it also points out that Islamic finance is still unable to fully utilize crowdfunding due to the delayed adoption of technology in the Islamic world.

From equity-based crowdfunding to crowdfunding based on donations, crowdfunding has a lot to offer. However, many crowdfunding sites do not hold accreditation from any Islamic regulating authority despite their claims of being Shariah-compatible. This is due to the expansion of the Islamic banking system and rising demand.

The study by Testa, S., Atawna, T., Baldi, G., & Cincotti, S. (2022) examines how various dispute resolution techniques used by Islamic crowdfunding platforms help promote sustainable development. It suggests looking at the relationship between institutional forces, corporate social responsibility (CSR), and sustainable development through the prism of institutional theory. Islamic crowdfunding platforms are exposed to religious logic that affects how they conduct their businesses in accordance with the rules of Islamic finance. They feel compelled to conform to Western mainstream rationale and international CSR rules. Islamic crowdfunding platforms avoid interest and any other prohibited activities (Haram) to adhere to Shariah and invest in religiously approved Halal projects and items.

They base their CSR policies, areas of focus, objectives, and company operations on Western mainstream thinking. When choosing and marketing campaigns, the platforms carefully align their strategies with both Islamic and Western mainstream logic. Islamic community-based financial platforms are expected to have a predominantly donation-based approach and flexible funding methods, contributing to the reduction of inequality, poverty, and hunger but possibly having little influence on the promotion of economic progress. The platforms advocate for causes that benefit both the Muslim community and society at large and refrain from taking sides with either reasoning.

In the Middle Eastern and Islamic business climate, Abdeldayem, M., & Aldulaimi, S. (2022) investigate the possibility of Islamic crowdfunding as a substitute method of financing small and medium-sized firms (SMEs). The essay outlines a novel crowdfunding model that complies with Islamic law and emphasizes the legality of reward-based, donation-based, loan-based, and equity-based crowdfunding. The report offers empirical data on the potential of crowdfunding as a different method of

funding SMEs in the context of Islamic Middle Eastern countries. Crowdfunding has become an essential tool for companies seeking creative ways to generate capital and create jobs through new businesses, ultimately contributing to the enhancement of specific areas. Rewards crowdfunding, contribution crowdfunding, loan-based crowdfunding, equity crowdfunding, and peer-to-peer (P2P) crowdfunding are several types of crowdfunding. Islamic finance business models might make up half of what is typically referred to as equity or P2P crowdfunding. Additionally, crowdfunding is a great way to raise money for underprivileged sections of the population. The Zakat-based crowdfunding platform model serves as a mediator between Muslim backers and SMEs, assisting them in addressing issues like the ongoing COVID-19 pandemic. However, equity- and lending-based crowdfunding needs to be adjusted to adhere to Sharia laws and rulings. Anyone in the world can support any project on these platforms through crowdfunding without any hassle or traditional fundraising terms. The Liwwa (Lebanon), the UAE Beehive Platform, the Sheikra Platform, and the AtaPlus Platform in Egypt were among the five legitimate fundraising platforms assessed by the Islamic Financial Services Board (IFSB). The article's conclusion is that crowdfunding is a dependable alternative method of financing SMEs that may help advance best practices in management and corporate governance.

The study by Rama, A., Jiang, C., Johan, S., Liu, H., & Mai, Y. (2022) primarily examines the influence of religion and social orientation on the success of Islamic crowdfunding. According to the study's findings, religious and social narratives boost individual donations, attract additional backers, and improve the likelihood that fundraising targets will be met. Additionally, they discover that social narratives are more effective than religious narratives at convincing people to support crowdfunding campaigns. The study adds to the body of knowledge on entrepreneurial narratives, resource mobilization, and the impact of culture on crowdfunding and entrepreneurial finance. The paper also covers the moral basis theory and the three categories of moral reasoning and ideals that include autonomy, community, and divinity. The researchers discovered that project description narratives conveying social orientation and religious identity enhanced crowdfunding performance, although the manifestation of the linguistic effect is dependent on societal culture. The study's main findings emphasize the significance of narrative language in crowdfunding campaigns and the possibility that social and religious narratives may affect funding decisions.

### **Equity Based-Crowdfunding**

Due to its promise to democratize finance and close the funding gap, Turan (2015) observes that crowdfunding (CF) has experienced substantial growth on a global scale, particularly in the context of equity crowdfunding. The UK is quickly becoming a global leader in CF, especially equity-based financing, the riskiest subset of the CF model. However, it is anticipated that traditional investment products provided by intermediaries in the established financial services industry will be threatened by the

US adoption of Title III of the JOBS Act. Due to its transparency and flexibility in raising capital, the equity crowdfunding (EC) method is appealing to business owners. However, the risks associated with the EC model affect the entrepreneur, the investor, and the EC platform. Entrepreneurs must be mindful of the special difficulties that choosing the EC path can entail, such as irrational expectations, going over budget, unsuccessful campaigning, and the innovative double trust conundrum.

Through the facilitation of transactions between businesses and angel investors, EC platforms assist in closing the funding gap. Entrepreneurs should, however, conduct in-depth market research on the success rates of the platforms, the details of the platform contract, the duration of the campaign, and the profiles of similar competitors because there is no single supervisory authority in place. Investors should be aware of the share types offered by businesses as part of an equity investment and should set the suitable ticket price in order for the ECP to survive and position itself appropriately in the market. Put and call options, increased transparency regarding shareholder rights, imposing self-regulation, facilitating transparency, educating investors, and adopting a code of conduct are just a few of the risk-reduction strategies that regulators must put into place.

The assessment of characteristics of the businesses in need of funding is a key indicator of the success of a crowdfunding campaign. Ahlers, Cumming, Günther, and Schweizer (2015) observed the impact of "Venture Quality," which consists of Human, Social, and Intellectual capital. These characteristics detail the amount of labor and skilled labor at the disposal of the company. These are more appropriate indicators of how well funds would be used to generate profits as other indicators, such as inventory and equipment, would be unfair criteria since such items cannot be attained without the needed funds. An additional indicator of the success of a company is simply the uncertainty surrounding the success of the business model, which is expected to diminish the success of the crowdfunding campaign. The study found that both Social and Intellectual capital had minimal impact on the success of a campaign, likely due to such information not being emphasized by entrepreneurs. However, equity retention and clearly defined risks were found to have a significant positive impact on the outcome of campaigns.

Crowdfunding has now been classified into different types, with one of the most common types being Equity Crowdfunding (ECF). This crowdfunding type allows investors to partake in future cash flows in lieu of early access to products or other perks found in reward-based crowdfunding. However, a key aspect to maximize the benefit entrepreneurs can take advantage of in ECF is by observing factors that impact investment decisions of potential investors. A study by Hornuf and Schwienbacher (2018) observed 89 campaigns across four major German ECF portals. Through the implementation of a Negative Binomial Regression, it was found that the frequency of updates, occurrences of large investments, and positive comments by critics

regarding the services and products of the company, as well as analysts' positive opinions regarding the financial health of the company, have a significant positive impact on the frequency and magnitude of investments.

A common feature in these factors that can be inferred is that investors would feel confident in the future outcome of the company, allowing for the concept of forgoing immediate rewards in terms of early access in exchange for future cash flows to seem like a promising investment.

Further research into the behavioral aspects of investment decisions would provide significant insight for entrepreneurs as to how to present their businesses as lucrative investment options. This is largely dependent on their target audience, as the characteristics of this audience would determine the overarching logical argument acceptable to this party that they would need to target in order to secure a sizeable investment and successfully complete their campaign.

Communication by entrepreneurs is arguably the most valuable source of information for potential and existing backers. The nature of updates provided by the founders must be assessed in order to understand the impact of updates on the investment decisions of backers. The impact of the frequency of updates was also accounted for by Block, Hornuf, and Moritz (2018) in their study on this topic. The findings show that straightforward and clear communications significantly contribute to the increase of the rate and magnitude of investments. However, a high frequency of communications diminishes the impact of subsequent communications. Regarding the content of communications, those focusing on new major backers, developments in networking, or business contracts also have a significant positive impact on investment decisions.

The growth of an entity attempting to acquire capital through crowdfunding is entirely based on how well it can compete with its competition in attracting and retaining clients. The very first impression that a potential investor of any enterprise has of the company is the logo. Mahmood, Luffarelli, and Mukesh (2019) observe how potential clients respond to various attributes of the logos of crowdfunding contenders by assessing the funding decisions of investors in response to logos of varying complexity and design. The authenticity in this research entirely derives from the subconscious impression that the logo leaves on a potential investor in lieu of a voluntary decision made by the investor. This study allows us to understand the aggregate dominant behavior response of the US investors market. The findings show that logo complexity leaves the impression of a novel concept introduced by the prospective company and is more likely to be a contender for investors. This also provides insight regarding the behavior of investors in terms of the reason they are looking to invest through a crowdfunding medium; to be a catalyst of new and innovative solutions.

The parties that partake in crowdfunding are a crucial sector of the studies relating to crowdfunding. When various categories of parties interact, the manner in which the actions of each party's sub-genres impact the decisions and actions of other sub-groups must be observed for potential policy implementations by the appropriate regulation authorities. It can be argued that investors are the most important party in the growth of the field. This specific group can be classified as the "Crowd," which consists of the average investor, and the "angels," which refer to significantly wealthy individuals who make sizeable investments relative to that of the crowd. The dynamics between these two groups are a critical factor to analyze in order to understand their impact on the investment ecosystem. Due to the reputation of the concept crowdfunding as a "democratizing force" during its inception stage, Wang, Mahmood, and Sismeiro (2019) argue that the participation of angels within crowdfunding activities jeopardizes the democratization role of ECF. However, contrary to this expectation, it was found that angels and the crowd have complementary roles that ultimately increase the efficiency of the overall capital market through the flow of information between angels and the crowd. Further findings clarify the importance of respecting sub-groups' roles, where angels are the key group in providing capital for large ventures, whereas the crowd mainly addresses the smaller businesses. Other sources that diminish the presence of asymmetry of information should be pursued in order to maximize the efficiency of the market as well.

Further understanding of the types of parties from which financial backing is secured can be attained through assessing investor types at a more discriminate level. By narrowing down factors that impact the success of crowdfunding ventures, both entrepreneurs and crowdfunding investors attain more information regarding their strategies to both successfully complete their crowdfunding campaigns and make profitable investments, respectively. Kleinert, Volkman, and Grünhagen (2020) found that prior financing and successful campaigns have a significant positive impact on the success of ongoing crowdfunding campaigns. This study provides robust support for the conclusions made by Biancone, Secinaro, and Kamal (2019), Hornuf and Schwienbacher (2018), and Yeh and Chen (2020) in terms of past investments increasing chances of successfully attaining required capital. However, additional findings show that the number of previous investors is also a contributing factor. The benefits of such a characteristic are primarily rooted in that it is a direct response to the uncertainty most investors would have in the success of a business venture. As discussed by Mahmood, Luffarelli, and Mukesh (2019), investors are primarily attracted to companies that seem to be pursuing innovative and disruptive products and services. However, such companies also have a significant degree of uncertainty in terms of success. Prior financing and various backers provide a key signal for future investors regarding past performance of the company.

The demographic of investors and founders in need of capital determines their way of analyzing new pieces of information. By analyzing the manner in which various



ethnicities, age groups, and geographies of investors and founders impact their decisions, Cumming, Meoli, and Vismara (2021) gained significant insight as to how such characteristics determine the success of Equity Crowdfunding campaigns and Initial Public Offerings. Findings show that remote companies are more likely to opt for a crowdfunding approach to attain capital, likely due to the convenience factor and due to the nature of their business model being more likely to appeal to the pool of investors found in crowdfunding ecosystems in comparison to that of IPOs. Further findings denied any significant impact of the role of females or minorities in terms of the success of a capital acquisition campaign in either IPO or ECF approaches.

### **General Crowdfunding**

According to Erasmus et al. (2022), the most typical type of crowdfund is debt-based, followed by donation-based, while equity-based is one of the fastest-growing. Vergara (2015) conducted a study on public perceptions and beliefs about crowdfunding in the Philippines, showing that the most common models are reward- and donation-based, followed by equity- and lending-based funding. According to the report, 96% of respondents have given money to charity in the past, while 65% have invested money to make money. Only 42% of respondents were aware of crowdfunding and knew what it meant, compared to 31% who had heard the term but didn't understand it and 27% who were unaware of it. Few respondents were able to name a crowdfunding effort specifically targeted towards Filipinos, making the Pebble Smartwatch the most well-known crowdfunding project in the Philippines. Of those who are aware of crowdfunding, 47% said they would probably support a project, and 7% said they would probably use it to raise money.

In Nigeria, only 24% of respondents to the study carried out by Soreh (2017) were aware of crowdfunding, and 53.5% had heard of it but were unaware of how it operated. Further studies in Nigeria by Erubami et al. (2023) explore the phenomena of crowdfunding, which is asking the public for money or donations, and how it might be used as an alternate method of financing healthcare in Nigeria. The authors point out that medical crowdfunding has grown in popularity globally, with around one-third of all campaigns asking for financing for medical-related expenses. Given the significant number of active social media users and the high internet connectivity index in Nigeria, crowdfunding has grown to be a popular choice for many people looking to pay for medical expenditures. However, the authors point out a number of flaws in the technique, such as improper legal regulation, a lack of public knowledge, and dishonest activities.

The authors mention earlier research that showed crowdsourcing to be an effective financing method for Rwandan small and medium-sized firms (SMEs) as well as student and recent graduate entrepreneurs. They also talk about a model created by Huang et al. (2021) that highlights seven key factors influencing medical

crowdfunding behavior, such as perceived utility, perceived simplicity, and attitudes toward use.

In order to better understand how Nigerian social media users feel about medical crowdfunding as a potential alternative to traditional healthcare financing, the authors performed a study. The majority of respondents, they discovered, had favorable opinions on medical crowdfunding posts made on social media sites, but they are also worried about the possibility of being taken advantage of by dishonest individuals. The survey also discovered that social media users in Nigeria have a favorable opinion of crowdsourcing as a substitute method of paying for medical expenses and are prepared to promote its use. The authors suggest that the government should provide inexpensive healthcare and medical subsidies to lessen the burden of out-of-pocket medical expenses, and that crowdfunding websites be modified to deter fraud and corruption online.

Also, another study from Ghana (Djimesah et al., 2022) using quantitative data from 538 respondents in eight regional capitals of Ghana, examined how the Technology Acceptance Model (TAM) influenced stakeholders' behaviors and intention to use crowdfunding. According to the study, perceived utility affects stakeholders' intentions to use crowdfunding. Additionally, perceived ease of use was discovered to be a crucial element influencing the decision to purchase on Kickstarter. The study showed that perceptions of crowdfunding's usability can be considerably influenced by how simple it is for stakeholders to utilize. By 2025, it is anticipated that the African crowdfunding market would have grown to \$2.5 billion from its current \$190 million. The report advises Ghanaian crowdfunding platforms to take advantage of mobile money technology while employing creative strategies to raise stakeholders' perceptions of its utility, motivate them to use it, and help projects become noticed. Because crowdfunding is so simple to use, stakeholders see its usefulness, and this perceived usefulness motivates people to use it.

A study conducted in Rwanda by Berndt and Mbassana (2016) on how Rwandan entrepreneurs feel about crowdfunding. The research employed qualitative techniques, which included speaking with eight business owners. The result is simply that Rwandan business owners may think about adopting crowdfunding, although caution would be required to ensure successful adoption. The study emphasized the need for entrepreneurship for the growth of economies, but a shortage of financial resources can impede venture expansion. Crowdfunding has the ability to assist business owners in overcoming this obstacle, but it can only be effective in a developing economy if the regulatory environment supports technical advancements, access to social media, and cooperation with training and development organizations.

According to the report, half of the Rwandan business owners surveyed had heard of crowdfunding, and one of them had tried it unsuccessfully while studying in the US.

All but one entrepreneur, though, said they would use crowdfunding if given the chance. Despite acknowledging a probable lack of Internet proficiency among potential crowd investors, the entrepreneurs said that the Internet is vital to their firm and a suitable platform for communicating with customers and investors.

The study underscored how crucial it is for entrepreneurs looking for finance to have a clear sense of their purpose and objective, as well as clear expectations. In Rwanda, crowdfunding is subject to a number of laws, including those governing corporate governance, credit, fundraising, and lending. Overall, the study indicated that entrepreneurs in Rwanda have a favorable opinion of crowdsourcing and that it may be a good financing option, but careful execution and governmental backing are needed for it to be successful.

In order to analyze the behaviors of parties relevant to the crowdfunding concept, the key motivations and deterrents of those seeking capital and those providing it must be accounted for. Such information would prove invaluable to each party in regard to the characteristics of the other party. Gerber and Hui (2013) explored the determinants and motivations of entrepreneurs and backers through semi-structured interviews in terms of the benefits these parties receive as a result of their participation as well as events they adhere to avoid if it were left to their discretion.

In terms of the founders' motivations, key among them are the need to market their project and gain approval from the prospective target customer, as well as to expand their personal network, learn new skills, and raise capital while simultaneously retaining the authority of the creative and functional control over their business. Their deterrents, on the other hand, lie in their commitments and the uncertainty of the success of their venture.

Meanwhile, viewing crowdfunding processes from the perspective of backers, the key motivation is to support causes that they believe in, such as environmental preservation, through backing companies that pursue similar goals. However, the potential misuse of the funds is the main deterrent for backers.

These findings allow each party to address the concerns of the other and have the potential to significantly improve market inefficiencies as a result. As such, crowdfunding platforms must provide a stable mode of communication between the two parties.

According to Abushaban (2014, October), the author explains how social and cultural factors affect the behavior and attitudes of consumers in the MENA region towards crowdfunding. The author explained how the region has witnessed some successful crowdsourcing efforts, including Palestine with 63 completed campaigns, the UAE with 35 campaigns, and Egypt with 28 campaigns, and how contribution rates may be impacted by social and cultural factors. Entrepreneurs have excellent opportunities to

earn money and work on socially beneficial projects through crowdfunding. It is crucial to promote crowdfunding for regional communities and combat fraud by developing other systems for making payments online.

Another study in the GCC region investigated how the Gulf Cooperation Council's (GCC) entrepreneurs access financial resources and the economic success of fundraising by implementing entrepreneurial finance (EF) concepts on crowdfunding platforms.

The principal-agent and signaling theories were used in the study to analyze the interaction between funders and fundraisers. Data was gathered from investors, business owners, and startups in five Gulf nations as well as from a number of crowdfunding platforms. The results showed that crowdfunding has a favorable influence on the success of economic fundraising, and some platforms are useful EF instruments for funding businesses in the GCC. The study offered both theoretical and practical contributions to the literature and served as a manual for improving the administration and effectiveness of crowdfunding platforms. The GCC governments introduced crowdfunding to boost the FinTech industry and pioneer Islamic finance products. Crowdfunding projects increase the awareness of various economies. However, there are just two distinct authorities tasked with keeping an eye on crowdfunding operations in the GCC. According to the study, crowdfunding can be a useful strategy for bridging the financial gap and bolstering the GCC's FinTech sector.

### **Reward Based Crowdfunding**

The concept of reward-based crowdfunding is centered on incentivizing potential investors with exclusive access to specific products. Often, the extent of their access and perks relies largely on the tier of investment attributed to each individual investor as a result of their investment in the company (Bi, Liu, & Usman, 2017). Bi, Liu, and Usman (2017) observed the impacts of information acquired online on the decisions of investors participating in this category of crowdfunding. The findings differ between various categories of crowdfunding ventures; for instance, projects primarily based on art or entertainment are highly influenced by word-of-mouth on online forums, whereas ventures within the Science and Technology sectors are mainly influenced by direct communications from verified sources related to the business venture. As such, inferences can be made about how prone each category is to misinformation and speculation. Such insights are valuable to founders as they can adjust the frequency of their updates to reduce their exposure to such risks. The backing that a company has already attained serves as a strong indicator for backers assessing their investment options.

However, Roma, Messeni Petruzzelli, and Perrone (2017) propose that the amount pledged by the venture itself also independently impacts the success of the campaign through subsequent investments. Further support for these investments can be attained

through acquiring patents that complement the services and products for which the company is seeking financing (Roma, Messeni Petruzzelli, & Perrone, 2017). These hypotheses were found to be applicable specifically in the context of reward-based financing. From the perspective of backers, the amounts pledged by ventures symbolize their commitment and signal expectations of the venture's success, as well as that of the project being financed. In terms of patents, backers receive third-party assurance regarding the appropriate use of investments, alongside further assurances against profit loss due to duplication by competing entities, such as rival companies.

According to Hsieh et al. (2021), the authors investigated the connection between reward-based crowdfunding and economic ambiguity. The success of crowdfunding initiatives is influenced by the Economic Policy Uncertainty (EPU) index, and the authors looked into this relationship and discovered that the higher the EPU index, the more successful the crowdfunding. However, for large projects with funding targets of USD\$5,000 and beyond, the positive effect of EPU on crowdfunding success is less noticeable. In times of significant policy uncertainty, crowdfunding success rates for design and technology projects are higher.

## **Conclusion**

Throughout this paper, the concept of crowdfunding was analyzed from various viewpoints to gain an understanding of the focus and goals of the academic community within this topic. Various sub-topics and common affiliations, such as Shariah Compliance and Fintech, were also analyzed. These subtopics establish connections between crowdfunding and other fields, allowing for the diversification of data analyzed as well as generalizability and applicability of findings within studies conducted in other fields.

The classifications of crowdfunding primarily consist of debt-based, equity-based, reward-based, and donation-based crowdfunding. Minimal focus was given to debt funding due to its contemporary nature and minimal relevance in the modern capital acquisition marketplace where more nuanced capital provision sources are sought after by entrepreneurs and investors alike. To amass sufficient and appropriate knowledge regarding crowdfunding, the most cited articles on trusted databases, such as Scopus, were utilized, allowing for the compilation of the most relevant findings over the past decade.

Various insights were attained throughout this study of literature, providing numerous implications for entrepreneurs and backers alike. By understanding the behaviors and reactions of the counterparty due to various events, actions, and other stimuli, each party may adjust their strategies to maximize their benefit, contributing to an expected increase in market efficiency within the crowdfunding industry. The establishment of the permissible application of crowdfunding also assists in this matter, as it opens up



the crowdfunding alternative to those demographics that use Shariah compliance as a core element within their decision-making.

### **Limitations**

Limitations faced throughout the review of literature include limited access to some documents that would otherwise provide further considerations discussed regarding crowdfunding. Further limitations regarding the output achieved throughout the study were the dearth of diverse sources used to extract relevant articles, as articles were sourced largely from the Scopus and Emerald databases. Furthermore, to maintain conciseness and maximize the impact of the literature review, the selection criteria limited contending articles to those with the highest citations or extremely recent publication schedules. As such, certain topics may have been omitted from observation due to such criteria.

### **Recommendation**

Based on the above literature review, recommendations are stated to guide future research in further advancing our understanding of the various drawbacks and benefits provided to various parties by crowdfunding. A growing interest can be observed within the articles studied regarding the behavioral element within the investment decision-making process. Further research may be conducted regarding potential stimuli stemming from industries related to crowdfunding, such as financial intermediaries, the banking industry, and trade-based industries, upon the investment decisions of the parties involved in the crowdfunding process.

Potential research questions for further research:

1. What factors contribute to the success of crowdfunding efforts, and how do those projects perform once they have received funds?
2. What are the impacts of backers' and entrepreneurs' perceptions of their roles, the success of the campaign, and trust in the counterparty based on types and frequencies of communications?
3. What are the impacts on each party's perception of their roles, the success of the campaign, and trust in the counterparty based on types and frequencies of communications?
4. What is the relationship between the growth of the traditional capital provision market and the growth of the crowdfunding industry?
5. To what degree does Shariah compliance influence the investment decisions of parties actively participating or considering participation in crowdfunding?

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