

## ORIGINAL RESEARCH ARTICLE

# Crowdfunding in the Portuguese social sector: User profile

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### ABSTRACT

CF is an emerging financing source that aims to take advantage of information technology to raise money for new business projects. There are different models of CF that can be used in both the for-profit and social sectors. This article aims to study the use of crowdfunding in the Portuguese social sector. For this purpose, the objectives of the study are threefold: (i) to analyze the extent to which social organizations in Portugal have used CF; (ii) to analyze whether or not the use of CF is conditioned by the profile of these organizations; (iii) to assess whether the use of CF as a financial tool influences the capacity of the social organization to acquire other types of resources. The study uses a quantitative approach based on an online survey of 313 social organizations in Portugal. The results show that CF is not widely used by social organizations, although some characteristics seem to be associated with its use, namely age, geographical scope, size, and presence on social media. In addition, a positive relationship is found between the use of CF and the ability of social organizations to acquire resources and information.

**Keywords:** crowdfunding; social organizations; resources; information

## 1. Introduction

The pursuit of the social mission by social organizations is a daily activity that involves considerable challenges. One of the main difficulties is the mobilization of financial resources, which is recognized as particularly difficult for social organizations<sup>[1]</sup>.

In such a context, innovative ways of accessing new financial mechanisms have played a relevant role in recent years. One of these alternative funding sources is Crowdfunding (CF), which consists in the use of digital platforms by individuals seeking funding to mobilize resources through a wide range of people who individually contribute very small amounts of money<sup>[2,3]</sup>. The digital platform (CF platform) only intermediates the financing operation by helping to disseminate investment opportunities to potential investors in a single place and by defining the rules for transactions (e.g., the maximum amount of funding). CF includes several models (such as donation, reward, loan, and equity) and can be targeted to different types of organizations, both for-profit and social organizations<sup>[4]</sup>.

Despite the interest that CF has attracted in recent years, both in the professional and scientific communities, there is still little knowledge about the use of CF by social organizations. This investigation aims to contribute to filling this gap by selecting three main research objectives. First, the research intends to understand the use of CF by social organizations, analyzing the use of this financial mechanism according to

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the profile of these organizations. Thereby, we intend to analyze to what extent the characteristics of social organizations, such as age, location, size or presence in social media, are related or not to the use of CF. Second, we examine the extent to which the use of CF is or is not related to the ability of social organizations to acquire resources. Third, we examine the possible relationship between the use of CF and the ability of organizations to acquire information.

To achieve these goals, the article is organized as follows: Section 2 presents the theoretical background with a review of relevant literature on crowdfunding, resource acquisition, and the importance of information for social organizations. After that, the methodology used in the research is explained in Section 3. The results are presented in Section 4. Finally, the main conclusions are outlined.

## **2. Background**

### **2.1. Crowdfunding**

CF operations began in the 1990s and were stimulated by the proliferation of Internet platforms<sup>[5,6]</sup>. In recent years, CF has experienced significant growth and popularity as a financing mechanism<sup>[7]</sup>. An important contribution to this scenario occurred during the economic and financial crisis of 2008, which greatly exacerbated the problems of access to bank credit<sup>[8,9]</sup>. In this context, CF has emerged as an attractive alternative financing tool, especially for start-ups and growing companies<sup>[9,10]</sup>, as well as for non-profit ventures<sup>[6]</sup>.

CF is derived from the combination of two words—“crowd” and “funding”—and essentially refers to the use of an online platform to raise funds from a crowd, with each individual contributing a small amount of money. Crowdfunding is more precisely defined by Moritz and Block<sup>[4]</sup> as an open invitation, essentially through the Internet, to provide financial resources, either in the form of donations (without rewards) or in exchange for some form of reward and/or voting rights, to support initiatives for specific purposes. In Portugal, the existing legal regime defines CF as the financing of entities or their activities and projects through their registration on electronic platforms accessible through the internet, from which they proceed to raise investment tranches from one or more individual investors (Legal Regime of Collaborative Financing, defined in Law No. 102/2015, of August 24).

Considering that access to capital is one of the main barriers to entrepreneurship, CF emerges as a promising tool to support entrepreneurial activity<sup>[1]</sup>, although it may be particularly useful for the pre-seed or seed phase of a project, when new ventures need small amounts of money to start their activity. For example, in the management of social organizations, CF could be particularly important to raise financial resources for projects of a social or non-profit nature<sup>[2-4]</sup>. Moreover, the behavior of contributors in CF does not reflect profit-maximizing decisions like traditional lenders, which usually implies the presence of pro-social motivations<sup>[11,12]</sup>.

According to the literature, there are two main business models for CF. The profit-oriented CF focuses on investment (equity-based and loan-based) and the non-investment-oriented CF focuses on sponsorship, patronage, and social causes (donation-based and reward-based). The only business model that does not have any type of compensation is donation-based, as all the others have some type of economic or financial compensation<sup>[8,13]</sup>.

CF platforms are an important part of the model, as they bring together entrepreneurs (who need financing) and people who are available to finance projects (potential investors) for a common purpose, i.e., to support the implementation of a project<sup>[14]</sup>. In addition to the benefits recognized by CF in mobilizing financial resources, other benefits have also been pointed out. Some authors have highlighted the relevance of CF in the acquisition of other types of resources, as the use of CF platforms allows for a closer interaction with

other market actors and creates new opportunities for co-creation and participation with other actors<sup>[15,16]</sup>. In addition, due to the interaction fostered by the digital platform, CF could also be beneficial in terms of information acquisition, establishing new communication channels, and expanding the network to which social organizations are connected, and, consequently, the type of information that social organizations can obtain<sup>[17]</sup>.

## **2.2. Resources**

The social organization has to manage different types of resources, such as physical, financial, or human resources, in order to carry out its social activities<sup>[18,19]</sup>.

- Physical resources<sup>1</sup>

The social entrepreneur needs to attract resources to fulfill his or her mission. To exploit a social opportunity, social entrepreneurs need a range of assets, including physical resources. The ability to acquire such resources is critical to social entrepreneurship and could be made possible or beneficial through the use of CF and the social entrepreneur's network.

- Financial resources<sup>2</sup>

According to resource dependence theory, the development and survival of an organization depend on its ability to acquire resources<sup>[20]</sup>. Financial resources allow the organization to acquire other resources to develop its social activities. In the case of social organizations, the problem of financial self-sustainability is critical to financing their operational and strategic activities, so fundraising activities assume an important role<sup>[21,22]</sup>. CF is one of the tools that could be used to obtain financial resources.

- Human resources<sup>3</sup>

Social ventures depend on human resources to fulfill their mission. In a competitive labor market, social organizations are in an unfavorable position to acquire human resources compared to business firms. Therefore, an entrepreneur's personal network becomes critical in the process of identifying and recruiting employees or volunteers for the social organization<sup>[23]</sup> and for specific projects that could be funded by CF.

## **2.3. Information**

Information is an asset that is increasingly seen as an important resource to be used by an organization<sup>[24]</sup>. Information includes elements such as knowledge, expertise, and news. The quantity and quality of information that organizations have access to is considered critical because information allows organizations to expand the range of options available and influence management decisions<sup>[25]</sup>. Furthermore, the information shared among the members of a given network leads to collective learning processes and the development of more innovative solutions<sup>[26]</sup>. According to Burt<sup>[27]</sup>, the benefits of social networks for information acquisition can be derived from: (i) access to better quality information; (ii) the time at which the information is provided; and (iii) the number of recommendations to which each individual could have access. The empirical literature has recognized that the involvement of individuals in different networks can result in different social capital endowments and influence the benefits they can achieve in terms of information acquisition<sup>[28]</sup>.

## **3. Methodology**

### **3.1. Research context**

The dataset includes organizations of public interest, such as institutions of social solidarity and

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<sup>1</sup> A tangible asset has a physical form necessary for the development of organizational activities.

<sup>2</sup> A monetary asset has a financial nature that can be obtained by the organization through various sources, such as income-generating strategies developed by the organization, the provision of funds by its members or partners, or externally by debt capital.

<sup>3</sup> Human resources are all individuals who work for the organization, regardless of their hierarchical level, the function they perform, or their contractual relationship (e.g., whether they are temporary or permanent, a paid employee or a volunteer).

other types of entities (social, cultural, and humanitarian). The list includes 3777 organizations, which contain only the tax number and the name of the entity. To complete the list, various sources of information were consulted, including the websites of social organizations, social media sites, and the website of the Social Chart (which includes the institutions supervised by the Ministry of Solidarity and Social Security). This operation was carried out on a list of email contacts for 3252 entities.

### **3.2. Data collection**

- Questionnaire design

According to the research objectives, the questionnaire consisted of the following sections: The first included questions for the general characterization of the sample and to trace the profile of the social organizations in the study. The second section aimed to assess the frequency of use of CF based on the characteristics of the social organizations. Finally, the last section of the questionnaire aimed to analyze the social organization's capacity to mobilize different types of resources.

Measures of all constructs were developed based on a review of the literature. A preliminary version of the questionnaire was developed and administered to ten academics in the fields of management and economics. The purpose was to assess the validity of the selected measures. The research instrument was then modified based on the feedback received. Subsequently, the revised questionnaire was pretested and refined for relevance and clarity, and no significant problems were found.

- Survey response

Each of the 3252 entities included in the database with an email address was contacted between January and March 2020. The purification of the database was completed with the removal of 864 email addresses due to missing email addresses and error messages. The total number of email contacts in the sampling frame was 2388.

A formal email describing the objectives and significance of the study was sent to all institutions. Anonymity was assured to all respondents, and a summary of the research findings was promised in exchange for their participation. After two rounds of persistent emails asking respondents to return the questionnaires, some institutions did not respond. A total of 337 questionnaires were received, although 24 were dropped due to excessive missing data. For statistical analysis, only respondents who answered more than 80% of the questions included in the questionnaire were considered, resulting in an acceptable response rate of 13.1% (313/2388). Thus, the final sample consisted of 313 responses.

### **3.3. Measurement**

The multi-response formats were used to operationalize the following variables: use of crowdfunding: 1—Never, 2—between 1 and 3 times, 3—more than 3 times; age of the organization: 1—less than 5 years, 2—between 5 and 10, 3—more than 10 years; location: 1—North, 2—Center, 3—South, 4—Islands; geographic intervention: 1—local, 2—regional, national, international; size by number of employees: 1—less than 5, 2—between 5 and 10, between 11 and 30, more than 30; size by number of volunteers: 1—less than 10, 2—between 10 and 20, between 21 and 50, more than 50; size by number of beneficiaries: 1—less than 100, 2—between 101 and 200, 3—between 201 and 500, 4—more than 500; size by value of annual operations: 1—less than €50,000, 2—between €50,000 into €100,000, 3—between €100,001 into €500,000, 4—more than €500,000.

The multi-item scales and five-point response formats were used to operationalize the variables, resources, and information measured on a five-item Likert scale: 1 for “strongly disagree” and 5 for “strongly agree”.

Resources (RES). The variables related to resource acquisition capability were used according to the scheme below:

CAPYS—defined as the capacity to acquire physical resources (machines, cars, etc.);

CAHUM—defined as the capacity to acquire human resources (volunteers, collaborators);

CAFIN—defined as the capacity to acquire financial resources;

CATFS—defined as the capacity to obtain tax exemptions and financial support;

CAHSO—defined as the capacity to obtain help from other social organizations to deliver the service;

CABSP—defined as the capacity to get better suppliers.

The six items were derived from Ge et al.<sup>[29]</sup> although all were adapted for social organizations and refined in the pre-testing stage of the questionnaire.

Information (INFO)—The four statements related to the information construct were operationalized using a five-item Likert scale for measuring managers's perceptions about their capacity to provide and acquire useful, helpful, and crucial information related to social business (legislation, financial support programs, suppliers, volunteers, etc.) to engage with stakeholders and make better and more informed decisions. The items were derived from Thornton et al.<sup>[30]</sup>, adapted for social organizations, and refined in the pre-testing of the questionnaire.

### 3.4. Sample

**Table 1** shows the main characteristics of the sample. Most of the 313 respondents who participated in the survey had been in existence for more than 10 years and came from social organizations located in the center of the country (N = 143), the north (N = 112) and the south (N = 50). The geographical area of intervention of the majority of organizations was local (N = 141), regional (N = 92) or national (N = 62). The size of the social organizations, measured in terms of number of employees, volunteers, beneficiaries and total annual income, varies. The most common size in terms of number of employees is more than 30 (N = 129), while in terms of number of volunteers it is less than 10 (N = 186). The most common size in terms of number of beneficiaries is more than 500 (N = 101) and in terms of annual amount is more than €500,000 (N = 133).

**Table 1.** Sample characteristics.

Characteristics	N	%
<b>Organizations' age</b>		
Less than 5 years	9	2.9
Between 5 and 10 years	19	6.1
More than 10 years	285	91.1
<b>Organizations' location</b>		
North	112	35.8
Center	143	45.7
South	50	16.0
Islands	8	2.6
<b>Geographic intervention</b>		
Local	141	45.0
Regional	92	29.4
National	62	19.8
International	18	5.8
<b>Number employees</b>		
Less than 5	45	14.4
Between 5 and 10	41	13.1
Between 11 and 30	98	31.3
More than 30	129	41.2

**Table 1.** (Continued).

<b>Characteristics</b>	<b>N</b>	<b>%</b>
<b>Number of volunteers</b>		
Less than 10	186	59.4
Between 10 and 20	63	20.1
Between 21 and 50	25	8.0
More than 50	39	12.5
<b>Number of beneficiaries</b>		
Less than 100	76	24.3
Between 101 and 200	78	24.9
Between 201 and 500	58	18.5
More than 500	101	32.3
<b>Annual amount</b>		
Less than €50,000	30	9.6
Between €50,000 and €100,000	61	19.5
Between €100,001 and €500,000	89	28.4
More than €500,000	133	42.5
<b>Total</b>	<b>313</b>	<b>100</b>

Source: Authors' own elaboration.

## 4. Results

### 4.1. Profile and use of CF by social organizations

When analyzing the use of CF by social organizations, we find that most of them have never used it as a fundraising mechanism (N = 240, 76.7%). As shown in **Table 2**, 54 organizations have used CF between 1 and 3 times (17.2%), and only a small percentage have used CF more than 3 times (6.1%).

We then analyzed the use of CF by social organizations according to their profiles. Although not using CF is the most frequent situation among the organizations analyzed, there are some differences according to their characteristics, which are briefly summarized as follows:.

In terms of age, organizations between 5 and 10 years old are those that have used CF more (31.6%) and also those that have used CF more often (10.5% of them have used CF more than three times), compared to the most recent organization or those that have been in existence for more than 10 years.

Regarding location, social organizations located in the center of the country have used CF slightly more than those located in other regions of the country, especially in the north, where 80.8% of them have never used CF.

Considering the geographical intervention, the highest percentage of organizations that have never used CF are local (85.7%), while the percentage of international organizations is lower (61.1%). The use of CF on a more regular basis (more than three times) is noticeable in organizations with a national or international scope (12.9% and 11.1%, respectively).

When analyzing the size of the organizations according to the number of employees, it can be observed that the use of CF decreases as the number of employees decreases. In fact, 84.4% of organizations with less than 5 employees have never used CF, while this percentage decreases to 69.8% in organizations with more than 30 employees. The use of CF more than three times occurs mainly in larger organizations (between 11 and 30 and more than 30 employees).

Considering the number of volunteers, we observe that the non-use of CF is more prevalent in organizations with less than 10 volunteers (80.1%) and, on the other hand, in organizations working with more than 50 volunteers (84.6%). Nevertheless, smaller organizations (working with less than 10 volunteers) have reported using CF less frequently than organizations working with 10 or more volunteers.

The increased use of CF is also observed in social organizations working with a higher number of beneficiaries, especially those with more than 500 beneficiaries, of which 32.7% have used this source of financing at least once. If we analyze the size of the social organization according to the annual amount, a similar pattern is found, as CF is widely and frequently used by organizations that work with 100,000 euros or more annually.

Finally, analyzing CF use according to the organization's social media presence, we observe that social organizations using Instagram and LinkedIn are more involved in CF use, as only 55.6% and 54.3%, respectively have never used this financial tool. This percentage is significantly higher than that observed in total organizations or those that only use Facebook.

**Table 2.** CF and organizations' profile.

	Never		Between 1 and 3 times		More than 3 times	
	N	%	N	%	N	%
<b>Use of CF</b>						
Use of CF according to the characteristics of the social organization	240	76.7%	54	17.3%	19	6.1%
<b>Organizations' age</b>						
Less than 5 years	7	77.8%	2	22.2%	0	0.0%
Between 5 and 10 years	13	68.4%	4	21.1%	2	10.5%
More than 10 years	220	77.2%	48	16.8%	17	6.0%
<b>Organizations' location</b>						
North	96	85.7%	14	12.5%	2	1.8%
Center	99	69.2%	29	20.3%	15	10.5%
South & Islands	45	77.6%	11	19.0%	2	3.4%
<b>Organizations' geographical intervention</b>						
Local	114	80.9%	21	14.9%	6	4.3%
Regional	69	75.0%	20	21.7%	3	3.3%
National	46	74.2%	8	12.9%	8	12.9%
International	11	61.1%	5	27.8%	2	11.1%
<b>Organizations' size by number of employees</b>						
Less than 5	38	84.4%	5	11.1%	2	4.4%
Between 5 and 10	33	80.5%	6	14.6%	2	4.9%
Between 11 and 30	79	80.6%	12	12.2%	7	7.1%
More than 30	90	69.8%	31	24.0%	8	6.2%
<b>Organizations' size by number of volunteers</b>						
Less than 10	149	80.1%	32	17.2%	5	2.7%
Between 10 and 20	43	68.3%	13	20.6%	7	11.1%
Between 21 and 50	15	60.0%	7	28.0%	3	12.0%
More than 50	33	84.6%	2	5.1%	4	10.3%
<b>Organizations' size by number of beneficiaries</b>						
Less than 100	66	86.8%	8	10.5%	2	2.6%
Between 100 and 200	59	75.6%	15	19.2%	4	5.1%
Between 201 and 500	47	81.0%	10	17.2%	1	1.7%
More than 500	68	67.3%	21	20.8%	12	11.9%
<b>Organizations' size by annual amount</b>						
Less than €50,000	26	86.7%	4	13.3%	0	0.0%
Between €50,000 and €100,000	53	86.9%	5	8.2%	3	4.9%
Between €100,001 and €500,000	69	77.5%	14	15.7%	6	6.7%
More than €500,000	92	69.2%	31	23.3%	10	7.5%
<b>Presence on social media</b>						
Facebook	211	76.2%	50	18.1%	16	5.8%
Instagram	35	55.6%	19	30.2%	9	14.3%
LinkedIn	19	54.3%	10	28.6%	6	17.1%

Source: Authors' own elaboration.

## 4.2. Linking CF and resources

The analyses assess the extent to which the use of CF is or is not related to the ability of organizations to acquire different types of resources and develop different types of capabilities.

The correlation analysis (**Table 3**) shows that the use of CF is positively and significantly related to the ability of the social organization to mobilize resources, namely physical resources ( $r = 0.195$ ,  $\alpha = 0.05$ ), human resources ( $r = 0.133$ ,  $\alpha = 0.05$ ) and financial resources ( $r = 0.164$ ,  $\alpha = 0.05$ ), as well as to the ability to obtain support and occasional help from other social organizations ( $r = 0.131$ ,  $\alpha = 0.05$ ) and to find better suppliers ( $r = 0.166$ ,  $\alpha = 0.05$ ). This means that those social organizations that use the CF are also those with the best ability to mobilize resources. The only variable with no statistically significant association is the ability to get support from the state, which is not related to the use of CF.

**Table 3.** Correlation CF vs. resources.

CF	Physical	Human	Financial	State support	Other organizations' support	Suppliers
1	0.195*	0.133*	0.164*	0.007	0.131*	0.166*

Note:  $p < 0.05$  (2-tailed)

Source: Authors' own elaboration.

## 4.3. Linking CF and information

Analyzing the relationship between CF and information (**Table 4**), we observe that the organizations that have used CF are also those that have a better capacity to collect information related to legislation, support programs, suppliers, or volunteers (INF1  $r = 0.138$ ,  $\alpha = 0.05$ ) or to acquire information useful for the social organization (INF4  $r = 0.118$ ,  $\alpha = 0.05$ ).

However, no statistically significant correlations were found between the use of CF and the acquisition of information to make well-informed decisions (INF2) or information critical for social organization (INF3).

**Table 4.** Correlation CF vs. information.

CF	INF1	INF2	INF3	INF4
1	0.138*	0.110	0.079	0.118*

Note:  $p < 0.05$  (2-tailed).

INF1—information about legislation, support programs, suppliers, volunteers, etc.

INF2—information to take decisions well informed

INF3—information critical for the social organization

INF4—information useful for the social organization

Source: Authors' own elaboration.

## 5. Conclusions

Despite the potential it offers and the growth it has shown in some sectors of the economy, more knowledge is needed about the use of CF in the social sector. Therefore, the objectives of this research were threefold. First, to understand the use of CF by social organizations and the influence of the organizations' characteristics on the decision to resort to this financial mechanism. Second, to assess the extent to which the use of CF is or is not related to the ability of social organizations to acquire resources. Third, we examine the possible link between the use of CF and the ability of organizations to acquire information.

The results show that CF is largely underutilized by social organizations in Portugal, as the vast majority of them have never used this funding mechanism. Moreover, the proportion of social organizations that use CF regularly is very low. This pattern is observed for all social organizations as a whole, regardless of their profile characteristics. Nevertheless, the results indicate that organizations with an average age profile, operating at a national or international level, with a higher dimension and present in social networks tend to



be slightly more favorable to the use of CF. The increased use of CF is even observed in social organizations with a stronger presence on social networks, especially Instagram and LinkedIn.

The research carried out also shows that social organizations that actively engage in fundraising using this alternative financial mechanism are also those that have a greater capacity to mobilize resources and obtain information.

One of the main limitations of the paper is the descriptive nature of the research, which conditions the type of statistical tests performed and the exploratory analysis of the data. Also, the lack of empirical research in this area presents a challenge to the interpretation and discussion of the results, which is also a limitation of the article. As such, the findings open up new avenues for research. For example, future research could investigate whether the improved access to resources and information is directly promoted by the use of CF or is due to the entrepreneurial behavior of social organizations, which is expressed in different areas of the organization's management. In addition, future research could be focused on the main reasons why CF is so rarely used by social organizations as a fundraising source.

## Author contributions

Conceptualization, SB and JFS; methodology, SB and JFS; validation, SB and JFS; formal analysis, SB and JFS; investigation, SB and JFS; data curation, SB; writing—original draft preparation, SB and JFS; writing—review and editing, SB and JFS; supervision, JFS. All authors have read and agreed to the published version of the manuscript.

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## Conflict of interest

The authors declare no conflict of interest.

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