

# Accounting Standardization and the Social Economy in Portugal: Special Emphasis on Nonprofit Foundations

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The Non-Profit Sector (NPS) is composed of several non-profit institutions, whose social objectives and purposes are of general benefit to society and independent of the government and companies. Nonprofit foundations present themselves in modern society as philanthropic and altruistic agents. Foundations play an extremely important role in society because they act autonomously, in a long-term project and preserve their own economic resources, playing the role of substitutes for the state. There are foundations of a public and private nature. The current accounting standards approved for the NPS were developed and considered the different objectives and specificities of this type of entities. Through the accountability process, reliable information on the management of funds entrusted to foundations, as well as the results obtained during activities, is provided to all stakeholders.

*Keywords:* third sector, nonprofit entities, foundations, accounting, sustainability

## Introduction

As in most Western European countries, in Portugal the genesis of contemporary third sector organizations was initiated in the 19th century by civil society, with the emergence of revolutionary initiatives and experiences in the context of the so-called “social question” and a hegemonization of liberal ideals at the economic and political level. With the arrival of Portugal in the European Union (EU), a period of stability and economic, social, and political integration began to approach European standards, and thus to national exposure and integration in the European dynamism of the third sector.

Today, non-profit foundations present themselves in modern society as philanthropic and altruistic agents. Allied with large companies or individuals, these entities try to correct the errors of the public sector, by helping and providing social assistance to communities; however, they are not unaware of the potential income that can be generated from the activities pursued.

Foundations play an extremely important role in society because they act autonomously and with a long-term project, as well as preserve their own and highly reliable economic resources, playing a role as substitutes for the state. Their main difficulty is the acquisition of resources, so they seek to carry out activities of a lucrative nature, which finance the main objective of the foundation, highlighting the provision of services, fundraising through sales and auction campaigns, publications, and private financing (derived from employers, companies, and others).

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Foundations are constantly linked to the service required by society and to donations, so it is essential to have a good project of domination and administration of the funds at your disposal, because anyone who wants to create a foundation abdicates a property he owns for use of the common benefit, and the foundation cannot be identified with its founder or administrators.

Having its own property, constituted by the totality of assets that affect the achievement of its objective, the foundation includes the following elements: the substrate, the materiality prior to recognition and recognition, for which it obtains legal personality. Currently, the substrate is analyzed in the creation of the foundation and contains four elements: prescriptive, patrimonial, teleological, and organizational.

In this context, this article aims to characterize and study the foundational universe in Portugal, with a special focus on non-profit foundations. It is also intended to relate the specific legal regime of these entities, with the accounting rules applicable to the Non-Profit Sector (NPS), especially applicable to the foundations mentioned here.

### **Methodology**

An investigation is, by definition, something that is sought. It is a journey towards better knowledge and must be accepted as such, with all the hesitations, deviations, and uncertainties that this implies (Quivy & Champenhoudt, 2005).

The present study is characterized as documentary analysis (bibliographic research), with a quantitative and descriptive approach. Bibliographical research is based on books and scientific journals. It is the search for a problematization of a research project based on published references, analyzing, and discussing cultural and scientific contributions. Qualitative research brings with it some common characteristics, including the fact that the researcher is the main instrument, the tendency to be descriptive and the researcher is more interested in the process than in the results (Raupp & Beuren, 2006).

In this sense, our investigation was based on the research of the most recent literature available on the third sector and, within this, on non-profit foundations. For data collection, the social economy satellite account (3rd edition), published on July 19, 2019, by the National Statistics Institute (INE), was used, as well as the data available in the Presidency of the Council of Ministers, and the data published by *Jornal Público*<sup>1</sup> based on the report of the working group that evaluated the foundations. From the vast universe of data obtained on the social economy and on foundations, the relevant information for the present study was extracted (Yin, 2014; Instituto Nacional de Estatística, 2019).

The problem under study and which is intended to be answered with this investigation consists in verifying the number of non-profit foundations and the way in which they interact with the economic sector in Portugal. Concomitantly, it is also intended to analyze the accounting organization of the foundation and the accounting standards used.

### **The Social Economy**

#### **Contextualization**

The Non-Profit Sector (SNL), also known as the third sector, social economy, voluntary sector, or sector of civil society organizations, contains a wide range of institutions, very different from each other and

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<sup>1</sup> A daily newspaper published in Portugal.

organized under various legal forms (Bruce & Young, 2010; Casey, 2018; Defourny & Pestoff, 2008; Mendes, 2015).

This sector is composed of several non-profit institutions, whose objectives and social purposes are of general benefit to society and independent from government and companies. They occupy a function of great significance in society, as they act autonomously and with a long-term project, preserve their own economic resources and of high reliability.

One of the characteristics common to this type of entities and organizations lies in the development of activities that pursue social well-being, with respect for the principle-rule of not distributing any profits (or surpluses) generated.

In the SNL, the so-called “public goods theory” approach prevails, whereby it is considered that these entities seek to satisfy the supply needs of public or quasi-public goods (such as health, social assistance, etc.), not provided in quantity, quality, or specific segmentation appropriated by public organizations, these “government failures” being minimized by entities in the Non-Profit Sector (ESNL) (examples of which are activities associated with mercies or social solidarity cooperatives, among others) (Monzón & Chaves, 2012).

The SNL in Portugal is mainly composed of associations, foundations, cooperatives, mutual societies, mercies and other ESFL<sup>2</sup> (people’s houses), Non-Governmental Organizations (NGOs), etc.

The social economy offers goods or services that correspond to the needs felt by the individuals to whom they are destined, regardless of their intrinsic economic profitability, seeking that this offer is made optimizing the quality/price ratio (Mendes, 2015).

Organizations that are part of the social economy should converge on a number of aspects, of which the following should be highlighted: (a) respect for the human dimension; (b) combating social exclusion; (c) the desire to promote spaces for individual fulfillment; (d) a democratic and participatory view of the organization; (e) a vision of the organizational mission that inserts it into the social fabric (without reducing it to a mere economic unidimensionality); (f) management autonomy; (g) primacy of people and work over capital; (h) assumption of responsibilities, whether individual or collective; (i) the development of a high degree of social capital (Monzón & Chaves, 2012).

### Characterization

In 2016, the Gross Value Added (GVA) of the social economy represented 3.0% of the GVA of the economy, increasing 14.6% in nominal terms compared to 2013. This growth was higher than that observed in the economy, which was 8.3% in the same period.

The social economy represented 5.3% of wages and total employment and 6.1% of paid employment in the national economy. Compared to 2013, the total wages and jobs in the social economy increased by 8.8% and 8.5%, as shown in the table below:

Table 1

#### *Social Economy Data*

Year 2016	2016/2013
5.3% of wages and total employment	+ 8.8%
6.1% of the national economy’s paid employment	+ 8.5%

Source: 2016 social security satellite account.

<sup>2</sup> Entidades sem fins lucrativos.

Entities in the Non-Profit Sector showed greater dynamism than the Portuguese economy in general, which were 7.3% and 5.8%, respectively.

Of the groups of social economy entities, associations with altruistic purposes were those that demonstrated a greater number of entities (92.9%), GVA (60.1%), remuneration (61.9%), and paid employment (64.6%).

Table 2

*Key Indicators of Nonprofit and Third Sector Organizations*

Classification	Economic Activity Unit (UAE)	Employment	Paid Employment	GVA
	N.º	ETC	ETC	10 <sup>6</sup> Euros
- Culture, communication and recreational activities	33 722	12 048	11 789	242
- Education	2 594	29 966	29 811	671
- Health	2 386	75 503	75 460	1 186
- Social Services	6 978	70 196	70 000	1 170
- Environmental protection and animal welfare activities	726	714	702	10
- Community and economic development and housing	2 106	2 606	2 439	37
- Civic, legal, political and international intervention activities	5 912	2 797	2 769	50
- Philanthropy and volunteering promotion	322	190	186	3
- Religion	8 533	9 802	9 797	175
- Business, professional organizations and unions	3 815	8 268	8 128	153
- Professional, scientific and administrative services	2 547	5 976	5 775	303
- Other activities	2 244	18 222	18 030	821
<b>Social Economy</b>	<b>71 885</b>	<b>236 288</b>	<b>234 886</b>	<b>4 819</b>
<b>National Economy</b>	-	<b>4 419 870</b>	<b>3 839 523</b>	<b>162 226</b>
<b>Social Economy / National Economy</b>	-	<b>5.3%</b>	<b>6.1%</b>	<b>3.0%</b>

Source: 2019 social economy satellite account.

## The Foundational Universe Today

### Theoretical Framework

According to Serens (2014a), the legal form of foundation is about 2,500 years old, and in some cultures the act of founding is very old, that is, the declaration of will of an individual—the founder—who tends to relate to another—the bearer—(still in life or after death), to pursue a particular objective of a social nature, with the help of funds provided by him definitively.

According to Rodrigues (2013), foundations play an extremely important role in society, because they act autonomously, in a long-term project and preserve their own economic resources, of high confidence, playing a role as substitutes for the state. Its main difficulty is the acquisition of resources, resorting to the use of profitable activities, to finance the main objective pursued by the foundation. In this way, they stand out as means of obtaining revenues, the provision of services, fundraising campaigns, sales and auctions, publications, and private financing (from patronage, companies, among others) (Correia, 2010).

As mentioned by Anheier (2018) and Barros and Santos (2000), foundations are inserted in the third sector, which is characterized “by a set of non-profit institutions, whose social purpose and purposes are of general benefit and for the benefit of society, being independent from the government and companies” (p. 5). They play

an extremely important role in society, as they operate autonomously and with a long-term project as well as preserving highly credible economic resources.

According to Pratas (2009, p. 740), “the foundation is a collective person whose fundamental element is a set of assets permanently affected to the achievement of a certain purpose, of an altruistic nature”. The foundation is a legal person that should not be identified with its founder or its directors. It has its own patrimony, which is constituted by the totality of assets related to the pursuit of its end (Batista, 2006; Defourny & Pestoff, 2008; Elson, Fontan, Lefèvre, & Stauch, 2018). The foundation includes the following elements: substrate, materiality before recognition and recognition. The substrate is divided into “the intentional element or *animus personificandi*, the patrimonial element, the teleological element and the organizational element”.

Law No. 24/2012 of 9 July—Framework Law for Foundations (LQF) was an important milestone in the history of the creation and regulation of foundations in Portugal, as it was the first legal diploma addressed exclusively to these entities.

Foundations, as legal persons, can be classified into three types: private foundations, founded by one or more persons under private law, together or not with public entities, provided that, individually or jointly, they do not have a dominant influence over the foundation; public foundations under public law, in the case of foundations created exclusively by public legal entities, as well as personalized funds created exclusively by public law entities under the terms of the Framework Law for Public Institutes; and public foundations under private law, created by one or more public legal persons, or jointly with persons under private law, provided that those, alone or jointly, have a dominant influence over the foundation (Article 4, Paragraph 1 of the LQF) (Elson et al., 2018). According to Rodrigues (2013), foundations, regardless of their public or private origin, are legal persons for whom the state identifies the legal character to exercise rights and meet needs if the Constitution and the law are respected.

As for their nature, as mentioned, foundations present an essential distinction: public foundations and private foundations. The former are constituted on the initiative of the administrative power, legally and aim to pursue purposes of public interest (Macedo, 2001). The latter, as the name implies, are constituted by private initiative through public deed and aim to pursue the most varied purposes of collective interest in numerous areas. Although the means to pursue these ends are private, these foundations always lack a public act of recognition by the state (Rodrigues, 2013).

Social solidarity foundations are private foundations, constituted as private non-profit social solidarity institutions, created at the initiative of individuals to give an organized expression to the moral duty of solidarity and justice between individuals and if they are not administered by the state or by a municipal body, to pursue its objectives, through the concession of goods and the provision of services or others.

Social solidarity foundations provide services that should be provided by the state; hence they act in their place, contributing positively to the objectives of public social security. For this reason, it is customary for the state to enter into cooperation agreements with these foundations, establishing reciprocal rights and obligations, for example, in terms of financing (Anheier, 2018; Schuyt, Barbara, Gouwenberg, & Hoolwerf, 2018; Stefan Toepler, 2018; Song & Fu, 2018).

Most foundations of social interest and public utility do not constitute a private entity integrated in the activity of public administration, but maintain their organizational, functional, administrative, and financial

independence from the state, which allows them to achieve their public interest objectives, in obedience to the original will of its founder(s) and are not the object of any direct power of state direction. However, this does not apply to private institutions of social solidarity, which are under the tutelage of the respective ministry (Batista, 2006).

### The Nonprofit Sector Today

In 2016, there were 5,622 entities with the status of IPSS or equivalent, with an increase of 0.7% compared to 2013. Therefore, in 2016:

- 7.8% of the total number of ES entities held IPSS or similar status.
- These are mostly made up of ACFA (Associations with Altruistic Purposes) (84.0%), followed by Mercies (6.9%), Foundations (4.6%), Cooperatives (2.8%), and Mutualist Associations (1.7%).
- More than 95% of the Mercies and Mutual Associations and less than 10% of the total of Cooperatives and ACFA have IPSS status.
- In 2016, IPSS developed their activity mainly in social services (56.3%), followed by health (26.3%) and education (6.5%).

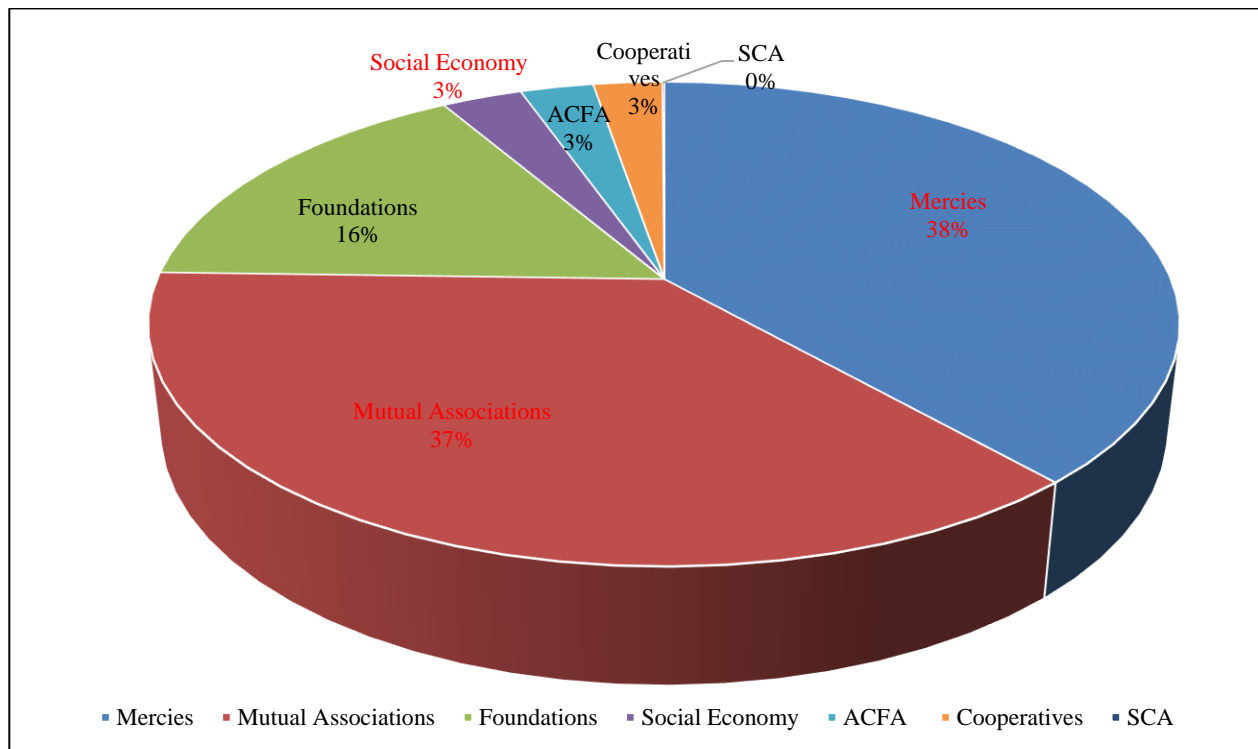


Figure 1. Weight of IPSS in groups of social economy entities. Source: Own elaboration.

Bento (2017) regarding the presentation in Lisbon on November 23, 2017, of a study under the theme “The Space of Philanthropy and the Spaces of Foundations”, in which the “Panorama of Philanthropy” will be addressed through a conference, in which they will also be representatives of major international foundations, he referred to the wealthiest foundations in Portugal. The document, commissioned by the Portuguese Foundation Center, attempts to portray the profile, characteristics, and dimensions of the Portuguese founding sector. Below are the data evidenced by the author:

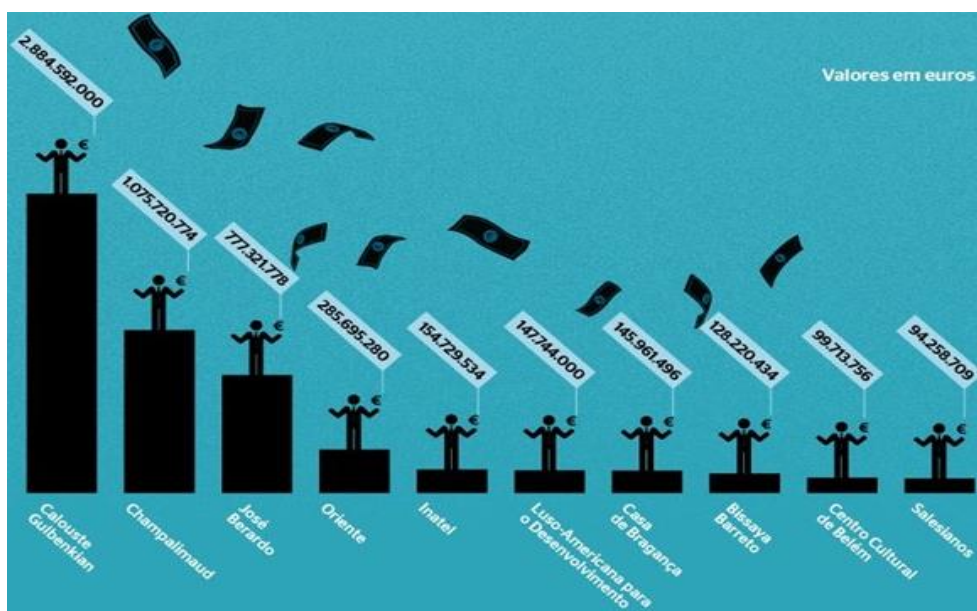


Figure 2. The richest foundations in Portugal. Source: Bento (2017).

As can be seen,

the Calouste Gulbenkian Foundation occupies the first place in the ranking of the foundations with the greatest patrimony, with 2.8 billion euros, followed by the Champalimaud Foundation, with less than half, and in the third position the Joe Berardo Foundation, with 777 million euros.

Completing the Top 5 of the most powerful list, is Fundação Oriente and Fundação Inatel. (Bento, 2017)

### Non-Profit Foundations in Numbers

The following is statistical information on the economic dimension, main characteristics, and activity of the SNL in Portugal, with emphasis on foundations. The main data were obtained from the 2016 social economy satellite account (last account published).

In 2016, foundations had 15,564 jobs, of which 15,497 were paid and 67 were unpaid, almost all of them full time and 14,140 individuals at their service. It is the fourth employer of ES, as shown in the following table.

Table 3

#### Employment and Remuneration of the Social Economy by Groups of Social Economy Entities—2016

Social Economy Entity Groups	Employment									Remuneration 10 <sup>6</sup> euros
	Work posts			Full time equivalent			Individuals			
	Total	Remunerated	Unpaid	Total	Remunerated	Unpaid	Total	Remunerated	Unpaid	
N.º	N.º	N.º	N.º	N.º	N.º	N.º	N.º	N.º	N.º	
Cooperatives	27 826	27 049	777	24 940	24 402	538	25 166	24 650	516	572.2
Mutual Association	5 073	5 073	0	4 842	4 842	0	4 846	4 846	0	212.1
Mercies	41 801	41 791	10	39 452	39 445	7	39 346	39 340	6	555.3
<b>Foundations</b>	<b>15 564</b>	<b>15 497</b>	<b>67</b>	<b>14 151</b>	<b>14 113</b>	<b>38</b>	<b>14 175</b>	<b>14 140</b>	<b>35</b>	<b>304.3</b>
Associations with Altruistic Goals	172 136	170 828	1 308	152 598	151 779	819	151 258	150 705	553	2 673.9
Community and Self Management Subsectors	354	354	0	305	305	0	332	332	0	3.8
Total of Social Economy	262 753	260 591	2 162	236 288	234 886	1 402	235 123	234 013	1 110	4 321.6
Total Economy (S.1)	5 225 4194	142 8171	082 6024	4 19 8703	839 523	580 3474	649 8153	967 964	681 851	81 854

Source: 2019 social economy satellite account.

On the other hand, non-profit foundations carry out various activities, with social services, culture, communication and recreational activities, health, and education, in that order, being the activities in which there is more entities with the foundation status, which can be seen in the table below.

Table 4

*Non-Profit Foundations*

Nonprofit Foundations	N.º
Culture, communication and recreational activities	131
Education	53
Health	106
Social services	183
Environmental protection and animal welfare activities	2
Community and economic development and housing	7
Civic, legal, political and international intervention activities	14
Philanthropy and promotion of volunteering	51
Religion	30
Business organizations, professionals and unions	0
Professional, Scientific & Administrative Services	34
Other activities	8
Agriculture, forestry and fishing	1
Industry	1
Accommodation, catering and similar	1
Trade	1
Transport and storage activities	1
Financial and insurance activities	0
Real estate activities	0
Employer Family Activities	0
Other activities	4
	627

Source: 2019 social economy satellite account.

Within the universe of non-profit foundations, there are 261 foundations with the status of private social solidarity institutions (IPSS), which carry out activities in the area of social services, followed by health and education, whose main data to be observed in the table below.

Table 5

*Private Social Solidarity Institutions (IPSS)*

Foundations - Private Social Solidarity Institutions (IPSS)	N.º
Culture, communication and recreational activities	6
Education	17
Health	96
Social services	124
Environmental protection and animal welfare activities	0
Community and economic development and housing	0
Civic, legal, political and international intervention activities	2
Philanthropy and promotion of volunteering	4
Religion	6
Business organizations, professionals and unions	0
Professional, Scientific & Administrative Services	2
Other activities	2
Agriculture, forestry and fishing	0
Industry	1
Accommodation, catering and similar	1
Trade	0
Transport and storage activities	0
Financial and insurance activities	0
Real estate activities	0
Employer Family Activities	0
Other activities	0
	261

Source: 2019 social economy satellite account.



In terms of the weight of production, gross added value, wages, and total employment (full-time equivalent) of ES in the Portuguese economy, by group of ES entities, in 2016 this sector is in the fourth position, preceded (in that order) by Associations with Altruistic Purposes, Cooperatives, and Mercies.

Table 6

*Weight of Production, Gross Added Value, Wages, and Total Employment (Full-Time Equivalent) of the Social Economy in the Portuguese Economy (S.1), by Group of Entities in the Social Economy—2016*

Social Economy Entity Groups	Production		Gross value added		Remuneration		Total Employment (ETC)	
	10 <sup>6</sup> euros	% do S.1	10 <sup>6</sup> euros	% do S.1	10 <sup>6</sup> euros	% do S.1	N.º	% do S.1
Cooperatives	1 573.7	0.5	604.2	0.4	572.2	0.7	24 940	0.6
Mutual Association	615.4	0.2	388.0	0.2	212.1	0.3	4 842	0.1
Mercies	919.7	0.3	596.6	0.4	555.3	0.7	39 452	0.9
Foundations	<b>645.6</b>	<b>0.2</b>	<b>332.3</b>	<b>0.2</b>	<b>304.3</b>	<b>0.4</b>	<b>14 151</b>	<b>0.3</b>
Associations with Altruistic Goals	5 119.8	1.6	2 896.9	1.8	2 673.9	3.3	152 598	3.5
Community and Self Management Subsectors	3.8	0.0	1.2	0.0	3.8	0.0	305	0.0
Total of Social Economy	8 878.0	2.7	4 819.2	3.0	4 321.6	5.3	236 288	5.3
Total Economy (S.1)	325 639.1	-	162 226.1	-	81 897.9	-	4 419 870	-

Source: 2019 social economy satellite account.

We can thus observe that non-profit foundations are, along with other institutions that make up the ES sector, providing a whole range of support to populations in different valences and activities, in an expressive way, which requires that each entity has a good accounting organization, essential for its decision-making process to be based on reliable, relevant, understandable, and comparable data.

### Accounting Standardization for Non-Profit Sector Entities

#### Presentation

The NCRF-ESNL was published by Notice No. 6726-B/2011, of March 14, as amended by Decree-Law (DL) No. 98/2015, of June 2, being ratified by Notice No. 8259/2015, of July 29. This is presented with a structure very similar to the Accounting and Financial Reporting Standard for Small Entities (NCRF-PE) and can even be considered as a transposition of this with the necessary adaptations to non-profit entities (Magalhães, 2012; CNC, 2015).

The current accounting standardization system for entities in the Non-Profit Sector (SNC-ESNL) has repealed the IPSS chart of accounts, the chart of accounts for mutual associations, and the official chart of accounts for sports federations, mutual associations, and club groups. The regulation is applicable to entities that are mainly dedicated to non-profit activities and that, at the same time, cannot distribute the surpluses generated by them, namely to associations, legal entities of an associative type, foundations, clubs, federations, and confederations. Note that cooperatives and entities that apply international accounting standards are excluded from the scope of this accounting standard (NCRF-ESNL, 2015).

The importance and weight that ESNL play in the economy justify the logic and the need for transparency in relation to the activities they carry out and the resources they use.

Bandeira (2013) argues that the current accounting standard approved for ESNL was developed and considers the different objectives and specificities of this type of entities. The Accounting Standardization System is composed of the following instruments:

- Conceptual structure.
- Financial statement models.
- Accounts code.
- Accounting and Financial Reporting Standards.
- Accounting and Financial Reporting Standard for Small Entities.
- Accounting and Financial Reporting Standards for Micro Entities.
- Accounting and Financial Reporting Standards for Entities in the Non-Profit Sector.
- Interpretive standards.

The main objective of the NCRF-ESNL concerns the recognition, measurement, and disclosure of the elements of the financial statements (Pires & Gomes, 2014).

As argued by Salamon and Anheier (1992a; 1992b), one of the characteristics common to this type of entities and organizations lies in the development of activities that pursue social well-being, with respect for the rule principle of non-distribution of eventual profits (or surpluses) generated; its financing may result from its own assets or resources allocated by natural and legal persons, absence of ownership, and control titles that can be bought, assigned, exchanged or that some type of investment is expected, economic consideration in case the entity ceases its activities or is the object of liquidation (Mendes, 2015).

In the NCRF-ESNL approved in 2015, in relation to the previous version, the application of the changes in accounting policies, which are applied retrospectively, was changed to Chapters 19 (Events After Balance Sheet Date) and 20 (Agriculture); a paragraph has been included stating that investment properties are recognized as tangible fixed assets and intangible assets, even with an indefinite useful life, are amortized over a maximum period of 10 years.

At the level of borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset, it is mandatory that these be immediately considered as part of the cost of the qualifying asset.

In the scope of financial instruments, investments in subsidiaries, associates, and joint ventures are now considered. In this context, the method of measuring impairment losses on financial assets was also added, as well as the prohibition on reversing impairment losses on equity instruments of another entity that are not publicly traded.

### **Users of ESNL Financial Information**

The purpose of financial statements is to provide information about the financial position, financial performance and changes in an entity's financial position that are useful to different users in decision making. At NCRF-ESNL, users of financial information are the entities that provide resources (quotas, bequests, donations), creditors, people who provide free benefits (help or voluntary work), government and public administration, among others. In this way (Bandeira, 2013):

1. Donors/financiers/associates intend to know the degree of fulfillment of the objectives developed.
2. ESNL members want to know how donations and other funds are applied to activities.
3. The volunteers want to know the results of their dedication, as well as the programs carried out and the needs for resources.

4. The state, insofar as it provides the resources for the activity of several entities in the Non-Profit Sector, needs to control the flows/means that allow the ends to be fulfilled without reducing the patrimony.
5. Creditors want to obtain information about the ability of the entity to solve their commitments.
6. Customers and users intend to evaluate the continuity of supplies of goods and services.
7. The public intends to assess the entity's contribution to its well-being or to the economic development of the sector in which it operates.

In this sense, the objective of this reform aimed at the SNL is to make the financial information of the entities that make up this sector more useful for external users, both in quantity and in quality. However, by itself, the mere existence of the Standard is not a sufficient condition to achieve this objective. The motivations that always lead organizations to produce this information greatly affect this quality (Antão, Tavares, Marques, & Alves, 2012).

### **Option for the Cash Regime**

The diversity of entities that make up the SNL leads the legislator to dispense with the application of accounting standardization to ESNL when their sales and other income do not exceed, in any of the previous two years, 150,000 euros (at the beginning of the activity the limit referred to above), the total annual value of estimated earnings) (NCRF-ESNL).

In case the referred limit is reached, the exemption referred to in the previous paragraph ceases, and the entity is obliged, as from the following year, to apply the accounting standardization for ESNL. However, this standard does not apply in cases where entities are included in the consolidation perimeter of an entity that presents consolidated financial statements.

ESNLs that fall within the scope of the exemption are obliged, in the case of acceptance of the exemption, to account on a cash basis (Article 10 No. 4 of DL 98/2015, of 2 June). This special regime was determined with a view to exempting small-scale ESNL from a set of obligations, leaving, however, the possibility that they would choose either the NCRF-ESNL or the cash regime.

The application of this regime requires that information on payments and receipts, fixed assets and future rights and commitments be disclosed in the rendering of accounts. This information is obtained through the financial statements approved in Ordinance No. 105/2011, of March 14, added by Appendix 17 of Ordinance No. 220/2015, of July 24.

It should be noted that this ordinance establishes the models of financial maps, not contemplating any provisions regarding the criteria for recognition and measurement of the respective items, a fact that may jeopardize the quality and comparability of these maps, since it may lead to different interpretations (Araújo, Cardoso, & Novais, 2012).

### **Accountability**

The needs and requirements for obtaining more and better information on the ESNL can be observed through a process of accountability, in which the preparers provide reliable information on the management of the funds entrusted to them, as well as the results obtained during the course activities, for all stakeholders. Thus, the act of accountability, in addition to the disclosure of information, consists of recognition, assumption of responsibility and transparency of the effects of the policies, decisions, actions, products and performance associated with it (Araújo et al., 2012).

Full accountability includes at least one business plan; a budget; an activity report; a set of financial statements (a Balance Sheet, a Income Statement, a Cash Flow Statement, an Attachment and, by option or by requirement, a Statement of Changes in Equity Funds); a legal certification of the accounts, if applicable; and an opinion from the supervisory body, when available (CNC, 2015).

The activity plan is a structuring document that, together with the budget, allows visibility and monitoring of the activities developed in the new year. A well-designed budget that is aligned with the activity plan (created based on financial assumptions and projections) is an important management tool (Araújo et al., 2012). According to the same authors, the main task of the activity report is to describe the objectives achieved, the degree of performance of the activities, and the resources used.

Under the terms of Art. 63, Paragraph 5 of the Constitution of the Portuguese Republic, the state must support and supervise the activity and functioning of private institutions of social solidarity and others of recognized public interest without a profit character, with a view to pursuing objectives social solidarity to which they are destined.

IPSS and similar entities must submit budgets and annual accounts for protection. The Portuguese social security has the task of receiving and analyzing the budget and accounts of these entities, which must be sent electronically, through the OCIP application, in order to automate the tasks associated with receiving, analyzing, and viewing budgets and annual accounts. The annual accounts for Year N must be submitted through the application referred to until May 31 of the Year N + 1 (Social Security, 2019).

### **Strategic Management of ESNL**

As mentioned in Point 3.3, there are 619 non-profit foundations, including 261 IPSS, with the sector occupying the fourth position in 2016 in economic terms, preceded (in that order) by Associations with Altruistic Purposes, Cooperatives, and Mercies. Now, given the volume of activity in question, it seems necessary that they have a good management system and even an adequate strategic planning.

Management theories have evolved a lot over the years, but their focus remains on understanding “variables that determine the performance of organizations and affect their ability to create value” (Meneses, 2012, p. 223). Therefore, management focused mainly on the competitiveness, context, and interactions of organizations. Recently, the issue of management has started to be associated with sustainability, as well as the importance of creating social and environmental value, in addition to economic and organizational.

Currently, the management of non-profit organizations is of great importance in the socio-economic context, as the demand for social responses in the various organizations increases (Worth, 2013). The management of these organizations is particularly important due to the movement of financial resources of various origins and types, namely through membership fees, allocation of subsidies, donations, etc. (Bruce & Young, 2010; Anheier, 2014).

The concept of strategic planning is defined as the way forward for the organization that helps to reflect and plan strategies that, through unity, direction, and purpose, encompass all intervention actions that the organization plans to improve and restructure in the future.

According to Bruce and Young (2010), when addressing strategic planning in the context of social economy organizations, five aspects must be considered (Schuyt et al., 2018):

- The existence of a mission that is achievable.
- Financial management appropriate to the resources available to the organization.

- The orientation of the program is directed to the target audience.
- Total profit reinvestment.
- Minimization of risks, using other techniques and procedures and, finally, measuring the results with appropriate indicators, such as the level of satisfaction of the people served.

In terms of sustainability, ESNLs feel the need to develop strategies to access various sources of funding. Thus, the sustainability of non-profit organizations implies not only the need for professionalization, but also the diversification of funding sources to boost revenue-generating projects; professionalization of human resources and volunteering, attracting new partners; build communication strategies; evaluate the results; and develop a very efficient organizational management structure.

### Conclusions

The SNL integrates a wide and heterogeneous range of non-profit organizations in the first instance, and there is currently no consensus on its scope and delimitation.

The Portuguese foundational universe is diverse and consists of small, medium, and large foundations, which present themselves mainly as private foundations of social solidarity.

History shows how this institutional form has been consistently reinforced over time. Although external forces have altered societies and changed foundations' priorities, their statutory form has remained remarkably consistent.

The foundations of social solidarity aim at different purposes of social solidarity, associated with assistance to the elderly, children, and adolescents, support to needy and at-risk people, as well as health assistance, development and maintenance of heritage, cultural, artistic objectives, educational, scientific, among others. We can see from the data analyzed that these foundations, together with mercies and mutual associations, play an important role in economic activity in Portugal.

The different activities pursued by non-profit foundations require that each entity has a good accounting organization, fundamental for its decision-making process to be based on reliable, relevant, understandable, and comparable data.

The current accounting standardization system for entities in the Non-Profit Sector (SNC-ESNL) has repealed the IPSS chart of accounts, the chart of accounts for mutual associations, and the official chart of accounts for sports federations, mutual associations, and club groups.

The change that occurred in 2015 at the SNC also determined a change to the NCRF-ESNL approved in 2011, which now becomes an integral part of the accounting standards in force.

The management of these organizations is particularly important due to the movement of financial resources from various sources and types, namely through membership fees, allocation of subsidies, donations.

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