UNIVERSITEIT VAN PRETORIA
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GORDON INSTITUTE OF BUSINESS SCIENCE

University of Pretoria

A sustainable financial model for low fee private schools in South Africa

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A research project to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.
1st August 2011

ABSTRACT

International governments have recognised that providing quality 'Education for All' is a top priority. In South Africa, there is a movement towards the global phenomenon of low fee private schools due to the government schools not satisfying the need for quality education. Sustainability of these schools is imperative as they are playing an increasingly important role in the South African education system. Therefore, the aim of this study is to develop a sustainable financial model to ensure these schools are an attractive investment opportunity for all stakeholders.

A two phased approach was used to develop the sustainable financial model. The first phase focused on ten interviews with managers and/or founders of low fee private schools to gather information on their financial models. This information was then consolidated into a financial model, which in turn provided a guideline used to interview ten experts from the educational and the financial business sectors in phase two. Two financial models were formed as a consequence and the combinations of these models form the sustainable financial model for low fee private schools.

The sustainable financial model acts as a mechanism to ensure sustainability of low fee private schools. The Structural Financial Model (from phase two) has an "aerial view" and exhibits the necessary levers for sustainability. The Relationship Financial Model (from phase one) has a "terrestrial view", which exhibits the relationship between the different levers in an organisation of a school. A combination of both models results in a sustainable financial model for low fee private schools.

Keywords: sustainable, financial model, education, South Africa

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Stacey Brewer 31st July 2011

ACKNOWLEDGMENTS

I would like to thank the following people for their support and contribution:

To my supervisor, Margie for her efficiency, support and belief.

To all the interviewees for their contribution and time.

To my partner, Matthew, for his patience, support and reassurance.

"*No problem can be solved from the same consciousness that created it. We must learn to see the world anew"*

– Albert Einstein

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Chapter 1: Introduction to Research Problem

1.1 Background to Research Problem

UNICEF (2000) said that educating the children of today is "well within our means" (para. 60) and that "reaching the poor and disadvantaged is a moral imperative, but is also financially and technically feasible" (para. 60). There needs to be a global priority to invest in the children of today to ensure the welfare of future generations and this can be achieved through education.

Education has become an essential driver of growth and development for individuals and is an important tool in the long-term eradication of poverty. Therefore, the international community formed the Copenhagen Declaration 1996, which is aimed at alleviating poverty across the globe but especially in developing countries (Al-Samarrai, 2003). As Africa is a developing continent, Seetanah (2009) stresses that African policy makers must be made aware of the importance of education as an influential contributing factor to economic growth and a prosperous future. It is further stated that educational transformation within Africa is an important area that needs urgent attention, with the improvement of quality education being the key objective (Seetanah, 2009).

The critical focus and investment priority in education is evident in South Africa. The government's current contribution to public education remains its single largest investment, with the expenditure budgeted at R165 billion for the period 2010/11 (Government Communication and Information System, 2010). Despite the capital investment, education results achieved in South Africa are some of the worst in the world (Bernstein, 2005a). These results suggest that while priority is given to investments in education, it is not translating into the global standards of educated youth (Bernstein, 2005a). Subsequently, there is a strong demand for quality, affordable and accessible education. This demand can be met by the private sector in which low fee private schools may provide an alternate solution to the gap that is being left by the current public schooling system.

1.1.1 Economic Benefits of Education

"Human capital accumulation is an important determinant of economic growth" (p.137) and it is only in the last two decades that economists have realised the importance of human capital as a contributing factor to productivity and growth within a country (Seetanah, 2009). Human capital is defined as a collection of "productive skills" (Hanushek, 2003, p. F64), in which governments around the world and international agencies, such as the World Bank, are placing large emphasis, particularly in developing human capital in the form of schooling. Educated workers have "higher human capital" (Zeira, 2009, p. 602), and therefore higher productivity. Previous studies done by Barro (1999) and Green, Machin, Murphy and Zhu (2008) reaffirm that education is an imperative aspect in influencing economic growth and improving the lives of individuals.

1.1.2 Education in South Africa

Africa has been the global focal point of poverty reduction and economic development due to it having the lowest levels of human capital growth in the world (Seetanah, 2009). In the developing countries of Africa, the average quality of schooling is generally assumed to be inferior compared to those of developed countries with African education seen more of as a 'luxury good' than a necessity (Toma, 2005).

In South Africa, the apartheid system deprived most black South Africans access to quality education. While the apartheid system no longer exists and all South Africans have an equal right to education, the country continues to struggle with the legacy of that system (Bernstein, 2005a). The policies of apartheid pervaded every aspect of the economy and society and it continues to act as a brake on growth, particularly its impact on human development, and the mitigation of poverty (Mayer & Altman, 2005).

In 1996, the South African Bill of Rights, formulated an act contained in the Constitution of the Republic of South Africa 1996 (Act 108 of 1996), which specified that "everyone has the right to a basic education", which the government, "through reasonable measures, must progressively make available and accessible" (Government Communication and Information System, 2010). The schooling policy states that it is compulsory for all children between the ages of seven and 15 years old to attend school and that all learners are guaranteed access to quality learning. The current government continues to place emphasis on the importance of education, as a key to reducing poverty and accelerating long-term economic growth (Government Communication and Information System, 2010). Jacob Zuma, the current president of South Africa, pledged to support the international campaign of 'Education for All' in which "education needs to become the priority of the whole nation" (Bloch, 2010, para. 24). The international campaign for 'Education for All' was formulated by the United Nations Educational, Scientific and Cultural Organization (UNESCO), which focuses on improving the quality of schooling in developing countries (Hanushek, 2009).

Conversely, Bloch (2010), a South African educational specialist at the Development Bank of South Africa, noted that education is a" nationwide tragedy." Bloch (2010) stated that 60 to 80% of the schools in South Africa are dysfunctional, with specific failings in mathematics and literacy, where South Africa is coming last in relation to international testing standards.

1.1.3 Global Phenomenon of Low Fee Private Schools

Due to parents losing faith in the government's ability to provide a quality public schooling system, there has been a recent movement towards private schooling (Tooley, 2007). This sentiment has been observed across class lines with not only the richer South Africans feeling this way, but also the poorer South Africans.

Global research was conducted on schools serving the poor communities and it was found that a large number of schools serving the poor were private (Tooley & Dixion, 2005). Tooley and Dixion (2005) found that there was a significant amount of poor parents choosing the private option when faced with a choice between a public and private school. Evidence is shown as an example in Hyderabad in India, where out of the 918 schools that were recorded in the slum areas, only 35% were government schools and the remainder were private schools (Tooley & Dixion, 2005). The private schools outperformed the government schools in most aspects as the teachers in private schools are held accountable which translated to a lower teacher absenteeism rate as they showed greater commitment and dedication (Tooley, 2007). The resources and conditions of the desks, chairs, toilets and drinking water, were superior in the private schools compared to the government schools (Tooley, 2007).

Low fee private schools are created largely by local entrepreneurs responding to the needs of their communities (Bernstein, 2005a). The schools are run by principals and owners who are determined to provide quality schooling by charging fees which are affordable to parents earning a minimum wage, which is essential to the community (Tooley, 2007). It is evident that parents are choosing schools that offer the best education returns for their children (Bernstein, 2005b).

1.2 Research Motivation

1.2.1 Purpose of the Research

This study answered the main research question:

What is a sustainable financial model for low fee private schools?

The emergence of low fee private schools, serving the poor learners in informal settlements, is evident in South Africa (Bernstein, 2005b). As these schools are playing an increasingly important role in the South African education system, the sustainability of these schools is critical. Sustainability is a result of a school being financially feasible, which is imperative in making the low fee private schools attractive for all stakeholders. Therefore, the aim of the research is to develop a financial model, which can be used as a mechanism to ensure sustainability for low fee private schools.

For the purpose of this study, sustainable, financial model, low fee private schools will be defined and explained in chapter two.

1.2.2 Research Scope

The global phenomenon of low fee private schooling was mainly researched by Tooley and Dixion (2005) in India, Kenya and Nigeria. In South Africa, the Centre for Development and Enterprise (CDE) researched the emergence of low fee private schools. It was evident that these types of schools have emerged; however there is no research that focuses on the financial model of these schools.

This study focused on the financial model of current low fee private schools within the South African context. This was done through an exploratory study based on interviews with managers and/or founders of current low fee private schools from which a financial model was formed. This financial model was then analysed and refined by experts within the educational and financial business sector to formulate a sustainable financial model.

Chapter 2: Literature Review

2.1 Introduction

In the previous chapter, the importance of education was discussed with particular attention to the economic benefits it can provide. The status quo of education in Africa and with greater emphasis on South Africa was addressed. The need for schools provided by the private sector was highlighted as a possible answer to the “dismal state” (Bloch, Development Bank of South Africa, personal communication, 2010) of the South African public schooling system.

In this chapter, the definition of low fee private schools will be defined. The sustainability of a school is vital for its long term success. This can be achieved through financial feasibility as a result of revenue generation and cost containment. Revenue generation and cost containment is influenced by the stakeholders of a school. One aspect of stakeholders is partnerships, which can assist in financial feasibility by enhancing the school’s productivity and achieving cost containment. To ensure sustainability of schools, social and financial returns of investment act as are feedback mechanisms.

2.2 Low Fee Private Schools

Education is viewed as a public good which not only benefits societies but individuals as well (Bray, 2004). Studies have shown that in many areas in the world, schools favour a system whereby fees are implemented at all school levels, which can then be financially supported by loans and donations in order to educate the poor (Bray, 2004).

'Low fee' refers to fees within the region of R650 per month (Schirmer, CDE, personal communication, 2010), whereas a 'private school' can be defined as schools which are "governed and managed by an institution or organisation outside the public sector and for which attendance fees are required to cover costs of operating the school" (Toma, 2005, p. 695). These private schools are normally "managed by sole proprietors, non-governmental organisations (NGOs), trusts or other forms of management" (Andrabi, Das and Khwaja, 2002, p. 5).

In the studies done by Tooley (2007) and Andrabi et al. (2002), it was revealed that low fee private schools are predominately run as 'for-profit' businesses, which depend largely on school fees to survive and are owned by entrepreneurs. However, according to Spear and Bidet (2005), low fee private schools provide a public service and therefore are non-profit organisations as they aim to serve the community or a specific group of people by promoting a sense of responsibility and avoiding profit maximising behaviour. Conversely, Prahalad (2005) and London and Hart (2004), discussed the opportunity of turning these non-profit organisations into social enterprises, which are run as private businesses even though the enterprises are providing services which have a public benefit. Schweizer (2005) mentioned that the word 'business' refers to a company's main objective, which is to be financially viable through doing business. Therefore, this study explored the paradigm shift that appears to be happening.

Nevertheless, these schools face a difficult task of achieving their goals of making an impact and simultaneously trying to maintain a healthy financial status that will ensure the long term survival of the school (Carroll & Stater, 2008). In order for these schools to achieve long term sustainability, it is crucial for the school to continuously attract financial capital for an on-going reinvestment in the school. (Gutherie, Griffiths & Maron, 2008). This has led to the need for this research which focuses on forming a sustainable financial model to make schools an attractive investment opportunity for all stakeholders.

2.3 Sustainability

Sustainability can be defined as a "mechanism in place for generating, or gaining access to, economic resources" to keep the "service available on an on-going basis" (Gutherie et al., 2008, p.10). Epstein and Roy (2003), elaborated further and defined sustainability as the "economic development in order to meet the needs of the current generation without compromising the needs of generations to come" (p.16).Therefore, for a school to be sustainable, it must be economically viable and have the ability to endure itself indefinitely into the future (Olsen & Lingane, 2003).

The most persistent question facing organisations, like schools, is sustainability with a greater emphasis on the financial sustainability of these organisations (Carroll & Stater, 2008). Irrespective of the potential impact that organisations, like schools, are making, if they cannot achieve financial sustainability, there is no future for the organisation. Therefore, it is not uncommon to find that international financial institutions and donors request that organisations try and make the organisations look more financially attractive (Kosack & Tobin, 2006). According to Alderman, Kim and Orazem, (2003), for a school to be sustainable, “cost-containment and scale and revenue generation” (p.271), is vital. Gutherie et al. (2008) reiterated that financial sustainability is made up of two components, namely the revenue and the cost component, which form part of a financial model. The financial model acts as a mechanism to ensure that the schools are operating in the long term, as it provides significant feedback with regards to the sustainability of the organisation (Ravenscroft & Williams, 2009). However, to achieve financial sustainability, there needs to be more of a holistic approach, than to focus merely on the revenue and cost segments, with attention to all areas of the organisation (Moore, 2005).

2.4 Financial Model

2.4.1 Revenue

Regular income streams are needed to cover the incurred costs for the operations of the school, either through external funding or earned income, otherwise it will be detrimental to the future of the school (Gutherie et al., 2008). The revenue for organisations like schools, is categorised into three main areas, namely government funding, private donations (philanthropy) and self-generated income (Moore, 2005). With regard to government funding, subsidies and grants are direct funding and tax exemptions, which can be viewed as a cost saver, is indirect funding (Moore, 2005). Philanthropy income revenue comes in the form of cash donations viewed as “gifts” (Carroll & Stater, 2008, p.950), from individuals, trusts and businesses. Self-generated income is “fees that are charged for services that has economic activity as well as income from investments” (Moore, 2005, p.3).

Carroll and Stater (2008) stated that by having more than one area of revenue, in particular with earned income as one, undermine the legitimacy of non-profit organisations and may result in a decrease in the likelihood of receiving future donations and external funding. Hence, by concentrating the revenue streams from fewer sources it will lead to greater efficiency within the organisation. However, Keating, Fischer, Gordon and Greenlee (2005) researched revenue concentration and it was revealed that revenue concentration led to a higher chance of bankruptcy and a decrease in revenue. The dependency on one stream of revenue will significantly affect the organisational structure and financial prosperity (Chambre & Fatt, 2002 and Hodge & Piccolo, 2005).

Revenue diversification is a viable strategy for revenue stability which in turn promotes organisational longevity. By diversifying the revenue streams, greater sustainability is possible as the reliance on a single area of revenue could ultimately lead to the failure of the organisation (Carroll & Stater, 2008). Revenue diversification prevents the failure of the whole organisation by relying on diversified sources of revenue. In agreement to the benefits of revenue diversification, Greenlee and Trussel (2000) showed that a greater revenue diversification will decrease the chances of a financial loss resulting in a closure of the organisation. Diversified revenue portfolios are subject to lower levels of revenue volatility over time. Thus in an effort to mitigate revenue volatility, attention must be placed on the balance of earned income, investments, and donations (Carroll & Stater, 2008).

In accordance with Moore (2005), the overall contribution to revenue is distributed as: self-generated income as a dominant source of revenue at approximately 53%, government subsidies at 35% and private donations (individual, corporate and foundation based) at 12%.Consequently, the achievement of long term sustainability of an organisation is dependent on self-generated income as the major contributor to revenue (Moore, 2005).

As self-generated income, school fees, was highlighted as the major contributor to revenue, Cordery and Narraway (2008) stated that parents favour services that are providing ‘value for money’. ‘Value for money’ is realised by the quality of education that is provided by the low fee private schools. This is evident in private schools, which charge a higher fee compared to government school fees, to provide a better “service” (De Fraja, 2004, p. 2) than what the current government schools are offering. However, this value needs to be converted into recurring revenue streams (Gutherie et al., 2008). Schools are under pressure to ensure the delivery of ‘value for money’ is achieved and that resources are being optimally utilized to deliver high standard of learning opportunities to children in South Africa.

All schools must ensure that the organisational structure is guided under dedicated leadership with a greater understanding of the importance of revenue diversification that will assist in the schools achieving superior long term sustainability (Sorensen, Qian, Schoen & Hua, 2004). Revenue diversification versus revenue concentration and self-generated income as the dominant source of revenue was further explored in this study.

2.4.2 Cost

Filmer (2007) stated that in order to deliver quality schooling, decisions made must be centred on spending money on more ‘cost-effective interventions’ by transforming all resources whether it is money, time and knowledge, into outcomes and effects for the maximum achievement (UNICEF, 2010). Therefore, the optimal schooling cost model is reliant on the magnitude of the minimal cost of delivering quality educational services to each child.

According to Baker (2011), the cost of education is a function of outcomes, students, regions, input prices and efficiency. The cost function aims merely at identifying factors that will influence the costs of the school and serve as a guideline on how the spending on schools’ operations can be adjusted accordingly to achieve greater financial sustainability (Baker, 2011). The greater number of factors used in the cost function, the more accurate the model will produce contingency and accuracy of the input data that will result in more accurate outcomes (Lucas & White, 2009).

There are various conflicting studies concerning what areas of costs can be decreased without jeopardising the delivery of quality education. According to Froelich, Knoepfle and Pollak (2000), it is believed that to create financial returns, organisations need to have a lower proportion of administrative expenses to total expenses in order to achieve a greater return. However, Bowman (2006); Silvergleid (2003) and Tinkelman & Mankaney (2007) argued that by limiting expenses on administration, the overall capacity of the organisation will decline. In agreement, Keating et al., (2005) revealed that organisations with higher proportion of administrative to total costs will have fewer program and funding troubles. Another area where costs can be reduced is in the non-essential departments, which will result in less revenue volatility over time (Carroll & Stater, 2008). With these contradictory conclusions, this study explored what areas of the cost function can be minimised for long term prosperity.

Founders of schools must be strategic and sensible in terms of allocating their resources to meet organisational objectives in order to achieve long term sustainability (Gutherie et al., 2008). Therefore, managers of schools have to have the skills and knowledge to understand the administration of costs in order to have a systematic approach to managing cost (Hollman, 2007). The focus of managing cost and cost estimating for the operations of the school is vital, as lack of understanding, misinterpretation of the scope and an acceptance of unrealistic future expectations may lead to financial complications and even jeopardise the financial viability of the school (Garrett, 2008).

2.4.3 Financial Feasibility

Financial feasibility is defined as a measure of the flow of capital due to the organisation successfully generating a return on resources (Bercovitz & Mitchell, 2007). Organisations with greater return generated from their resources, are able to acquire more resources which are used to sustain and grow (Bercovitz & Mitchell, 2007). Financial feasibility is important as they inform of a working business model (Magretta, 2002).

Financial feasibility, in the form of revenue enhancement and cost reduction of the school, serves as a proxy for its operating effectiveness. A 'double edged sword' is present, as the delivery of quality should not be compromised through a reduction of costs (Cleveland & Krashinsky, 2009).Therefore to ensure that financial feasibility is achieved, accuracy of the costing is vital (Lucas & White, 2009). Schools need to charge a fee that the customers (parents) are willing to pay but it needs to be substantial enough to cover costs of the operations of the school.

Organisations approach to producing and achieving financial feasibility will depend on various levers, with specific attention on pricing, management of fixed costs, control and utilisation of resources (Mayson, 2010). Hence according to Bosshardt, Lichtenstein and Zaporowski (2008), to build a financially stable and sustainable school, the optimal maximising pricing lever for school fees must be implemented. Failure to do so will threaten the future of the school.

Surpluses that are earned in an organisation can be reinvested for purchase and development of new or existing resources for value creation and capture in the future (Mayson, 2010). Bosshardt et al. (2008) express that any surplus made by the school needs to be reinvested to increase the endowment fund and form a “financial cushion” (p. 37) against any uncertainties in the future, reinvested in the infrastructure or provide funding for scholarships. By reinvesting the surpluses into the company, there will be a return on investment that will occur quicker compared to continuous capital investment (Mayson, 2010). Therefore, the levers to achieve financial feasibility and hence, sustainability, was explored in this study.

2.4.4 Maximising Financial Feasibility through Partnerships

Financial feasibility can be accomplished through partnerships which allow for cost reduction and revenue enhancement (Doloi, 2009). Partnerships can be defined as, “mutual working relationship between two or more parties aimed at creating and delivering a new product, technology or service” (Chesbrough, & Schwartz, 2007, p. 1). Partnerships which offer the greatest opportunity for cost reduction and allow for revenue enhancement will lead to improved performance (Cornett, McNutt & Tehranian, 2006). This is reiterated by Chesbrough and Schwartz (2007) who stated that the objectives of partnerships are to increase financial feasibility by lowering costs as it allows for the fixed costs to be spread through the partnering of less critical components. Hence, partnerships are formed in order for “gain sharing” and “pain sharing” (Doloi, 2009, p. 1101).

The fundamental benefit of partnerships is the collaborative advantage. The term collaborative advantage is when an outcome is only achievable through collaboration and all participants benefit (Machin, Harding &Derbyshire, 2009). Collaboration can be defined as a process of "conscious interaction between the parties to achieve a common goal" (Meads & Ashcroft 2005, p. 16). Collaboration between partners has the potential to create benefits and value for both parties, which seeks to make best use of available expertise across the wider community (Rhodes, Nelson & Berman, 2003 and Machin et al*.,* 2009). This interaction enables different ways of thinking and executing actions that will benefit the organisation overall (Williams & Sheridan, 2006).

Partnerships allow for pooling complementary resources and sharing risks which can improve developmental outcomes at comparatively low costs resulting in efficiencies in the joint venture (Hammann, Woolman and Sprague, 2008). Risks must be allocated to the party which is best able to control and manage the risk and at the same time maximise the benefits (Reeves & Ryan, 2007). The key principle to follow is that core competencies must be complementary where the capabilities and resources of one party are combined with those of another sector to achieve maximum effect and allowing each participant to concentrate on their strengths (Hammann et al*.,* (2008). Therefore, partnerships allow for participants to achieve their objectives more effectively and efficiently through strategic alliances with others rather than acting independently. The recognisable benefits of partnerships allows for capacity building, helping in managing risks and uncertainties and therefore overall improving productivity (Seitanidi, 2009 and Doloi, 2009).

Partnerships come in two major forms: partnering with private businesses or partnering with government, which is known as public-private partnerships. The driving force for partnerships is that the prospective partners see compelling incentives for getting together to achieve their specific objectives. The term ‘public–private’ partnership broadly refers to institutional co-operation between the public (government provision) and private sectors which are designed to increase the efficiency and effectiveness of the public service delivery (Farah & Rizvi, 2007). The public and private sectors bring different strengths and share responsibilities, resources, risks and ownership of the particular product or service (Farah & Rizvi, 2007).

Partnerships are becoming more important as an effective method in developing innovative business models by improving efficiencies within an organisation. For partnerships to be successful there needs to be fairness in the process that allows for the opportunity for participation in decision making process (Seitanidi, 2009). Doloi (2009) showed that co-operation, teamwork and shared vision were the most prominent factors for a successful partnering process. Successful partnerships are involved in clear communication, with clearly defined roles and responsibilities. This will lead to development of collaborative risk management, which will lead to project success (Doloi, 2009). Therefore the role of partnerships, as stakeholders of the school, was explored in this study.

2.5 The Role of Stakeholders

Stakeholder refers to ‘‘any group or individual who can affect or is affected by the achievement of the organization’s objectives’’ (Chen, 2009, p. 1782). Stakeholder management has become increasingly important as organisations operate as ‘open systems’ interacting with various stakeholders. Stakeholder theory according to Freeman (1984) stated that an organisation is responsible for the well-being of its stakeholders such as customers, suppliers, employees, investors, and communities who are identified by their interests in the organisation. Thus, organisations ought to be “managed in the interests of its stakeholders” (Freeman, 1994: 417). The competitive advantage of stakeholder management is based on the effective managing of relationships of stakeholders which will result in valuable resources that enhance the company’s value creation and their ability to outperform competitors (Galbreath, 2006 and Hillman & Keim, 2001). The stakeholder theory is a powerful practical method to broaden management’s vision of its roles and social responsibilities (Tangpong, Li & Johns, 2010). Stakeholders can exercise influence (technological, economic, social, political or managerial) in numerous ways for the achievement of ultimate goals of an organisation (Bailur, 2006).

Primary stakeholders are directly related to the operations and outcomes of an organisation, while secondary stakeholders are not directly related to the organisation even though they are able to influence and be influenced by its operation and outcomes (Hillman & Keim, 2001). The major primary stakeholder in the management and operations of the school are the leaders of the schools, which are seen as the main driver in “change agents and facilitators” (Goduto, Doolittle, & Leake, 2008, p. 347).

There is a constant battle to balance the diversities between the different responsibilities of stakeholders because accountability can possibly be skewed in favour of the ‘dominant actors’ (Ebrahim, 2003). It is often evident in schools that the main focus of the management is to satisfy the major stakeholder of revenue. In a case of donors being the major source of revenue, Ebrahim (2003) stated that organisations, such as schools, have an incentive to modify their own goals rather than reject funding from a donor in case there is a disparity between the goals of the funder and the organisation than have the risk of losing out on funding.

Managers should manage the schools in the interest of primary stakeholders such as employees, customers, and suppliers who can influence and are influenced by the school (Chen, 2009). This is reiterated that there is a positive relationship between customer satisfaction (parents and children) and future financial performance (Banker, Potter & Srinivasan, 2000 and Smith & Wright, 2004). Nonetheless, it is not in the best interest of all stakeholders to reduce tuition and other funding sources to the point that educational quality is harmed, even though it might satisfy the immediate financial ‘need’ of the parents as the primary stakeholder. This satisfaction will not lead to the prosperity of the school (Clayson & Haley, 2005). Therefore this study explored the role of stakeholders and identified who are the most important stakeholders in the school to ensure sustainability.

2.6 Return on Investment

Organisations' strategies should promote growth and enhance long term stakeholder value that will compensate providers of capital with a return on investment (Epstein & Roy, 2003). Accountability and responsibility to relative stakeholders and outcomes clearly matter; however it is a mistake to simply equate the bottom-line financial performance with success in any educational program (Austin, Martin & Gregory, 2007). Therefore, educators, students, policy makers, and society have a vital interest in understanding both the financial returns and the value created from educational programs. In a time of increasing accountability for both financial and social outcomes, the development of models and methods to accurately estimate financial and social returns on education need to be developed and applied (Austin et al., 2007).
The financial performance targets equates to economic value which is created by taking a set of inputs, providing additional inputs or processes that increase the value of those inputs, and thereby generate a product or service that has greater market value (Emerson, Wachowicz & Chun, 2001). Economic value is created when there is a financial return on an investment. These measurements of economic value creation include return on investment, debt/equity ratios, price/earnings ratios and others (Gair, 2002 and Tulchin, 2003). These examples are standardised and are found in most financial reporting by for-profit corporations.

The non-financial performance target is the social value that is created when resources, inputs, processes and policies are combined to generate improvements in the lives of individuals or society as a whole (Emerson et al., 2001). Most organisations focus on generating results that have high intrinsic value but it is very difficult to quantify the actual value created (Gair, 2002). Nonetheless the current tools for expressing the social value created include qualitative reporting on performance, management devices, quantified statistics, and monetised results and indices (Tulchin, 2003). However, no universal standard yet exists due to the lack of standardised tools or methods and it is currently easier to assess financial results than social benefits (Tulchin, 2003). This non-financial performance target is referred to as a social return on investment (SROI), where 'S' denotes some sort of social mission activity and 'ROI' denotes the use of a business investment analysis, hence economic value (Gair, 2002). SROI differs from traditional concepts of financial return by broadening the 'who' a return may accrue to, and by expanding to the 'what' can be considered part of an activity's return (Gair, 2002).

The combination of financial and social return (positive social impact) equates to the term double bottom line (Gair, 2002). A non-profit organisation creates socio-economic value by making use of resources, inputs, and processes and increasing the value of these inputs; to generate cost savings and/or revenues for a community (Gair, 2002). The concept of double bottom line is that resources that are invested in an activity have benefits generated by it. Double bottom line acts as both a foundation framework and a measurement tool by interpreting financial value, quantifying social impacts, and establishing connections between input, output, and outcomes (Tulchin, 2003).

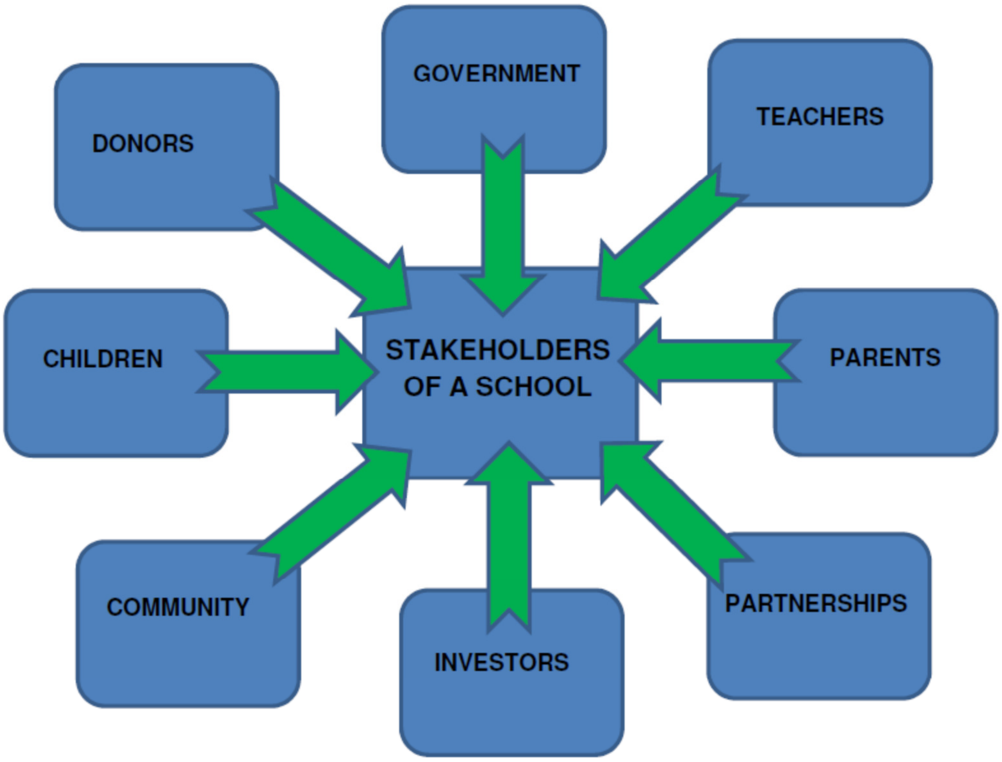
All organisations need to be committed to balancing the interests of all stakeholders by reporting regularly to the stakeholders on the progress achieved against its financial and non-financial performance targets (Epstein & Roy, 2003). By measuring both areas it provides value for measuring performance and attracting capital. An organisation needs to respect the needs, desires and rights of its stakeholders to provide the highest levels of product and service value, including a strong commitment to integrity, customer satisfaction and safety (Epstein & Roy, 2003). Therefore, this study explored the double bottom line concept as a measurement tool for sustainability.

2.7 Conclusion

Educational entrepreneurs should be encouraged to set up low fee private schools to allow the poor individuals of society a chance to have access to quality education (Bernstein, 2005a). An optimal school model focuses on delivering quality education at minimal costs. Costs are a function of factors which influence the costs of a school (Baker, 2011). These factors are levers which have a significant purpose in determining financial feasibility, which ultimately causes greater financial sustainability. The organisation of the school needs to control these levers proficiently for maximum achievement. The value or quality that has been created needs to be converted into the generation of revenue (Gutheie et al., 2008). Revenue is the consequence of delivering a 'value for money' service through the optimal utilisation of resources to deliver quality education. The creation of value is two-fold and needs to be measured by the double bottom line, hence financial and social returns. These tools of measurement provide value for measuring performance. Schools must report regularly to all stakeholders on the progress achieved in the school, both financially and non-financially, which informs the stakeholders of working school model (Epstein & Roy, 2003).

Stakeholders are fundamental levers which are influential in achieving financial feasibility. Managers of the schools must realise the impact of the operations of the school on all stakeholders and at the same time optimising their impacts (Olsen & Lingane, 2003). Partnerships, secondary stakeholders, are an effective means to obtain financial feasibility and achieve more efficient and effective ways to meet the expectations of the other stakeholders (Hammann et al., 2008). This collaboration increases the likelihood of an organisation reaching a larger population by making better use of their resources more effectively (Buys & Bursnall, 2007). The effective management of stakeholders will give a school a competitive advantage that will enhance the schools' reputation to continuously attract financial capital to acquire more resources to grow. Figure 1, below, exhibits all the stakeholders of a school.

Figure 1: Stakeholders of a School



Low fee private schools are to play a major role as a possible solution to educating poor communities, by providing parents with a viable alternative to ineffective government schools (Bernstein, 2005b). The financial sustainability of a school will enable schools to serve large numbers of the poor and therefore an innovative investment process for all stakeholders (Tooley, 2007). A financial model acts as a mechanism to ensure financial feasibility, hence sustainability of a school. A financial model for low fee private schools in South Africa has not previously been researched; therefore there is a need for this study.

Chapter 3: Research Questions

3.1 Introduction

In the previous chapter, the definition of 'low fee' and 'private schools' was addressed for further understanding in the term, low fee private schools. As these schools are playing an increasingly important role in society, sustainability is fundamental. Sustainability was defined with particular reference to the financial feasibility, which is revenue generation and cost containment. Financial (return on investment) and non-financial (social return on investment) performance targets act as measurement tools for sustainability of a school. The measurement tools allow for accountability to the different stakeholders and enhance the long term creation of stakeholder value.

It was revealed from previous research, that there has been an emergence of low fee private schools in South Africa; however the financial model has not yet been researched. Therefore this study focused on developing a sustainable financial model for low fee private schools.

3.2 Research Question

3.2.1 Main Research Question

What is a sustainable financial model for low fee private schools in South Africa?

To answer this research question, there needed to be information gathered on how low fee private schools in South Africa are operating financially. Further information was gathered from the knowledge and perception of experts in the educational and financial business sector in South Africa.

Chapter 4: Research Methodology

4.1 Introduction

The previous chapter stated the research question that was tested in this study. The main research question focuses on what a sustainable financial model for low fee private schools is. This question was answered with a two phase approach. Phase one focused on forming a financial model from the financial information obtained from the founders and/or managers of the low fee private schools. Phase two then focused on the refinement of the financial model through the knowledge and perception of experts in both the educational and financial business sectors. This chapter will explain the methodology used to test the question posed in chapter three.

4.2 Research Approach

The research question was addressed through exploratory qualitative study. Qualitative research is advised when a researcher is trying to understand a new phenomenon in a particular situation rather than trying to establish a relationship between two or more variables (Leedy & Ormrod, 2002). Exploratory research can be defined as, “research that aims to seek new insights into phenomena, to ask questions, and to assess the phenomena in a new light” (Saunders, Lewis and Thornhill, 2009, p. 592). Qualitative research uses a method that attempts to comprehend a new phenomenon in specific situations (Golafshani, 2003), where the phenomenon will “unfold naturally" (Patton, 2002, p. 39). Patton (2002) stated that in qualitative research “the researcher does not attempt to manipulate the phenomenon of interest" (p. 39), hence the 'researcher follows' instead of being 'researcher led' as in quantitative research methods.

Qualitative research is associated with exploring a new phenomenon in a particular and relevant situation and it will not be approached with the same understanding of reliability and validity as in quantitative research (Saunders et al., 2009). Qualitative research is an iterative process, with the importance for a firmly designed guideline to monitor the data collection and analysis process (Yin, 2003). Qualitative findings can be replicated and sometimes generalised to theory but they cannot be inferred across the entire population given the small sample size (Yin, 2003). Therefore, as qualitative research does not use standardised methods, the study is not repeatable (Saunders et al., 2009). Nevertheless, the process was as transparent as possible by documenting all the procedures. The researcher documented all notes during the research process i to ensure reliability (Saunders et al., 2009).

Some qualitative researchers promote an inductive approach allowing for the emergence of new meanings, without the interference of prior theory and propositions (Saunders et al., 2009).However in this study, a financial model was formulated and then refined through an inductive-deductive approach whilst remaining open to new meanings and realities (Saunders et al., 2009). The importance of an inductive-deductive approach is acknowledged by Perry (2001), that "pure induction without prior theory might prevent the researcher from benefitting from existing theory, just as pure deduction might prevent the development of new and useful theory" (p.309).

Patton (2002) stated that in qualitative research there are no set rules for the sample size. The degree of validity, meaningfulness and insight depends more on the richness of the information gathered than the size. Therefore, a small sample is taken in order retain more richness when it comes to description. This yields a higher internal validity; however the external validity may be limited (Saunders et al., 2009).

This study aimed to formulate a sustainable financial model achieved through content, narrative and comparative analysis. The researcher tied in the information gathered from interviews with founders and/or managers of low fee private schools and experts in the educational and financial business sectors.

4.3 Research Process

A two phase process occurred to answer the main research question:

Phase One: This phase built a financial model based on how current low fee private schools in South Africa are operating financially. Interviews with the founders and/or managers of these low fee private schools occurred. Information for the revenue and the cost of operations of the school was obtained to form a financial model through content, narrative and comparative analysis.

Phase Two: This phase focused on analysing and scrutinising the financial model, formed in phase one, by experts in the educational and financial business sector. Subsequently, a sustainable financial model for low fee private schools in South Africa was formed.

4.4 Phase One

4.4.1 Purpose

Phase one focused on gathering the information from founders and/or managers of low fee private schools on how the school is operating in terms of costs incurred and revenue gained. This raw data collected was necessary for the formation of a financial model. Each interview was analysed using content and narrative analysis, and a final comparative analysis was conducted to compare results across the units of analysis (Yin, 2003). The constructs that emerged from the interviews were then used to develop a financial model.

4.4.2 Population

The population for this phase was all founders and/or managers of low fee private schools within the South African context that had maximum school fees of R11 000 per annum.

4.4.3 Sample Size

Ten interviews were conducted with founders and/or managers of low fee private schools currently operating in South Africa. The founders and/or managers were believed to have particular knowledge within the area of the financial operations of low fee private schools. Appendix 1 exhibits the profiles of the interviewees for phase one.

The identification of founders and/or managers in this qualitative research was purposive and/or snowball, rather than being random. The purposively sampling is based on accessibility and the snowball sampling is useful when trying to penetrate a specialised area (Saunders et al., 2009). The respondents of preference have more information and/or richer experience due to their position held (Welman & Kruger, 2001). No sampling frame for this study existed; therefore respondents were identified through the researcher's own contacts as well as recommendations from previous researchers in the emergence of low fee private schools in South Africa

4.4.4 Unit of Analysis

The unit of analysis was the perspective and knowledge of the founders and/or managers of the low fee private schools.

4.4.5 Data Gathering

The objectives of the study were tested through semi-structured, face to face interviews which is valuable when there are several respondents to be interviewed (Saunders et al., 2009). Semi-structured interviews were used for the primary data collection phase of the study. The semi-structured interviews allow for a hybrid of deductive and inductive approach. It allows for comparative analysis due to a degree of regulation and allows for spontaneity in which the interviewer can ask for clarification or elaboration (Welman & Kruger, 2001). In relation to this study, it only involved one source of data, namely the interview. Out of fourteen interview requests, only ten interviewees agreed to participate. Appendix 2 exhibits an interview guideline that was used for this phase, which was prepared based on findings from the literature review. The interview guideline was pre-tested in a pilot interview and was adapted accordingly.

The interviews were conducted one on one. The researcher conducted the interview by firstly explaining to the respondents the purpose of the study and that the respondents do not have to divulge anything that they did not want to. The researcher then explained what was expected of the research participant, including the amount of time that will be required for participation. It was emphasised that this research was voluntary and the participant could withdraw at any time with no negative ramifications. It was then explained how the respondents' confidentiality will be protected. Interviews in this phase were then followed with an invitation to 'tell the story' of how the owners got involved in setting up low fee private schools. Interviews were scheduled for approximately one hour.

As the interview was interactive, the researcher formulated each question based on each individual respondent's personal experiences and willingness to answer; ensuring the interview guide (Appendix 2) was being adhered to. The participants had an opportunity to respond in their own words, rather than forcing them to choose from fixed responses, as quantitative methods do (Saunders et al., 2009). The researcher used a minimal response technique, along with some paraphrasing, summarising and clarifying techniques to allow the researcher to test her own understanding and to sharpen the focus of vague comments (Saunders et al., 2009). However the researcher needed to be alert when conducting interviews by recording verbal and non-verbal communication, attitudes and facial expression (Saunders et al., 2009) to ensure more robust findings.

The following data collection was followed for each interview (Saunders et al., 2009; Patton, 2002; Welman & Kruger, 2001 and Miles & Huberman, 1994):

1. Conducted the interview.
2. Transcribed the interview from recordings and notes taken. These first two steps created a platform for qualitative analysis.
3. The researcher acknowledged any insightful and analytical aspects from the notes taken for use in future interviews and analysis.
4. The researcher's notes were then combined and organised into themes. A record was taken of any new themes emerging, and therefore adjusted the interview guide (Appendix 1) accordingly to allow for further investigation of the new themes.
5. Repeated the above steps for subsequent interviews.

The data collection for this phase used the above method to collect qualitative data to achieve reliability and generalizability (Srnka & Koeszegi, 2007 and Miles & Huberman, 1994). The data collection was designed in a structured manner and processed according to the above procedures (Srnka & Koeszegi, 2007). The inductive approach to the data collection allowed for the essence of the new phenomenon to be captured and therefore increased the validity of the study (Srnka & Koeszegi, 2007). The transcribing of the interview took approximately four hours per interview to ensure all information was collected.

4.4.6 Data Analysis

Data analysis is a process which aims to "bring order, structure, and meaning to massive amounts of data collected" (Lal, 2001). Due to the absence of detailed information on the procedure of qualitative research, there needs to be "meticulous documentation and concise disclosure of the entire analysis process, including all stages and intermediate outputs" (Srnka & Koeszegi, 2007). The clear specifications allow for the replications and clearer understanding of the study (Flick, 2002).

The following stages have been identified by Srnka and Koeszegi (2007) in conducting data analysis:

1. Unitisation. This step allows for the unit of analysis, from the transcriptions, to be divided into different themes and patterns using content analysis.
2. Categorisation. This step develops a framework of categories relevant to the themes and patterns that emerged. It is necessary that this framework is significant to the research questions.

The data was analysed through content, narrative and comparative analysis. Content analysis is a way of systematically analysing the data collected from the interviews by identifying the occurrence of themes, and how they are portrayed (Welman & Kruger, 2001). Two major outcomes of content analysis are the new theoretical insights and coded data (Srnka & Koeszegi, 2007). Furthermore, narrative analysis retains the richness of the data, and allows patterns to develop (Saunders et al., 2009). Therefore, new theoretical insights into the phenomenon allow for categories and/or themes to be formed and the coded data allows for subsequent research to occur (Srnka & Koeszegi, 2007). For this study, it was not appropriate to conduct rigorous frequency analysis, given that the interviews are semi-structured and the research questions are relatively broad. Instead, comparative analysis is usually applied to semi-structured interviews, which was used for this study (Saunders et al., 2009). Comparative analysis was used to compare the units of analysis across all the interviews (Yin, 2003).

The data analysis for all the interviews took approximately fifteen hours in total. There were seven models formed before the financial model was formed which is exhibited in chapter five, Figure 8. It was important to include all fundamental themes in the financial model, which was an amalgamation of all the different financial models of the low fee private schools interviewed. The financial model formed in phase one, which was used as an interview guideline, was refined by experts in phase two.

4.5 Phase Two

4.5.1 Purpose

The purpose of this phase was to refine and analyse the financial model formed in phase one to develop a sustainable financial model for low fee private schools in South Africa. The process involved interviews with experts in both the educational and financial business sectors. Each interview was analysed using content and narrative analysis, and a final comparative analysis was conducted to compare results across the units of analysis (Yin, 2003). The constructs that emerged from the interviews were then used to refine the financial model formed in phase one to develop a sustainable financial model.

4.5.2 Population

The population for phase two were all experts within the educational and financial business sectors in South Africa.

4.5.3 Sample Size

There were interviews with ten experts in the educational and/or the financial business sectors. The interviewees were believed to have particular knowledge within the educational and/or financial business sectors. Appendix 3 exhibits a profile of all the interviewees for phase two.

The identification of samples in qualitative research is inclined to be purposive or snowball, rather than being random. The experts were recognised through purposive and snowball sampling. The purposive sampling is based on accessibility and the snowball sampling is useful when trying to penetrate a specialised area (Saunders et al., 2009). The respondents of preference have more information and/or richer experience due to their position held (Welman & Kruger, 2001). No sampling frame for this study existed; therefore respondents were identified through the researcher's own contacts as well as recommendations from interviewees.

4.5.4 Unit of Analysis

The unit of analysis was the perspective and knowledge of the experts within the educational and/or financial business sectors.

4.5.5 Data Gathering

The objectives of the study were tested through semi-structured, face to face interviews, which is valuable when there are several respondents to be interviewed (Saunders et al., 2009). The semi-structured interviews allow for a hybrid of deductive/inductive approach. It allows for comparative analysis due to a degree of regulation and allows for spontaneity in which the interviewer can ask for clarification or elaboration (Welman & Kruger, 2001). In relation to this study, it only involved one source of data, namely the interview, rather than multiple sources. Out of the thirteen interview requests, only ten interviewees agreed to participate. Appendix 4 exhibits an interview guideline that was used for this phase, based on the financial model formed in phase one. The interview guide was pre-tested in a pilot interview and adapted accordingly.

The interviews were conducted one on one. The researcher conducted the interview by firstly explaining to the respondents the purpose of the study and that the respondents do not have to divulge anything that they did not want to. The researcher then explained what was expected of the research participant, including the amount of time that will be required for participation. It was emphasized that this research was voluntary and the participant could withdraw at any time with no negative ramifications. It was then explained how the respondents' confidentiality will be protected. Interviews in this phase were then followed by an explanation of the financial model by the researcher to the interviewee, in which the interviewee responded. Interviews were scheduled for between one and two hours.

As the interview will be interactive, the researcher formulated each question based on each individual respondent's personal experiences and willingness to answer; ensuring the interview guide (Appendix 4) was being adhered to. The participants had an opportunity to respond in their own words, rather than forcing them to choose from fixed responses, as quantitative methods do (Saunders et al., 2009). The researcher used a minimal response technique, along with some paraphrasing, summarising and clarifying techniques to allow the researcher to test understanding and to sharpen the focus of vague comments (Saunders et al., 2009). However the researcher needed to be alert when conducting interviews by recording verbal and non-verbal communication, attitudes and facial expression (Saunders et al., 2009).

The following data collection method was followed for each interview (Saunders et al., 2009; Patton, 2002; Welman & Kruger, 2001 and Miles & Huberman, 1994):

1. Conducted the interview
2. Transcribed the interview from tape recording and notes.
3. Acknowledged any insightful and analytical aspects from the researcher notes for use in future interviews and analysis.
4. Combined and organised the researcher notes into themes. Made a record of any new themes emerging, and therefore adjusted the interview guide (Appendix 4) accordingly to allow for further investigation of the new themes.
5. Repeated the above steps for subsequent interviews.

Data collection method followed the above procedure to ensure reliability and generalizability (Srnka & Koeszegi, 2007). The method used to collect the qualitative data was analytically planned and executed (Miles & Huberman, 1994). The data collection was designed in a structured manner and processed according to distinct procedures identified in the above method (Srnka & Koeszegi, 2007). The inductive approach to the data collection allowed for the essence of the new phenomenon to be captured and therefore increased the validity of the study (Srnka & Koeszegi, 2007). The financial model formed in phase one, was used as a guideline in this phase, and assisted in the data collection. For each expert interview, it was noted whether each area of the financial model formed in phase one was a significant factor or not in the opinion of the interviewee. The transcribing took approximately four hours per interview to ensure that all information was collected.

4.5.6 Data Analysis

Once the interviews were completed and data had been collected, data analysis occurred. Data analysis followed the same procedure as phase one.
The following stages have been identified by Srnka and Koeszegi (2007) regarding data analysis:

1. Unitisation. Step one allows for the unit of analysis to be divided, the transcriptions into different themes and patterns using content analysis.
2. Categorisation. Step two develops a framework of categories that are relevant to the themes and patterns that emerged. It is necessary that this framework is significant to the research questions.

The data was analysed through content, narrative and comparative analysis for each interview. It was through content and narrative analysis, that themes and constructs were identified. Comparative analysis was to compare units of analysis across all the interviews (Yin, 2003). This allowed for the financial model to be rigorously analysed and refined forming a sustainable model for low fee private schools.

The data analysis for all the interviews took approximately twenty hours in total. There were twelve different versions of the models before the final model was formed. It was important to include all fundamental themes in the financial model that emerged from interviews with the experts. The financial model from phase one was refined in this phase, to form another financial model, which is exhibited in chapter six, Figure 11. Both financial models from the two phases formed a sustainable financial model for low fee private schools.

4.6 Research Limitations

4.6.1 Researcher Biases

In qualitative research, the researcher influences the results, which causes the research to be subjective and relative. The researcher, in this study, has limited experience in research; thus the researcher's inexperience was mitigated by the advice of a more experienced researcher. There are additional limitations in the research due to the subjectivity and assumptions of the researcher, which need to be identified. The assumptions are that there is a significant demand for low fee private schooling with parents who are able and willing to pay for it and that private schooling is a better solution than what is currently being offered by government schools.

4.6.2 Validity and Reliability

Validity is important in research as it is concerned with whether a researcher is measuring what needs to be tested, and if the results are credible and can be applied elsewhere (Yin, 2003; Saunders et al., 2009). In order to improve validity, a consistency matrix was compiled, showing how the research questions are being addressed.

Qualitative research does not pursue a statistical generalisation across a population but is rather concerned with a phenomenon in a definite time and place. To improve external validity, the interviews need to be replicated across other samples (Saunders et al., 2009).

Chapter 5: Results

5.1 Introduction

The previous chapter explained the methodology used to test the research question highlighted in chapter three. This chapter will present the findings of phase one and two of the study. The purpose of phase one was to form a financial model from the ten interviews with founders and/or managers of low fee private schools. The financial model was then refined in phase two through ten expert interviews in the educational and financial business sector. A combination of the financial models formed from each phase resulted in a sustainable financial model.

5.2 Results of Phase One

5.2.1 Introduction

The aim of phase one was to better understand how the current low fee private schools in South Africa are operating financially. With the information gathered from the phase one interviews, a financial model was formulated.

5.2.2 Sample Description

The ages of the schools ranged from seven years old to 103 years old. However seven out of the ten schools started between 19 to 22 years ago. This timing correlates to the reason for the start-up of schools. The reoccurring theme for the start-up of the schools was due to the political unrest in South Africa between 1989 and 1992. This period was building up to the first democratic election in 1994, where there was turbulence and uncertainty in the South African society. The apartheid period in South Africa had segregated white and black children at schools, and as South Africa moved to a democratic country, there was a huge gap left between the previously disadvantaged (black children) and the children in the previous apartheid government schools (generally the white children). Parents, of these previously disadvantaged children, were desperate for a school that would bridge the gap for their children. Schools were also started initially as ‘fly by night’ schools or Saturday schools to provide additional tuition for the children to narrow the gap left by the apartheid regime. The schools aimed to address issues in townships and wanted to provide good education that was more affordable to low income families.

The schools were funded by a variety of sources for the initial start-up. Some schools used ‘in-kind’ donations with very little money donated. Three schools were able to access church money for the start-up phases. Schools had to be registered to be able to apply for government subsidies, which only one school received at the start-up. One school charged a small amount of school fees which was not able to cover any costs but was rather seen as a contribution and commitment shown by the parents. However, all schools showed a very dominant theme that all founders used a lot of ‘sweat equity’ in terms of time given and pay forgone to get the school operating.

The schools were located in office blocks, houses, flats and very few in actual school building premises. The school hours varied, with some schools operating

on the traditional school hours of 08h00 to 14h30, whereas other schools had longer days from 07h30 to 16h00. Nine out of the ten schools followed the General Department of Education (GDE) curriculum, with only one school following the Independent Examinations Board (IEB) curriculum.
In terms of registration, there was only one school that was registered as a 'for-profit' organisation with the rest of the schools registered as 'non-profit' organisations. It was vital that the schools were registered as a Public Benefit Organisation to be exempt from tax with the Department of Social Development at SARS. The tax certificate is also a requirement for donors to get tax exemptions when giving donations.

Due to majority of the schools being registered as 'non-profit', they classified themselves as breakeven schools where the costs of operations equalled the revenue gained. No schools regarded themselves as having costs greater than revenue, even though they felt that they "live on the breadline". However if a school ever made a 'surplus', which is the preferred word for profit, it would be reinvested in the school and put towards building an "enriched learning environment" for the children.

The class sizes of all the schools varied from 20 to 30 children per class and one school in particular, had class sizes of 36 to 38 children for the older children. However the 'for-profit' school had class sizes of 200 to 300 children per class and the children were studying at a matriculant level. On average, it was preferred to have class sizes of approximately 25 children.

The profile of the children had a common theme of coming from disadvantaged communities. A few interviewees mentioned that most of the children that attended their school did not have two parents and were perceived to be" very lucky" to have at least one parent. However, most children came from families with "big problems" with parents often disappearing. Many foreigners from other major African countries would send their children to these low fee private schools. The schools were admitting children that were from townships and the central business district (CBD). All schools taught in English even though for most children, English was their second language. The children were coming to schools in taxis and were using as many as three taxis to get to school in the morning with an average spending of R1500 on taxis to and from school in a month. One school had a large number of children that were street children and/or dropouts that were orphaned and HIV positive. The schools are operating in areas with high drugs and prostitution rates but it was said that a school needs to be there to get the children off the street. However two schools mentioned how the profile of the parents is changing over time due to the parents becoming more educated and are able to afford education.

The founders and/or managers believe that running a school is a feeling that they are "doing something good". The vision is to provide education that is excellent and affordable and it is not about making profits but rather getting enough money to fulfil the vision.

5.2.3 Sustainability

The term sustainability was interpreted differently by the various interviewees. “Sustainability is a real challenge which defines what will keep us going and what is needed for the school to stay open on its own” said interviewee one. Majority of the schools believed that sustainability is a combination of various factors and cannot just be narrowed down to one single factor. Interviewee four stated that, “The school has proper financial running… and if the school is running like it is now, then it will run for years.” Interviewee eight agreed with this statement and went on further to say that, “The school needs to run as a business to be well effective.” Interviewee two narrowed it even further by stating that “Money is what makes the school work… have to run a tight ship with zero tolerance” for the school to be sustainable. However interviewee two went on to say that sustainability also depends the students who “Are the brand of the school.” Apart from finances and the performance of the children identified as key factors, management was also identified as a contributing factor to sustainability. Interviewee two stated that, “The key to success is management and it has taken me 20 years to admit that.” Interviewee five agreed with interview two saying that schools “need really strong leadership and good teachers.”

Table 1, below, shows the constructs that emerged from the ten interviews and the number of schools that identified constructs under the theme of sustainability.

Table 1: Constructs for the Theme of Sustainability

Ranking	Construct	Number of Schools
1.	Financial operations of the school	5
2.	Leadership/Management	4
3.	Performance of the school	3
4.	Numbers per Class	2
5.	Numbers of children in the school	2
6.	Religious Belief	1
7.	Attitude and work ethic of teachers	1
8.	Location	1
9.	Survive with no donor support	1
10.	Revenue diversification	1

The three main areas that were identified by the schools to form the core part of the financial model in sustainability:

- Financial operations of the school
- Leadership and management of the school
- Performance of the school.

These three core areas of the financial model were further explored and examined through the interviews.

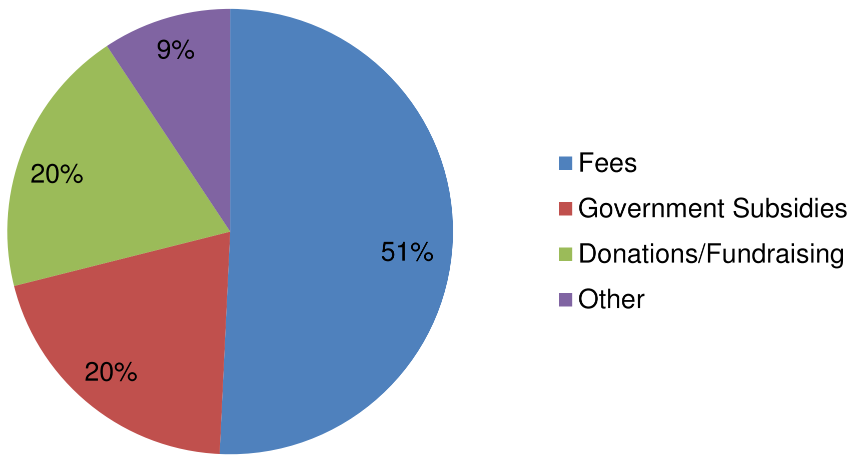
5.2.4 Financial Operations of the School

The financial operations of the school comprise two elements, namely revenue and costs. The revenue and cost elements need to be analysed separately, and the content for the contents of the revenue and the costs will be discussed in the sections below.

5.2.4.1 Revenue

Figure 2, below, exhibits the main areas of contribution to revenue from the schools interviewed. They are school fees, government subsidies, donations/fundraising and 'other'. The 'other' revenue will be discussed in the section below. The average contribution to revenue was calculated across all the schools and shown as a percentage breakdown, resulting in Figure 2. School fees contributed as majority of the revenue at 51%, the government subsidies and donations contributed 20% each with 'other' contributing only 9%. Fundraising and donations were viewed by all the schools as the same thing and cannot be seen as different entities. Figure 2 is used in the financial model as part of the financial operations section.

Figure 2: Percentage Contribution to Revenue

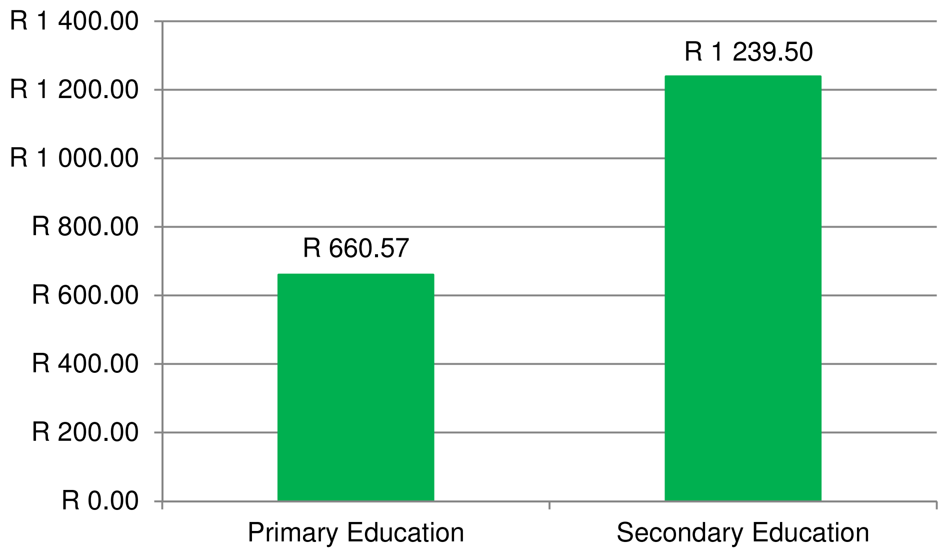


Each section of the contribution of revenue in Figure 2 will be further explored.

- **<u>School Fees</u>**

Figure 3 shows the average fee for school fees across the ten schools interviewed. Primary school averaged R650.57 per an average payment period of ten months whereas secondary education has average school fees of R1239.50 over the same ten month period. It is noted that the school fees for the secondary education are significantly higher than the primary school fees.

Figure 3: The Average School Fees for Primary and Secondary Education



The value added services that the school fees included, varied depending on the school. Interviewee one said that, "With school fees, parents want clarity as to what the school is going to give them. They have a set fee that includes tours, stationery and textbooks except for anything specialised", therefore aiming for an 'all inclusive' package. However, other schools did not include all learner expenses and this was charged in addition to the fees. In the school which did not charge school fees, interviewee ten, stated that, "The parents are encouraged to pay or contribute what they can afford but the payment profile drops over time."

School fees were further explored in terms of payment period. Two schools in particular believed that parents need a choice of payment as interviewee seven said that, "Depending on if the children are on the reduction fees, will depend on the payment period…" but as a consequence, interviewee seven elaborated by saying that, "We have a budget but we cannot stick to it as we cannot guarantee that we will receive income." The payment of school fees was highlighted by interviewee two who stated that, "School fees need to be paid in advance rather than in arrears like government subsidies…as salaries and electricity rely on the money." However only one school, interviewee nine stated that, "Learners will pay for the whole year at the beginning of the year." There was only one school in particular that was starting to receive fees in advance as interviewee four stated that, "The demand (for schooling) is huge and parents want to pay. One parent has already paid for the school fees for next year to guarantee their child a place in the school."

The price increase of fees was addressed and one school, interviewee seven, said that "Looking back after the last eight years there has only been a R200 increase." However interviewee nine stated that, "The school fees must increase with inflation, well actually greater than inflation." Apart from most schools charging school fees, one school had a different tactic, interviewee ten stated that, "the registration fee is charged at an amount that is charged in the township government schools but we charge it to show an expression of commitment from the parents" and as a consequence this school has to rely heavily on donations.

- **Government Subsidies**

Government subsidies are calculated per fee per child that the school charges. School fees and government subsidies have an inverse relationship. The higher the school fees, the less the government subsidies are granted and vice versa. It was noted that the school had to be open for a year before it qualified for subsidies and all the school's financial statements need to be audited. With the payment of subsidies comes accountability as according to interviewee seven, "The government gives subsidies so they then feel that they own part of it."

The amount of subsidy paid is divided into categories as according to interviewee ten, "The subsidy is graded and funded on the norms and standards and depends on the fee charged. Schools fall into categories of getting 60% (with lowest fee), 40%, 25% or 15% of a set amount. We get paid quarterly and in arrears." The reliability of the payment of subsidies differed as interviewee five found that, "The Gauteng department is excellent at paying and pay quarterly." Whereas interviewee seven stated that, "With the payment of the subsidies, they are sometimes good but it all depends if they are having a good or bad year."

"The school has been getting government subsidies since 1994 and it helps significantly" said interviewee three. No schools believed that they could exist without subsidies which was emphasised by interviewee six who stated that, "If there are no government subsidies then we would get stuck." The subsidies made significant contributions towards the revenue stream of the school as interviewee seven alleged that, "Our main source of revenue is government subsidies at 60% of a set amount, so we are very reliant on it." Even though schools received government subsidies, interviewee five believed that, "If we receive 50% extra of government subsidies then we would not need to fundraise, subsidies are crucial."

- **Donors/Funders**

Schools used donations and/or funds for various uses. Interviewee two stated their use of "the donations are aimed at specific projects. The donations are not factored into the budget and aimed at projects like building and fixing." This was reiterated by interviewee seven who that felt that, "To expand the school we will need fundraising." Conversely, interviewee eight emphasised the importance of donations as, "The school is very reliant on funders for operations."

Funding from funders come from either private individuals (philanthropists) or corporations. Philanthropists are trying to help out children to go to school and corporations have to donate 1% after tax profit to "socially impactful organisations". Companies get social investment points by donating to a school which will enable a company to get a BEE certificate which helps with their accreditation.

The stringent requirements imposed by donors on schools was highlighted by interviewee eight who said that, "Companies like to give to schools as they want to give to a charity and know that at a school their money will be well spent, especially a school with the right purpose…but it all depends on the companies' mandate." Interviewee five said, "…but with a trust comes accountability which is required by constant monitoring and evaluation. "The accountability was magnified by interviewee ten who said that, "Companies want a return on investment and the funder will more than often have particular criteria." The return for the funders and/or donors is seen as "A progression of the school" according to interviewee three. However, obtaining funding is difficult which interviewee seven indicated that, "We send out 100 proposals and never hear anything as you never know what the companies are looking for…if a company wants to give us money, we must be sustainable as they want to invest in us. In other words they want to know that we will still be around in the next 10 years." However the importance of fundraising was stressed by interviewee five as, "Fundraising is critical and we have never made a loss but to educate a child properly, we need more fundraising…to have a solid donor base, we need to work for the money."

Apart from the necessity of fundraising, many schools were trying to decrease the reliance on fundraising as "The school needs to survive without donor support as the donors come and go and change their focus….but then again if we took the donor support out then we would need to close but we are still aiming at not having them around" said interviewee one. Conversely, interviewee five stated, "The school is run on a tight budget and needs to fundraise to survive, which we are lucky enough to have a big enough donor support but then again we can never have enough." Although some schools showed huge donor support, interview six stated that, “The school has depended a lot on donations but the donations have shrunk.”

Table 2 shows the key constructs that occurred in the theme of donors and/or funders with the number of schools identified for each construct.

Table 2: Constructs of the Theme for Donors/Funders

Ranking	Construct	Number of Schools
1.	Mandate given by Funders/Donors	8
2.	Funders want to see a return	5
3.	Funds needed for operations of the school	4
4.	Funds only needed for expansion	3
5.	Donor support is unpredictable	3

The dominants construct for donors/funders are:

- Mandates are given by funders/donors
- Funders want to see a return
- Funds are needed for operations of the school.

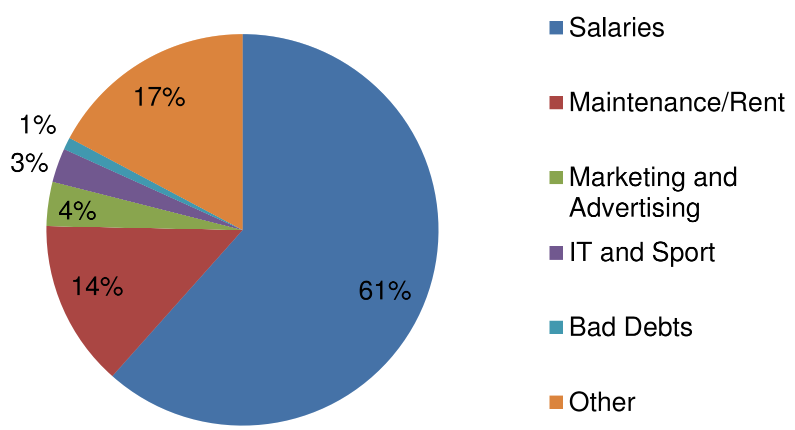
- **<u>Other</u>**

The ‘other’ form of revenue for schools was diverse. Interviewee one stated that, “Other areas of revenue are the tuck-shop which brought in X and the uniform shop.” Although it was a small contribution relative to the total amount of revenue, it was significant enough to enable the operations of the school and "all contributions to revenue are welcomed" (interviewee one). "Other revenue streams come from corporate interaction and sale of study guides" said interviewee nine whereas interviewee eight noted that "Other areas of revenue are Saturday schools."

5.2.4.2 Costs

The average contribution to cost was calculated across all the schools in terms of the percentage breakdown, resulting in Figure 4.The largest segment shows salaries contributing 61% of the total costs; with the next big cost being 'other' and then the third biggest contributor is maintenance and rent. 'Other' covered costs that are not specified in the pie chart. This can relate to teacher training and unforeseen costs. Figure 4 is used in the financial model as part of the financial operations.

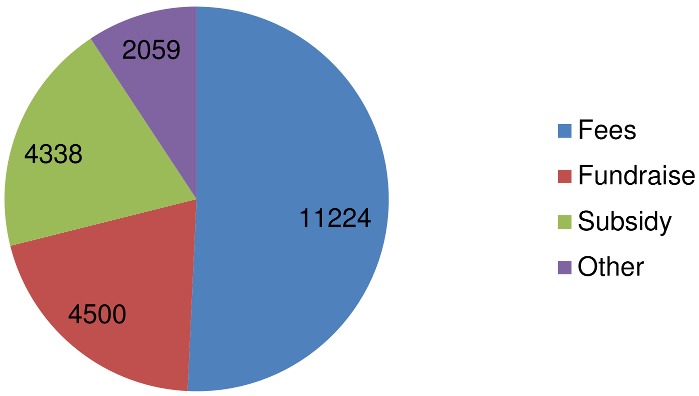
Figure 4: Percentage Contribution to Cost



Further analysis occurred regarding cost per child by taking the total amount of costs per school divided among the total number of children in the school. It was then averaged across all the ten schools interviewed to get to an amount of R22 091 per child per annum.

Figure 5 shows the contribution of revenue to cover the cost to educate a child at R22 091 per annum. The school fees contribute R11 224, with fundraising at R4500 and subsidy at R4338 and 'other' covering R2059.

Figure 5: Contribution of Revenue to Cover the Cost per Learner



However the cost to educate a child differed with government as interview five stated that, "The cost to educate a child at primary school level according to the government is R11 176 per annum. I am not sure how the government gets R11 176." This is reiterated by interviewee three who stated that, "We get 40% of approximately R11 000 that the government says it is to educate a child."

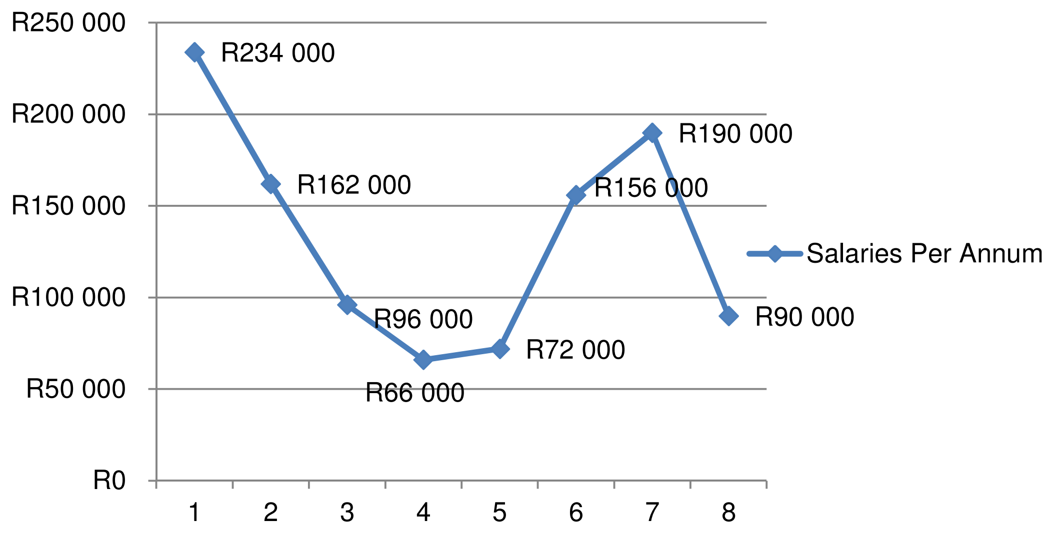
One school had a different approach when regarding the cost per child to educate as "The real question, what X school believes it should be, is: What is the largest amount of children that a school can have to maintain a selfregulating environment with proper relationships formed between the teacher and child?" said interviewee ten.

Each section of the contribution of cost in Figure 4 will be explained further in the sections below.

- **<u>Salaries</u>**

Figure 6 shows the difference in teachers' salaries across the different schools interviewed, who revealed information on the teachers' salaries. The highest teachers' salaries is R234 000 per annum versus the lowest at R66 000 per annum. The salaries were based on qualifications and the number years of experience. Eight schools paid their teachers less than the government schools.

Figure 6: Comparison of Teachers' Salaries per Annum



According to interviewee three, "The biggest cost is teachers' salaries and the highest salary paid is R8000 per month." "The teachers are paid less than a government school but it feels like a family here…teachers walk that extra mile" according to interviewee four. Even though the schools are aware of the discrepancy of the government versus the low fee private school salaries, according to interviewee eight, “The teachers’ salaries try to be competitive as possible but it is restricted due to the finances.” Although some schools gave benefits to the teachers, interviewee three emphasized that, “It is law that they get retirement funds and funeral cover, but the employees are very difficult as they do not want to see a deduction in their salary.”

- **Maintenance/Rent**

It can be seen in Figure 4 that the maintenance/rent of school premises is a significant cost. There is contradiction in thoughts whether it is more cost effective to buy a building versus renting a building. Interviewee ten stated that, “We rent all the buildings as it is not economical to buy as rent is low compared to buying. We looked at buying but we need the capital or need to borrow money.” Whereas interviewee two said, “It is more cost effective to own a building as we just pay a bond with the X foundation, which finances the purchase of the property and then we pay it over 5 years instead of 20 years.” Nonetheless, many schools rent buildings as they find it difficult to get loans for the purchase of the building. Interviewee seven stated that, “The rent is X per month but to buy the building, the bank is not interested in giving us a loan… but there are lots of companies who are giving buildings to charities.” This was reiterated by interviewee two who believed that, “No banks will give us bonds due to the location of the school…this area contends with drugs and prostitution.”

Nevertheless, only one school was able to get a loan from a bank but it happened under the following conditions as according to interviewee eight, “The property of the school was given to us by companies which donated 80% to buy the property but the rest of the 20%, we had to get a bond from X. We needed to bring something to the party.” However, the bank does not give any discounted interest rates.

Other schools, such as interviewee six, have received ‘in-kind’ donations as “The property of the school including the buildings was donated by the previous government.” If the schools did not receive the school premises as a donation, the location of the school was a significant factor in the costing as interviewee five noted that, “The infrastructure costs are minimal due to the school being at a church” whereas interviewee nine believed that, “The infrastructure costs are minimal as this school rents out lecture halls.”

- **Bad Debt**

The bad debt cost contribution is 1% of the total costs exhibited in Figure 4. In the interviews, a number of constructs emerged under the theme of bad debts. Seven schools said that bad debt must never be written off whereas three schools say that they write off bad debt annually. The consequences, prevention and reason for bad debt had sub-constructs that were identified by a certain number of schools. This information can be viewed in Table 3, on the next page.

Table 3: Constructs for the Theme of Bad Debt

Ranking	Construct	Number of Schools
1.	Never write off Bad Debt	7
	Write off Bad debt	3
2.	Consequence of Bad Debt	
	Write a Letter/No Report/Push for Fees	5
	Outsource to Debt Collector	2
	Send Child home if…	
	Not paid by 7th	1
	Not paid by 15th	1
	Not paid after 2 months	1
	Not paid after 1 year	1
	Not paid after 2-3 years	1
3.	Reasoning for Debt	
	Result of Clientele	3
4.	Prevention	
	Sign Contract to pay fees	1
	Do ITC checks	1

The perception of the role of recovery of bad debts varied. Many schools believed recovery was not a priority as interviewee three stated that, “Each year, we start the finances at zero” and interviewee six agreed stating that, “At the end of the year if there are bad debts, we just write it off.” Interviewee seven went on further to say that, “The main focus is to get money in and not to summons for school fess so we just write off bad debt.”

Many schools believed that bad debts should be avoided and prevented. Five schools said they would try recover bad debt by either writing a letter, give no report and/or push for the school fees. Interviewee two stated their “Recovery is good as if we don’t recover then the kids get suspended… if they (parents) can’t pay then they need to change schools. Suspension makes the parents take it a lot more seriously." The role of suspension was further highlighted by interviewee eight who believed that, "The parents only understand if their children get sent home. We need to be on their case as otherwise it will spiral out of control."

Some schools believed that the reasoning for bad debt, according to interviewee three, was that, "The biggest problem for our very high debt… is due to our clientele coming from townships and the CBD." This was reiterated by interviewee seven who stated that, "The children are from Berea and Hillbrow….it's the circumstances of the child… so they cannot pay school fees." In the prevention of bad debt, only two schools took action and both schools had different approaches. One approach was that "There is now an entry system for the parents and they do ITC checks as there are debt acts and we do not want anyone becoming a potential problem" said interviewee one. The other approach by interviewee two was that, "It is their (parents) choice to come to this school as they sign a contract at the beginning of the year to pay the children's fees. It is clear as day to pay the fees."

- **<u>IT and Sports and Other</u>**

Interviewee five stated that the, "Sports facilities and up keep is expensive…schools often piggy back off each other." This was evident for six out of the ten schools. The other four schools had a combination of not being involved in sports programmes and focusing on Arts and Culture instead. Interviewee two said, "There are no sports facilities but we can use surrounding sports facilities but the school focus is rather on Arts such as tap dance lessons."

Only three schools saw the value of technology being implemented at a school level. Interviewee seven said that, "Technology is cheaper in the long run but expensive to start with", hence interviewee five elaborated saying that, "we cannot prepare children in the 21^{st} century without technology."

5.2.5 Stakeholders

The stakeholders of a school, identified by the interviewees, were children, parents, managers, government and donors. However, children cannot directly influence the financial operations of a school, and therefore are not addressed directly. The major stakeholders of revenue and cost is exhibited in the revenue and cost contribution figures in Figure 2 and 4 respectively. The major stakeholder for revenue is fees from parents and the major stakeholder for costs is teachers' salaries. In addition, partnerships were identified, through the interviews in this phase, as relevant stakeholders of a school.

- **<u>Major Stakeholders of Revenue is Parents</u>**

Parents' school fees make up 51% of the revenue for a school (Figure 2), which is the highest contribution to the revenue of the school. However, all the schools struggled to collect school fees. Three schools noted that the reason that schools fees are not paid or cannot be paid was due to the type of parents paying the fees. The following table, Table 4, shows the constructs for the theme of parents.

Table 4: Constructs for the Theme of Parents

Ranking	Construct	Number of Schools
1.	Type of parents is reasoning for no fees paid	4
2.	Profile of Parents is Changing	2
3.	Upward mobility of parents-competition for cash	1
4.	Parents pay for next year fees	1

Some schools blamed the reasons for fees not being paid is dealing "with a low income group, (in which) very few people pay" according to interviewee six. Interviewee seven also believed that, "The problem to collect school fees is due to the people we are dealing with."

Two schools said that the profiles of parents are changing as "The promising sign is that the middle class is growing as now parents are working or they have been promoted. The parent profile is changing as with the parents of the 4 and 5 year olds have a different mindset to the older children's parents as it seems they have solid schooling… parents are more educated than before" said interviewee one. With the profile changing emerges a new area of concern which is highlighted by interviewee five that, "Parents pay a large percentage of their salary to school fees…but with the upward mobility of parents brings competition for where the income will go…. as they are first time car or house owners."

- **<u>Major Stakeholders of Costs is Teachers</u>**

Teachers were identified as the main cost driver shown in Figure 4. Various constructs were identified with in the theme of teachers. It was identified that the biggest problem with teachers is attracting and retaining them. Other constructs included the benefits for teachers which varied depending on the school and how schools attract and retain the teachers. Table 5, below, shows the constructs of the theme of teachers.

Table 5: Constructs of the Theme of Teachers

Ranking	Construct	Number of Schools
1.	Biggest problem is attracting and retaining	8
2.	Attract and retain	
	Leadership	3
	Family	2
	Inner heart	1
	Teachers feel making difference	1
	Happy	1
	Competitive Salaries	1
3.	Benefits for Teachers	
	Get bonus	2
	Rewarded for collecting fees	1
	50% off school fees	1
	50% off furthering education	1

"The problem is attracting and retaining the teachers due to the salary, when the teachers get better salaries they move to better private schools and

government schools" stated interviewee six. The teachers' salaries according to interviewee seven "Depend on qualifications and time at the school."

Interviewee seven elaborated on the attracting and retaining of teachers is that "the teachers never leave due to management style, family feeling and they are happy." Interview two goes on further to state that, "The teachers have a very good relationship with the principal." This is further accentuated by interviewee eight who stated, "The teachers stay a long time at the school due to their inner hearts." Interviewee three believed that, "We would like to reward performance but the biggest concern is teachers' salaries as we need a good Samaritan to come to the rescue so that salaries can increase from R4,500 per month to R7,000 per month." However some schools found it difficult to even attract teachers as "Most teachers are scared for their life in this area, so it is hard to attract them" says interviewee two. An aspect to attracting and retaining teachers is in bonuses. Interviewee two specified that, "annual bonuses are only granted on merit and if the teachers get the fees in it must be approved by the financial committee."

However the worth of teachers is acknowledged as interviewee five stated that, "We need to realise that we are here to stay and we need benefits for the teachers…. teacher training is a good investment in education" as "it is important that teachers perform" according to interviewee eight.

- **Partnerships as Stakeholders**

A key theme that emerged in schools is the importance of partnerships in the start-up and operations of the school.

Partners identified already discussed in the above sections are:

- Government (subsidies, donations and curriculum)
- Private Individuals ('in kind' and monetary donations)
- Corporations ('in kind' and monetary donations)

Other partnerships identified were the Independent School Association of South Africa (ISASA) and Independent Examinations Board (IEB), which will be discussed below.

ISASA

There were five schools interviewed that belonged to the ISASA schools, four schools that did not belong to ISASA. However interview six mentioned that, "We used to be part of ISASA but we cannot meet quality requirements and so we are no longer part of the system." This is exhibited in Table 6 below.

Table 6: Constructs of the Theme of ISASA

Ranking	Construct	Number of Schools
1.	Part Of ISASA	5
2.	Not Part	4
3.	Removed from ISASA	1

ISASA charges a membership fee as interviewee two mentioned that, "The annual fee is X which is dependent on school fees and number of kids." The benefits of ISASA were highlighted as interviewee one said that, "There is a lot of value in them (ISASA) and the school must use them as otherwise we just lose money as the value is enormous." Interviewee five went on further to say that, "ISASA protects the interests of the schools and watches legislation. They (ISASA) are advocates for the school at all levels and give training, workshops and conferences." Interviewee eight stated that, "They (ISASA) do not help financially but do have guidelines." Interviewee two believed that, "ISASA is a good thing to belong to as it is reputable and shows that we are not a fly by night school and have high standards as it is regulated by inspections. They also offer good resources such as protection and workshops." The schools that were not part of ISASA, according to interviewee seven felt that, "The school is not registered with any unions as there is no need. The only reason to register is to protect yourself from the government."

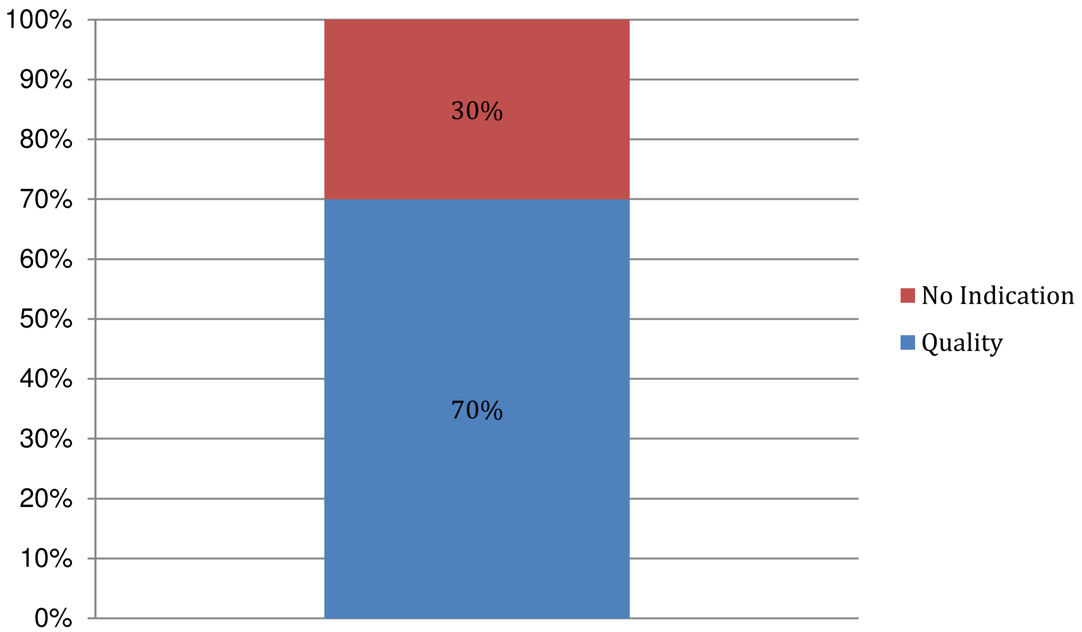
IEB

IEB is an alternative curriculum to the one that is supplied by the General Department of Education (GDE). The benefits of IEB was highlighted by interviewee one who said that, "We have been on a huge quality drive to employ better teachers which have been brought in from top schools especially heads of departments as they know the IEB system which is pivotal in turning it all around…the teachers are also able to associate themselves with people that are at the cutting edge and are able to rub off each other." The negative side to IEB, according to interviewee two is that, "We follow the GDE curriculum and not the IEB as it won't work at this school. The teachers are subservient and are not out of the box thinkers, which is required for IEB. Interviewee eight went on further to say that, "We write the GDE curriculum as the IEB is so expensive."

5.2.6 Performance

Figure 7, exhibits that quality of education, identified by 70% of the interviewees, as the measurement of performance. 30% of the interviewees gave no indication of the measurement of performance.

Figure 7: The Percentage of the Interviewees Stating Quality of Education is a Measurement of Performance



Quality of the schooling is shown by "The children (who) are the brand of the school" according to interviewee two. Interviewee five went on further to say that, "The children need to show academic excellence" as a measurement of performance. Interviewee six added to the argument by stating that, "The success of the school is a dedication of teachers and the results." In conclusion, interviewee eight realised that, "Children have to perform and they have to be the best student they can."

The schools identified the following as key indicators for the measurement of quality schooling. In secondary education, interviewee three stated, "Good results are 85 to 100% pass rate for Matric" whereas interviewee nine stated that, "The main performance measure is on how many children get into universities or technicons. This is a way that corporates can see them getting a return." However, interviewee ten feels it is a combination as, "Performance of the school is assessed through matric results which are the pass rate and exemptions and the quality of results across each subject." Primary education has a different measurement in which interviewee seven stated that, "We measure performance on how well our children do relative to other children from different schools."

5.2.7 The Relationship Financial Model

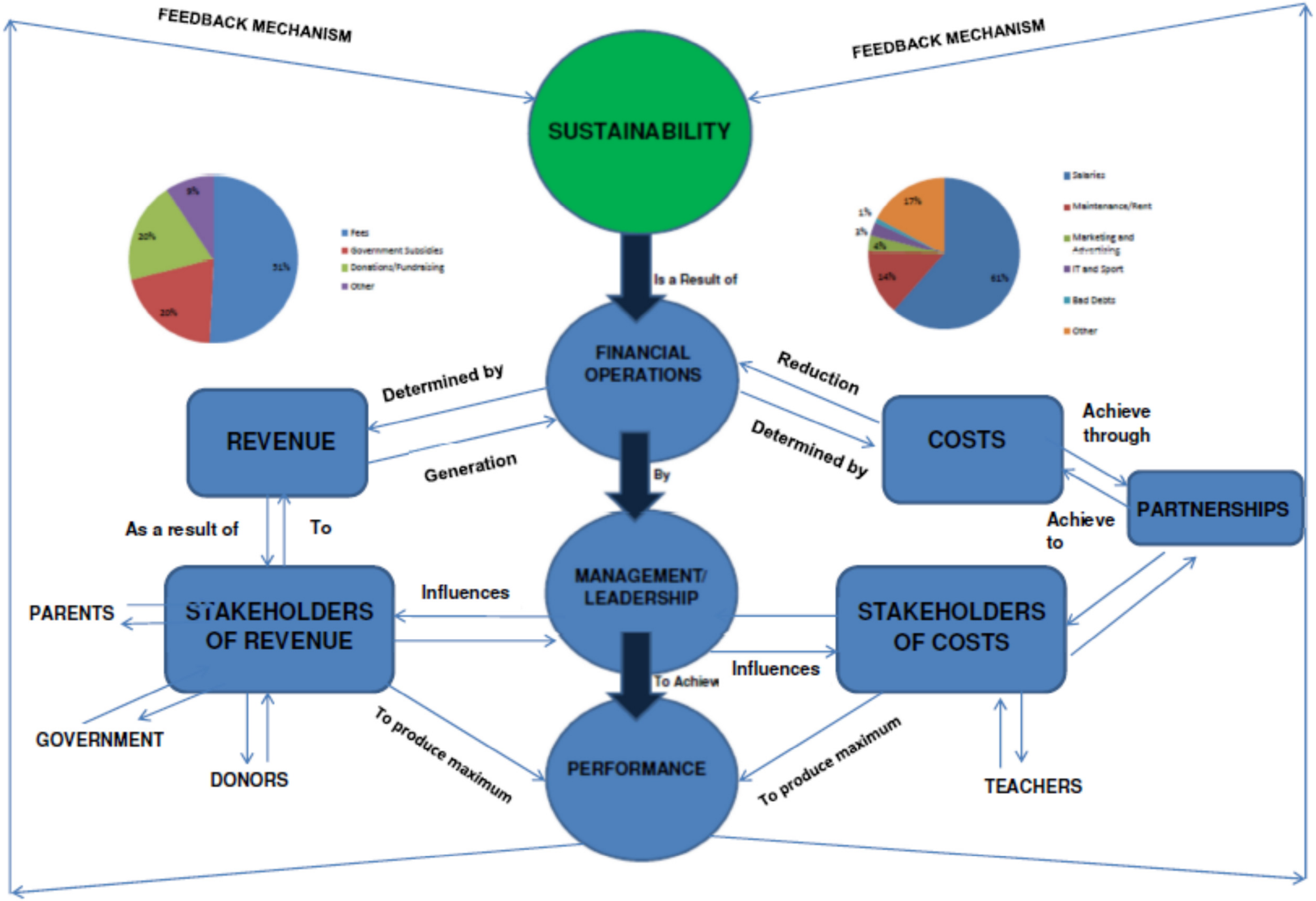
The financial model (Figure 8) was formed from information gathered from the interviewees from phase one. Seven versions of the model were drawn up before the financial model was formed. The financial model was displayed in a way that could tell a story and showed the relationship between the various entities. Therefore, this financial model was named the Relationship Financial Model.

The financial model needed to have a holistic view instead focusing merely on the costs and the revenue. All the themes identified in phase one could not be viewed in isolation but rather viewed as interconnecting links. The financial model starts at the top of the model with the word ‘Sustainability’. Sustainability is a result of financial operations of a school by management and/or leadership to achieve performance. The performance is measured by the quality of schooling and acts as a feedback mechanism to ensure sustainability is achieved. Sustainable financial operations involve an increase in revenue and a decrease in costs. However, revenue generation is a consequence of the stakeholders of revenue (parents, government and donors) which is influenced by management and/or leadership. Management and/or leadership also influence the stakeholders of cost. The less critical components of costs for the operations of the school were identified as areas that can be complemented through partnerships. However, teachers’ salaries are the major stakeholder of costs and therefore are a critical component of the school and cannot be outsourced as a partnership. The two pie charts exhibited in the financial model show the different contributions to revenue and cost which has already been explained under Figure 2 and Figure 4 respectively.

Children, as a stakeholder in a school, have not been acknowledged in the Relationship Financial Model as they do not directly influence the operations of the school but are rather dependent on the other stakeholders to deliver an affordable quality education, from which they will benefit.

Sustainability is usually associated with the colour green due to the connation of the description ‘healthy and strong’; which can be used to describe a school if it is sustainable. Hence, ‘Sustainability’ is presented in green. The rest of the model is presented in blue until the significance of the sections are determined in phase two The core sections of the model, namely sustainability, financial operations, management/leadership and performance form the value chain of the financial model. The subsections of the value chain are essential for the existence of the value chain. All sections do not exist in isolation but are rather inter-related to achieve sustainability, hence the two way direction of arrows. A break anywhere in the chain of this model will result in unsustainability.

Figure 8: The Relationship Financial Model



5.2.8 Conclusion

Phase one formulated the Relationship Financial Model, exhibited in Figure 8, which will be used as a guideline for phase two. Phase two will refine the financial model through expert interviews to make it sustainable and thus attractive to all stakeholders.

5.3 Results of Phase Two

5.3.1 Introduction

The aim of phase two was to refine the Relationship Financial Model, formed in phase one, through expert interviews in this phase, to form a sustainable financial model.

5.3.2 Sample Description

The sample included four interviews with experts in the financial business sector and six interviews with experts in the educational sector. It was important to get a sample that included both the educational sector as well as the financial business sector to get a consolidated view on building a sustainable financial model for low fee private schools. The list of interviewees is exhibited in Appendix 4.

All the financial interviewees are Chartered Accountants and therefore have expert financial knowledge. From the six interviewees in the educational sector, their knowledge ranged from the government to the private sector. With regards to the private sector, four interviewees were operating in 'for-profit' educational programs and only one interviewee in a non-profit educational program.

5.3.3 Sustainability

Sustainability was interpreted differently across all the interviews. Interviewee eleven said that, "Sustainability is about living within ones means from year to year but over a long period of time. In other words, institutions are built so that they are here for their grandchildren." This identification of the schools still operating for the 'grandchildren' was reiterated by interviewee fifteen who stated that, "Sustainability is looking after the currents children's children." Interviewee sixteen elaborated by stating that, "The measurement is: Are your children going to go to this school? The school has to leave a footprint." Interviewee eighteen concluded saying that "It is the security of supply and service that needs to be predictable."

Furthermore, as according to interviewee seventeen, "Sustainability is all about quality. This is critical...quality is the main driver of sustainability." Interviewee twelve agreed with this by saying that "It needs to be quality education at an affordable price." This is reiterated by interviewee eleven as, "it is about getting more out than putting out." Interviewee sixteen stated that, "there has to be a quality aspect to it which has a purpose or output that is repeatable." Interviewee twenty specified that the schools "need a value proposition that delivers quality for a market that wants it and will pay value for it." However, quality has to be improved as "each year has to be better than the previous which is relative to performance…there must constantly be a marginal better return" (interviewee eighteen). Interview nineteen agrees stating that, "Sustainability is something becoming more and more competitive."

To get a greater return than invested, relates to the capabilities and the resources at the schools disposal. Interviewee sixteen detailed that, "There needs to be sufficient resources to make decisions for the medium to long term and not for the here and now." Interviewee eighteen expanded by saying that, "Sustainability is the ability to perform on given objectives and to have capabilities to provide a service in the long term."

Nonetheless, according to interviewee fourteen, "Schools need a new intake of learners each year due to the image of the school. There must be a match between what the learners and parents get and receive. This is what must be sustained." Interviewee sixteen also said that sustainability is a "factor of how people view the school." Interviewee twenty agreed that it is a "good brand and reputation (that) will lead to sustainability."

However, interviewee thirteen indicated that it is, "Permanent capital that will make a school sustainable. It is a case of how does a school create more permanent capital to grow and attract and retain stakeholders and keep it growing." This will give the school the "Ability to stand alone" (interviewee sixteen); and according to interviewee twenty, it is "Continuous profitability generation as the main driver of sustainability."

Table 7, shows the key constructs that emerged from all the interviews defining sustainability.

Table7: Constructs under the Theme of Sustainability

Ranking	Construct	Number of Interviews
1.	Providing for the current children's children	7
2.	Quality of schooling	6
3.	Getting more out than putting in	6
4.	The use of the school's capabilities and resources	5
5.	Good Reputation	3
6.	Profitability	2
7.	Stand alone	1

Therefore, according to Table 7, the four main areas of sustainability are:

- Providing for the current children's children
- Quality of the Schooling
- Getting more out then putting in
- The use of the schools capabilities and resources

An overall definition for sustainability, with the consolidation of all interviewees, is with the ability of producing greater outputs (social and financial return on investments) than inputs (capacity and resources); to produce a service of quality schooling that will provide education for the current children's children.

With reference to this definition of sustainability, all interviewees felt that the three main areas that are included in the value chain of the financial model in Figure 8 were significant but had different ratings of importance. Table 8, shows the ranking of importance of the three areas of the value chain in the financial model in Figure 8. Leadership was viewed as the most important, with financial operations and performance being equally important as all interviewees felt that you cannot isolate them but rather be viewed holistically.

Table 8: Order of Importance of the Value Chain in the Financial Model

Ranking	Construct	Number of Interviews
1.	Leadership	10
2.	Financial operations	9
3.	Performance	9

5.3.4 Management/Leadership

Leadership was viewed at the "heart of sustainability" (interviewee fourteen), as "leaders should positively affect teachers" (interviewee fifteen). "Management or leadership is like CEO of the company which is the fulcrum and relates largely to the success of the school" stated interviewee fifteen. Interviewee twelve specified that leadership "is pivotal". "Leaders have to have focus and do it for the right reason… it is important that leaders have self-motivated leadership" says interviewee eighteen. Interviewee seventeen elaborated that, "The most critical aspect is the leader. A leader will produce effective schools and constantly improve them…leadership is your marketing." Interviewee sixteen could not emphasise the importance of leadership enough as "Leadership is paramount and the management must be just right as otherwise will kill it (the school)."

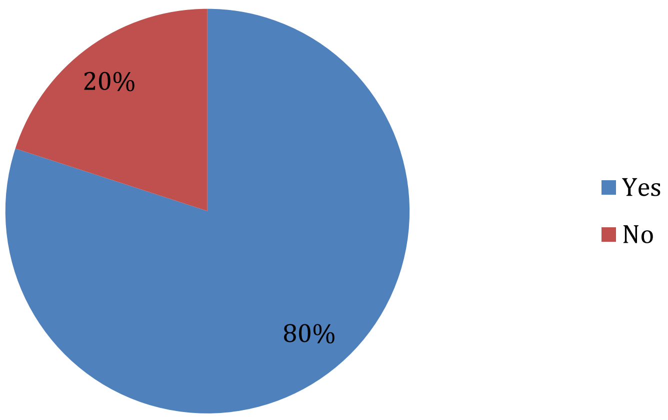
Interviewee two identified that "management is absolutely critical… as the success of a school will depend on the management of the school." Interviewee thirteen elaborated saying that, "Leadership impacts all aspects of financial operations and everything else as it controls costs and ensures happy teachers."

5.3.5 Financial Operations of the School

"Finances are a critical aspect of the school…it is the bloodline of the school" indicated interviewee seventeen. Interviewee sixteen further stated that, "If you do not have the money to keep things oiled then it (the school) will not last…. it is the fundamental input of sustainability." In addition, with reference to interviewee eleven, "It is about a balance of revenue and costs." "The schools must convert the financial resources to accomplish and achieve an output that is of benefit to all children… must translate into value for money" detailed interviewee sixteen. Interviewee seventeen indicated that "The secondary things (performance) will look after themselves if the primary things (financial operations) are performed." Only one interviewee mentioned the importance of the "financial operations of the school should be focused at per class and not the school as a whole" (interviewee eleven).

Figure 9, shows the percentage of interviewees who believed that schools should aim to be profitable, 80%, whereas 20% of the interviewees said that schools should not aim to be profitable.

Figure 9: Percentage of the Interviewees Relating to the Profitability of a School.



5.3.5.1 Revenue

Revenue is "based on the number of kids and amount charged per kid" according to interviewee nineteen. However, interviewee sixteen mentioned that, "Schools do not want to be dependent on revenue sources that are outside of your control….need revenue that gives visibility of future revenue." Interviewee fourteen elaborated saying that, "As it is the same in business, there should not be one big debtor that could crash your company. There needs to be a diversification." Interviewee twenty believed that "Revenue is based on the school's reputation as this will affect all stakeholders." Investors were identified by six of the interviewees as additional source of revenue as investors show "a long term commitment as they want their money to be cycled" (interviewee twelve).

Table 9, shows the hierarchy of importance of each revenue source according to all the interviews.

Table 9: Hierarchy of Importance of Revenue Source

Ranking	Construct	Number of Interviews
1.	Parents	10
2.	Investors	6
3.	Donors	5
4.	Government	1

- **Parents**

"The majority or bulk of the income must come from fees" mentioned interviewee eighteen. With more focus, interviewee fifteen stated that, "earned income should be minimum of 50% of the revenue." However, the fees charged, according to interviewee seventeen, must be "value for money." "Value for money is linked to the market which is linked to quality which must be externally validated as the quality needs to be credible, reliable and validated", interviewee seventeen further elaborated. "Parents see education as a high priority… and if parents are unhappy with the public schools and if these types of schools are in their personal budget, they will pay the fees" highlighted interviewee fifteen. To expand on the theme of revenue diversification, "As there are many parents in a school, there is diversification of revenue…but it all depends on the size of the school… as if a few parents don't pay it will not make a material difference to making the school will go under ", detailed interviewee sixteen. "Payment of few is fundamental as there needs to be buy in of the stakeholders as parents need to be on the hook otherwise they will value it a lot less" highlighted interviewee sixteen. "There needs to be a balance in the ability to pay and the need" said interviewee twelve. Interviewee twelve further expanded by saying that "Fees should be paid in advance as the cashflow of schools are tight, so they need the fees in advance."

In relation to price discrimination, there were many views on how it should be done. Interviewee twelve said, "With parents, look at their ability to pay….see what the school can illicit out of the parent. In other words look at the appropriateness of the fee and the ability to pay…price discrimination gives the parents the ability to pay." Interviewee fourteen agreed by saying that, "Fees shows that parents have a buy in…but parents must pay what they are able to and it should be very welcomed." Interviewee thirteen elaborated by saying that, "any contribution to revenue should be welcomed but in terms of price discrimination, you must differentiate your product. If you cannot differentiate it then you must not price discriminate. Price discrimination will be useful when paying in advance….discriminate on when you get the cashflow." Interviewee sixteen expanded saying that "Price discrimination happens in all parts of society…but there is a balance and it is an issue of disclosure as it can be a very difficult thing." Conversely, interviewee twenty stated he did, "not agree with price discrimination as it makes things very complex. Keep it simple. All parents have to pay one set fee." Interviewee fifteen agreed by saying that, "if parents cannot pay in cash then they can pay in kind and make a contribution." Interviewee two assumed that, "if there is a lack of potential financing, use the volunteer aspect but it needs to be managed every year as it will change."

Interviewee twelve stated that schools "Must charge an appropriate fee and then must be firm about it." Interviewee eight elaborated by saying, "How much is reasonable? Work backwards and charge that. If it falls short then source funding elsewhere." Interviewee nineteen expanded by saying that , "a school must want to bring the school fees down to get better education to the people that can afford it…reduce the reliance on school fees."

Table 10, below, shows the key constructs that have emerged for the theme of parents as the major stakeholder of revenue. There are sub-constructs under the main constructs identified.

Table 10: Constructs under the Theme of Parents

Ranking	**Construct**	**Number of Interviews**
1.	Parents must pay school fees	10
	If parents cannot pay, must contribute 'in kind'	4
2.	Fees should be majority of the revenue	9
	Fees must be value for money	10
3.	Price discriminate	
	In all areas possible	7
	Only with terms of payment	2
	Never price discriminate	1

- **<u>Investors</u>**

"There is a distinction between a donor and an investor," stated interviewee thirteen, as "an investor is long term funding and becomes part of equity on the balance sheet so it is not necessarily revenue. An investor wants a return on investment." However, interviewee eleven specified that, "No corporate will want to commit themselves for 10 years as if they hit a tough time and they freeze salaries and bonuses… it will be hard to support schools."

Interviewee twelve said that the questions of, "What is in it for me (as an investor)? and What are investors investing in?... there must be something for them which is different for donors." Interviewee sixteen highlighted that, "It is a case of here is an endowment and how will you make the money work a few times over? The money needs to be cycled." Nevertheless, according to interviewee eighteen, "There needs to be patience of investors to make money tomorrow as it takes longer in schools than other businesses."

- **<u>Donors</u>**

Interviewee nineteen believed that the "This area (donor sector) has the biggest room for growth." Interviewee eleven elaborated that "There is a positive effect on funding due to the DTI (Department of Trade and Industry) codes of BEE which makes up 5% of the score for CSI initiatives." Interviewee two further highlighted the point that "There is opportunity in CSI/CSR."

The sustainability of donor funding is questionable. This is underlined by interviewee thirteen who stated that, “a donor is a source of revenue but this is not sustainable and it is not secure for the following year.” Interviewee five agreed by saying that, “Donors cannot be the biggest contribution as a school cannot rely on it as it is not financially sustainable.” Interviewee seventeen expanded by stating that, “It is a case of hand to mouth to live.” Interviewee eighteen highlighted that “donors dictate how you spend the money, and so put restrictions on you.” Interviewee fourteen also emphasised that, “With corporate funding, it all depends on the corporate’s interest”. Interviewee fifteen believed that “education is grappling with corporation’s esteem…as there is a constant power struggle… it is a case of it is good for mission but bad for business.” Overall “Fundraising all depends on goodwill” according to interviewee eighteen.

Interviewee nineteen had an approach that “merges donors with investors” by “the school committing to delivery of outputs that will commit the donor for the long term” (Interviewee sixteen). “Rather look at donors as partnerships… but there needs to be ground rules set from the start” according to interviewee fifteen. However if funding is required, “Fundraising should only be used for capex rather than operations of the school as otherwise it is unsustainable” mentioned interviewee sixteen.

- **<u>Government</u>**

Interviewee twelve said that, “Public money from government is a natural way for money to come in” but according to interviewee fifteen, “Subsidies must try be minimised as their percentage of contribution of the impact of the school as this will affect the capacity of the school." Interviewee seventeen agreed by saying that schools, "should not rely on subsidies" with interviewee twenty expanding that schools should, "exclude the government from the equation. This will enable big flexibility." Conversely, interviewee eleven believed that, "With subsidies, it will solve the financial problem, as subsidies can render teachers' salaries."

- **<u>Additional Revenue</u>**

All additional revenue will be a result of, "expertise and facilities that can be used to generate a reliable source of income" according to interviewee fifteen. Interviewee nine thought that schools "need to look at revenue streams out of the traditional model." It is a case of "What does the school have in terms of resources? What is the school capable of doing? What does the community need?" questioned interviewee sixteen. An example of additional revenue is "feeding schemes" (interviewee eleven) as by having something like a "canteen with meals…money can be made…as the margins are high in the food industry." Schools can also do "recycling as schools can make money out of it" (interviewee fourteen) and the "use of teachers as additional revenue streams" (interviewee twelve) for "evening classes to the community" (interviewee fourteen) are further areas for revenue generation.

5.3.5.2 Costs

The costs of a school were identified by the interviewees as a combination of capabilities and resources. Interviewee sixteen stated that the cost of the school “depends on what is at the school’s fingertips… what are their capabilities and resources.” Interviewee eleven believed that the resources were either “physical or intellectual…physical resources are tangible assets of a school.” According to interviewee fifteen, there are “Opportunity costs in terms of time… and the money gives the school its capabilities”.

Table 11, below, shows the sub-sections of costs which were identified by the interviewees.

Table 11: Constructs under the Theme of Costs

Ranking	Construct	Number of Interviews
1.	Resources	10
2.	Capabilities	6

Interviewee eighteen highlighted that, “For this model to work, there needs to be a decrease in cost.” Interviewee nineteen stated that, “…costs will decrease with innovation.” According to interviewee sixteen, technology can come in the form of innovation and, “Technology assists with cost reduction.” Interviewee eighteen elaborated saying that, “technology is vital and this can create a culture of self-directed learning.” To be innovative through the use of technology, “all depends on the resources of the school” stated interviewee twelve.

The two main stakeholders of cost, identified in phase one, are further discussed in this phase.

- **<u>Teachers</u>**

"As in business, this is one area that a school cannot cut costs or compromise. This drives the competiveness of a business and the school wants the best teachers with the best results" stated interviewee nineteen. Interviewee twenty elaborated by saying that "Good teachers gives the brand of a school big value …the better you do, the more you can pump into teachers and facilities." Interviewee sixteen also emphasised that, "Education is a service and it is run on the productivity of the people…the biggest asset of productivity is the teachers." Interviewee twelve stated that "Teachers will influence your clientele… as they are the IP (intellectual property) of the school… the teaching faculty is the marketing of the school and they tell it as it is but it needs to be in place to be told."

"Cash flow needs to minimally cover salaries and there needs to be a long term source for teachers" identified interviewee eleven. Interviewee fifteen agreed that, "The critical cost is teachers and there must be a sufficient revenue stream to cover it." Therefore, the "Most reliable income should go to salaries'" according to interviewee fourteen. "The only thing affecting the budget is the teachers' salaries as the school is handcuffed into teachers' salaries" detailed interviewee fifteen.

"There is a relationship that inner heart is diminishing as reality catches up…cannot rely on a good heart" emphasised interviewee twelve. Interviewee seventeen believed that by, "Paying teachers less will change the quality of the teachers." Interviewee fourteen clarified that "If teachers get less than the government schools then there is a temptation to go there. The teachers and their income cannot be separated." Another option to increase the teachers' salaries is to "give the teacher's times and means to earn extra money on the side…the extra money must be me made in ways to enhance the school and to help teachers" supposed interviewee sixteen. "Teachers need to have better salaries as they form a stable core of the school… as teachers are wrestling with forces of chaos. A "big vulnerability of teachers is their salaries" described interview twenty." Interviewee fifteen said that, "Teachers' salaries cannot be compromised as much as possible as the school will lose quality staff."

"Teachers need incentives … to make them committed which is valuable. The teachers must choose to teach at the school" detailed interviewee eighteen. "Teachers' salaries should be equal or better than the government but it all depends on resources" highlighted interviewee seventeen. Interviewee twelve stated that "bonuses should depend on financial performance hence linked to teachers' performance." There should be a "link (of) the teacher's performance with the performance of the school. This will incentivise teachers…there needs to be a share of ownership" reiterated interviewee fourteen. This lead to the idea of interviewee thirteen who had alternate approach and stated that, "Teachers need to invest in the school and have a long term incentive plan, which will incentivise the whole school…the teacher will get rewarded as the school grows and becomes more valuable." Other areas of incentives is "teacher training" according to interviewee twenty.

Table 12, exhibits the constructs that emerged under the theme of teachers' salaries as part of costs.

Table 12: Constructs under the Theme of Teachers' Salaries

Ranking	**Construct**	**Number of Interviews**
1.	Teachers are the biggest asset	10
2.	Salaries cannot be compromised	10
3.	Competitive Salary	10
4.	Incentivise the teachers	
	Bonuses linked to performance	10
	Invest in the school	2

- **<u>Partnerships</u>**

"Partnerships are valuable if pulling in the same direction…there needs to be one vision and that is investing in the children of the country" emphasised interviewee sixteen. Interviewee thirteen further highlighted that, "Partnerships should only come in for what is not the core of the business, which applies to business principles. However to outsource, the costs and benefits need to be weighed up."

Potential partners are in "private companies… partner with an established company as will help minimise the risk" stated interviewee fifteen. "Partnerships should enhance the profile of the school and give them credibility" interviewee twenty mentioned. Interviewee nineteen indicated, "Partner with donors or top schools for free or cheap services and they can get a proportion of the profit." Interviewee twelve said that "Parents are key partners as they are in school for minimum of 5 years… partner with families which can help with maintenance for example… what can parents do from a sweat perspective… parents might have no cash but there are other skills they can bring in." Interviewee fourteen highlighted the importance of a community by stating that, "Schools in bad areas need to partner with the community…strengthen your bonds with the community by uplifting them as you need them on your side."

5.3.6 Performance

"Low fee private schools must be a worthwhile alternative… must deliver a fair service that is very good value for money…. have good quality teachers… with the children having good enough marks" stated interviewee eleven. Interviewee sixteen further highlighted that, "With schools there is a long term commitment to the delivery of output (results)…. but it is a question of how to tie in people's commitment to result in revenue…there needs to be a return given." Interviewee eighteen elaborated by saying that output "needs to be measured from an investors' point of view which includes social and monetary return." However interviewee sixteen mentioned that "Return for all shareholders are different as parents are banking on the future to give the child an education so they have the ability to move to higher education and get a job, government wants a return for economic prosperity by creating educated youth, donors, with shareholder money through CSI initiatives, want a better return for their money than if it was used elsewhere…the same question applies to investors, but need to know who are they and what they want?" As interviewee eighteen specified, "For all stakeholders there is the question of what is the trade and what am I getting? Trade is the expectations that their money is used and delivered."

"With performance (there) needs to be standards…this relates to the norms and standards for educators that spell out expectations and standard of performance that is required" stated interviewee seventeen. With this is mind, interviewee seventeen emphasised that "There needs to be quality assurance on all levels …as the key input and output driver is quality…performance must show a whole school evaluation process." Interviewee twenty elaborated that, "Every school should be measured on a variety of performance indicators namely leader, facilitation of knowledge, learner outcomes and evaluation of outcomes." Interviewee eleven further highlighted that "Links to performance is output which is quality learner attainment…What are the processes and systems needed to achieve it? "

Interviewee fourteen specified that, "Parents need to see that this school is different… parents must believe that they put their children in the right place." However, interviewee fifteen said that, "There must be financial viability that will also look after the social aspect." Interviewee nineteen further defined that with performance, "there are two aspects, financial and non-financial rewards." Interviewee twenty mentioned that all "Stakeholders expect a return if they give capital, time and resources to the school." However, "To maximise your return you need good teachers, partnerships and students in a whole ecosystem… as a school cannot sustain underperformance" explained interviewee seventeen. Interviewee eleven expanded that, "If a school produces results, which drives the school's reputation, word of mouth marketing will happen and so more sales will happen which will increase the revenue and so drive investors." Interviewee fourteen stated that through performance the school is showing the school's "promise to society."

Table 13, below, exhibits the constructs emerged for the theme, performance.

Table 13: Constructs under the Theme of Performance

Ranking	**Construct**	**Number of Interviews**
1.	All stakeholders expect a return	10
2.	Performance links to quality in:	
	Financial feasibility	10
	Social Impact	10
3.	Has to be externally validated	4

- **<u>Return on Investment</u>**

"You putting your money here and this is what you getting… return on investment" stated interviewee sixteen. However according to interviewee eighteen, schools "can only generate a return if the price and package is right." Interviewee nineteen highlighted that a return on investment "can be measured in a variety of ways and not just the feel good stuff." Interviewee thirteen believed that, “The return stakeholders want is to ensure sustainability.” This can be measured, “through financial performance” highlighted interviewee eleven. Interviewee seventeen supports this argument stating that the “Return must be governed by business principles.” However, according interviewee fifteen, a return on investment is “getting tangible measurements of output. What is the purpose of education? What is a good citizen? What is productivity…quantify the return on investment which will swing it into a social return on investment.”

- **<u>Social Return on Investment</u>**

“Schools are about quality and value… the technical definition of quality is how well schools are doing relative to key competitors as they must compete for the best results in the market. It also needs to be compared to last year’s results and each year the standards must increase” indicated interviewee eleven. Interviewee twelve believed that a measurement of quality is “Have we (the school) been successful for you (the student) as an individual in the school? How have you done afterwards?...all depends on the perception of the parents” Interviewee fourteen emphasised that, “Education is a passport to the future… parents must believe they getting what they want. There must be a belief that they are getting a better passport.”

Interviewee sixteen indicated that, “Quality is a divergence of marks and output.” Interviewee fifteen stated that, “Quality comes in the form of matric exemption as the matric pass rate is meaningless. This is only one of many areas of the success of a school…there is a whole host of contributing factors such as academic, extra mural activities, waiting lists, empty desks, ratio of acceptance versus listing, staff turnover, financial reporting and pupil attrition and nutrition. This is all part of the quality and it needs to fit primarily into the school." Interviewee seventeen agreed that quality is "not just academic, it is more than that…there cannot just be focus only on learner but also the teachers." Other aspects of quality according to interviewee twelve detailed that, "The fundamental driver of value is teachers….performance of the school are to maintain a good teaching faculty. What is the churn like? How are teachers performing across the full spectrum?" Interviewee seventeen concluded that, "The child is a sustained pocket of school quality… which is a relative term and must be constantly improving…quality is to be used to influence all stakeholders and partners."

5.3.7 The Structural Financial Model

"A model is hugely helpful, especially to pin it down" highlighted interviewee fifteen. The model shows that, "it does not matter where you start, it will all link up" highlighted interviewee eleven. However, a major change to the model is to "start the model with an output of the school (performance) and then do a backward mapping" emphasised interviewee seventeen. "Performance is critical to all links" explained interviewee eleven. However, interviewee seventeen clarified that, "this model will differ depending on the socio-economic factors."
The Relationship Financial Model in phase one (Figure 8), was refined to form a higher level financial model called the Structural Financial Model, Figure 11. This model is exhibited and discussed further in chapter six. There were twelve versions of the model before the financial model was made. The Structural

Financial Model, displayed in Figure 11, makes reference to all the organisational levers of a school needed for sustainability.

5.3.8 Conclusion

The Structural Financial Model formed in phase two is a refinement of the Relationship Financial Model formed in phase one. However, a combination of both models is required for a sustainable financial model for low fee private schools. The Structural Financial Model will be exhibited and discussed in chapter six. In addition, complementary information highlighted from the literature will be included in both models, to ensure comprehensive financial models are formed. All-inclusive financial models will ensure a greater likelihood of schools achieving sustainability.

Chapter 6: Discussion of Results

6.1 Introduction

The previous chapter presented the results that answered the research question stated in chapter three. The study conducted a two phase approach. The first phase developed a financial model based on the findings from the interviews with managers and/or leaders of low fee private schools, namely the Relationship Financial Model. Phase two was a refinement of the financial model formed in phase one through expert interviews, namely the Structural Financial Model. The Relationship Financial Model, in Figure 8, exhibits how the levers in the Structural Financial Model, Figure 11, interrelate with one another. The Structural Financial Model exhibits the structures or levers that are required to ensure sustainability. A combination of both financial models is required to form a sustainable financial model.

This chapter will discuss this study's findings in relation to previous research and literature which was highlighted in chapter two. There were results from this study that concur with the literature, as well as findings that contradicted the literature. Each of the financial models formed will be discussed separately in this chapter. Both financial models formed will be refined, according to the literature, to form comprehensive financial models.

6.2 Discussion of the Relationship Financial Model

The literature was used as a lens to view the financial model, exhibited in Figure 8, allowing for additional input to be included in the model. The variables for the financial model were identified through interviews with managers and/or founders of currently operating low fee private schools. The Relationship Financial Model presented in Figure 10 was then formed based on these findings as well as any additional variables identified through the literature review in chapter two.

6.2.1 The Value Chain of the Relationship Financial Model

The three core sections that were identified through the interviews forming the value chain of the financial model are financial operations, leadership and management and performance of the school. This is evident that the financial model needs to have a holistic view. This is in agreement with the literature identified by Moore (2005), that the solutions for sustainability need to have a holistic approach focusing on all areas.

6.2.2 Revenue

The financial operations are comprised of revenue and costs, which is explained separately but are interlinking to result in financial feasibility. Revenue, according to Moore (2005), consists of three sources of income, namely government funding, private donations (philanthropy) and self-generated income. The findings from this study identified the sources of revenue as parents, donors and government. Moore (2005) showed that the overall contribution to revenue should be distributed as: self-generated income as a dominant source of revenue at approximately 53%, government subsidies at 35% and private donations (individual, corporate and foundation based) at 12%. The self-generated income, in schools, is the fees that are paid by the parents. The revenue contribution in this study showed fees contributing 51%, government subsidies and donations contributing 20% each and 'other' contributing 9% to the total revenue. It is interesting to note that the findings in the research done by Moore (2005), and this study had a similar percentage of self-generated income. However, private donations and the government subsidies contributed the same amount in this study. The revenue sources for the schools, in this study, were diversified which Greenlee and Trussel (2000) highlighted that a greater diversification in revenue decreases the chances of closure. Sorensen et al., (2004) elaborated that all schools must ensure that they have a great understanding of the importance of revenue diversification as this will assist in the schools achieving superior long term performance.

Conversely, Carroll and Stater (2008) stated that by having more than one area of revenue, in particular with earned income as one, will undermine the legitimacy of the school and may result in a decrease in the likelihood of receiving future donations and funding. The percentage of contribution of revenue varied in all the schools but there was always a dominant source of revenue. Therefore, through the interviews with the experts; the reliance on which revenue source, resulting in sustainability, was discussed.

6.2.3 Costs

Costs are the other element presented in the financial model. According to Baker (2011), the cost is a function of factors that influence the costs of the school. The findings of this study showed costs to be a function of salaries, maintenance/rent, IT, marketing, sports, bad debt and 'other'. The largest contribution to costs is teachers' salaries at 61% of the total costs; with the second biggest cost as 'other' with the third biggest contributor being maintenance and rent. There were conflicting findings from the interviewees in terms of the teachers' salaries as 80% of the schools paid their teachers' salaries lower than what government paid their teachers, whereas only 20% of the schools paid their teachers' salaries at a higher salary than what the government offered. The other areas of conflict were with regards to outsourcing school activities or not, for example buying or renting a school property. Therefore, due to these conflicting findings, the areas of cost that can be compromised to ensure sustainability, were discussed with expert interviewees and discussed under the Structural Financial Model.

6.2.4 Stakeholders

Schools are operating as 'open systems' where there is increasing interaction between stakeholders. Stakeholder theory according to Freeman (1984) stated that an organisation is responsible for the well-being of its stakeholders such as customers, suppliers, employees, investors, and communities. The stakeholders identified through this study were parents, children, managers, government, donors and teachers. Investors were identified by Freeman (1984) as key stakeholders; therefore investors are additional stakeholders to the financial model in Figure 10. Primary stakeholders are directly related to the operations and outcomes of an organisation, while secondary stakeholders are not directly related to the organisation even though they are able to influence and be influenced by its operation and outcomes (Hillman & Keim, 2001). The major primary stakeholders evident from the findings in this study are managers and/or leaders of the school, parents, teachers and children. The secondary stakeholders come in the form of any partnerships like donors and government. Even though, children are primary stakeholder of a school, they do not directly influence the operations of the school but are rather dependent on the other stakeholders of a school to deliver an affordable quality education, from which they will benefit. Children, as primary stakeholders, are not displayed in the Relationship Financial Model, as they do not directly influence the financial operations of a school.

There is a constant battle to balance the diversities between the different accountabilities of stakeholders because accountability can possibly be skewed in favour of 'dominant actors' (Ebrahim, 2003). In accordance to the findings of this study, the 'dominant actors' depend on who the major revenue provider is. Managers of the schools managed the operations of the school according to the majority revenue contributor. Therefore, in terms of sustainability, this method of management will be questioned through the expert interviews and the best practise for managing different stakeholders was discussed. The competitive advantage of stakeholder management is based on the effective managing of relationships of stakeholders resulting in valuable resources that enhance the company's value creation and their ability to outperform competitors (Galbreath, 2006 and Hillman & Keim, 2001). Managers should manage the schools in the interest of primary stakeholders such as employees, customers, and suppliers who can influence and are influenced by the school (Chen, 2009). Therefore, the management of the different accountabilities of the stakeholders was addressed under the Structural Financial Model.

- **Managers and/or Leaders**

The most influential stakeholder identified by the interviewees in a school, is the manager or the leader of the school. Goduto, et al., (2008) agreed stating that the major stakeholder in the management and operations of the school are the heads of schools, which are seen as the main driver in "change agents and facilitators" (p. 347). The interviewees agreed that leadership was critical as interviewee two stated that, "the key to success is management and it has taken me 20 years to admit that," with interviewee five elaborating saying that schools "need really strong leadership and good teachers." The role of a leader at a school was further examined by the expert interviews.

- **Parents**

Parents were identified as the major stakeholders of a school as 51% of the total revenue came from school fees. However, the important role that parents play as a major primary stakeholder in a school was not identified. Many schools stated that fees are often not paid because the school is dealing "with a low income group, so very few people pay" according to interviewee six. However, it was identified that the "the promising sign is that the middle class is growing as now parents are working or they have been promoted…parents are more educated than before" highlighted interviewee one. The role of parents as major stakeholders in the school were further explored with the expert interviewees, to ensure sustainability. This was discussed under the Structural Financial Model section.

- **Teachers**

Teachers were identified as the major primary stakeholder of cost and therefore the main cost driver. "The problem is attracting and retaining the teachers due to the salary" said interviewee six. Only one school offered teachers competitive salaries that were greater than the government salaries. The interviewees believed what attracted teachers and retained them were factors such as the leadership of the school, family feeling, inner heart that the teachers have, the teachers are happy and they feel that they are making a difference. An aspect to attracting and retaining teachers is in bonuses, but it was identified that the teachers' bonuses must be linked to their performance. As teachers are a major stakeholder of a school, the importance of their role was addressed in the next section under the Structural Financial Model.

- **Donors**

The schools that relied heavily on donations would change their mandate to suit the companies to guarantee donor funding. This is evident in the interviews with the managers and/or leaders of the school, as interviewee eight said that, "companies like to give to schools as they want to give to a charity and know that at a school their money will be well spent, especially a school with the right purpose…but it all depends on the company's mandate." The dominant construct for donors are that they require their mandates to be met, want to see a return and then the funds are often used for the operations of the school. The role of donors as stakeholders was discussed under the Structural Financial Model.

- **Partnerships**

A key theme that emerged in schools is the important role of partnerships in the operations of the school. Partnerships come in the form of both public and private partnerships according to Farah and Rizvi (2007). The objectives of partnerships are to increase financial feasibility by lowering costs as it allows for the fixed costs to be spread through the partnering of less critical components (Chesbrough & Schwartz, 2007). The partners evident in this study's findings are government (subsidies, donations and curriculum), private individuals ('in kind' and monetary donations), corporations ('in kind' and monetary donations), and other organisations such as ISASA (Independent Schools Association of South Africa) and IEB (Independent Examinations Board). According to Cornett et al., (2006), partnerships which offer the greatest opportunity for cost reduction and allow for revenue enhancement will lead to improved performance. Stakeholders can exercise influence in numerous ways (technological, economic, social, political or managerial) for the achievement of ultimate goals of an organisation (Bailur, 2006). Therefore the additional areas to partnership as part of stakeholders were included in the Relationship Financial Model in Figure 10. Collaboration between partners has the potential to create benefits and value for both parties, which seeks to make best use of available expertise across the wider community (Rhodes et al., 2003 and Machin et al., 2009). Therefore, the importance of partnerships and the best practise for partnerships was addressed under the Structural Financial Model section.

6.2.5 Performance

According to Epstein and Roy (2003), all organisations need to be committed to balancing the interests of all stakeholders by reporting regularly to the stakeholders on the progress achieved against its financial and non-financial performance targets. Quality of education was identified by 70% of schools as a measurement of performance. Quality of education is a non-financial performance target and is referred to as a social return on investment (SROI) (Gair, 2002). Social return on investment, is the social value that is created when resources, inputs, processes and policies are combined to generate improvements in the lives of individuals or society as a whole (Emerson et al., 2001).

The importance of performance as a feedback mechanism in sustainability is highlighted but the financial performance target needs to be included, in addition to the social return on investment, as a measurement to assess performance. Therefore financial return on investment (ROI) is included in the model as another measurement (Figure 10). The financial performance target equates to economic value which is created by taking a set of inputs, providing additional inputs or processes that increase the value of those inputs, and thereby generate a product or service that has greater market value (Emerson et al., 2001).

Accountability and responsibility to relative stakeholders and outcomes clearly matter and this can be shown in the performance of the school (Austin et al., 2007). Hence, the financial return on investment and social return on investments were tools used in the financial model as feedback mechanisms for sustainability in the financial model in Figure 8. The measurements of the performance of a school were further examined by the expert interviewees under the Structural Financial Model section.

The descriptive measurements for a social return on investment were elaborated by interviewee three as being measured by, “Good results are 85 to 100% pass rate for Matric.” However, interviewee nine stated that, “The main performance measure is how many children get into universities or technicons.” In addition, interviewee ten believed that it is a combination of, “The performance of the school is assessed through matric results which are the pass rate and exemptions and the quality of results across each subject.” This measurement is only relevant to high schools. Primary education has a different measurement in which interviewee seven stated that, “We measure performance on how well our children do relative to other children from different schools.” Therefore, the uncertainty of the measurement of social return on investment is evident by Tulchin (2003), who stated that there is a lack of standardised tools or methods and it is currently easier to assess financial results than social benefits. The measurement of the financial return on investment is the measurement of economic value creation which includes return on investment, debt/equity ratios and price/earnings ratios for example (Gair, 2002 and Tulchin, 2003). These examples are standardised and are found in most financial reporting by for-profit corporations. With the standardised tools measuring the financial return on investment and no standardised tools for the social return on investment, measurements that relate to the school were examined through expert interviews.

6.2.6 Additional Input to the Relationship Financial Model

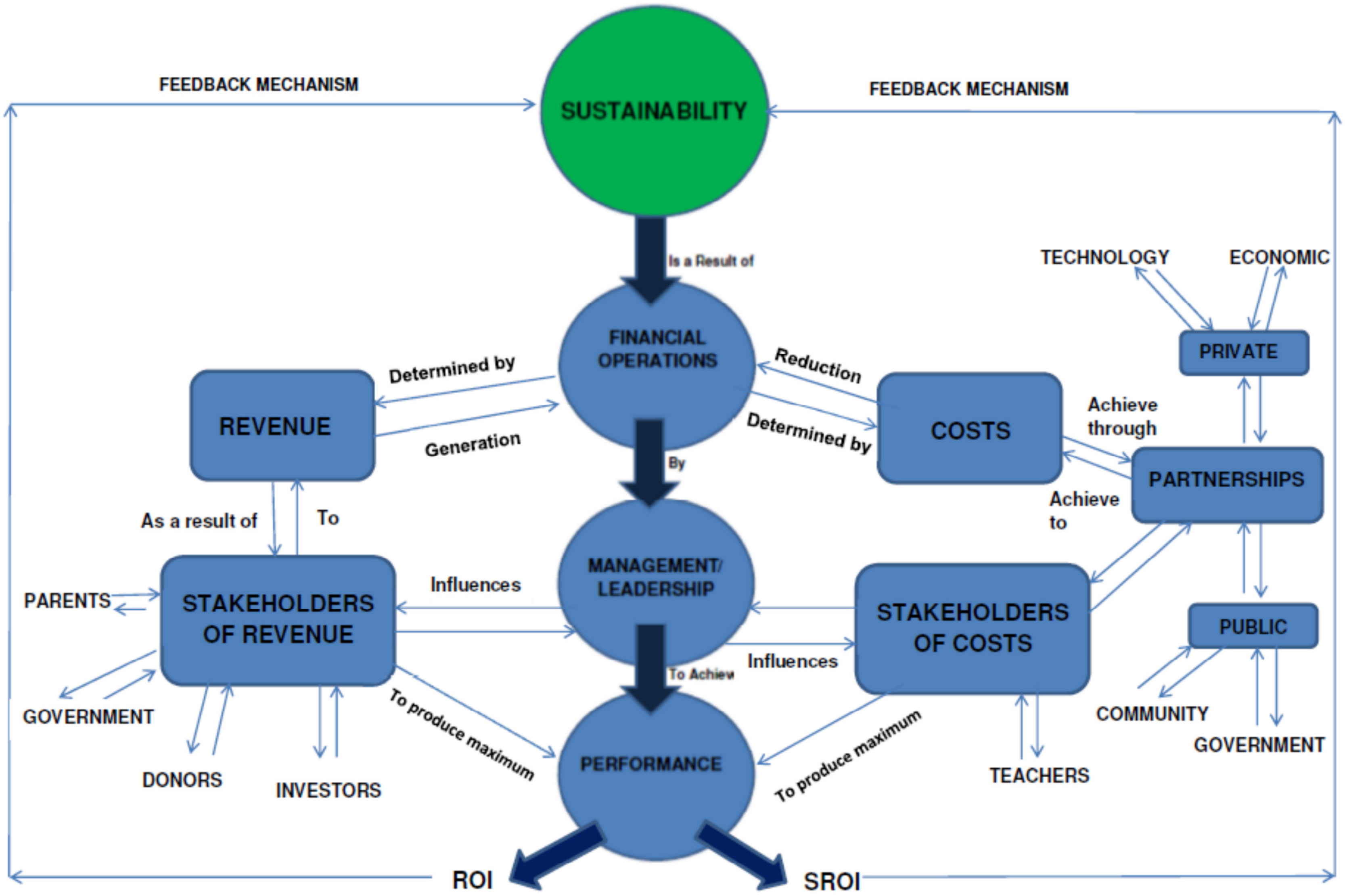
There are additional pertinent inputs to the Relationship Financial Model, Figure 8, was identified through this chapter, to form the financial model in Figure 10 below.

The theme of partnerships was identified through the literature as comprising either private or public partnerships. The public partnership would include stakeholders such as the community and the government. There is a two-way interaction between both stakeholders of the partnerships, from which both will benefit through co-operation. The private partnerships can include any private businesses that can involve economic or technology activities. These two areas of activities were identified through the literature as additional areas that stakeholders can influence in a school. There is a dynamic two way relationship between the stakeholders in the private partnership as it is a mutual interaction of benefit.

An additional measurement of performance to the social return of investment (SROI) is the financial return on investment (ROI), which is exhibited in Figure 10. Both these measurements act as feedback mechanism tools for sustainability.

The two pie charts shown in Figure 8 have been removed from this model in Figure 10. The pie charts were results from this study and cannot be regarded as ‘the best practise’ for schools. Instead, the objective of this study is to create a financial model that can be used as a mechanism for sustainability. Hence the refined Relationship Financial model is exhibited in Figure 10.

Figure 10: The Relationship Financial Model

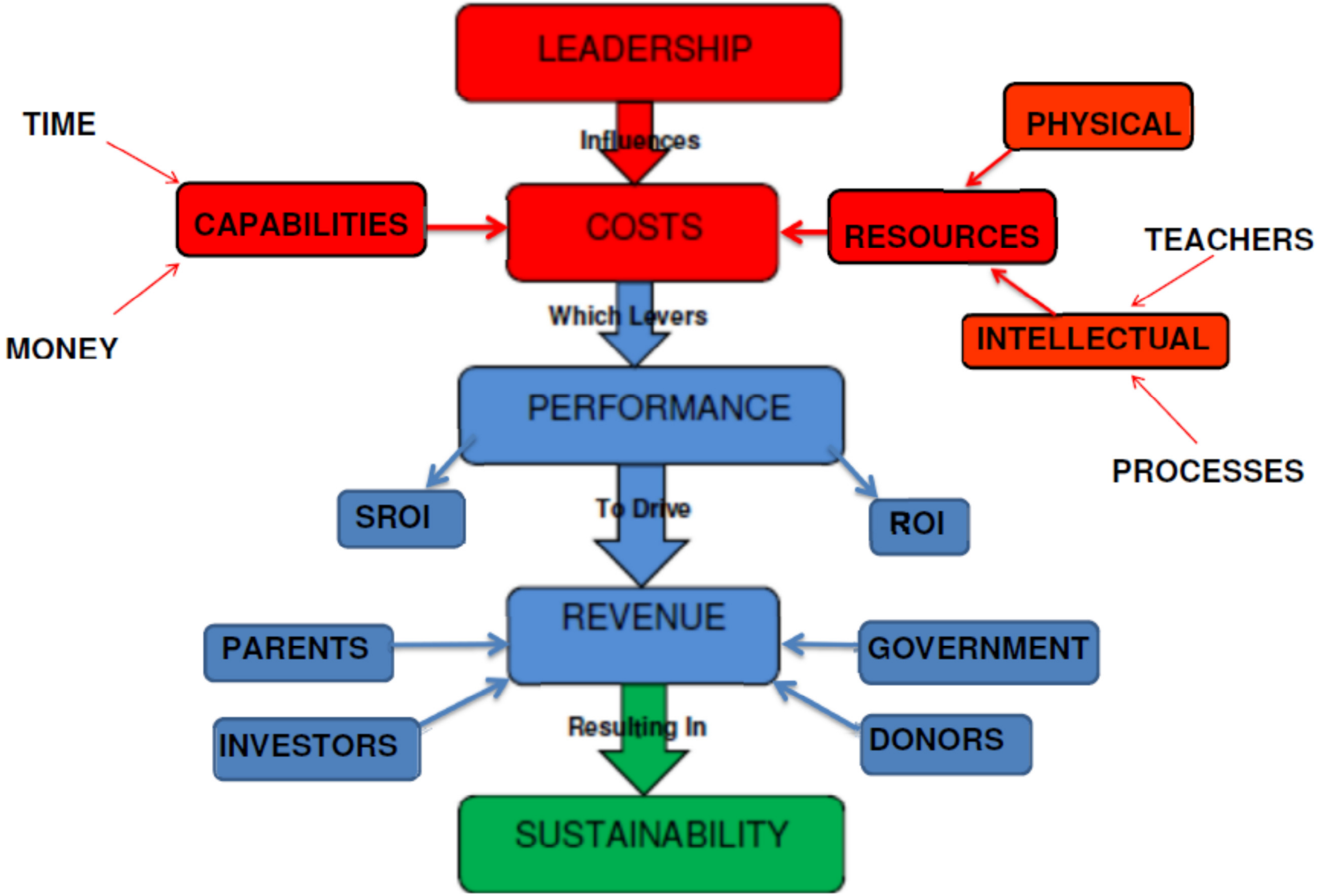


6.3 Discussion of the Structural Financial Model

The Structural Financial Model, shown in Figure 11, is refinements of the Relationship Financial Model from Figure 8 from phase one. Figure 11 was formed through interviews with experts in the educational and financial business sectors in phase two. The underlying statement of the model is that leadership influences the costs of a school, which levers performance that will drive revenue resulting in sustainability. This chapter will use the literature as a lens to view the financial model, exhibited in Figure 11, allowing for additional input to be included in the model. The Structural Financial Model presented in Figure 12, was then formed from the additional variables identified through the literature review in chapter two.

Children, as a stakeholder in the school, have not been displayed in the Structural Financial Model for the same reasoning they were not displayed in Figure 8 and 10. Hence, children do not directly influence the operations of the school but are rather dependent on the other stakeholders of a school to deliver an affordable quality education, from which they will benefit.

Figure 11: The Structural Financial Model



Leadership influences the costs of the school. Costs are made up of two levers namely capabilities and resources. Resources take into account all assets of the school which include the intellectual and physical resources. Intellectual resources are a combination of the processes in the schools as well as the skills and abilities of the teachers. The physical resources include all tangible assets. The other cost lever is capabilities which were identified by the interviewees as areas of time and money. Schools need the capabilities to be in place to utilise the resources for maximum benefit of the school. The arrows from the 'costs' segment are inward facing from 'resources' and 'capabilities', as both resources and capabilities are an input into costs. The same ideology applies to the inward arrows from 'physical' and 'intellectual' into 'resources', 'teachers' and 'processes' into 'intellectual' and 'time' and 'money' into 'capabilities'.

The utilisation of costs, influenced by the leaders, will leverage performance. The performance will result in a return on investment both socially (SROI) and financially (ROI) which will drive all sources of revenue. Both arrows from 'performance' are outward facing to 'social return on investment (SROI)' and 'return on investment (ROI)', as these are an outcome of performance. The sources of revenue, or alternatively viewed as stakeholders of revenue, are parents, donors, government and investors. All these stakeholders were identified through the expert interviews in phase two. The arrows from these stakeholders are all inward facing as they are inputs into revenue.

All the levers identified in Figure 11, are interlinking and enable a school to gain greater or lesser financial sustainability depending on how effectively the levers are used. The elements of leadership and costs are presented in the colour red, as costs in financial institutions are associated with the colour red and leadership was viewed as the 'heart' of an organisation. Performance and revenue are presented in blue as the colour blue is associated with consistency and stability. Therefore, if performance is constantly increasing it will drive revenue causing stability in a school. As already mentioned, sustainability is associated with the colour green, sustainability was presented in green in the Structural Financial Model in Figure 11. The Structural Financial Model in Figure 11 will be discussed further through the lens of the literature from chapter two. Additional changes made to this model in Figure 11, in accordance with the literature, are exhibited in Figure 12.

6.3.1 The Value Chain of the Structural Financial Model

The three core sections of the value chain of the Relationship Financial Model formed in phase one, was examined by the expert interviewees in phase two. All three sections were identified as interdependent elements but leadership was identified as the most important, with financial operations and performance being viewed as mutually dependent.

6.3.2 Leadership

Leadership of a school was identified as the "heart of sustainability" according to interviewee fourteen. Congruently, interviewee sixteen could not emphasise the importance of leadership enough as "leadership is paramount and the management must be just right otherwise will kill it (the schools)." Interviewee three elaborated saying that, "leadership impacts all aspects of financial operations and everything else as it controls costs and ensures happy teachers." This was identified by Gutherie et al. *(*2008), who stated that all organisations must ensure that the organisational structure is guided under dedicated leadership who develop a wide range of options and/or scenarios with regards to the generation of revenue and also the correct management of expenses. Hollman (2007) elaborated by stating that managers of schools have to have the skills and knowledge to understand the administration of costs in order to have a systematic approach to managing cost. The managers have to be strategic when allocating resources to meet the organisational needs as if not, this may lead to financial complications which could jeopardise the financial viability of a school (Gutherie et al*.,* 2008 and Garrett, 2008). Therefore as highlighted by previous research and from this study, the role of teachers in the success of the school is pivotal.

6.3.3 Financial Operations

"Finances are a critical aspect of the school" specified interviewee seventeen. Alderman et al., (2003) agreed by highlighting that for a school to be sustainable, "cost-containment and scale and revenue generation" (p.271), is a proxy for the school's operating effectiveness. Interviewee sixteen further identified that, "If you do not have the money to keep things oiled then it (the school) will not last…. it is the fundamental input of sustainability." "The schools must convert the financial resources to accomplish and achieve an output that is to benefit the child… which must translate into value for money" stated interviewee sixteen. Gair (2002) agreed by stating that a school creates socio-economic value by making use of resources, inputs, and processes and increasing the value of these inputs; to generate cost savings and/or revenues. Interviewee seventeen stated that “The secondary things (performance) will look after themselves if the primary things (financial operations) are performed.” It is evident through the expert interviews that the output that a school produces has to be greater than the input, Bercovitz and Mitchell (2007) approved by stating that schools with a greater return generated from their resources, are able to acquire more resources which are used to sustain and grow.

Nevertheless, one of the fundamental objectives of a school is to achieve financial feasibility, which will depend on various levers. Mayson (2010) showed that specific attention for levers must be on pricing, management of fixed costs, control and utilisation of resources. These levers were further explored through the expert interviews and discussed below.

6.3.4 Costs

The optimal schooling cost model is reliant on the magnitude of the minimal cost of delivering quality educational services to each child. There are two focal areas of costs identified by the interviewees, namely resources and capabilities. Interviewee sixteen stated that the cost of the school “depends on what is at the school’s fingertips… what are their capabilities and resources.” Interviewee eleven believed that the resources were either “physical or intellectual.” Only 60% of the interviewees recognised that the resources are merely one aspect of the costs but there are “opportunity costs in terms of time… but money gives the school its capabilities” according to interviewee fifteen. The identification of resources and capabilities was recognised by the literature as Filmer (2007) stated that in order to deliver quality schooling, decisions made must be centred on spending money on more 'cost-effective interventions' by transforming all resources whether it is money, time and knowledge, into outcomes and effects for the maximum achievement (UNICEF, 2010). Filmer (2007) stated that 'cost effective' interventions are managed and controlled by the leaders of the school, hence the link between costs and leadership in the Structural Financial Model in Figure 10 and 11. To get a greater return than invested, depends on the capabilities and the resources at the schools disposal. Interviewee sixteen stated that, "there needs to be sufficient resources to make decisions for the medium to long term and not for the here and now."

Interviewee eighteen further highlighted that, "for this model to work, there needs to be a decrease of cost" but it "all depends on the resources of the school" (interviewee twelve). In relation to the cost function, Lucas and White (2009) mentioned that with a greater number of factors, the more accurate the model will be, as by having accuracy of the input data will result in correct outcomes. In addition Baker (2011) stated that the cost function aims merely at identifying factors that will influence the costs of the school and serve as a guideline on how the spending on schools' operations can be adjusted accordingly in order to achieve greater financial sustainability. Therefore the Structural Financial model exhibited in Figure 11 is adjusted to add more factors of cost, according to the literature to form the final Structural Financial Model in Figure 12, exhibited at the end of this chapter. These factors or cost are levers for performance which can be 'pulled' to either positively or negatively affect the financial sustainability of the school. However, the outcome of the effect of these levers is evident in the performance of the school.

- **<u>Teachers</u>**

According to Froelich et al., (2000), it is believed that to create financial returns, organisations need to have a lower proportion of administrative expenses to total expenses in order to achieve a greater return. However, Bowman (2006); Silvergleid (2003) and Tinkelman & Mankaney (2007) argued that by limiting expenses on administration, the overall capacity of the organisation will decline. The findings from this study agreed with the last sentence by highlighting that teachers' salaries are a major cost to a school and their salaries should not be compromised. "As in business, this is one area that a school cannot cut costs or compromise. This drives the competiveness of a business and the school wants the best teachers with the best results" stated interviewee nineteen. Interviewee sixteen also emphasised that, "education is a service and it is run on the productivity of the people…the biggest asset of productivity is the teachers." Interviewee thirteen had an alternate approach and stated that, "teachers need to invest in the school and as a long term incentive plan, which will incentivise the whole school…the teacher will get rewarded as the school grows and becomes more valuable." There should be a "link (of) the teacher's performance with the performance of the school. This will incentivise teachers…there needs to be a share of ownership" reiterated interviewee fourteen.

- **Partnerships**

Partnerships are becoming more important as an effective method in developing innovative business models by improving innovative effectiveness. “Partnerships are valuable if pulling in the same direction…there needs to be one vision and that is investing in the children of the country” emphasised interviewee sixteen. Hence, partnerships are formed in order for “gain sharing” and “pain sharing” (Doloi, 2009, p. 1101). Interviewee thirteen further highlighted that, “partnerships should only come in for what is not the core of the business, which applies to business principles. In agreement to the literature, Carrol and Stater (2008), highlighted that areas where costs can be reduced is in the non-essential departments, which will result in less revenue volatility over time. However to outsource, the costs and benefits need to be weighed up.” By partnering with technology companies for example, allows for “technology (to) assists with cost reduction”, according to interviewee sixteen. “Partnerships should enhance the profile of the school and give them credibility” stated interviewee twenty.

As parents are the major stakeholders of a school, interviewee twelve said that “Parents are key partners as they are in school for a minimum of 5 years… partner with families which can help with maintenance for example… what can parents do from a sweat perspective… parents might have no cash but there are other skills they can bring in.” Although partnerships were not directly highlighted in the model in Figure 11, Figure 12 exhibits the additional inputs to the model.

6.3.5 Performance

Organisations' strategies should promote growth and enhance long term stakeholder value that will compensate providers of capital with a return on investment (Epstein & Roy, 2003). According to interviewee eighteen, schools "can only generate a return if the price and package is right." Hence, this is elaborated by interviewee eleven who stated that, "Low fee private schools must be a worthwhile alternative… must deliver a fair service that is very good value for money…. have good quality teachers… with the children having good enough marks." With regards to performance, a 'double edged sword' is present, as the delivery of quality should not be compromised through a reduction in costs (Cleveland & Krashinsky, 2009).

"The return must be governed by business principles" (interviewee seventeen) but the financial performance for a successful educational program is not the main performance measurement but there rather needs to be a combination of both financial and social performance measurements (Austin et al., 2007). The findings from this study were evident that the returns of investment is a measurement of performance and "There are two aspects- financial and non-financial rewards" according to interviewee nineteen. Interviewee eighteen elaborated by saying that output "needs to be measured from an investor's point of view which includes social and monetary return." The combination of economic (financial return) and social value (positive social impact) equates to the term double bottom line (Gair, 2002). The double bottom line acts as both a foundation framework and a measurement tool by interpreting financial value, quantifying social impacts, and establishing connections between input, output, and outcomes (Tulchin, 2003). The importance of measuring both social and financial returns of investments is highlighted by Gair (2002) who stated that it provides value for measuring performance and attracting future capital. In conclusion, the financial performance targets equates to economic value which is created by taking a set of inputs, providing additional inputs or processes that increase the value of those inputs, and thereby generate a product or service that has greater market value (Emerson et al., 2001).

Accountability and responsibility to relative stakeholders and outcomes clearly matter (Austin et al., 2007). Interviewee eleven stated that, “If a school produces results, which drives the school’s reputation, word of mouth marketing will happen and so more sales will happen which will increase the revenue and so drive investors.” Interviewee fourteen emphasised that, “education is a passport to the future… parents must believe they are getting what they want. There must be a belief that they are getting a better passport.” An organisation needs to respect the needs, desires and rights of its stakeholders to provide the highest levels of product and service value, which includes a strong commitment to integrity, customer satisfaction and safety (Epstein & Roy, 2003). Interviewee twenty mentioned that all “stakeholders expect a return if they give capital, time and resources to the school.” However “to maximise your return you need good teachers, partnerships and students in a whole ecosystem… as a school cannot sustain underperformance” stated interviewee seventeen. Therefore the importance of performance of a measurement of sustainability is vital.

There is a lack of standardised tools or methods for the social return on investment and it is currently easier to assess financial results than social benefits (Tulchin, 2003). This was evident in the findings from the study as there was discrepancy on how the social return on investment is measured. Interviewee twenty stated that, "every school should be measured on variety of performance indicators namely leader, facilitation of knowledge, learner outcomes and evaluation of outcomes." Interviewee fifteen indicated that, "quality comes in the form of matric exemption as the matric pass rate is meaningless. This is one of many areas of the success of a school…there is a whole host of contributing factors such as academic, extra mural activities, waiting lists, empty desks, ratio of acceptance versus listing, staff turnover, financial reporting and pupil attrition and nutrition. This is all part of the quality and it needs to fit primarily into the school." These measurements of financial return on investment are standardised and here are some examples of how it can be measured namely, return on investment, debt/equity ratios, price/earnings ratios and others (Gair, 2002 and Tulchin, 2003).

Interviewee sixteen highlighted that the "return for all shareholders are different as parents are banking on the future to give the child an education so they have the ability to move to higher education and get a job, government wants a return for economic prosperity by creating educated youth, donors, with shareholder money though CSI initiatives, want a better return for their money than if it was used elsewhere…but for investors, who are they and what do they want?" As interviewee eighteen stated, "For all stakeholders there is the question of what is the trade and what am I getting? Trade is the expectations that money is used and delivered." With this is mind, interviewee seventeen emphasised that "there needs to be quality assurance on all levels …as the key input and output driver is quality…performance must show a whole school evaluation process." Nevertheless, "Schools are about quality and value… the technical definition of quality is how well schools are doing relative to key competitors as they must compete for the best results in the market. It also needs to be compared to last year results and each year the standards must increase" stated interviewee eleven.

6.3.6 Revenue

Revenue diversification was also highlighted as an important strategy for schools to follow (Carroll &Stater, 2008). Keating et al., (2005) researched revenue concentration and it was revealed that revenue concentration led to a higher chance of bankruptcy and a decrease in revenue. The most reliant source of income for all schools should be self-generated income in the form of school fees which is highlighted by interviewee eighteen stating that "The majority or bulk of the income must come from fees." In addition, the viability of long term sustainability of an organisation is self-generated income as the major contributor to revenue (Moore, 2005). Interviewee sixteen elaborated by saying that, "schools do not want to be dependent on revenue sources that are outside of your control….this revenue gives visibility of future revenue." Interviewee fourteen expanded saying that, "As it is the same in business, there should not be one big debtor that could crash your company. There needs to be a diversification."

Interviewee sixteen regarded diversification differently and stated that, “as there are many parents in a school, there is diversification of revenue…but it all depends on the size of the school… as if few parents don’t pay it will not make a material difference to making the school go under.” However, the fees paid by the parents must be “value for money” according to interviewee seventeen. Cordery and Narraway (2008) agreed by stating that parents favour services that are providing ‘value for money’. ‘Value for money’ is realised by the quality of education that is provided by the low fee private schools, however, this value needs to be converted into recurring revenue streams (Gutherie et al., 2008). Therefore, schools need to charge a fee that the customers (parents) are willing to pay but it needs to be substantial enough to cover costs of the operations of the school. Hence, according to Bosshardt et al., (2008), to build a financially sustainable school, the optimal maximising pricing lever for school fees must be implemented. Failure to do so will threaten the future of the school.

Managers should manage the schools in the interest of primary stakeholders such as employees, customers, and suppliers who can influence and are influenced by the school (Chen, 2009).It is also evident that there is also a positive relationship between customer satisfaction (parents and children) and future financial performance (Banker et al., 2000 and Smith & Wright, 2004). The competitive advantage of stakeholder management is based on the effective managing of relationships of stakeholders who will result in valuable resources that can enhance firms’ value creation and their ability to outperform competitors (Galbreath, 2006 and Hillman & Keim, 2001).

6.3.7 Sustainability

Magretta (2002,) stated that “profits are important not only for their own sake” but also because they inform of a working model” (p. 90). Hence 80% of the interviewees agreed that sustainability is linked to profits and only 20% did not agree. Cleveland and Krashinsky (2009), agreed with the 20%, stating that sustainability is not linked to profitability and that the main goal of an organisation, with particular attention to the educational field, is to provide high quality education to children and not to focus on maximising profits.

As a consequence, the preferred word to profit is surplus. Surpluses that are earned in a firm can be reinvested for purchase and development of new or existing resources for value creation and capture in the future (Mayson, 2010). Bosshardt et al. (2008) express that any surplus made by the school needs to be reinvested to increase the endowment fund and form a “financial cushion” (p. 37) against any uncertainties in the future, reinvested in the infrastructure or provide funding for scholarships. By reinvesting the surpluses into the school, there will be a return on investment that will occur quicker compared to continuous capital investment, ensuring sustainability (Mayson, 2010).

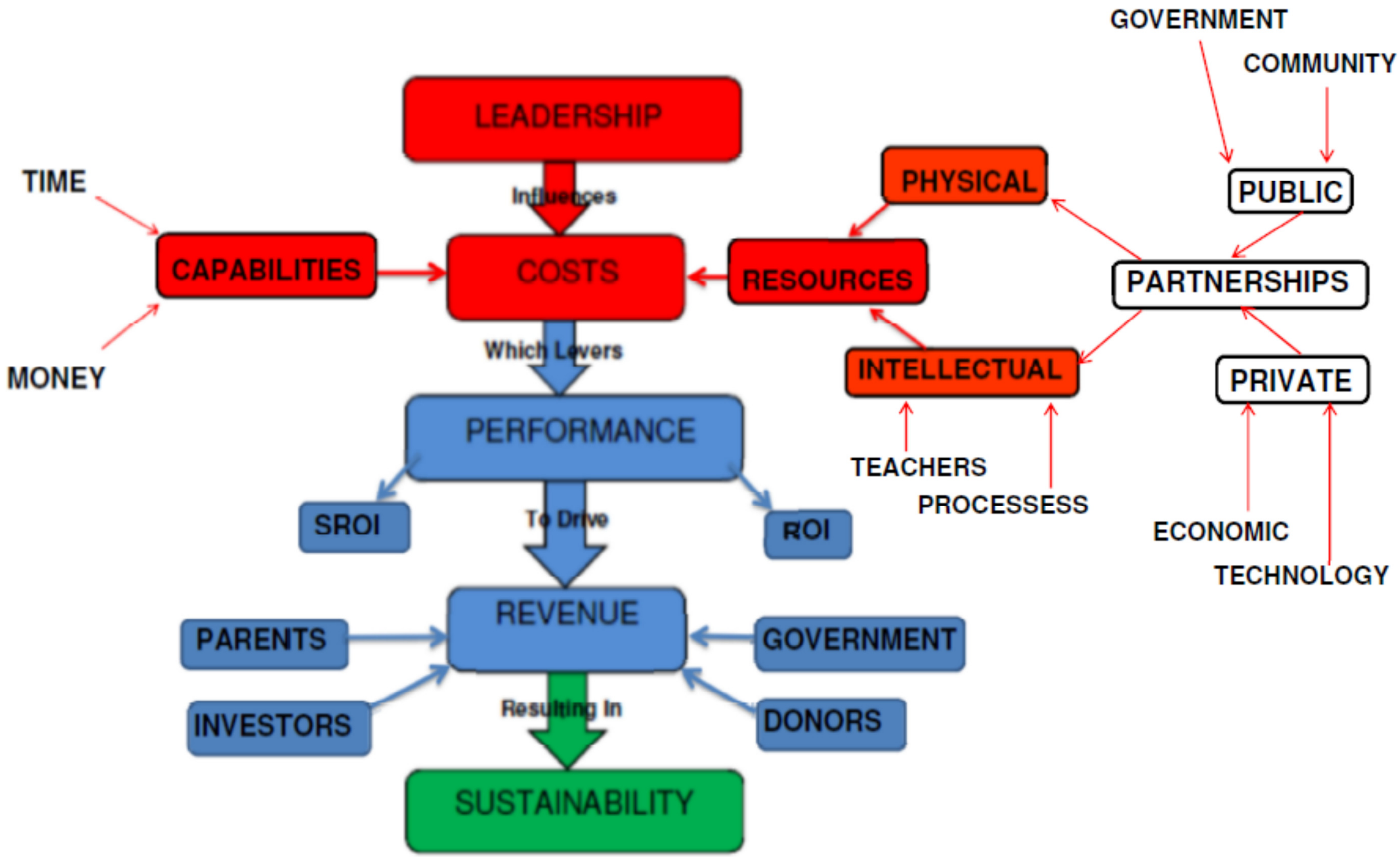
The expert interviewees had a similar definition of sustainability which is with the ability of producing greater outputs (social and financial return on investments) than inputs (capacity and resources); to produce a service of quality schooling that will provide education for the current children’s children. Similarly, sustainability is defined as a “mechanism in place for generating, or gaining access to, economic resources” to keep the “service available on an on-going basis" (Gutherie, Griffiths & Maron, 2008). Sustainability defined by the previous research mentioned the word 'mechanism'. Hence the financial model formed in this study, acts as mechanism that allows sustainability through financial feasibility. Ravenscroft and Williams (2009) agreed that financial observation can act as a mechanism to ensure that the schools are operating in the long term as it provides important feedback with regards to the sustainability of the organisation.

6.3.8 Additional Input to the Structural Financial Model

'Partnerships' were added to the model under the 'cost' section with particular attention to 'resources'. As already mentioned, resources are assets that a school has and through partnerships, schools can increase their asset base. As the partnership sectors were shown in Figure 10 of the Relationship Financial Model, the same ideology applies to the inclusion of partnerships in this model. Partnerships are inputs into the intellectual and physical resources of a school. The government and the community are inputs into public partnerships. Private partnerships are formed from additional activities that can enhance the school such as technology and economic. Hence, the arrows are inward facing into 'private' partnerships as 'technology' and 'economic' are inputs. As, Lucas and White (2009) mentioned that with a greater number of factors in the cost function, a greater ability to achieve financial feasibility will show, hence the cost function is all-inclusive.

The Structural Financial Model, in Figure 12, exhibits a consolidation of previous literature and the findings from this study. All the levers that are essential to sustainability are used in the framework of the financial model. The importance of the financial models is highlighted by Austin et al., (2007), who stated that educators, students, policy makers, and society have a vital interest in understanding financial returns and the value created from educational programs. In a time of increasing accountability for outcomes both financial and socially, the development of models and methods to accurately estimate financial and social returns on education need to be developed and applied.

Figure 12: The Structural Financial Model



6.4 Conclusion

The main research question of: 'What is a sustainable financial model for low fee private schools?' is answered in this chapter. There were two financial models formed in this study, namely the Relationship Financial Model in Figure 10 and the Structural Financial Model in Figure 12. The Structural Financial Model is a presenting a framework for sustainability with an 'aerial view'. A 'terrestrial view' is shown in the Relationship Model which shows how the levers identified in Figure 12 interact and relate to one other. Both models must be used in combination form the sustainable financial model for low fee private schools.

Chapter 7: Conclusion

7.1 Introduction

The previous chapter discussed and exhibited the Relationship Financial Model and the Structural Financial Model which in combination, form the sustainable financial model for low fee private schools. This chapter will discuss the background to this study as well as the objectives of the study. A summary of the main findings will follow with recommendations to all stakeholders of a school. The limitations of the study will be identified, and therefore acknowledgment of implications for future research will be highlighted. Finally, a conclusion to the study will be presented.

7.2 Research Background and Objectives

Africa, as a continent, can flourish economically if governments are mindful of the significance of education to alleviate poverty and drive growth and development for all individuals (Seetanah, 2009). Governments have the capacity to educate the population, and to ensure the best foundation is given for future generations. Although it is evident that education in South Africa is a priority, as the highest percentage of the national budget is allocated to education, it is not translating into South Africa being the world leader in quality education. Instead, South Africa is viewed as one of the worst countries in the world for providing quality education (Bernstein, 2005a). As the demand for quality education grows, the public sector will not be able to meet the demand alone. For that reason, the contribution that the private sector can make, can significantly affect the prosperity of education in South Africa and Africa as a continent.

The private sector can meet this demand through low fee private schools. The drive towards private schooling for the poor is a result of the government not being able to deliver on their promise of quality 'Education for All' (Tooley, 2007). The emergence of low fee private schools is evident in South Africa, which is serving the poor learners (Bernstein, 2005b). These schools are playing an increasingly important role in the South African education system as parents are making a choice to provide their children with schooling that offers better returns than what they are currently being subjected to in government schools (Bernstein, 2005b).

International studies on low fee private schools show that these schools are financially feasible, and therefore a viable return for all stakeholders (Tooley & Dixion, 2005). The financial feasibility of a school will ensure that the schools are operating in the long term and hence are sustainable. There is no previous research in terms of a financial model for low fee private schools in South Africa, consequently giving reason for this study. Therefore, the objective of this study was to develop a sustainable financial model for low fee private schools in South Africa. The objective was answered in a two phase approach. The first phase formed the Relationship Financial Model based on currently operating low fee private schools in South Africa. The Relationship Financial Model was then refined in the second phase, through interviews with experts in the educational and financial business sector, to form the Structural Financial

Model. The information gathered from the interviews in both phases as well as consolidation of previous research and literature, enabled two financial models to be formed. A combination of the Relationship Financial Model and the Structural Financial Model formed the sustainable financial model for low fee private schools. Both models need to be referred to when ensuring financial sustainability of a school. Financial sustainable low fee private schools will make this enterprise an attractive investment opportunity for all stakeholders.

7.3 Main Findings

The financial models formed in this study, had a holistic view of the organisation of the school. The Structural Financial Model, Figure 12, has an 'aerial view' of the levers of sustainability whereas the Relationship Financial Model, Figure 10, has a 'terrestrial view' that exhibits the relationship between the levers in the Structural Financial Model. Combinations of both financial models form the sustainable financial model for low fee private schools. The key themes identified could not be viewed in isolation but rather as interconnected. The definition for sustainability, with the consolidation of all interviewees' perceptions, is with the ability of producing greater outputs (social and financial return on investment) than inputs (capabilities and resources) to provide a service of quality schooling for the current children's children.

The three core sections to form the value chain of both financial models in sustainability are financial operations (revenue and costs), leadership and/or management, and performance of the school. Leadership was viewed as the heart of the school with the finances being the bloodline for the school in producing a sustainable financial model. The analogy can be expanded, to say that a school is like a living organism in which the heart (leadership) pumps blood (finances) around the body to different organs (sections of the school that will drive costs and revenue) to produce a healthy organism (the school). A 'healthy' school will have ripple effects that will uplift and empower the pupils to achieve more by furthering their education and becoming employable in a business organisation.

The Structural Financial Model, Figure 12, forms a framework for low fee private schools to yield sustainability. The financial model is described as follows: leadership influences the costs of the school, which levers performance, to drive revenue, resulting in sustainability. The costs of the school are made up of two main levers, namely capabilities and resources. Capabilities are the time and money used to transform the resources into financial and social returns (performance). The resources are split into intellectual and physical resources. Intellectual resources involve processes of the school and the skills and abilities of the teachers. The physical resources include all physical assets such as property, land and other tangible assets of the school. Partnerships are inputs into physical and intellectual resources of a school. Partnerships are either public (community and government) or private (technology and economic).

The school needs to transform the combination of resources and capabilities into a return on investment, which is evident in the school's performance. The performance of a school is a measurement of the social return on investment (quality education) due to the school being financially feasible (financial return on investment), resulting in a sustainable school. The performance will then drive revenue from the various sources namely parents, donors, government and investors. The majority of the revenue must come from areas within the schools' control, namely fees. The continuous income from these sources will ensure sustainability. The levers of the financial model can be 'pulled on' by leadership, at various degrees to improve the performance of the school significantly enough to see an increase in revenue. All levers are interlinking and if one is not present in the operations of the school, unsustainability will occur.

The Relationship Financial Model, Figure 10, shows the relationship of the levers identified in the Structural Financial Model. Sustainability is a result of financial operations by management and/or leadership to achieve performance. The performance needs to be measured by a social return on investment (SROI). The social return on investment is a measurement tool that acts as a feedback mechanism to ensure sustainability is achieved. Sustainable financial operations involve an increase in revenue and a decrease in costs. However, revenue generation is a consequence of the stakeholders of revenue (parents, government, investors and donors) which is influenced by management and/or leadership. Management and/or leadership also influence the stakeholders of cost. The main stakeholder of cost is teachers. All other stakeholders of costs can come in the form of partnerships.

Children, as primary stakeholders of a school, were not presented in the financial models as they do not directly influence the operations of the school but are rather dependent on the other stakeholders of a school to deliver an affordable quality education, from which they will benefit.

7.4 Recommendations to Stakeholders of Schools

The stakeholders of a school are categorised into primary and secondary stakeholders. The school should be managed in the interest of the primary stakeholders, who are directly associated to the operations of the schools, ahead of secondary stakeholders, who are indirectly associated to the school. The primary stakeholders are parents, teachers and children whereas the secondary stakeholders of a school are any partnerships formed with the school namely, the government, investors, donors and community. A return for all the stakeholders is imperative for sustainability; however the return for each stakeholder is different.

7.4.1 Recommendations to Leaders and Teachers

Education is run on the productivity of the employees (both leaders and teachers) which is the school's biggest asset. Teachers and leaders need to realise that there is a long term commitment in schools to deliver quality education, to produce greater outputs (performance) than inputs (resources and capabilities). The performance will drive revenue, in which the majority of revenue must come from sources that are 'in the school's control', fees. Income which is 'out of the school's control', for example subsidies and funding, must be keep at a minimal percentage as this will limit the school in the delivery of quality education. Leaders and teachers must provide an educational service that is 'value for money'. 'Value for money' is connected to the perception of the market, which must be externally validated to be credible and reliable, which will transform into earned income.

Schools need to convert the financial resources to achieve an output that is highly beneficial for the child. The financial decisions must be based on whether the outcome of the cost effective decisions, will increase performance significantly to produce a greater return. The financial feasibility of the school will ensure the social aspect of the school is delivered on. Leaders and teachers must be innovative to develop new business models for schools to minimise costs. For example, technology will increase the productivity of the school through capacity building and cost reduction.

In terms of measuring the social impact of the school (social return on investment), leaders must develop standardised tools to show the return that all stakeholders are getting for their capital. The return must be customised per major stakeholder as their return is different.

7.4.2 Recommendations to Parents

Parents must choose a school that provides the best “passport to the future” for their children. Parents provide an education for their children to guarantee that their child is able to progress to higher education and to finally get a job. If parents choose a low fee private school, it needs to be a valuable alterative to what is currently being offered by the government schools. The performance of the school is the best measurement for parents to evaluate if these schools are a worthwhile alternative. Parents must be aware that if they pay for schooling that their child is getting the best return, hence ‘value for money’. A contract should be signed by both the parents and the school, to show a commitment of parents to pay their school fees and a commitment of the school to deliver on their promise of providing the children with the best education.

7.4.3 Recommendations to Secondary Stakeholders

Secondary stakeholders come in the form of any partnerships. Partnerships are extremely valuable if all stakeholders are trying to achieve the same objectives and the school’s reputation and profile can be enhanced. Partnerships come in the form of government, community and any donors and/or investors of a school.

The South African government cannot achieve ‘Education for All’ alone and therefore the government must realise the critical role the private sector can play in achieving this goal. Governments need to encourage entrepreneurship in the educational sector and have a supportive environment for schools to develop and grow.

Donors should focus on becoming long term funders, like investors, rather than short term funders. The donors and/or investors, which are aligned with a school, must be focused around what resources and capabilities they offer the school that will lever performance and ultimately produce a greater return for all stakeholders. The return for investors and/or donors is that the return must be producing better results than if their money was used elsewhere. However, patience is required to gain a return on investment in the educational sector.

The community, in which the school is situated, is a crucial partner to a school. The community needs to have a vested interest in the school, as it will lead to the upliftment of the community. The resources and capabilities of people in the community must be leveraged, as it is in their best interest to develop a symbiotic relationship with the school.

7.5 Limitations of the Research

As this study was examined through qualitative research, the sustainable financial model formed, cannot be generalised across the population. The study was aimed at building theory and not testing a theory. The sustainable financial model is based only on the perspectives and information given by the interviewees, therefore this study developed a framework for financial sustainability and did not pursue the testing of the themes that emerged nor provide a 'solution for all'.

The limitation is that the sustainable financial model can only apply to a specific urban area in South Africa, therefore this model cannot be generalised to rural areas or other urban areas in South Africa. Although this study assumes one sustainable financial model, there are probably several financial models depending on the location. This model also only applies to a school that is already operating and not a school starting up. In addition, the financial model could change depending on what part of the life cycle the school is operating in. The model was based on interviewees who were obliging to be interviewed and reveal the financial information about the operations of the school, hence purposive and snowball sampling method was used. The same concept applies to the interviews with experts as the sample was also based on purposive and snowball sampling that was identified in one urban area of South Africa. Therefore, to make the study more robust, quota sampling for example can be used. Quota sampling can be used in both the interviews with the managers and/or founders of low fee private schools and experts within the educational and the financial business sector interviewed.

7.6 Implications for Future Research

The sustainable financial model that was formed in this study has its limitations as mentioned above. To reduce these limitations and make the financial model more robust, further research will have to be conducted. As this model specifically applies to low fee private schools in one particular urban area in South Africa, the model can be further developed and tested through an explanatory study, hence a quantitative study. The future research can test the levers of the sustainable financial model to form a 'best practise' for low fee private schools in that particular setting. In addition, the weightings of the significant levers can be identified as well as the testing of causal links between the different levers can be researched and then offered as suggestions to low fee private schools to ensure sustainability.

Other areas of research to be conducted, is to test the financial model from this study in other urban areas or rural areas. The financial model can form as a framework to be tested in other locations and can be adjusted accordingly depending on the findings. This will enable different financial models to be formed to in accordance with the location of a school. As the financial model formed in this study relates to already operating schools, further research can occur to adjust the financial model, formed in this study, according to the stage of the lifecycle that a school is operating in. Future research can explore other financial models that align specifically to either the start-up, growth, mature or declining phase of the lifecycle of a school.

The sustainable financial model formed in this study, as a result of the Relationship Financial Model and the Structural Financial Model, can also be tested and adapted in other geographic locations. The geographic locations would be in countries like Kenya, India and Nigeria, where the emergence of low fee private schools has already been researched and is evident.

7.7 Conclusion

The state of the South African education system is a major concern for all South Africans and if it continues, the economic position of South Africa will be negatively affected. There cannot be sole reliance on the government as the only providers to deliver quality education. Therefore, the private sector has an imperative role in providing an answer to the problem of quality education in South Africa. The concept of low fee private schooling must provide a solution to the ‘gaping wound’ in the education system and not just a band aid. These schools must have a greater social impact than what is currently being offered by the public schooling system. However, the strength of the social impact is dependent on the financial feasibility of the school and this can be achieved through the adoption of the sustainable financial model formed in this study. By ‘pulling on’ the levers in the Structural Financial Model and realising the impact of those levers in relationship to one another, Relationship Financial Model, will ensure the school is sustainable. It is hoped that this study will promote and assist existing and future stakeholders of schools to ensure their schools thrive. This creates an opportunity for entrepreneurs to transform education, through innovation, in providing affordable quality education that will provide a better "passport for the future" to the majority of the population in South Africa.

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Appendix 1: Interviewees for Phase One

NAME	SCHOOL	POSITION
Sonja Kruger	Progressive Primary School	Director and Treasurer
Agnes N Gcwabaza	Bophelo Impilo	Founder and General Secretary
Dr Tersia King	Tersia King Learning Academy	Founder and Headmistress
H M Ncube	Basa Tutorial Institute	Director
Jarrod Levenstein	Sekolo Sa Borokgo	Bursar
Ragesh Padayachee	Star Schools	Manager of Finance
Janet Saner	Vuleka	Director of Finance and Fundraising
Mike Thiel	Dominican Convent School	Headmaster
Helenne Ulster	United Church Schools	Founder and Headmistress
Mark Allen	LEAP Schools	Head of Finance

The interviewee numbers that are used in the text of this study is not related to the order of interviewees in this table.

Appendix 2: Interview Guide for Phase One

Section 1: General

1. How long has the school been operating for?
2. How many children attend your school and how many per class?

Section 2: Start-up of a School

1. Tell me the story of your experience starting up one of these schools financially.

   PROMPTS:

   - External funding
   - Government support
   - Resources

Section 3: Operations of the School

1. What are the costs to run the school?
2. What percentage of the overall cost does each cost contribute per month?
3. What is your main area of revenue?
4. What is the percentage breakdown of the revenue streams? ie internal versus external revenue.
5. Is the school profitable?

   PROMPTS:

   - School Fees-amount and collection
   - Management of costs and revenue-monthly/termly/yearly
   - Minimise costs
   - Technology as cost minimiser
   - Revenue concentration versus revenue diversification
   - Resources

Appendix 3: Interviewees for Phase Two

NAME	COMPANY	POSITION
Binkie Knapp	Gauteng Department of Education	Director of Basic Education and Training
John Ford	Gordon Institute of Business Science	Professor of Finance
Gareth Rees	Sovereignty Capital Asset management and financial advisory firm	Director and Finance lecturer
Andrew Abdo	Atcor Pty Ltd Financial education firm	Director and Finance lecturer
Phumzile Mlambo-Ngcuka	Umlambo Foundation NGO investing in leadership and management in schools	Former deputy president of South Africa Founder and Director
John Lobban	Independent Schools Association of South Africa	Director of Operations
Manie Wessels	Brighthead Investments Venture Capitalists	Director
Dr Chris van der Merwe and Bernardt van der Linde	Curro Holdings JSE listed parent firm of all Curro private schools	CEO and CFO
Frank Thompson	Advtech JSE listed firm involved in education and training	CEO
Dr Gillian Godsell	University of Witwatersrand	Associate research fellow at School of Public and Development Management

The interviewee numbers that are used in the text of the study is no way related to the order of interviewees in this table.

Appendix 4: Interview Guide for Phase Two

Section 1: General

1. Definition of sustainability?
2. Importance of financial observation?
3. Importance of Management/Leadership?
4. Importance of Performance?

Section 2: Revenue Sector (with Model)

1. Ways to enhance income from stakeholders:
    a. Parents-Fees
    b. Government-Subsidies
    c. Donor
2. How can management of the school influence the stakeholders of revenue?
3. Other areas of revenue?

Section 3: Cost Sector (with Model)

1. Ways to reduce costs?
2. How can management of the school influence the stakeholders of cost?
3. The importance of the salaries of teachers?
4. Role of Partnerships?
    a. How do schools make themselves look more attractive to partners?
    b. Benefits of partnerships?
    c.

Section 4: Performance

1. What is a measure of school performance?
2. What is quality education?
3. What needs to be in place to produce maximum results for performance?