The Synergistic Relationship between Crowdfunding and Corporate Social Responsibility: A Case Study

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Abstract—Crowdfunding is one of the new financing aspects that technology has added in the past decade and has grown significantly to become an alternative source of finance and assisting business projects and social & environmental initiatives. Despite the development and spread of debt-based Crowdfunding significantly, donation-based crowdfunding is also progressing, especially with the growing relationship between crowdfunding and corporate social responsibility (CSR) and through which it is possible to create opportunities to attract funds by crowdfunding platforms. The aim of this paper is to analyze the relationship between Crowdfunding and the principles of CSR. In particular, the study examines whether the adoption of CSR principles in crowdfunding platforms affects the success of funding and the ability of companies and entrepreneurs to access financial resources on the one hand and whether Crowdfunding is an effective means of financing projects that are in line with the objectives of CSR on the other hand. The approach is based on a qualitative research methodology formed by a case study using data from a crowdfunding platform in Middle East countries to investigate the funds that are raised which are consistent with the principles of CSR taking into account cultural and religious characteristics. The results of the paper show that the presence of CSR positively affects the success of the funding offered and that the crowdfunding platforms are an effective and innovative tool for financing projects that are in line with the objectives of CSR.

Keywords—Crowdfunding, Corporate Social Responsibility, social & environmental activities

I. INTRODUCTION

Recently, CSR has become an inevitable priority for businesses around the world and represents a coherent tool in the business strategy of big companies, it has become more than a cost, restriction or charitable gesture. It can be seen as a source of opportunity, innovation, competitive advantage and strategic investment that creates long-term value [1]. Usually, the CSR activities are implemented with the knowledge that there is a strong relationship between the company and the society, [2] has argued that companies cannot be considered separately from society, and this strong relationship between business and the surrounding environment has a dimension of moral and ethics. In addition, many companies have striven to implement actions aimed at strengthening their reputation through the adoption of CSR concepts which have a positive impact on the followed way in which the company is perceived and evaluated by its stakeholders [3]. This leads to a direct or indirect positive impact on the profitability of the company through increased sales and services or fundraising as part of the financing of social activities for companies. Can benefit from the financing process for these activities mainly through crowdfunding, especially if they focus on social and environmental issues [4].

Crowdfunding is a new way to get funding by going directly to a group of people around the world online and asking for funding to serve an initiative. This has become an alternative to traditional financing methods that rely on institutions such as banks, governments and investment companies. Access to crowdfunding is through the launch of a campaign aimed at reaching out to supporters and donors to convince them of the objectives and benefits of the campaign and to encourage them to support them financially. This campaign is usually on a crowdfunding platform that receives funding [5]. Crowdfunding has ethical dimensions and is an innovative and effective way to support social and environmental projects and can benefit companies to increase their CSR-based activities. On the other hand, the existence and adoption of CSR principles in crowdfunding activities positively reflect the success of fundraising. This harmony between the two concepts can help to change the traditional landscape of the financing process, which is characterized by a lot of complexity and give an additional opportunity in financing projects that are environmentally and socially oriented [6]. Crowdfunding has many different qualities than conventional financing that can reduce transaction costs in obtaining the appropriate capital to finance a project and often creates interaction in different directions between the financier and
the entrepreneur, thus increasing its success [4]. Crowdfunding has gained a great deal of attention around the world, especially in developed countries, but recently, however, crowdfunding has grown in the Middle East as well, and many online platforms have begun to operate and provide services in these countries [7].

Currently, corporate social responsibility is intrinsically present in all countries of the Middle East region. Despite its development in recent years, the concept of CSR has not yet received methodical awareness in the Middle East. It is also evident that the concept of corporate social responsibility in the Middle East has unique and distinctive criteria and connotations that do not always reflect current understanding and practice in developed countries. It is based on deep-rooted traditions of social values derived from religious texts and cultural traditions [8].

Several scientific articles have talked about topics related to crowdfunding and CSR, but there is a lack of addressing the extent of the relationship between the two concepts and how this synergy can be an important source of funding to achieve social and environmental goals in a particular context, for example, the Middle East. This paper attempts to cover this gap. In fact, this paper aims to analyze the relationship between Crowdfunding and the principles of CSR. In particular, the study examines whether the adoption of CSR principles in crowdfunding platforms affects the success of funding and the ability of companies and entrepreneurs to access financial resources on the one hand and whether Crowdfunding is an effective means of financing projects that are in line with the objectives of CSR on the other hand. This paper is organized as follows: section two is concerned with the literature review for explaining crowdfunding and its relation to CSR activities. In section three the methodology where it is used the qualitative approach, using case study looking to the Middle East countries. In section four are analyses and a discussion of the Middle East countries case study. Finally in section five the conclusion of the paper.

II. LITERATURE REVIEW

A. Crowdfunding

Crowdfunding is a form of financing born recently and today is witnessing its spread globally. This is an alternative way of raising funds from a large number of people via the internet through dedicated online platforms. Thanks to this phenomenon, the crowd can contribute, through the giving of even small sums of money, to the realization of projects with social, environmental or entrepreneurial nature [6]. Further explanations have been provided in the literature by several authors, among the best known is the description by [9], which was reviewed by [10] by defining crowdfunding as “an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes”.

The birth of crowdfunding can be traced back to the late nineties. In these years, the first websites to raise funds mainly for charitable initiatives were born [11]. Moreover, in the same years, the first examples of online fundraising related to the world of music appeared. The artists could count on a fan community and began to ask for funding for the production of new albums or organize their own concerts. One of the first examples of the successful online collection dates back to 2001 when the English group Marillion managed to get $60,000 to finance a tour in the United States [12]. The evolution of crowdfunding went hand in hand with the evolution of the world wide web. With the new millennium and the advent of web 2.0, the internet has become increasingly accessible and connections were gradually speeding up. This allowed the development of the network as we know it today where the social component, of fundamental importance for the operation of crowdfunding, has assumed a pivotal role in the use of online resources. This phenomenon has led to the creation of sites like Facebook and Youtube and to the advent of the social web and the possibility of creating horizontal networks has allowed the development of platforms on the internet [6]. In this scenario the real crowdfunding was born; in 2008 and 2009 the two most popular platforms appeared on the web: IndieGoGo and Kickstarter and these platforms have immediately exploited the social web and have quickly become the symbol of financing [13]. Crowdfunding, as mentioned, is a financing mechanism through a crowd of supporters, according to the purposes and methods, the projects are divided into four categories: donation-based, reward-base, equity-based and lending-based. In donation-based, particularly suitable for community-oriented projects, it allows donating a specific sum to an organization that has social and environmental goals, in which case the donor is not a profit-making one and is often used to stimulate moral recognition by donation. As regards reward-base, in which a reward is received, based on the amount invested in the sustained campaign and which, generally, coincides with a product or service to those who finance the project. Instead equity-based, predicts who invests does not receive a simple reward, but becomes a partner of the company. By supporting an equity crowdfunding project, therefore, you buy shares in the company that is looking for funds. Finally lending-based, in this case, the money is properly lent to the applicants, who can use the crowdfunding platform to carry out their project, and return the money once the project is completed in
exchange for an interest rate on the loan [5]. Regarding donation activities, [14] show that philanthropy promotes social standing, increases value and can be more profitable. Many donors use this method to improve their institution image which also reflects their human sense and interest in the changes and needs in a particular society. Crowdfunding was widespread only in the Western state in the early years. However, alternative funding soon found its way to the Middle East, and many of the global and national platforms began to serve in these countries. The platforms focused on small and medium businesses, providing crowdfunding services. In the Middle East, alternative financing across online platforms has continued to grow. Total market size showed an increase of 12% annually from $158.8 million in 2015 to $177.30 million in 2016. The most widely used alternative financing model was equity-based crowdfunding [7].

B. Crowdfunding & CSR activities

The crowdfunding theme offers many synergies with the concept of CSR. Crowdfunding is a way of providing a broad scope where CSR can interact with donators, beneficiaries and stakeholders as a whole. Providing appropriate financing for SMEs and helping CSR budgets is very useful when starting a fundraising campaign. Crowdfunding can be a strategic tool for a company that embraces the concept of corporate social responsibility. Research has shown that crowdfunding can have a significant impact on improving a company's performance and achieving its development goals [15]. The literature on crowdfunding has been categorized into two parts based on whether or not there are rewards for financiers. In either model, crowdfunding programs have social benefits [16]. The funding platform approach imposes several conditions, notably, the percentage requested at least 100% for the project to succeed. Within a specified time period or collected funds will be returned to donors [17]. For example, Kickstarter is a platform that implements the all-or-nothing financing style. This model foresees that the person who launches a crowdfunding campaign receives the money raised through the campaign only if the amount financed by the supporters is at least equal to the minimum amount necessary for the realization of the project. On the contrary, Indiegogo offers the keep-what-you-raise mechanism that provides that the amount of money that is paid by the supporters of a crowdfunding campaign, is paid to those who launch the campaign whatever the amount reached in addition to the all-or-nothing option. Indiegogo stated that through this mechanism, higher fees were charged for fund-raising activities that do not reach the target [18]. This approach encourages fundraising to take into account social campaigns to achieve the funding target. Companies can support fundraising campaigns with a focus on CSR activities. CSR initiatives can help crowdfunding activities for social and environmental purposes by organizing donation campaigns. Funding and/or CSR may come from well-known entities such as individuals or companies to support crowdfunding campaigns, increase the potential for additional funding, and activate and engage stakeholders, particularly in the success of the funding project. Activities within the crowdfunding platforms vary by objectives. Donors usually have charitable initiatives for free to serve the community and try to solve their problems [4]. The donation-based crowdfunding model has acquired crowdfunding activity in developing countries through projects related to social and environmental activities due to the aggravation of these problems and the use of alternative financing means to address them and these platforms are growing at a significant annual rate [18]. The donation-based crowdfunding platforms encourage individuals or associations to provide funds to address social and environmental issues. Donors make donations on the basis of philanthropy without expectation of material returns. The concept of CSR is linked to the Company's commitments to the community in order to receive charitable assistance to enable the Company to realize its initiatives [19]. Crowdfunders often donate money because they believe in the entrepreneur's goals. The success of funding will be influenced by the social and cultural values represented by an entrepreneur or company, who turn to the crowdfunding platform for solutions to different social needs. Social entrepreneurship can be considered one of many institutional forms that strive for economic, social and environmental progress in a given context. It is certain that the main credential of crowdfunding will generally support the sustainability trend, it is assumed that the sustainability orientation (social and environmental) will positively influence the success of the financing [20]. Carroll extended CSR from the traditional economic and legal responsibility to ethical and philanthropic responsibility in response to the rising concerns on ethical issues in businesses. This view reflects a company's sense of responsibility towards the community and environment in which it operates [21]. The Global Reporting Initiative GRI is a body created with the aim of creating useful support for the report on the sustainable performance of organizations of any size, belonging to any sector and country in the world. This body has divided the CSR into three macro areas concerning the economic, environmental and social performance of companies [22]. CSR in the Middle East depends on advantages in philanthropic philanthropy inherent in religious and cultural traditions and in many social values. There are many connotations and terms that express human sympathy and concern for the affairs and protection of society grounded from the Islamic faith, including zakat (Islamic tax to help the poor) and Takaful (human solidarity) [8]. Islamic law (Shariah) which is based on four sources, most notably the Quran (the sacred book of Islam) and Sunna (the words and works of prophet Muhammad) [23][24], provides for the concept of social justice, which guarantees all people equal access to their rights. Islamic philanthropy provides strong rules for CSR in the region and forms advantages in voluntary giving non-compulsory, which grows out of a human sense [8]. Islam also urges to protect the environment; this is considered a religious duty from God. The Muslim must preserve its components and resources and avoids wastes and does not neglect the right of future generations [25].
III. METHODOLOGY

This study uses a qualitative research approach that is based on analyzing phenomenon [26]. The nature of the analysis is focused on the use of the case study method, which investigates all factors of a given case and harvests accurate and integrated information[27]. It is more likely to collect information that cannot be found by other means [28]. The case study methodology is suitable for operating when aspects of the research are based on a new situation that corresponds to the current times [29]. It is also advisable to adopt it when there is a need to analyze a study that has many variables related to each other [30]. The case study approach is, therefore, suitable for use to understand the theme and objectives of research related to crowdfunding and corporate social responsibility, analyze the relationship between the two concepts and how this synergy can be an important source of funding to achieve social and environmental goals in a particular context, for example, the Middle East. The case study depends on several tools and stages. The most important of these tools is the identification of the subject and the place of analysis [30], Middle Eastern countries have been chosen to be the case study because crowdfunding is growing in those countries and is closely linked to the principles of CSR stemming from cultural and religious factors that emphasize interest in projects and ideas that have a social and ethical dimension. Peculiarly, the research uses descriptive data [31] by reading the topic and analyzing everything related to it. It is also based on numerical data indicating the close correlation between the factors being studied [31], because the factors to be analyzed are similar in the Middle East as they have a lot in common: cultural, religious, legal and even technologically, the individual case study will be appropriate and produce the desired results. This study focuses on exploring the relationship between crowdfunding and CSR in the Middle East. Initially, I have collected data on fundraising activities from the international crowdfunding platform it's called ZooMaal\(^1\) based in Lebanon. I have harvested the data from 10 countries in the Middle East (Lebanon, Saudi Arabia, Jordan, Yemen, Egypt, Palestine, Turkey, Iraq, Oman, Syria). After that, I have taken into consideration 109 crowdfunding activities for companies and entrepreneurs from 2013 to 2019 that provide synergy with CSR initiatives from several countries in the Middle East as units of analysis according to [22]. ZooMaal allows funding to companies and entrepreneurs all-or-nothing financing style. In this analysis, the percentage was used as a criterion for fundraising for successful crowdfunding. Fundraising operations reached or exceeded 100% is a successful financing activity. The higher the percentage of fundraising, the more successful it will be. The variables were taken into consideration in this analysis are social and environmental activities. After collecting all the data from each activity from ZooMaal platform, I have distributed the activities in 12 categories. As regards to social activities (Education, Local Communities, Health, Human Rights Assessment, Non-Discrimination, Child Labour, Training) and as regards to environmental activities (Environmental Compliance, Effluents and Waste, Emissions, Biodiversity, Energy).

IV. DISCUSSION

The importance of CSR in the Middle East is growing. The progress and growth of CSR in the Middle East are no longer limited to companies alone. Governments and non-profit organizations have followed suit and taken many steps in that direction over the past years. Compared to the Middle East and developed countries, the awareness and adoption of CSR practices in the region have lagged behind. But that awareness and adoption has improved significantly over the past decade and is currently on the rise [7]. Regardless of the adoption and adoption of the concept, current CSR practices are still deeply rooted in the minds in this region as a form of philanthropy derived from cultural and religious factors. The Middle East is diverse in terms of religions. Islam is the largest religion in the Middle East and exists in almost all countries. CSR in Islam occupies a privileged position, as contained in a set of Quranic verses and Sunna. The Islamic perspective of CSR is summarized in the basic principle at the top of the pyramid is the administration of justice in the land. Islamic legislation has urged the performance of CSR, and the organization of how this performance in specific mechanisms, this is evident in the jurisprudence of Zakat and the rights of workers and charity [8], in addition to the preservation of resources and public utilities, such as roads, forests, water and air, where this responsibility is not limited to subsidize with money, but extends to the use of all possibilities to benefit the community [25]. These forms of philanthropy sometimes do not correspond to the actual needs of the region, and thus give up much of what is desirable to achieve in reality and its impact on society due to many reasons, the most important of which is the institutional weakness of many countries in the region for lack of financial resources. Therefore, some countries in the Middle East suffer from social and environmental problems and thus have severe water shortages, the need to improve waste management, and concerns about poor air quality. On the social level, poverty is increasing and educational activities and medical resources in the region are clearly declining. Project financing is one of the main obstacles facing new entrepreneurs, especially social and environmental ones in third world countries in general. To solve these problems has emerged for the time being with the spread of the Internet and technology a new type of financing called crowdfunding among the countries of the Middle East [32] and the cultural and religious factors based on philanthropic have helped to grow this phenomenon. There are many specialized platforms in the field of crowdfunding, and most of them, of course, foreign platforms. This process is conducted in a large and orderly manner in those developed countries, but there are Arab platforms that contributed to the financing of many projects, including those platforms (Zoomaal, Eureeca, Yomken) [32]. There are many world-renowned crowdfunding platforms, but there is a problem when the idea of the project is directed to the world at large from different cultures and nationalities. The idea of a

\(^1\)http://www.zoomaal.com/home
crowdfunding campaign on these platforms threatens to fail. Take, for example, the idea of a project that is very much related to Arab or Islamic cultures and customs. It is possible that launching this campaign on a Western platform will not guarantee the success of the campaign. The best is to launch the campaign on an Arab or Islamic financing platform. For this reason, I have taken into account the ZooMaal platform to analyse its data. ZooMaal is considered one of the first platforms in the Middle East for crowdfunding. The projects that have been financed through the platform have diversified, including cultural, social, and environmental projects, as well as technical and technological projects. Launched in 2012 and headquartered in Lebanon, the platform has proven its efficiency in terms of its social, economic and media network. The website links projects with supporters [33]. Funding is provided by those interested in international organizations, local sponsors or interested individuals, knowing that more than 60% of the support comes from Arab expatriates in foreign countries. The project shall specify the amount required and determine a specific period of time to collect the amount in accordance with the management of the site, in the event that the project owner cannot reach the required amount at the end of the deadline, the project owner doesn't receive any amount, and the funds collected will be returned to the supporters, provided that the project originally belongs to one of the areas advertised in the platform. ZooMaal deducts 5% of the funding if the campaign is successful. If it does not succeed, the site or the project owner doesn't receive any amounts [34]. As I mentioned in the research methodology I have analyzed 109 activities that comply with CSR, including 82 social activities and 27 environmental activities taken from ZooMaal crowdfunding platform from 2013 to 2019. I have distributed them in social activities including 7 categories and environmental activities include 5 categories. At the level of social activities, the categories are divided as follows: Education 27 activities, Local Communities 24 activities, Human Rights Assessment 11 activities, Health 8 activities, Non-Discrimination 6 activities, Child Labour 5 activities, Training 1 activity. As for at the level of environmental activities, the categories are divided as follows: Environmental Compliance 17 activities, Energy 4 activities, Biodiversity 2 activities, Effluents and Waste 2 activities, Emissions 2 activities. I have harvested the data from 10 countries in the Middle East. At the country level, data was taken as follows: Lebanon 51 activities, Egypt 23 activities, Jordan 20 activities, Palestine 6 activities, Turkey 3 activities, Iraq 2 activities, Oman 1 activity, Saudi Arabia 1 activity, Yemen 1 activity, Syria 1 activity. ZooMaal follows the American Kickstarter platform all-or-nothing, where it is based on a percentage as a criterion to determine the success of the financing and the project must collect at least 100%. The higher the percentage of fundraising, the more successful the project will be. In this analysis, The 82 social activities have received a high success rate of about 74%, that is 61 projects have reached the specified percentage (100%) or more. For the 27 environmental activities, the result was somewhat similar, it has reached 70% of the success rate, which 19 projects have gained the specified percentage (100%) or more. These results confirm that there is a positive and synergistic relationship between crowdfunding and CSR, showing that the existence of CSR concepts in the projects presented in the financing platforms positively affects its success and that crowdfunding platforms are an effective and innovative tool for financing projects that are in line with the objectives of CSR. Thus, CSR activities are not only charitable but also a source of opportunity, innovation and competitive advantage. Crowdfunding gives the companies and entrepreneurs the opportunity to carry out CSR activities and additional funding for social and environmental projects. CSR activities can be achieved and expanded through active participation in crowdfunding.

V. Conclusion

This study shows that the era of financial technology offers new opportunities for both crowdfunding and CSR. Crowdfunding is an increasingly suitable alternative financing option for development projects that can be effectively integrated into CSR concepts. In particular, the possibility of increasing the visibility of CSR and raising public awareness of CSR commitment through crowdfunding initiatives. On the other hand, adopting a developmental approach helps to make projects successful on open platforms with increasing social and environmental problems. In this study applied to the case study method taking into consideration the Middle East countries, It is noticeable that crowdfunding activities are increasing, particularly in the Middle East, which is supported by cultural and religious factors derived from philanthropy, serving potential synergies with CSR fundraising activities. ZooMaal Arabic platform was used to collect data because it is largely related to Arab or Islamic cultures and customs and most of its users belong to those countries which give us more realistic results. The results of the study correspond to the existing literature on the positive and synergistic relationship between crowdfunding and CSR, confirming that the existence of CSR concepts in the projects presented in the financing platforms positively affects its success, in which the number of successful crowdfunding activities has reached 72% for the social and environmental activities in 10 countries in the Middle East and that crowdfunding platforms are an effective and innovative tool for financing projects that are in line with the objectives of CSR in light of the decline in financial resources in those countries.

Further research is needed to improve the analysis results regarding successful crowdfunding activities in the Middle East, as most of the research data used came from a single platform and did not include all countries. In addition, it is important to expand the sample used to give better results and visibility.

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