



An optimal framework for structuring social enterprises:

The case for South Africa

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## **Abstract**

There is no recognised legal structure for social enterprises operating in South Africa and as a result many are running two or more legal entities. This has created confusion and skepticism in the market place, specifically when it comes to funding these enterprises. By using both qualitative and quantitative methods, this research study draws from a small sample to create an understanding of the dynamics that social entrepreneurs are faced with when choosing an appropriate structure. It then draws a correlation between South African social enterprises and those internationally in order to compare the revenue generated from earned income and grant funding.

Furthermore, the research compares and discusses the correlations between the for-profit and non-profit social enterprises and how these compare with regards to generating revenue and sustaining their activities. It outlines some important principles of social enterprises which include that they: (1) are mission focused, (2) can access funding in order to scale, (3) earn sufficient income to sustain their operations and (4) provide a social return on investment. The research highlights both similarities and differences between the various entities and suggests an optimal framework for the South African context that guides social entrepreneurs, investors and funders of social enterprises.

## **Keywords**

Social Enterprise, Social Ventures, Social Entrepreneurship, Earned Income

## **Declaration**

I declare that this research project is my own work. It is submitted in partial fulfillment 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.

Michelle Yorke

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## Glossary

CSI Corporate Social Investment

ED Enterprise Development

NGO Non Governmental Organisation

NPO Nonprofit organisation

ROI Return on Investment

SED Socio Economic Development

SROI Social Return on Investment

## 1. Introduction to the research problem

### 1.1 Why this topic is important

With the economic changes and crises over the past few years it is clear that innovative solutions are needed to improve economies around the world. In South Africa, with high levels of unemployment, extreme poverty and the huge disparity between the “have’s” and “have not’s” has resulted in one of our biggest challenges being, finding ways to bridge these divides. One possible solution to realising economic growth comes from social enterprises, this is well articulated by the International Labour Organisation (International Labour Organisation, 2011), who talk about social enterprises representing new growth opportunities that offer attractive win-win solutions, like job creation and improved service delivery.

Over the past few years the funding landscape has changed dramatically. With an increase in the number of registered non-profit organisations (NPO’s) and the number of social development projects increasing has also contributed to a dramatic decrease in the availability of grants. In essence grant funding is not as readily available; due to the increased number of projects accessing grants and funders querying the long term impact. For this reason non-profit organisations are increasingly being placed under pressure to subsidise their incomes and reduce their reliance on donations and grants, often venturing into earned income initiatives (Massarsky & Beinhacker, 2005). However, few of these organisations appear to really “make money” (Foster & Bradach,

2005, p.1) but rather end up spending a large portion of their resources and capacity setting these initiatives up, to the detriment of their actual social objectives. For these reasons, as well as the need for new ways of dealing with the social ills, social enterprises have emerged as a key economic sector.

With the first global independent social stock exchange emerging in South Africa, *the Social Stock Exchange for South Africa*, this research will be a stepping stone for both funders who are looking to fund these enterprises and social entrepreneurs who are looking to start social enterprises.

## **1.2 The social enterprise as a solution**

Broadly speaking, a social enterprise can be defined as a business with a social objective, whose primary purpose is to meet a social need by means of a sustainable business model. As 2006 Nobel Peace laureate Professor Mohammad Yunus noted, they can also include enterprises whose cash surplus is reinvested for that purpose in the business or in the community. Social enterprises are far more than just “business with a conscience”, as referred to in the broad Corporate Social Responsibility agenda (World of Work, 2006, p16); they are about actively delivering social impact, often tackling deep-rooted social challenges and ensuring long term sustainability of the intervention.

Globally, social enterprises have proven to create jobs as well as social impact and therefore provide a solution to changing and improving a countries economy. In the UK

alone, there were 62000 Social Enterprises in 2007, contributing 24 billion pounds to their economy and employing 800 000 people (Prabhu, Haigh & Symonds, 2010). The scale and impact offered by social enterprises are attractive to investors as well as industries wanting to contribute to responsible business practice. Furthermore they are becoming increasingly attractive as investments that have the ability to yield financial as well as a social return.

World renowned strategist, Michael Porter (2011), speaks of the narrow focus that business has on value creation and stresses that business should not only chase short term profits and ignore the broader influencers that affect their long term success. Conversely purely social initiatives which are not able to grow and become self-sustaining are not viable. Thus social enterprises need to create shared value which will assist them in scaling and ensuring long-term survivability (Porter & Kramer, 2011).

### **1.3 The need for this research**

As more social enterprises are being researched and started, there are still large percentages which are not sustainable. There is limited longitudinal information available on what models social ventures tend to implement and why they do not always flourish. There is a growing trend towards developing models to poverty relief while simultaneously being replicable and scalable. Social entrepreneurship could offer one such solution (Seelos & Mair, 2005).

Organisations like the Ashoka foundation, founded in 1980 and Skoll Foundation founded in 1999 as well as the “Alternative Nobel Prize” who have recognised the vital role that social entrepreneurs play in driving social change, demonstrates the growing trend of acknowledging social entrepreneurship as a stand-alone practice that deserves the necessary attention.

Anderson (2005), Managing Director at *Duke's Fuqua School of Business center for the Advancement of Social Entrepreneurship (CASE)* articulates that the timing is right for an in-depth research agenda that explores successes and failures, in order to understand the practice of social enterprises strategically in an effort to maximise their social impact.

Additionally there is a need to professionalise the social entrepreneurship sector which gives rise to change, however little is known about the factors that need to be changed (Darby & Jenkins, 2006). This could be due to the lack of theory and theoretical foundations which have not been sufficiently explored. In this light there is obvious need for contributions to the theory and practice (Austin, Stevenson, Wei-Skillern, 2006; Seelos & Mair, 2005) which contribute towards eradicating poverty. Although social entrepreneurship and social enterprises have attracted much attention it is still an emerging practice and in need of academic analysis.

At the recent Social Enterprise World Forum (2011), held in South Africa, the conversations were not only about changing the mindset of business in order to bring about social change in commercial entities, but also looked at adopting creative models that are financially viable and could sustain their operations as well as their impact. All too many social enterprises from South Africa alluded to the fact that they are continuously looking for funding and financial stability.

Given the complexities of earning income for a social cause as a for-profit organisation and the restrictions of earning income as a non-profit organisation: what is the optimal vehicle to ensure social enterprises are financially stable and able to sustain their social impact?

By researching how social enterprises are structured with regards to their legal structure, their revenue flows, their capital structure and financial sustainability of both local and international social enterprises, this research study suggests an optimal framework for structuring the social enterprise within South Africa.

#### **1.4 Conclusion**

This chapter laid the foundation for the need for more research in the social enterprise space. The findings of this research would be of interest not only to academic

institutions and researchers, but also social venture capitalists, social investors, social enterprises, non-profit organisations, philanthropists as well as social entrepreneurs.

The following chapter explores the literature for social enterprises and outlines the global and local frameworks in use. Additionally it clarifies the related definitions as well as the elements of the outlined framework.

## **2. Literature Review**

### **2.1 Introduction**

Social entrepreneurship and social enterprises are relatively new fields of interest, however scholars, researchers, practitioners and business schools around the world are giving it increased attention. (Mair & Marti, 2006, Nicholls, 2006; Haugh, 2007; Elkington & Hartigan, 2008). While the terms social entrepreneurship and social enterprises are often used interchangeably they are two different concepts, with different meanings but linked by a common “social” theme. This chapter will follow with a brief explanation of differences between social and commercial entrepreneurship, before outlining how social entrepreneurs link to the social enterprise, the following concept which is discussed.

### **2.2 The Battle of Social vs. Commercial Entrepreneurship**

It is argued that social entrepreneurship is not an independent field of study but a sub category of entrepreneurship (Mair & Marti, 2006). Research suggests that there are both similarities and differences with regards to commercial and social entrepreneurship (Austin et al., 2006).

Commercial entrepreneurship has as its primary goal economic value creation (Venkataraman, 1997) where as social entrepreneurship has social value creation as its primary objective with economic value creation seen as a positive by product (Seelos & Mair, 2005).

Meyskens, Robb-Post, Stamp, Carsrud & Reynolds' (2010) research builds on existing literature and provides empirical evidence that commercial and social entrepreneurs share similar resource-based strategies as well as operational processes and therefore state that these entrepreneurs are not two completely unique types of entrepreneurs as they utilise resources in a similar way.

In contrast to Meyskens et al. (2010) it is argued that social entrepreneurship is its own distinctive domain due to the fact that social value creation takes priority (Mair & Marti, 2006; Yunus et al. 2010). They also state that the study of social entrepreneurship can create further opportunities to challenge and rethink concepts and assumptions from commercial entrepreneurship.

Social entrepreneurship is a relatively new term, however not a new phenomenon. As with entrepreneurship there is no consensus as to a clear definition. Social entrepreneurship literature alludes to innovation, creating something new and creating social value (Mair & Marti, 2006; Corner & Ho, 2010; Nicholls, 2006).

Mair and Marti's (2006) definition that social entrepreneurship is a process that involves innovative use of resources to pursue opportunities as a catalyst for social change, is well articulated and meets the general consensus. Although there are many definitions; certain themes (Table 2.1) are relatively consistent throughout.

**Table 2.1: Themes evident from social entrepreneurship definitions**

<i>Themes from definitions of Social Entrepreneurship</i>	<i>Authors</i>	<i>Year</i>
Create social value, rather than personal and shareholder wealth	Zadek & Thake Yunus et al.	1997 2010
Structure: Non-profit sector, or across sectors, such as hybrid structural forms which mix for-profit and non-profit approaches	Dees Elkington & Hartigan,	1998 2008
Business expertise and market-based skills in the non-profit sector such as when non-profit organisations develop innovative approaches to earn income	Thompson	2002
Corporate social entrepreneurship	Austin & Reficco	2009
Innovation, or the creation of something new; Innovative, social value creating activity that can occur within or across the Non-profit organisation, business, or governmental organisation.	Austin Stevenson Wei-Skillern	2006

How opportunities are exploited (social or commercial) is a significant part of entrepreneurship (Morris, 1998) be it social or commercial. Drucker (1995) emerged with three classes of identifying opportunities, namely, (1) inefficiencies within existing markets, (2) emergence of significant changes (social, political, demographic and economic) and (3) inventions that create new knowledge. The same is true for social entrepreneurs; however the “opportunity” is usually a response to a social need being identified.

Most studies on social entrepreneurship have been case-based (Thompson, 2002; Weerawardena & Mort, 2006) and therefore there are limited empirical studies to further our knowledge and understanding on important outcomes of social entrepreneurship (Miller & Wesley, 2010). When social entrepreneurs start new ventures, the outcome is more often than not the start of a social enterprise.

### **2.3 Understanding the Social Enterprise**

No universally accepted definition of a social enterprise exists, “social enterprise means different things to different people in different contexts and at different points in time” (Teasdale, 2010 p14). Some see it as a sub-set of social entrepreneurship, however while all social enterprises are run by social entrepreneurs but not all social entrepreneurs run social businesses (Yunus, Moingeon, Lehmann-Ortega, 2010).

Others have described social enterprises as any non-profit, for-profit or hybrid structure that utilises market-based strategies to advance a social mission (Kickul et al. 2009). Many have defined it broadly as entrepreneurial activities undertaken with a social mission), to serve underserved populations and promote a social mission ((Van de Ven, Sapienza & Villanueva, 2007; Dees, 1998).

A common definition being adopted for South Africa describes a social enterprise as an enterprise whose “primary objective is to ameliorate social problems through a financially sustainable business model, where surpluses (if any) are principally reinvested for that purpose” (Steinman, 2010, p.iii). However, this may restrict those enterprises that are structured as for-profits but have a clear social mission and offer a financial return to shareholders.

What is clear from all definitions is the focus on a social mission, while confusion tends to surround the business linkage. Adoption of a for-profit business model simultaneously seeking to create social value presents a conflict of interest between pursuing profit and serving a social objective (Dees & Anderson, 2003). What is critical for a social business operating as a for-profit entity is that the social mission adopted remains the companies’ priority.

## **2.4 Bridging the gap between the social enterprise and the traditional non-profit**

As is evident, the controversial theme that arises is around economic benefit, attractive profits and social mission focus. Some social ventures are for-profit legal entities while others non-profit entities. One of the most respected and acknowledged social entrepreneurs Professor Mohammad Yunus, who established the Grameen Bank, is not opposed to social enterprises making a profit; however he believes that dividends should not be taken by shareholders and only enough funding should be taken to recoup the initial investment (Yunus, Moingeon & Lehmann-Ortega, 2010).

Goldstein, Hazy & Silberstang (2009) however disagree with Yunus' definition and state that social enterprises can share profits with investors and that social business should express operational autonomy. The European Venture Philanthropy Association (EVPA) notes that the distinction between the non-profit and the for-profit sectors has become blurred with the emergence of social enterprises. It therefore needs to be clearly stated that not all non-governmental organisations are social enterprises.

Nonprofit organisations are reliant on funding and not necessarily designed to recover their full operational costs. Whereas, social enterprises are designed to recover only the initial investment for the investor and thereafter the profits need to be ploughed back into the business to sustain its operations (Yunus et.al, 2010).

Foster and Bradach (2005) state that non-profits should remain focused on the goal and are opposed to NPOs running businesses. Anderson (2005) goes on to acknowledge that being focused is practical, however income earned can enhance the impact of the non-profits mission. This could create the impression that money is the goal for earned income ventures aligned with non-profits; whether or not the venture is actually profitable. However with truly goal orientated social enterprises, income is actually integral to achieving sustained social impact (Anderson, 2005).

A research study conducted by Haugh (2007) compares for-profit, charitable, social and community led ventures to determine the stages that these ventures go through to move towards a point of income generation. The survey looks at how ventures started as non-profit organisations that then created strategies to become income generating ventures. It was found that ventures can be successful in terms of adding value to society; however some developed a culture of dependence through their initial reliance on donations and philanthropy which potentially stunts their growth. Haugh (2007) argues that community-led ventures which exploit entrepreneurial opportunities can offer a solution to this problem while promoting values and autonomy.

As is clearly evident there is still a lot of discrepancy as to defining social enterprises and their business models. Elkington and Hartigan (2008) classify social enterprises into three business models: the 'leveraged non-profit', the 'hybrid non-profit' and the 'social business'.

The *leveraged non-profit*, is the traditional non-profit as most commonly understood. These organisations deliver services to the most vulnerable, who otherwise do not have access to these services. Both the entrepreneur and the organisation are change catalysts, with the goal of enabling beneficiaries to assume ownership of the initiative. A number of external partners support these ventures either financially, politically, or through in kind contributions.

A *hybrid non-profit* is a blend between a traditional non-profit venture and a for-profit venture; generally in order to subsidise income and sustain activities.

Thirdly the *social business* is a type of social enterprise which is set up as a for-profit venture which is intended to drive social and environmental transformation.

## **2.5 Understanding Global Legal Structures of Social Enterprises**

The legal structure of the organisation can play a large role in their ability to access equity and debt, which ultimately affects their revenue generating strategy. Globally, there are various legal forms that are suited to social enterprises, these include, Company Limited by Guarantee (CLG) in the United Kingdom, which allows investors to donate or loan money but prevents shares from being issued and therefore equity being raised (Prabhu et.al., 2010), then in the USA they have the low profit, limited liability corporations called a L3Cs (Steinman, 2010).

A Community Interest Company (CIC) which specifically encourages equity investments exists in the United Kingdom, for use by social enterprises. The CIC however still protects the social interests of the organisation by limiting the dividend payout to 20% per share. Additionally, in the United Kingdom the Industrial and Provident Society (IPS) also known as a co-operative, serve members' interests by trading with them or otherwise supplying them with goods or services (Bertotti, 2009).

The Charitable Incorporated Organisation was the first ready-made corporate structure specifically designed for charities in the UK. The next stage was the Community Benefit Society (CBS) which offers benefits not to its own members, but to the broader community (Bertotti, 2009). These are similar to the following European structures, which outline associations for which profit is not the objective, in Belgium there is the VZW, in France the ASBL and in Germany the VoE (Houben, 2011).

To conclude, as established there are various types of legal structures that have been designed to meet the needs of social enterprises operating in different regions and countries. They share a similar theme regarding a social motive, yet each one has different criteria aligned to country specific legislation.

## **2.6 Legal structures in South African Social Enterprises**

In South Africa, there is not a specific legal entity for social enterprises and social enterprise as a construct is not defined in any legislation (Steinman, 2010). In South African there are two main forms of companies that can be registered, either a for-profit

or non-profit (NPO). Both for-profit and non-profit companies have multiple possible legal structures. In South Africa however, social enterprises are currently registered as one or a combination of the following types of entities: Section 21 NPO's, trusts, voluntary associations, closed corporations as well as private companies (Steinman, 2010).

Non-profit entities can apply for Public Benefit Organisation (PBO) status and section 18A status through South African Revenue Services (SARS), which exempts companies from paying taxes on their donations to PBO's.

For-profit entities are not as restrictive in terms of accessing funding as the non-profit. However, many donor companies grant criteria prevents for-profit entities from accessing those donations. As such for-profit legal entities are often prevented from accessing grant and donation funding (*A Guide to Finance*, 2011).

**Table 2.2: Legal Incorporations and their consequences**

<b>Legal Incorporations and their consequences</b>	<b>For-Profit</b>	<b>Non-Profits</b>
Can sell goods & services	Yes	Yes
Can receive grants	Often ineligible	Yes
Can take out debt	Yes	Yes(often self limiting)
Can issue equity	Yes	No

Can receive tax exempt status	No	Yes
Can receive donor exempt status (section 18A)	No	Yes
Can make profits	Yes	Yes
Can distribute profits to directors and/or shareholders	Yes	No

*(Source: A guide to finance, 2011)*

The table 2.2 provides a summary of the difference between the for-profit and non-profit structures in South Africa and their legal consequences with regards to the sale of goods and services, their ability to issue equity, take on debt, receive tax relief, make and distribute profits.

## **2.7 Raising Capital**

Finance and access to funding is a major driver for all business development and the social enterprise sector is no different.

The legal structure often limits the type of funding that the entity can access as some structures by their nature restrict equity holding or make taking on debt too risky for individuals managing the organisation.

### **2.7.1 The effect of Capital Structure**

Non-profit entities are similar to business organisations in that they compete for scarce capital resources. Therefore understanding an organisations' capital structure is critical

considering the resources available to meet its objectives (Jegers, 2011). Jegers and Verschueren (2006) found that in certain circumstances financing a NPO exclusively with equity could be optimal. However this varies globally. In a study conducted in the USA (California) few nonprofit organisations took on debt, whereas in a European study (Belgium), where nonprofit organisations are regulated and highly subsidised 82% of them took on debt (Jegers, 2011).

As social enterprises fall between a for-profit organisation and non-profit organisation, their legal structures have taken on either nonprofit organisation or for-profit status and therefore are subject to the same challenges regarding their capital structure, such as equity constraints, agency problems and borrowing constraints (Jegers, 2011).

## **2.8 Moving towards sustainable frameworks**

A lack of access to appropriate finance can be a significant barrier to expansion and sustainability. Sustainability here refers to being able to continue supporting the operations or the organisation in order to continue having a positive social impact now and in the future. Social enterprises, along with other organisations are challenged with raising funds, either through earned income strategies or accessing donations and grants. This is particularly challenging for social enterprises due to the fact that it is a relatively new type of organisation and not yet recognised by South African legislation.

The performance of a firm is influenced by the resources available (Moreno & Casillas, 2008). Furthermore, resources cannot be acquired without generating income, which also enables the continuation of activities (Haugh, 2007). It can therefore be concluded that an organisation's ability to continue their activities and make an impact is reliant on their ability to generate income and therefore sustain their operations.

According to Dees and Anderson, 2003, the benefits of social enterprises operating as for-profit enterprises include, being efficient and innovative, being able to leverage scarce public and philanthropic resources, being able to respond quickly to demand as well as improving access to skilled personnel. Their research however showed no compelling evidence that for-profit organisations have greater chances of survival than non-profits in terms of being financially sustainable, however confirmed that both entities are subject to the difficulties associated with running and growing a business.

This creates a challenge for both new social enterprises and existing organisations in formulating a sustainable revenue model as there are many factors to be considered when planning the social enterprises route to long-term sustainability.

## **2.9 The Need for this Research**

There is a lack of literature on the methodologies used by social enterprises and there seems to be consensus that there is a desperate need to understand what drives social enterprises performance (Dawans & Alter 2009).

This study aims to evaluate if certain structures are more suited to South African social enterprises and their ability to generate and sustain their revenue, which could ultimately increase their ability to achieve social impact (Nicholls, 2006).

Much of the literature reviewed inadvertently points to the critical need for further research into social enterprises and while the emergence of social enterprises is not new, particularly in South Africa, there seems to be a limited understanding of how best to structure these businesses. This research adds to the growing body of knowledge by creating an understanding of the structures social enterprises implement and it investigated if these are related to their ability to sustain their operations.

As has been well articulated the ultimate goal of a social enterprise is to generate social impact (Bolton & Maretich, 2010) which can be done more successfully if the models implemented are better understood. Prior research conducted has been primarily case based as well as focused on the social entrepreneur and less on the social enterprise (Thompson, 2002; Weerawardena & Mort, 2006). There is little empirical evidence that looks at the strategic processes within social enterprises and for this reason this research study looked at the capital structure, revenue generated and financial sustainability of social enterprises to provide empirical evidence of suitable frameworks for social enterprises in South Africa.

## 2.10 Conclusion

This chapter unpacked the literature around social enterprises and developed the argument for social enterprise frameworks in South Africa that formed the basis of this research. The following chapter outlines the specific research questions and hypotheses that framed this research.

## **3 Research Questions**

### **3.1 Introduction**

The previous chapter outlined the literature on social enterprise frameworks and surfaced four key themes 1) what are the legal structures for social enterprises, 2) with what funding are they started-up, 3) how do they generate revenue and 4) how do they sustain their activities. This chapter outlines the three research questions and hypotheses that were tested in the research.

### **3.2 Research Questions**

#### **3.2.1 Research Question 1**

What are the frameworks currently being implemented in social enterprises?

#### **3.2.2 Research Question 2**

Can the revenue generated sustain social enterprises' operations or are they still reliant on external funding?

#### **3.2.3 Research Question 3**

Is there an optimal framework appropriate for South African social enterprises?

### **3.3 Hypotheses**

It is expected that Social Enterprises are sustaining their operations through both earned income and grants.

### **3.3.1 Hypotheses 1**

Social enterprises are only able to sustain their operations through receiving grants

### **3.3.2 Hypotheses 2**

Social enterprises are able to sustain their operations through earned income alone.

## **4. Methodology**

### **4.1 Introduction**

The previous chapter outlined the exact purpose of this research by articulating the research questions and hypotheses. This chapter discusses the methodology that was employed and details its limitations.

The first and second research questions were answered by gathering information from both South African and international social enterprises. The two hypotheses were used to help answer the second research question. All social enterprises were tested not just those in South Africa, in order to see what has been effective globally and in South Africa. This assisted with identifying an optimal structure in order to answer the third research question which analysed and compared the trends and elements from global and South African social enterprises.

### **4.2 Research Design**

Various strategies exist for conducting research: experiment, survey, case study, action research, grounded theory, ethnography and archival research (Saunders, Lewis, Thornhill, 2009). Research methodology can make use of qualitative techniques, such as interviews, focus groups and observations as well as quantitative techniques, such as surveys to gather measurable data. This research report made use of a mixed method, using both qualitative, in order to frame the study, and quantitative, to improve the strength of the research and gather data from a larger international sample.

This research study therefore aimed to suggest an optimal sustainable structure for social enterprises operating within South Africa.

The quantitative and qualitative research methods included descriptive and inferential analysis. The time horizon of this research study was cross-sectional in nature and based on information available at the present time.

This study incorporated two research approaches which are outlined below:

#### **4.2.1 Approach 1: Qualitative Research**

The first approach gathered information by means of interviews on the structure, revenue generated, external funding received and constraints experienced by social enterprises in South Africa only. Information was gathered on both the start-up and growth phases of these enterprises.

Qualitative research helped establish an understanding of the context within South Africa. This approach enabled the gathering of information through interviews, in order to explore the elements that impact revenue generation of social enterprises in South Africa as well as how these organisations are structured.

This qualitative research performed, enabled the researcher to gather valuable information on social enterprises in South Africa from either the founder or a financial manager directly.

#### **4.2.2. Approach 2: Survey Method: Quantitative**

The second approach enabled data to be collected on the structures and revenue streams that social enterprises implement globally; which was done by means of a quantitative survey.

Quantitative research eliminated subjectivity of the researcher, which improved the reliability of this research study. Surveys are a common strategy used in descriptive research as they tend to answer *who, what, where, how much* and *how*. The survey approach enabled the collection of a sizeable amount of data, which was necessary in terms of increasing both the reliability and validity of the results emerging from statistical analysis of the data.

### **4.3 Population and Sample**

#### **Approach 1**

The population for approach 1 consisted of existing social enterprises that were operating in South Africa.

There did not appear to be a comprehensive database of social enterprises, as many forums and organisations who have databases could not confirm that they were all

existing social enterprises but many have only shown an interest in starting a social enterprise.

The research therefore defined the population for this research study as social enterprises who were operational at the time of this study and that had been deemed legitimate and accredited by an established organisation. This eliminated the need for this research study to classify social enterprises.

The chosen sample came from a selection of 25 social enterprises that were case studied by the International Labour Organisation (ILO). This sample was chosen due to the fact that social enterprises were hard to define and they had already been selected based on their business models and the high social impact that they had achieved. This enabled the researcher to interview enterprises that already met certain criteria as opposed to still having to assess their success in terms of sustainability and impact. The sample also consisted of various legal forms of social enterprises, both for-profit and non-profit entities.

The sample consisted of enterprises in five provinces in South Africa, however the majority reside in Gauteng and the Western Cape. They were all at various stages of their life cycle (start-up, growth, mature), and varied in size, social impact and sector.

The small sample size allowed the researcher to gain rich information from a variety of social enterprises operating as non-profit and for-profit social enterprises.

## **Approach 2**

The population for approach 2 was defined as all social enterprises operating globally with access to the internet, email and social media mediums.

## **4.4 Sampling Technique**

### **Approach 1**

A purposive sampling technique was adopted for the qualitative part of this research. Purposive sampling is often used when working with very small samples and where information rich cases are needed (Patton, 2002). To ensure the interviews were representative of the various structures (non-profit and for-profit) of social enterprises, maximum variation sampling was used to identify patterns and themes in social enterprises (Saunders *et al.*, 2009).

Ten interviews were conducted with financial managers or founders of the social enterprises in South Africa.

### **Approach 2**

Sampling for the quantitative research used self selection sampling, where respondents identified whether they desired to take part in the research (Saunders *et al.*, 2009).

Fifty surveys were completed, which was considered acceptable for the purposes of this study and which allowed for the generation of statistically relevant results..

## **4.5 Data gathering**

### **Approach 1**

The qualitative research was conducted through structured interviewer-administered questionnaires. This was done by means of telephonic and Skype communication as logistics did not allow face to face meetings for all interviews and therefore to limit bias it was decided to conduct all interviews in this manner. This gathering technique was cost effective and increased the response rate.

### **Approach 2**

The quantitative research survey was publicised through social media platforms, with a link to the survey. Updates were continuously posted on social media platforms (twitter, facebook, blogs and online forums) requesting social enterprises to self enter their details via [surveymonkey.com](https://www.surveymonkey.com). A short introductory email was sent to Social Entrepreneur organisations (Ashoka, Schwab Foundation and the Skoll Foundation) regarding the research and requesting the link be distributed to their network of social entrepreneurs.

Completing the survey was voluntary; it was indicated that no information gathered would be used for any other purposes other than aggregated data for this research. The questionnaire consisted of twenty short closed ended questions. The quantitative instrument used added to the validity of this particular research study.

#### **4.6 Analysis**

Data was collected and analysed using both descriptive and inferential statistics. The descriptive statistics provided information on categoric and numeric data for example, locations, legal structures of social enterprises, their revenue in terms of earned income as well as grants or donations. The inferential statistics provided information in terms of whether or not a correlation exists between the type of legal structures, locations and revenue generated. It should be noted, however, that this study did not attempt to test causation between the variables. Inferential statistics was also used to analyse the results. Fishers Exact Test was used to compare for-profit and non-profit social enterprises and their different revenue streams both in South Africa and globally. It was also used to test the relationship between the type of organisation and their reliance on grants and ability to earn income.

The benefits of using this method included that it was both economical and could be self administered via electronic means as well as that it could be completed in the available time period allocated.

## 4.7 Limitations of the Research

### **Approach 1**

The qualitative part of the research could be biased in terms of the researcher influencing the results, which would make the research subjective. The researcher acknowledges certain biases due to the fact that she has worked and consulted in the field of social development. Additionally the questionnaires were tested prior to use to ensure they were understandable. Structured interviews were used which limited the bias and were supported by the quantitative data collected.

### **Approach 2**

In the quantitative research data collection via electronic means posed a limitation in terms of contact with social enterprises who may reside in areas where electronic media are inaccessible. A further limitation was translation of the questionnaire which was not done due to the logistics and costs involved. Therefore, only English speaking organisations that had internet access were included. Lastly, although there was data collected from 10 countries the sample was small and in many cases only one social enterprise from a country responded and therefore it was not representative of the global population of social enterprises.

## 4.8 Conclusion

This chapter defined the methodology used by giving details on the population, sampling method, data capturing and unit of analyses as well as described limitations of the research.

The following chapter discusses the findings of the research according to the descriptive and inferential statistical results.

## 5. Research Findings

### 5.1 Introduction

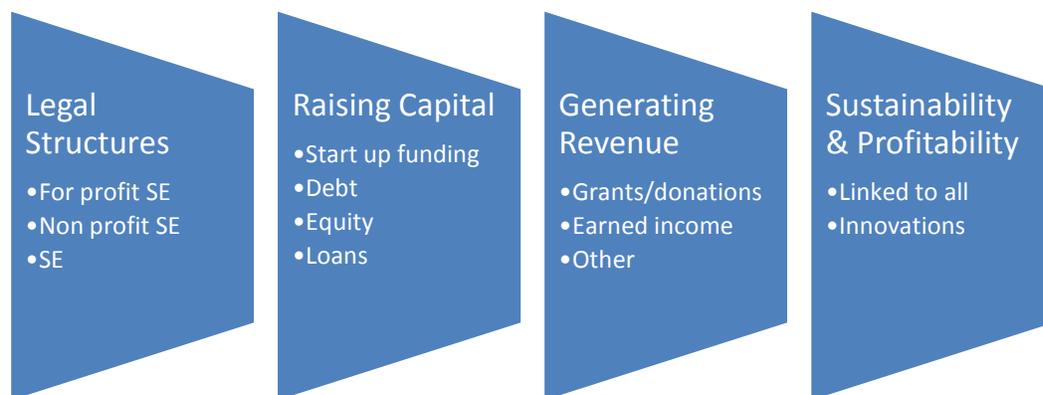
The previous chapter detailed the methodology used to gather and analyse the data. This chapter discusses the findings in detail. As the purpose of this research paper was to find an appropriate structure for social enterprises operating in South Africa while taking into account the current legal entities and financial instruments. In answering the research questions it was necessary to investigate the available legal entities, capital structures, revenues and sustainability of social enterprises. The study looked at social enterprises in South Africa as well as those that operated internationally, with the goal of informing the broader context.

**Table 5.1: Legal structures of Interview and Survey Respondents**

<b>Data Collection</b>	<b>For-profit Social Enterprises</b>	<b>Non-Profit Social Enterprises</b>	<b>Registered Social Enterprises</b>	<b>Hybrid</b>	<b>Total</b>
Qualitative Interviews	2	4		4	10
Quantitative Surveys	10	27	13		50
Total Respondents	12	31	13	4	<b>60</b>

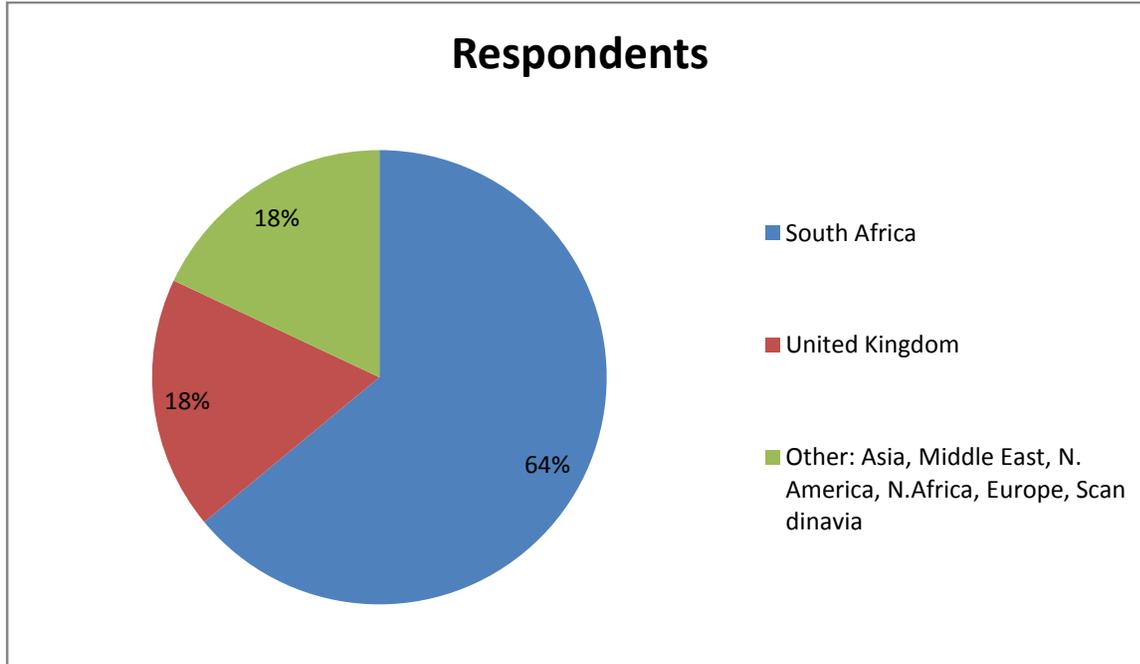
As outlined in chapter 4, a few South African social enterprises were interviewed in order to understand the environment in South Africa as well as served to inform the quantitative part of the research. Four dominant themes emerged which included the legal structures, how revenue is generated, how capital is raised and the financial sustainability (Figure 5.1).

**Figure 5.1: Emergent Themes**



Fifty respondents completed the qualitative questionnaire. The majority, 64% (32) were organisations operating within South Africa and 36% (18) provided a small international perspective of Social Enterprises operating outside of South Africa. Responses outside of South Africa were comprised of nine from the United Kingdom, two from Norway and one each from Tanzania, Jordan, USA, France, Cambodia, Nigeria and Canada.

**Figure 5.2 - Survey Respondents**



Forty percent (20) of the organisations were well established and had been operating for more than ten years, 22% (11) had been operating for more than five years, 20% (10) between 1 and 5 years and only 18% (9) were new social enterprises operating for less than one year.

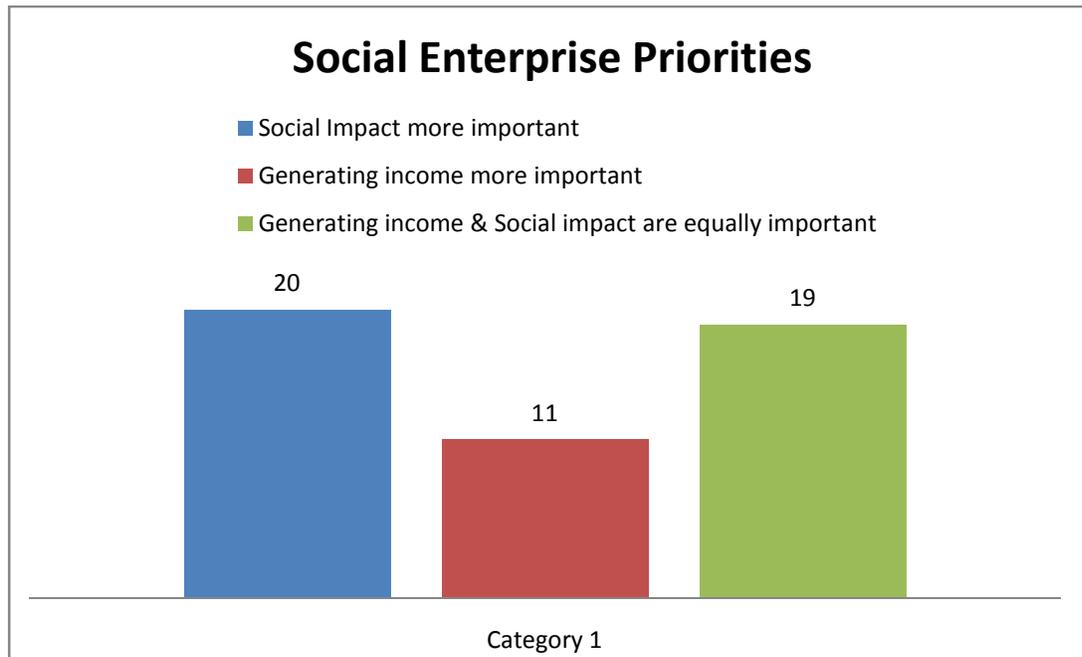
The respondents operate in a diverse range of industries; these were broadly classified into three main sectors. Business services 24% (15), 21% (13) fell under income generating activities (skills development, job creation and enterprise development) and the majority 55% (34) were in social development activities (poverty relief, health,

welfare, education, arts and culture, sports development). The frequency added up to a sample of 62, due to some organisations that chose more than one focus area.

More than half of the organisations 58% (29) have less than ten employees and only 20% (10) of the enterprises employ more than fifty employees. The majority made use of volunteers, 74% (36) and twenty six percent (13) had no volunteers. This had both positive and negative impacts as it assists in reducing labour costs however makes continuity and reliability difficult to manage.

Forty percent of respondents (20) prioritised social impact above generating an income and thirty eight percent (19) stated that generating an income was of equal importance as making a social impact. Twenty two percent (11) stated that generating an income was their priority.

**Figure 5.3: Social Enterprise Priorities**



## 5.2 Legal Structures

Legal structures were classified into three main types: for-profit social enterprises, social enterprises and non-profit social enterprises. Ten were for-profit social enterprises, 13 operated as social enterprises, and the majority (27), operated as a non-profit social enterprise. Four of these indicated that they are either in the process of or currently operating as a hybrid (for-profit and non-profit) organisation

Most organisations seemed to have given the structure a lot of thought and had a clear reason for why the specific structure was chosen. Those that were registered as for-profit entities, either Pty or CC's, indicated that they wanted to “ensure competitiveness” - “...we wanted to create a culture of every cent counts”. It was also mentioned that

business acumen was important and they needed to “run like a business” and “be seen as a business”.

The non-profit structures (NPO, PBO, Trust, Section 21) were generally chosen to ensure the social motive remained clear “we didn’t want to lose focus of the social mission”, “...we wanted to be seen as an ethical business” as well as they wanted to be able to access grants and donations, which included CSI funds.

It was evident that there needs to be a mission focus, “social enterprise is the new buzz word...fine line between setting up a profit model and then just adding the social side.”

Eight out of ten of the organisations interviewed were running both a for-profit and NPO (hybrid) entity.

A few social enterprises interviewed were adamant that they should not be registered as NGO’s, “NGO’s can do more harm than good.....they can distort the market”, it was also mentioned that business needs to cater to their customer, when registered as an NGO the customer is the donor and not the beneficiaries and therefore when there is an hour left at the end of the day it is spent on writing a report for the donor (customer) and not growing the business.

Regardless of the structure most were adamant that there is a need to “keep the integrity” and regulate the social enterprise to ensure mission focus.

## 5.3 Raising Capital

### 5.3.1 Start-up funding

Sixty percent (30) of organisations were started with the founders own income, forty eight percent (24) were started with a grant or donation and the remainder started with income from a loan, angel investors as well as family and friends.

For-profit social enterprises get fewer grants than non profits at start up, which one interview respondent stated “it’s unlikely you will get grant funding to start up, prove the concept first”.

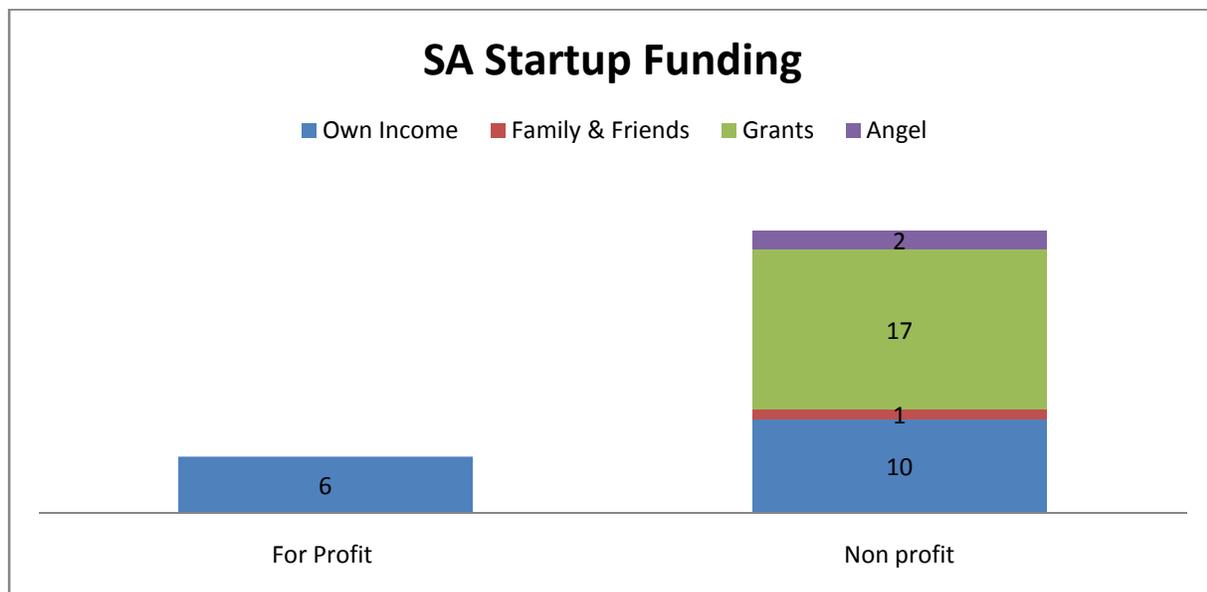
**Table 5.2: Relationship between legal entity and start up funding**

	<b>Own Income</b>	<b>Family &amp; Friends</b>	<b>Grants</b>	<b>Angel</b>	<b>Total</b>
For-profits	91% (10)		9% (1)		11
Social Enterprises	79% (11)		14% (2)	7% (1)	14
Non profits	28% (9)	3% (1)	63% (20)	6% (2)	32

Fishers Exact Test was used to test for a relationship between the legal structure of the organisation and how they are funded at the start up phase indicating significance on 1% level ( $p < 0.0001$ ). As seen in Table 2, more for-profit enterprises are started through the founders own income than through grants and more non profits are funded by grants at start up. This is discussed further in chapter 6 below. The sample size was 57 due to some respondents getting funding at start up from multiple sources.

The following figure illustrates start up funding trends for social enterprises in South Africa. For-profit social enterprises use the founders own income and non profits get their funding from multiple sources but more often than not through grants.

**Figure 5.4: SA Enterprises startup funding sources**



### 5.3.2 Debt and equity

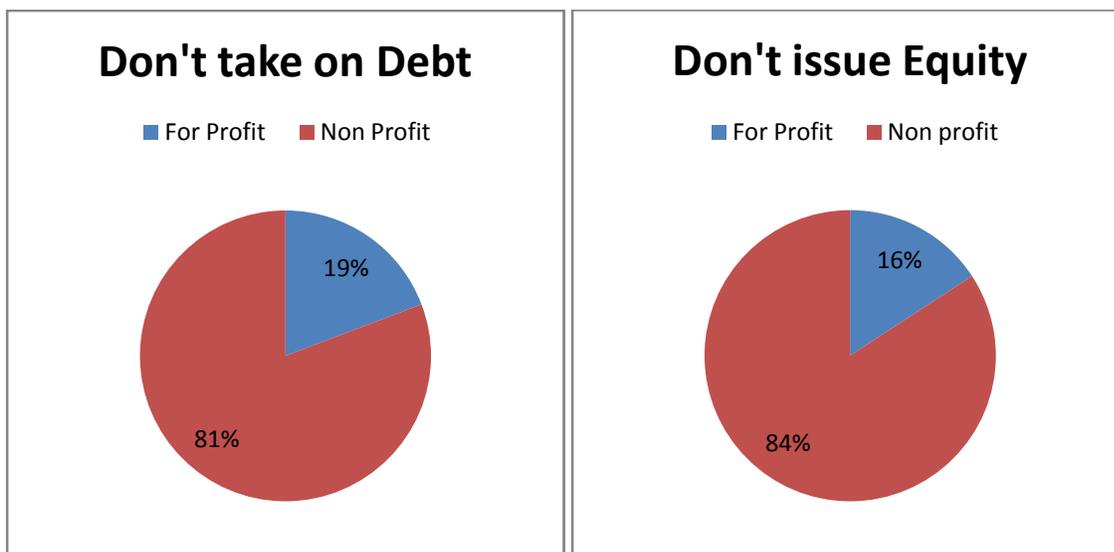
Very few organisations (26%) were taking on debt and even fewer (16%, 8 respondents) issued equity in order to raise capital, as mentioned by interview respondent “raising funding is not cheap...interest costs can kill you”, “the banking system undermines entrepreneurship, it’s just too expensive.” This question allowed for a ‘not applicable’ option which 7 South African organisations selected. There were 10 for-profit entities and 13 social enterprises in the sample that are able to issue equity based on their structure and therefore this is not necessarily an indicator that these are non profits that cannot issue equity, but have possibly not explored the option.

The South African social enterprises followed the trend with few taking on debt (6) and issuing equity (5). We can assume from figure b that the non profits who issued equity have a hybrid structure.

**Figure 5.5 South African Social Enterprises Capital Structure**

a) Debt

b) Equity



Only 12% (6) of respondents have equity in other businesses in order to supplement their income, however only one indicated that they occasionally receive dividends.

## 5.4 Revenue Generation

### 5.4.1 Grants/ Donations

Some interviewees felt that social enterprises should not rely on grant or donations, however one respondent felt that raising grants was entrepreneurial “if you can’t find funding you are not entrepreneurial”.

**Table 5.3: Relationship between Legal entity and grants/donations received**

	Never received a grant/donation	Had received a grant/ donation	Total
For-profits	10% (1)	90% (9)	10
Social Enterprises	54% (7)	46% (6)	13
Non profits	4% (1)	96% (26)	27

Eighty two percent of the organisations had all received a grant/donation, only 18% (9) had never received a grant/donation. Fishers Exact Test was used to test the relationship between the legal structure and grants/donations received indicating a level of significance on the 1% level ( $p < 0.0001$ ). Nine out of ten for-profit and 26 out of 27 non-profit social enterprises had received a grant/donation at some stage, however 7 out of 13 registered as social enterprises had never received a grant/donation.

**Table 5.4: Relationship between legal structures and grants/donations being more than 50% of Revenue**

	Uncertain	No	Yes	Total
For-profits		80% (8)	20% (20)	10
Social Enterprises		77% (10)	23% (3)	13
Non profits	4% (1)	30% (8)	66% (18)	27

Fishers exact test was then used to test if there is a relationship between the type of legal structure and the amount of grants/donations received, this indicated a significant relationship on the 1% level (p-value = 0.0067). Eighty percent (8) of the for-profit social enterprises received less than 50% of their revenue from grants and 67% (18) of the non-profit social enterprises received more than 50% of their revenue from grants.

Some social enterprises felt that grants should not be used to cover operational costs but should only be used for scaling and set up costs.

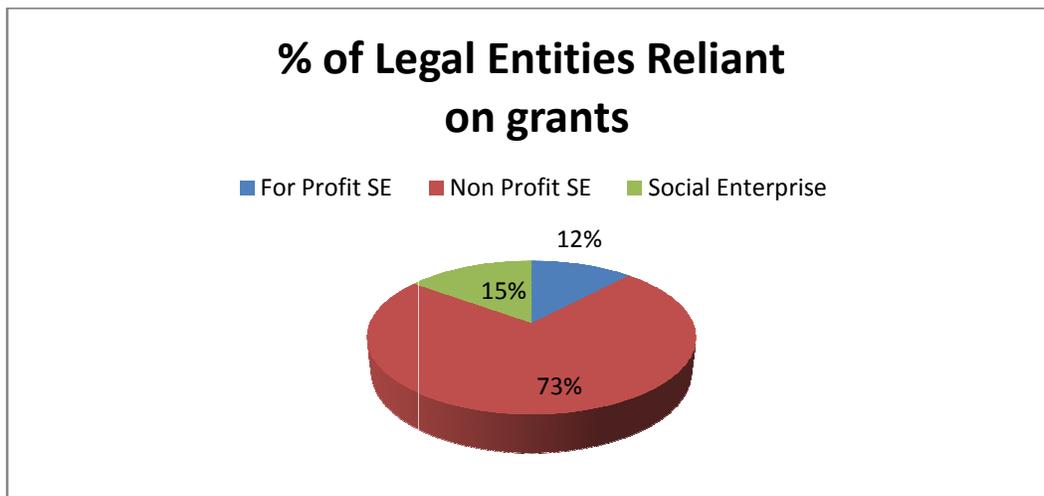
Forty six percent (23) received more than 50% of their revenue from grants/donations, with 52% (26) not getting more than 50% from grants/donations. One respondent did not complete the question (2%).

**Table 5.5: Relationship between legal structure and reliance on grants**

	No	Yes	Total
For-profits	70% (7)	30% (3)	10
Social Enterprises	69% (9)	31% (4)	13
Non profits	30% (8)	70% (19)	27

Fishers Exact Test was used to test the relationship between the type of legal structure and their reliance on grants which indicated a significance on 5% level ( $p$ -value =0.0218). Seventy percent (19) of the non-profit social enterprises are reliant on grants; 31% (4) of the social enterprises and 30% (3) of the for-profit social enterprises indicated that they are reliant on grants.

**Figure 5.6: Percentage of Legal Entities reliant on grants**



Other support was limited to 85% (39) of those that completed the question (46) had received some in kind support and only 15% (7) had an interest free loan.

**Table 5.6: Relationship between grants received and reliance on grants**

		Do grants equal more than 50% of revenue?			
Is your organisation		Don't Know	No	Yes	Total
	No		83% (20)	17% (4)	24
	Yes	4% (1)	23% (6)	73% (19)	26
	Total	1	26	23	50

Fishers Exact Test was used again to establish if a relationship exists between organisations whose grants/donations received equal more than 50% and those that are reliant on grants. A significant relationship was confirmed at a 1% level of significance (p-value <0.0001). Seventy three percent (19) of organisations who reported that they were reliant on grants/donations also received more than 50% of their total revenue from grants/donations and 83% who reported that they were not reliant on grants also received less than 50% of their revenue from grants.

Seventy four percent (17) of social enterprises who received grant funding in order to start up were from South Africa, whereas 47% of social enterprises who were started by means of founders own income reside outside of South Africa.

**Table 5.7: Relationship between location and reliance on grants**

		South Africa	International (excluding SA)	Total
<b>Reliance on grants</b>	No	50% (12)	50% (12)	24
	Yes	77% (20)	23% (6)	26
	Total	32	18	50

Fishers Exact Test tested the relationship between the reliance on grants and location of social enterprises, these were categorised as within South African and outside of South Africa. A significance on a 10% ( $p=0.0765$ ) level was established.

#### **5.4.2 Income Received through Trade/ Earned Income**

Forty six percent (23) of respondents indicated that income generated equals more than 50% of revenue generated and 50% (25) indicated that they did not receive more than 50% of income through trade, 2 were unsure of the percentage or income earned.

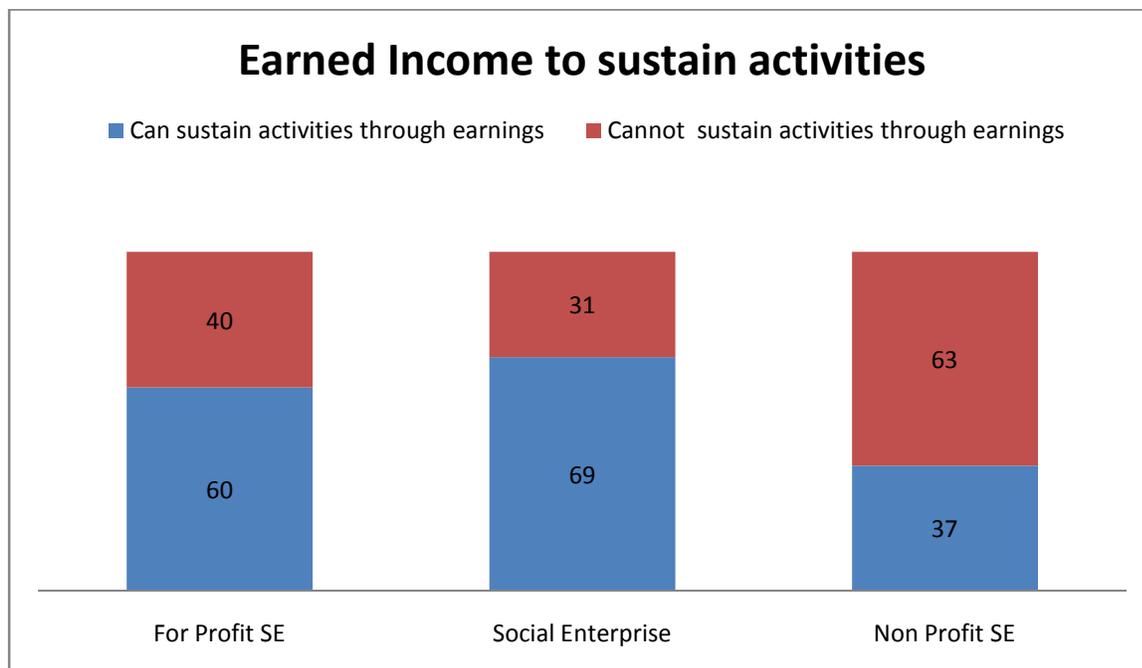
Fifty percent (25) of the organisations surveyed said they earned sufficient income to sustain their activities. This is made up of 70% (7) of the for-profit social enterprises and 70% (9) of the social enterprises and only 26% (7) of the non-profit social enterprises get more than 50% of their revenue through trading activities.

**Table 5.8: Relationship between legal structure and earned income**

		Earn sufficient income to sustain activities		
		No	Yes	Total
<b>Legal Structure</b>	<b>For-profits</b>	40% (4)	60% (6)	10
	<b>Social Enterprises</b>	31% (4)	69% (9)	13
	<b>Non profits</b>	63% (17)	37% (10)	27
	<b>Total</b>	25	25	50

The relationship between the legal entity and the earned income received was tested with Fishers Exact Test, which established a significant relationship on the 5% level ( $p = 0.0274$ ).

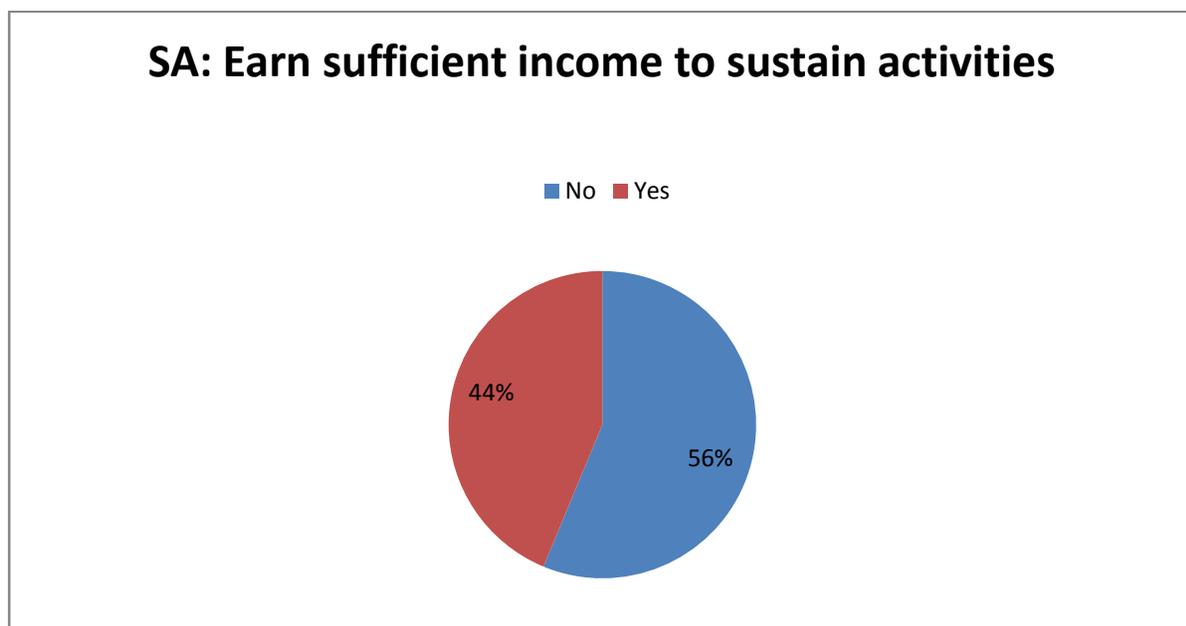
**Figure 5.7: Sustaining activities through Earned Income**



More of the for-profit social enterprises, 60% (6) earn sufficient income to sustain their activities than non-profit social enterprises, 37% (10).

Eighty percent of organisations whose earned income was less than 50% of revenue generated were from SA, 57% of social enterprises outside of SA generated more than 50% of their revenue from earned income.

**Figure 5.8: South African Enterprises that earn sufficient income to sustain activities**



### 5.4.3 Other Income

Just under half the respondents, 45% (22) indicated that they receive other income besides grants and through trade, activities included tender contracts, fundraising activities and events, income from investments, dividends, royalties and membership fees.

**Table 5.9: Relationship between Income earned and sustaining activities**

			Income through trade >50% of revenue		
			Don't know	No	Yes
<b>Earned sufficient income to</b>	<b>No</b>	8% (2)	80% (20)	12% (3)	42
	<b>Yes</b>	0	20% (5)	80% (20)	8
	<b>Total</b>	2	25	23	50

Fishers Exact Test was used to test the relationship between, organisations that earn more than 50% of their income and those that earn enough income to sustain their activities. There is a relationship on the 1% level of significance ( $p < 0.0001$ ).

### 5.5 Profitability and Sustainability

Social enterprises are largely “designed around being self sustainable” as outlined by a respondent, however many are not profitable as it has its challenges, “..it was far tougher than we thought” and breakeven often takes “longer than we thought”.

There is a limited understanding of sustainability from some funders of social enterprises in SA, as a respondent articulated referring to the need to start a for-profit entity to generate more revenue: “What we needed to do to make the business sustainable is the very thing that causes the most concern from funders”.

Forty six percent (23) indicated that they were profitable or showed a positive net income, with 57% (25) of respondents who answered the question said that more than 75% of profits were reinvested into the business.

There is no significance of the type of organisation structure and profitability, however more of those registered as social enterprises were profitable, 54% (7) than not profitable. There were more for-profit and non-profits who were not profitable than profitable.

**Table 5.10: Relationship between breakeven and legal structure**

		Time to breakeven				
		<1 year	1-3 years	4-5 year	>5 years	Total
<b>Legal Structure</b>	<b>For-profits</b>	0	44% (4)	44% (4)	12% (1)	9
	<b>Social Enterprises</b>	34% (4)	58% (7)	0	8% (1)	12
	<b>Non profits</b>	21% (5)	25% (6)	12% (3)	42% (10)	24
	<b>Total</b>	9	17	7	12	45

Fishers Exact Test was used to test the relationship between the legal structure and the time it takes them to breakeven, which was confirmed at a 5% level of significance (P=0.0124). Non-profit social enterprises took longer to breakeven.

Twenty five percent (12) respondents indicated their dividend payouts are less than 25%, only one respondent receives dividends of more than 75% and most respondents 74% said that dividend payouts were not applicable.

Thirty eight percent (17) of organisations broke even within three years and 27% (12) took more than five years, only 20% (9) broke even within a year of operations commencing.

**Table 5.11: Innovative Income generating activities undertaken**

Cause Related marketing & Partnerships	5
Social media (website, facebook, twitter)	5
Social Exchange	2
Crowd Sourcing, twinning and social mobilisation	4
Events	1

## 5.6 Conclusion

This chapter detailed the findings from the research in accordance with the themes outlined in the literature review. The following chapter will discuss these in detail with reference to the research questions and hypotheses.

## **6. Discussion of the Results**

### **6.1 Introduction**

The previous chapter outlined the results obtained from interviews with South African social enterprises as well as the results from international social enterprises who took part in the survey. This chapter will discuss the findings from chapter 5 by way of addressing each research question and hypothesis.

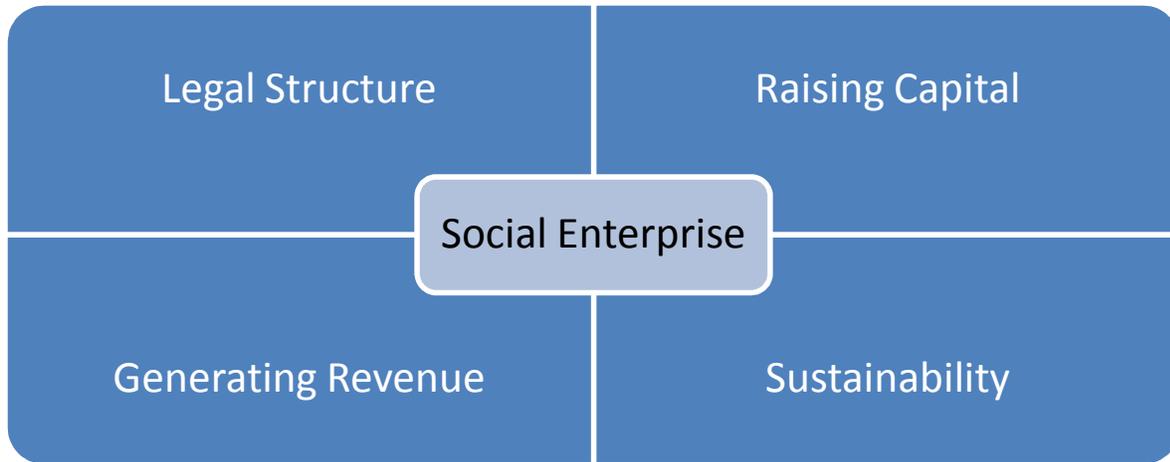
### **6.2 Research Question 1**

#### **What are the frameworks currently being implemented in social enterprises?**

This research question had two objectives, the first being to gain a broad idea of what types of frameworks are used in social enterprises globally. Secondly, to look at South African social enterprises in order to see what frameworks are implemented which would assist with answering research question 3.

The literature review outlined four dominant themes, as seen in Figure 6.1, namely legal structures, raising capital, generating revenue and sustainability.

**Figure 6.1 Social Enterprise Framework**



The hybrid forms seen in Table 5.1 were just applicable to the South African social enterprises. This applied to the enterprises interviewed who were running two entities (non-profit and for-profit); the survey, which was open to international social enterprises included the 'social enterprise' an entity which is not legally recognised in South Africa.

Where hybrid structures existed respondents were requested to select the dominant entity (often the first one established) and therefore it was possible to classify this study of social enterprises into the three entities, (1) non-profit social enterprises, (2) for-profit social enterprises and (3) social enterprises which enabled a broad understanding of the global structures and frameworks.

### 6.2.1 Social enterprise Priorities

The double objective that social enterprises have, of pursuing profit and serving a social need often results in some skepticism (Dees & Anderson, 2003). It was therefore important to understand what these social enterprises prioritised, income generation or social impact. This gave clarity to a social enterprises purpose, specifically what drives them and why they do what they do. With social entrepreneurship it is stated that social value creation is the primary objective and economic value creation can be a byproduct (Seelos & Mair, 2005).

This research found that about half of the respondents (40%) believed that social impact was their priority; however some disagreed suggesting that “social impact cannot happen unless income is generated”. With the definition for social enterprise highlighting the need for a ‘financially sustainable business model’ (Steinman, 2010), would lead us to infer that just focusing on only social impact as a priority would not necessarily result in enterprises being financially sustainable. Therefore organisations that exclusively focus on social impact without having a robust revenue generating strategy which will ensure their financial sustainability would in fact, in this interpretation, be classified not as social enterprises but as traditional non-profit organisations.

A few (22%) of the organisations, selected income generation as their priority. These organisations are in line with what has been termed, civic capitalism (Monti, et.al, 2006), where enterprises need to make a profit in order to meet their social mission.

Social enterprises that do not have a robust method to measure the social impact rigorously need to be questioned; as it can be compared with not having audited financial statements. The importance of having social impact measures in place ensures that these enterprises are not merely profit-motivated firms operating in the social sector in search of profits, who do not place value on the social impact that they create (Dees & Anderson, 2003).

Both having a social impact and generating income were selected as being equally important by 38% of the respondents (Figure 5.3). This was supported through the interviews with respondents commenting: “...equal priority they don’t happen without each other”, and “both, sometimes one takes priority; when there is money you can focus on social, when there is no money you need to focus on staying alive.” This research proposes that what defines and frames a social enterprise is outlined with these findings; social enterprises need to prioritise both social impact and generating revenue in order to sustain their operations and social impact.

### **6.2.2 Legal structures**

What entity a founder chooses is not a quick decision as it is an important indicator for many factors which include the organisations culture, how they generate revenue and how they are perceived by potential funders, which is discussed in the sections to follow.

Initially these were broadly categorised as non-profit social enterprises, for-profit social enterprises, social enterprises and hybrid organisations (Kickul et al., 2009). The stand

alone 'social enterprise', was for those countries which recognise the social enterprise as a legal entity, i.e. the United Kingdom CIC (see section 2.5). The various structures are tabled in table 5.1.

As a social enterprise is not recognised in South African legislation, the research discovered that most of the social enterprises in South Africa are managing at least two types of legal entities (Pty, CC, Section 21, Trust, NPO). This becomes an onerous activity in itself and creates an even bigger challenge in terms of costs and administration. Traditional non-profit organisations are said to be overly optimistic and oblivious to the challenges of running a business. Their unwavering commitment to their funders creates a conflict of interest when the business is clearly not working out. They then continue to throw "good money after bad", in the hope of salvaging the business however they refuse to throw in the towel (Foster & Bradach, 2005 p. 6). It is important for social enterprises as with traditional enterprises to, on the one hand persevere, however also to be able to recognise when the inputs are far outweighing the outcomes. This characteristic that prohibits social entrepreneurs in 'letting go' more so than their fellow traditional entrepreneurs could be as a result of their passion for the social cause identified. The fact that they have grown and nurtured the idea over time (Corner & Ho, 2010) results in the strong relationship that social entrepreneurs have with the social needs being addressed.

Although when non-profit organisations fail, they do not incur losses for shareholders as for-profit entities do (Haugh, 2007); they do however run the risks of reputation damage and media scrutiny by an audience which often does not understand the challenges faced by non-profit organisations.

Many social enterprises start as one type of entity, often the non-profit, then as time progresses the social entrepreneur sees further opportunities to either generate income or receive grants and hence establishes the second entity. Four of the social enterprises interviewed were established as a non-profit organisation initially; they then migrated to operating a hybrid model, using the non-profit to solicit both grants and donations and the for-profit for earned income. This can be explained through prior research which found that businesses in the social space often evolve through an organic process of ideas developing over time (Corner & Ho, 2010).

*The correlation between the different types of entities and how they generate revenue and sustain their activities will be discussed in the related sections below.*

### **6.2.3 Raising capital**

Raising capital in the form of accessing loans and venture capital is as challenged for social enterprises as traditional enterprises. A lack of access to appropriate finance can be a significant barrier to expansion. Few social enterprises will survive without capital as capital gives enterprises capabilities which enable them to not only deliver on their

immediate mandate but also to scale and impact a larger number of beneficiaries (Ryan, 1999, Steinman, 2010).

Social enterprises are challenged with raising funds, both through earned income strategies or accessing donations and grants. Depending on the type of venture this often requires raising large sums of capital. Very often new enterprises use the founders own income, but when larger sums of capital are needed they would need to approach other sources for funding.

Many of the respondents received funding from a combination of sources at start-up phase, 48% received grants and 60% were self-funded. For-profit social enterprises in South Africa indicated that they were all started with the founders own income, whereas the non-profit social enterprises were split between predominantly receiving grants and secondly using the founders income.

In commercial entities venture capital and private equity funds often require founders to place their own capital in the business to prove their commitment, as they are under the impression that competent founders are able to *find* the needed resources (Chandler & Hanks, 1998). There is no reason why the same should not be said for the social enterprise sector. This would then bode well for the social enterprises who are using founders own income, which could assist when attempting to raise additional funds.

This is an area which could be explored in future research, to assess whether social enterprises who are started by means of founders own income access funding easier later on than those who were started through grants

For-profit entities can experience challenges with regards to accessing grant type funding (Guide to Finance, 2011). In line with this, this research found that **for-profit social enterprises are more likely to use their own income at startup than non-profit social enterprises**. This can be attributed to the restrictions with accessing grant funding however, could also indicate that the founders have a strong commitment to the enterprises objectives and are willing to risk placing their own funds in the social enterprise.

This study therefore established that funders lack of understanding of what a social enterprise is has forced social enterprises to be creative about raising finance, thereby operating the two legal entities (non-profit and for-profit), which places more of a burden on resources and capacity to manage two entities.

#### **6.2.4 Debt and Equity**

Steinman (2010) found that equity shareholding facilitates scaling of social enterprises. However, when analyzing how the different structures of social enterprises went about raising capital with regards to taking on debt and equity, the trend to take on both was

found to be low. In the case of debt, this can be attributed to various reasons identified through the research which include, (1) difficulties faced with regards to receiving loans from commercial institutions, (2) the lack of understanding of what a social enterprise is and (3) the high cost of debt. A further obstacle is the reluctance of non-profit entities to take on debt due to the board members being risk averse. The King III report on corporate governance is expected to cause directors to be cautious with regards to taking on liabilities, however it is more applicable to the for-profit sector, as King III falls short on “responding to the needs of the social sector” (Steinman, 2010, p. 62).

Jegers (2011) found that in countries where non-profits are well regulated and highly subsidised they tended to take on more debt. This trend was also found to apply to the South Africa non-profit social enterprises too which were not highly subsidised by government and therefore did not take on debt. Organisations with high debt levels need to be equally profitable in order to service the interest and repayments and therefore the cost of repeated borrowing can be higher than the cost of raising and servicing equity finance (Brown, 2006).

Equity is an important source of capital for social enterprises and often does not have the obligation of repaying shareholders (Brown, 2006). This reason together with the fact that the cost of equity is cheaper than the cost of debt, would therefore place equity as a favourable choice for financing of non-profit organisations (Jegers & Verschueren, 2006).

Non-profit organisations in South Africa are legally prohibited from issuing equity due to the non-distribution constraints, however as articulated by the literature equity remains a viable option for social enterprises, but only an option for for-profit social enterprises, yet few were found to be exploiting this funding source. This type of funding can fall under what is termed social venture capital or impact investing, both of which are relatively new funding sources in South Africa (Guide to Finance, 2011), which could be why this source is not yet that common amongst the enterprises surveyed.

To move towards financial sustainability, organisations need to not only conduct long term financial planning, but also assess the costs of raising capital and funds. As has been outlined by the literature the cost of debt ( $k_d$ ) is higher than the cost of equity ( $k_e$ ) (Brown, 2006), however what has not been taken into account is the *cost of fundraising* ( $k_{fd}$ ). As the research indicated, many non-profit organisations were spending a large percentage of management time on fundraising, through compiling funding proposals and reports. This time could be better spent managing and growing the organisation (Haugh, 2007). Further research could quantify the cost of fundraising for entities.

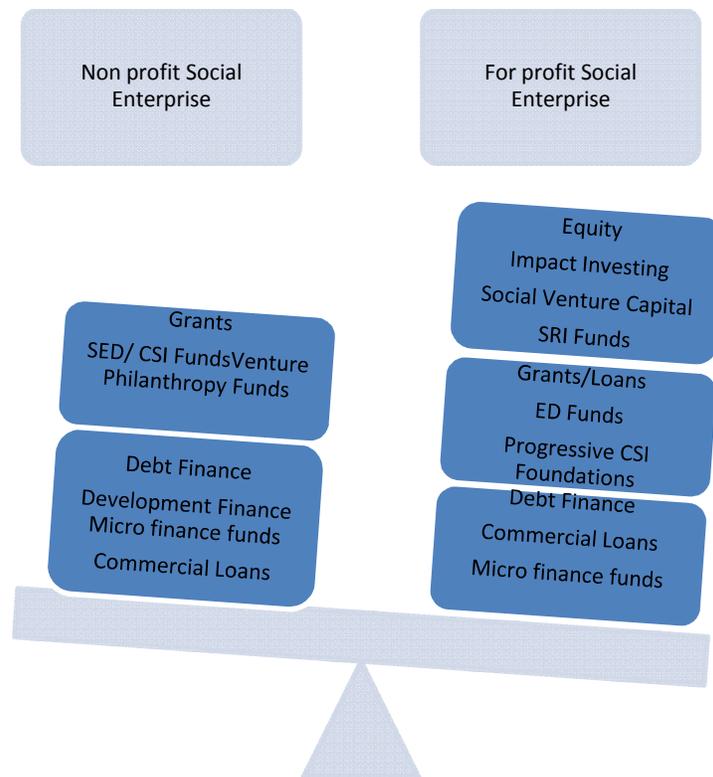
### **6.2.5 Generating Revenue**

It was critical to test the relationship between the legal structure and their revenue generated through grants/donations. It was found that all types of entities (for-profit, non-profit and social enterprises) had at some stage received a grant.

Data showed that 90% of the for-profits surveyed had received a grant. This contrasts with the perception that funders are not in favour of allocating grants to for-profit enterprises. However, there are funders who do rule out for-profit enterprises from receiving grants but more than likely these funders would also exclude revenue generating non-profits and would therefore not be viable funders of social enterprises (Guide to Finance, 2011).

What was found was that both for-profit and non-profit social enterprises were making use of both grants and generating income, to a greater or lesser extent. When it came to the reliance on grants and their ability to earn sufficient income to sustain their activities, this research found that the **for-profit social enterprises** followed the same trends as the **social enterprises**, both of which were more effective in generating earned income, being less reliant on grants and sustaining their activities.

**Figure 6.2: Common Funding Sources for Social Enterprises**



### 6.2.6 Profitability and Sustainability

It is a misnomer that non-profit organisations do not make profit, they should, only they are legally not allowed to distribute profits (Dees & Anderson, 2003). Profits, or surplus needs to be ploughed back to further the aims of the business (Yunus, Moingeon, Lehmann-Ortega, 2010, Delta Economics', 2009, Haugh, 2007). This sentiment is not supported by everyone, with a faction agreeing the other extreme that profits should be distributed as the founders' desire (Goldstein, Hazy & Silberstang, 2009), which will enable access to a much larger funding pool of equity investment through venture

capital and impact investment funds. A middle ground would be enabling profits to be distributed, however with some dividend restrictions put in place (Steinman, 2010).

Less than half of the surveyed respondents indicated that they were profitable or showed a positive net profit. Therefore even those that had shareholders were not paying much in dividends if at all. This does not bode well for the future with regards to financial sustainability. Those registered as social enterprises had the highest indication of profitability. Breakeven generally took a lot longer than enterprises had initially expected for most social enterprises which ultimately would affect their profitability, with the majority taking more than 5 years to breakeven (see table 5.10).

To conclude, social enterprises are operating as both for-profit and non-profit legal entities. Raising capital remains a challenge with access to funding very much dependent on the type of legal entity chosen. Few social enterprises are exploiting equity funding although it is found to be an attractive option for the for-profit entities. Non-profit social enterprise are reliant on grants and for-profit social enterprises were found to be successful at earning income as a source of generating revenue. The key to an optimal framework is finding the balance between making a profit and protecting the social mission of the social enterprise.

### **6.3 Research Question 2:**

**Can the revenue generated sustain social enterprises' operations or are they still reliant on external funding?**

The second research question was answered by testing the two hypotheses.

#### **6.3.1 Hypothesis 1:**

Social enterprises are only able to sustain their operations through receiving grants.

##### **6.3.1.1 Reliance on grants**

Overall just over half (52%) of the organisations surveyed indicated that they are reliant on grants, however a different picture is sketched when looking at the different legal entities. Seventy percent of non-profit social enterprises indicated that they were reliant on grants compared to only 30% of the for-profit social enterprises confirmed that these two structures operate very differently, specifically with regards to revenue generating strategies. These findings were in line with previous research conducted (Foster & Bradach, 2005). Traditional non-profit organisations have also been said to be too reliant on grant funding (Steinman, 2010) and that earned income accounts for only a small share of funding in most non-profit entities (Foster & Bradach, 2005) which draws a close parallel between traditional non-profit organisations and the non-profit social enterprises surveyed.

The 'social enterprise' structures were the least dependent on grants with 7 of the 13, having never had received a grant. This can be explained through social enterprises wanting to "be seen as a business", earning sufficient revenue and not being reliant on grants as confirmed by interview respondents.

When separating the South African social enterprises from the rest it was found that 77% of the social enterprises from South Africa are reliant on grants in order to sustain their activities, this is vastly different from the 23% of international social enterprises which are reliant on grants.

### **6.3.2 Conclusion**

The findings of this study indicate a significant difference between social enterprises in South Africa and globally. Social enterprises in South Africa are very much more reliant on grants than their peers operating elsewhere in the world. Non-profit social enterprises were also found to rely more on grants than the for-profit enterprises.

### 6.3.3 Hypothesis 2

Social enterprises are able to sustain their operations through earned income.

#### 6.3.3.1 Earned Income

For-profit social enterprise and social enterprise structures were found to follow the same trend, of being able to earn sufficient income to sustain their activities. Whereas the non-profit social enterprises were not able to sustain their operations through earned income (see table 5.8 and figure 5.7).

Income earned can enhance the impact of a non-profits mission (Anderson, 2005) the same can then be said of social enterprises, as they are able to scale and sustain their operations and are not reliant on receiving grants but rather on market factors.

Forty four percent of the social enterprises in SA were able to sustain their activities through earned income alone, whereas internationally a larger percentage (61%), were able to sustain their activities through earned income. A higher percentage of for-profit social enterprises were able to sustain their activities through earned income than the non-profit social enterprises.

What is of concern is that only half the organisations earned sufficient revenue to sustain their operations. As there is a strong correlation with those entities that earned

more than 50% of their revenue through trade and those that earned enough to sustain their operations we can deduct (Figure 5.7) that social enterprises were the most effective in earning enough to sustain their activities. With the non-profit social enterprises being the least effective with regards to earned income (Table 5.8 and 5.9). This is in line with Foster & Bradach's (2005) study where non-profits were also found to be earning less than 50% (46%) of their revenue. It is evident that generating income has its challenges and it is not something that should be taken lightly. Non-profit organisations should think carefully about just starting an income generating arm as this requires a totally new strategy and a different culture suited to running a business (Foster & Bradach, 2005).

If we revisit how social enterprises are defined; social enterprises should be implementing business-like models and market-based solutions to pursue financial sustainability (Mort, Weerawardena & Carnegie, 2003, Steinman, 2010). Being financially sustainable implies that they generate their own income to cover at least their operational costs and does not include being dependent on grant funding (Steinman, 2010). Furthermore, social enterprises are different to traditional non-profit organisations and implement different strategies to non-profit organisations (Dart, 2004). Further research conducted found that enterprises that are reliant on philanthropic type funding (grants/donations) have a dependence culture, which may constrain their strategic growth (Haugh, 2007).

This leads us to question whether enterprises that are reliant on grants are authentic social enterprises or merely innovative non-profit organisations which have recognised the need for a sustainable business model. They then establish an income generating arm and operate a hybrid non-profit (*Elkington & Hartigan, 2008*).

### **6.3.3.2 Conclusion**

All social enterprises are earning income, however approximately only half of those in South Africa are able to sustain their activities through the income earned. It is generally accepted that start-up social enterprises can rely on grants to get started, however as they mature they should have progressed to trading in goods and or services that will enable them to earn sufficient income for the operations and even show a profit.

### 6.4 Research Question 3

#### **Is there an optimal framework appropriate for South African Social Enterprises?**

The previous two questions laid the foundation for how social enterprises are structured and sustain their activities broadly and then how those in South Africa compare with regards to legal structures, earning income, receiving grants and sustaining their operations. This research study aimed to utilise the current available structures and landscape in South Africa to optimise the social enterprise.

The findings of this research found that in general, social enterprises in South Africa are not able to sustain their activities through earned income (figure 5.8) alone. This is concerning in terms of social enterprises running as a business and needing to implement financially sustainable models (Steinman, 2010), as discussed in the previous research question.

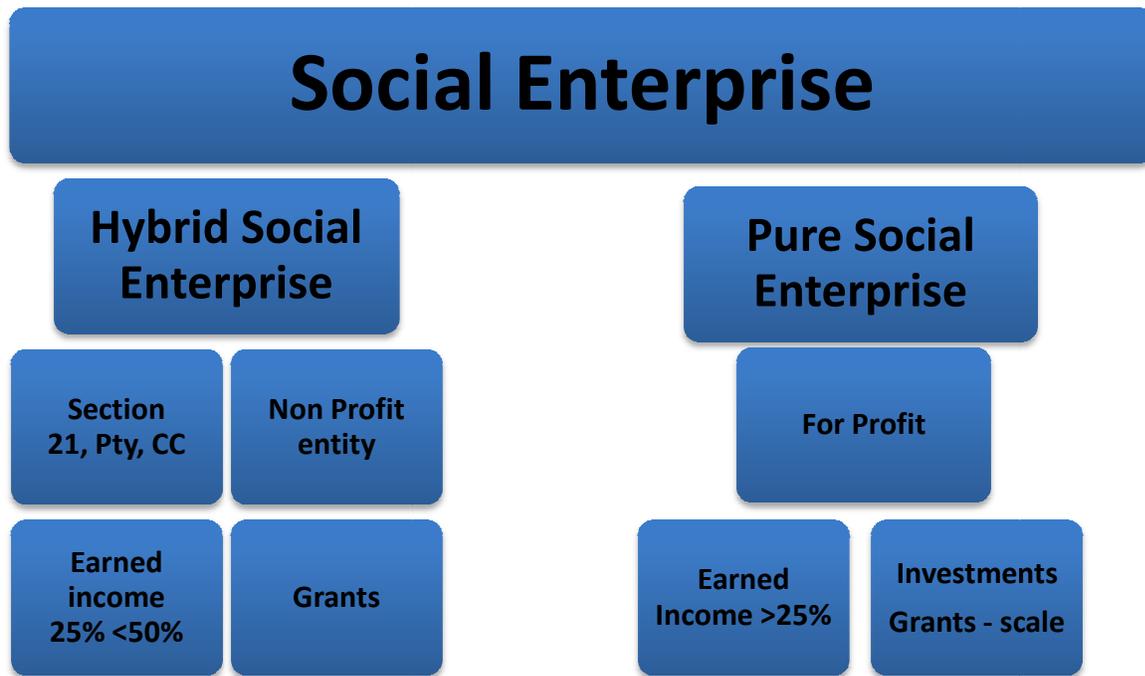
When comparing the legal structures, for-profit enterprises are said to encourage efficiency and innovation, leverage scarce social resources, be more responsive to market demand and are able to attract the right skills (Dees & Anderson, 2003). This is echoed in research conducted by Massarsky and Beinhacker (2005) who found that with hybrid organisations, the non-profit is positively impacted by the for-profit business by improving the reputation, service delivery, entrepreneurship culture and its ability to attract and retain donors and staff. This indicates that the for-profit entities offer a

potential financial advantage that exceeds the financial rewards commonly associated with the social sector (Dees & Anderson, 2003).

We cannot discount that many non-profits have the experience and expertise to deliver social services (Ryan, 1999). However often they do not implement standard business protocols like putting a robust business plan together which when done, have proven to have a significant impact on the success of non-profit enterprises (Massarsky & Beinhacker, 2005).

With the current entities in mind the following diagram outlines funding options depending on how social enterprises are structured. This is an adaptation of *Elkington and Hartigan's (2008)* classification and Delta Economics' (2009).

**Figure: 6.3 Social Enterprise structures**



#### **6.4.1 The Hybrid Social Enterprise**

The *Hybrid Social Enterprise* is how many social enterprises in South Africa are currently structured, with a company (Pty, CC or rarely a Section 21) with no limit on the earned income, however most are earning between 25 to 50% of their revenue. The non-profit entity (NPO, Trust, section 21) is structured in order to register as a Public Benefit Organisation (PBO) for the tax exemption status as well as to take advantage of grants. As discussed, the non-profit structures have generally been set up in order to protect the social aims (Prabhu, Haigh, Symonds, 2010), however this has in some stances become a restriction in accessing capital in order to scale.

Although some enterprises that started as non-profits initiated income generating strategies successfully, many developed a culture of dependence (Haugh, 2007) through their initial reliance on grants and donations. This point then raises cause for concern and questions the cultural differences between running a for-profit entity and a non-profit entity and would be an area to further research. For social enterprises where large capital is needed in order to get started and scale and the possibility exists for an attractive return on investment (ROI), the non-profit structure would not be suited.

#### **6.4.2 The Pure Social Enterprise**

The *Pure Social Enterprise* is a for-profit entity with a clear social mission, the social enterprise does not pay dividends but reinvests all profits back into the business and

has earned revenue of more than 25% (Delta Economics', 2009). This structure however does not allow for financial returns for investors.

As noted previously, for-profit social enterprises have the added burden of skepticism, with their motives being questioned (Dees & Anderson, 2003). This however is easily rectified by means of transparency, good governance and ensuring a robust methodology to measure and report on impact (assuming the organisation has a proven track record and is not a startup).

This research has confirmed that the optimal social enterprise needs to be (1) mission focused, (2) be able to access funding for scaling and (3) earn an income to sustain operations to be financially sustainable and (4) offer financial and social returns.

### **6.4.3 The Legal Entity**

The optimal structure for a social enterprise operating in South Africa under current conditions would include the entity being registered as a for-profit entity, however care needs to be taken to protect the companies' social mission. The first step would be to ensure robust measurement of social impact and secondly, to issue shares with restricted rights. Measuring social impact is not an easy task and a research project in itself, however it is a process and should start with quantifying outputs and impacts and improved over time. The restricted rights could consist of for example: (1) placing a cap

on dividends payable to shareholders, (2) limiting shareholder voting rights and share transfers, (3) issuing non-voting preference shares in order to preserve their aspirations, (4) implementing an asset lock, which prevents investors sharing any residual assets beyond the paid up value of shares if the social enterprise is sold or wound up (Steinman, 2010; Brown, 2006; Prabhu et al., 2010). These are examples, however the detail is outside the scope of this research and can be explored in future research.

#### **6.4.4 Raising Capital**

Social enterprises could raise capital through (1) grants at start-up phase, which can include set-up costs for scaling operations; (2) through investment equity, where shareholders have restricted rights as described above.

#### **6.4.5 Generating Revenue**

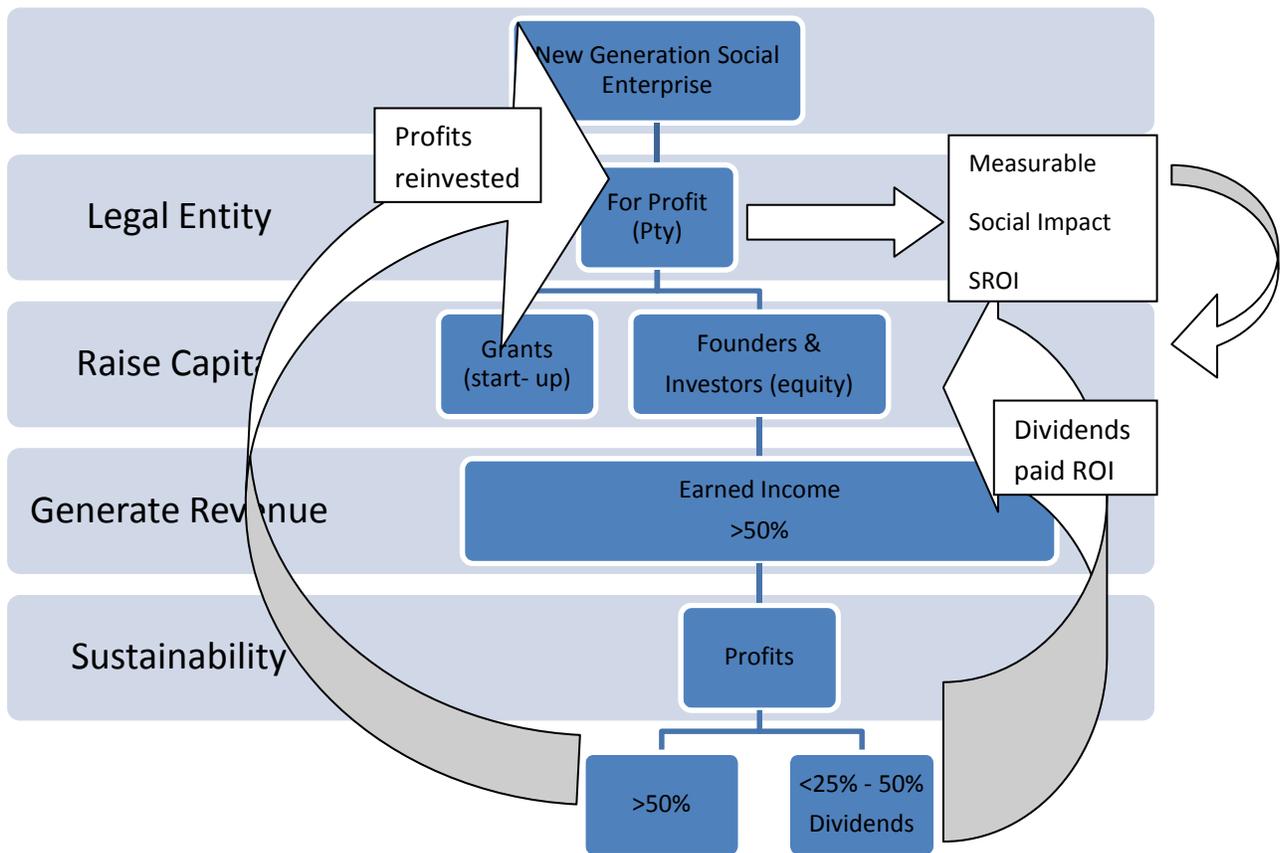
After start-up phase the organisation needs to generate revenue through earned income activities in order to maintain its operations. This framework suggests that at least 50% of social enterprises revenue should be earned.

#### **6.4.6 Sustainability**

Sustainability of the social enterprise is maintained through generating a net profit, with at least 50% of the profit remaining in the business to sustain the operations. Between 25% and 50% of profits are paid to shareholders as dividends, in-line with the restricted

rights agreed on. Investor's interests are maintained through receiving a financial return on investment (ROI) as well as a quantified social return on investment (SROI).

**Figure 6.4: An Optimal Social Enterprise Framework**



## 6.5 Conclusion

A structure similar to this which protects the social mission of the enterprise would enable for-profit social enterprises to access grants based on the social impact, shareholder, profit and dividend policies, as well as secure investments from impact investors. Impact investors are prepared to accept shareholder restrictions to protect the social enterprise mission (Brown, 2006); however they will require a financial and social return on investment. This structure allows sharing of profits with investors and allows the business operational autonomy (Goldstein, Hazy & Silberstang, 2009, Delta Economics', 2009), provided they operate in line with the restrictions agreed on at incorporation.

This chapter discussed in detail the findings of the research study and provided a framework, given the constraints, for social enterprises operating within South Africa.

## 7. Chapter 7

### 7.1 Introduction

The previous chapter discussed in detail the findings of this research. This chapter provides background, summarises the original objectives and the main findings. The recommendations to business, limitations of the research and suggestions for future research are also discussed.

### 7.2 Background and Objectives

Social entrepreneurs perform a similar role to traditional entrepreneurs, assisting with driving change and speeding up structural and social changes in the economy, which ultimately contribute to productivity (GEM Report, 2009).

As we live in an age where the line between non-profit and business have become blurred (Dees & Anderson, 2003), the social enterprise has emerged as a growing market segment. Although not a new concept, the 'social enterprise' is a relatively new term. Many enterprises have been operating as social enterprises for years, but may have been referred to as traditional non-profits with an earned income strategy or a company with a social agenda.

This new term has more recently started growing in popularity in South Africa seen through associations developing, support organisations and hosting events like the

Social Enterprise World Forum. Other countries, for example the UK, have recognised the need for a separate legal entity to be established specifically for social enterprises, however in South Africa these organisations are either operating as for-profits (in the form of a CC or PTY), or as non-profit organisations (NPO, Trust, Section 21,PBO).

Some organisations passionate about making a social impact have established for-profit entities with a social mission. This has enabled them to ensure that they are run with business principles, are able to generate income to sustain their activities and in some instances even offer a competitive return on investment for shareholders.

Although it is quite a buzz word currently in South Africa it is still largely misunderstood, with little known about how to structure their social enterprises. In South African there has been a relatively slow start in terms of establishing social enterprise groupings, forums and robust conversations that are really making inroads. Globally, there is a move towards using various financial instruments besides grants to raise capital (debt, equity, various investment funds and patient capital) for social enterprises. In South Africa, however depending on the type of legal structure chosen these are not all available to social enterprises.

As is seen in the United Kingdom, with their social enterprises contributing significantly to the economy, the demand for products and services that meet societal needs is

growing. As needs are even greater in developing countries, like South Africa, the opportunities are even bigger (Porter, 2011).

The absence of a universally agreed on definition makes it difficult to advance the practice and each country that redefines it contributes to this confusion. It was therefore thought to be more useful to develop frameworks and models unique to South Africa based on the global understanding.

### **7.3 Main Findings**

Ten interviews were held with top management or founders of social enterprises in South Africa and a further global survey conducted on 50 social enterprises. The results showed that in South Africa social enterprises are operating as non-profit social enterprises and for-profit social enterprises and more often than not running two legal entities.

It was found that social enterprises need to prioritise both social impact and generating revenue as one cannot happen without the other. The data indicated that for-profit entities operated similarly to the social enterprises in the United Kingdom; whereas the non-profit social enterprises still operated quite similarly to traditional non-profit organisations. The research found that at startup phase, founders of for-profit social enterprises are more likely to use their own funding than non-profit social enterprises.

However, all legal entities were able to access grant funding regardless of their legal structure.

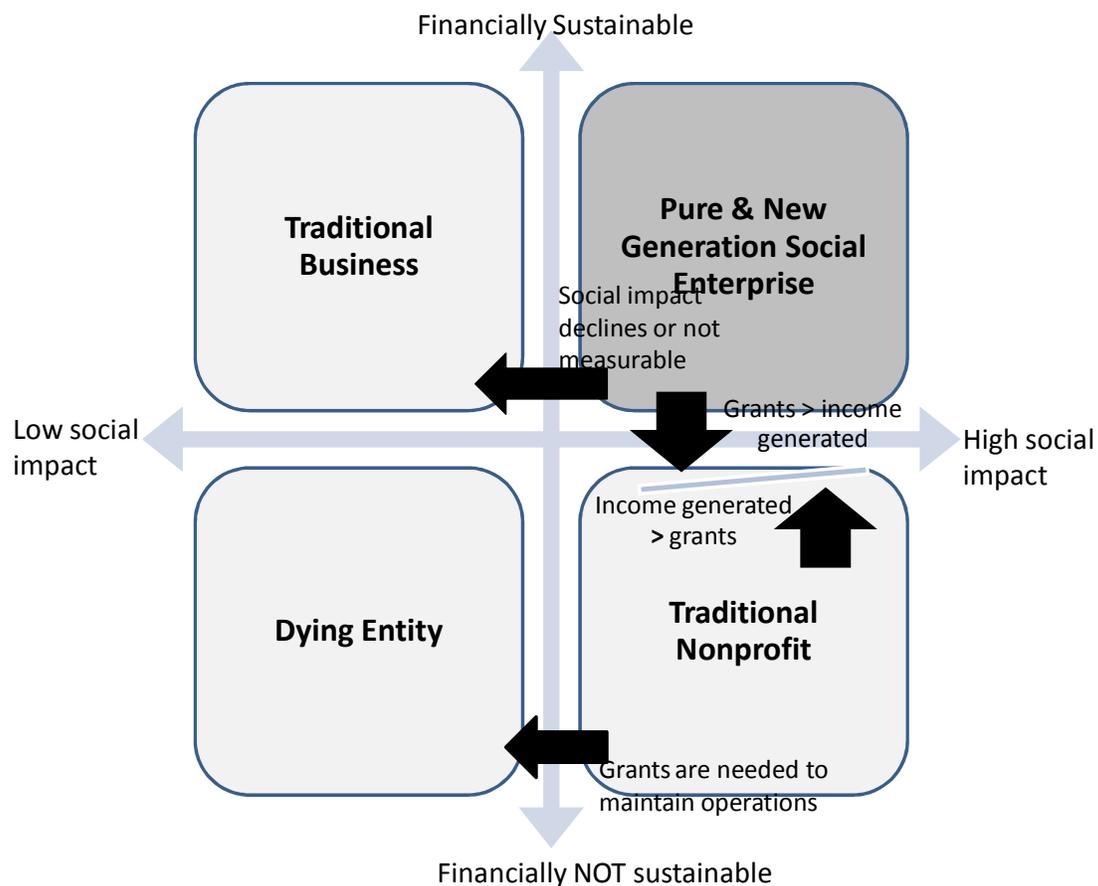
The literature reviewed indicated that equity is a viable source of funding for social enterprises, however the data showed that this is seldom used in social enterprises in South Africa, predominantly due to non-distribution constraints placed on non-profit entities.

The findings indicated that few of the social enterprises in South Africa were able to sustain their operations through earned income alone, but many were reliant on accessing grants. This differed between those social enterprises registered as non-profit and for-profit enterprises, with the for-profit entities being more effective in sustaining their activities through earned income, which indicated to be a more sustainable revenue model. Social enterprises should be as driven and “capital hungry” (Prabhu et al, 2010) as other businesses, the only difference should be their social agenda.

The research once again highlighted that with there not being a legal entity for social enterprises in South Africa, the line becomes blurred between **for-profit social enterprises** and traditional business as well as between **non-profit social enterprises** and traditional non-profit organisations. The following diagram illustrates where the

social enterprise lies in the enterprise landscape and offers similarities and differences between the various organisations.

**Figure 7.1 The Social Enterprise Framework**



As the measured social impact declines an enterprises moves from the social enterprise space to the traditional enterprise, as grants become more than revenue generated the social enterprise moves to the traditional non-profit. When grants alone are the source

of income there is the risk that they could cease and if the organisation cannot source further grants it will become a “dying enterprise”.

Many traditional for-profit enterprises have moved into the social sector in search of profits (Dees & Anderson, 2003), however their focus will not be on social impact and therefore this is the area where pure social enterprises need to ensure they have robust methodologies for measuring and reporting on impact.

#### **7.4 Recommendations to business**

This research highlighted that there is a distinction between non-profit organisations running earned income activities to supplement their income and social enterprises. In a nutshell, the social enterprise is a business - with a social angle, whereas non-profit organisations with an earned income strategy are focused on the social impact, however better equipping themselves in line with the constraints of the industry. It must be said that in this research we do not advocate that one is better than the other, what is highlighted is that they are different and will require different strategies and funding instruments unique to the business.

With the emergence of the Social Stock Exchange for South Africa, the first independent social stock exchange in the world this research will provide useful insights for social entrepreneurs in South Africa who want to start social enterprises and those funders who are looking to fund them. The research highlights a useful framework to structure the enterprise. The research also offers a context and framework for funders

and investors who are considering funding social enterprises by highlighting criteria and structures to be considered.

The figure 6.4 offers a recommended framework and overview of the elements to be considered when structuring a social enterprise, however it needs to be seen in the context of each social enterprise, taking into account the needs and objectives of the business.

## **7.5 Limitations**

The findings in the above research are limited to the size of the sample and it would be recommended to conduct the research on a larger representative sample. Also qualitative research was only conducted on social enterprises in South Africa, partly due to the locality and time constraints, the quantitative survey offset the limitation to some degree by gathering data from a global population, however it was still a relatively small sample.

Another possible limitation is that the sample was based on a previous research study who had defined social enterprises based on certain criteria and these were not randomly selected. The survey was based on self-selection with enterprises classifying themselves as social enterprises which may result in some enterprises not usually being

classified as a social enterprise in terms of our definition but possible traditional non-profits or for-profits.

## **7.6 Implications for further research**

Future research avenues might include an explanatory study, quantitative or qualitative, to test the models presented here. The framework presented could also be broken down further and a quantitative study conducted on each element. Such a study could include the capital structure of social enterprises which could be explored further for example looking at reasons why social enterprises decide to borrow (debt) and how they decide on the amount to be borrowed.

Another theme that could be explored is a comparative study on the efficiency of non-profit social enterprises and for-profit social enterprises. This could extend to understanding the cultural differences between running a for-profit entity and a non-profit entity.

A further area to research would be looking at how easily social enterprises that were started through self-funding are then able generate further investments at growth and when scaling. This would help us understand the funder of social enterprise and how they value a founder who initiates a business and self funds it.

A final area that has been highlighted by this research to further study are analysing the restrictions that impact investors are prepared to accept with regards to social enterprises in South Africa.

## **7.7 Conclusion**

Starting and managing a business is always challenging and even more complicated when driven by the need to meet two critical objectives - social impact and financial sustainability. Social enterprises have the ability to improve the vast social ills faced in South Africa as well as the potential to positively impact on our economy. They need to be embraced as viable socio economic development initiatives and given the credibility and support to thrive.

Due to the limitation of there not being an ideal structure in South Africa, social enterprises are faced with an even bigger challenge by not always being recognised for what they are. This research has highlighted the similarities between social enterprises and traditional non-profit organisations, but has also emphasised that they differ in terms of operations, strategy and pursuing sustainability.

This research study provides a framework which aims to alleviate some of the challenges both social entrepreneurs and funders are faced with when establishing a social enterprise in South Africa.

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## Appendix A: Interview Guide

### Informed Consent Form

I am conducting research on social enterprises, in order to develop a framework that is appropriate for social enterprises in South Africa. The interview is expected to last about an hour, and will assist us in understanding how social enterprises in South Africa are currently being financed, the constraints they face and how they generate revenue.

Your participation is voluntary and you can withdraw at any stage without penalty. Of course, all data will be kept confidential. By participating in the survey, you indicate that you voluntarily participate in this research. If you have any concerns, please contact me or my supervisor. Our details are provided below:

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### Do you mind if I tape our conversation

### Demographics

1. Legal Structure (Trust, Section 21, NPO, PTY,CC) and WHY
2. When did this organisation start? (year)
3. What sector (s) do you work in?  
Business services Education Poverty relief Job creation, Sports Arts & Culture  
Security  
Health Welfare  
Other \_\_\_\_\_

### Startup

4. How did the business idea come about?
5. With what funding did you start (how much & when)
  - own

- a grant
  - donation
  - in kind support
  - interest free loan
6. How long did it take you to breakeven?  
Or  
How long do you anticipate before you will break even?
7. What was a rough estimate of your breakeven amount?

## Growth

8. How do you go about raising funding?
- Relationships (Professional, Family, Private)
  - Submitting a Proposal for grant/donation
  - Applying for loan
  - Other
9. What is your average revenue/turnover?
10. What % is from
- Grants/donations received
  - Income generated through trade (selling goods or services)
  - Other
11. On average (or last fin yea) what is your Gross profit (surplus)
12. What are your biggest cost items?
13. What % of total funding is reliant on grants/donations?
14. What have been your barriers to funding? (financial challenges) i.e. SARS clearance/ legal entity/BEE/M&E
15. How would you describe your revenue model?
- What are your revenue streams
  - Do you take on debt /equity? Why?
  - NPO's – if you could would you make equity available?
  - Does your organisation have equity in another business?
16. How is the organisation shareholding structured?
17. How was profit from last year spent:
- reinvested into the business (%)
  - endowment(%)
  - debt(%)
  - dividends(%)
  - other
18. Would you consider changing your structure to access funding?

19. What % of management time is spent on raising funds?
20. Do you have expansion plans? How will they be funded?

### **Impact**

21. What is your organisations priority: (i.e Social, financial or both)
22. How would you describe your theory of change (social impact)?
23. How do you measure the social impact? (specific tool, M&E)
24. On average how many direct beneficiaries to you assist on an annual basis?

### **Employees**

25. How many full time employees do you have?
26. Do you have volunteers working in your organisation? If so how many
27. Do you pay market related salaries? What other benefits/incentives do you offer for staff?
28. What is your sustainability plan?
  - Leadership
  - financial
29. Do you have commercial competitors in this space?
30. What innovations/ innovative tools have been used to generate income?
  - i.e Cause related Marketing; unusual partnerships; Crowd sourcing; Social exchanges

Anything else that you would like to raise regarding revenue generation/ financials of social enterprises.

## Appendix B: Survey

I am conducting research on the **revenue generation of social enterprises**, in order to develop a framework that is appropriate for social enterprises in South Africa. To that end, you are asked to complete a survey which should not take you more than **5 minutes** of your time.

This will assist us in understanding how social enterprises in South Africa are currently being financed, the constraints they face and how they generate revenue.

Your participation is voluntary and you can withdraw at any stage without penalty. No information gathered will be used for any other purpose other than this research. This research may be published, however only aggregated information will be used. Of course, all data will be kept confidential. By completing the survey, you indicate that you voluntarily participate in this research. If you have any concerns, please contact me or my supervisor. Our details are provided below:

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1	In what country is your social enterprise based & registered :	
2	What type of Legal Structure is it registered as: (for example CIC, CLG, Trust, Section 21, NPO, PTY,CC, other)	PTY CC CIC CLG Trust Section 21 NPO Social Enterprise
3	How long has the organisation being running? (in years)	Less than 1 year 1-3 years 4-5 years More than 5 years More than 10 years
4	What sector (s) do you work in?	<ul style="list-style-type: none"> <li>• Business services</li> <li>• Education</li> <li>• Poverty relief</li> </ul>



		<ul style="list-style-type: none"> <li>• Job creation</li> <li>• Sports</li> <li>• Arts &amp; Culture</li> <li>• Security</li> <li>• Health</li> <li>• Welfare</li> <li>• Other _____</li> </ul>
5	How many full time employees do you have?	Less than 3 Between 4-10 More than 10 More than 50
6	Do you have volunteers working in your organisation?	Yes No
7	Your organisations prioritises: (choose 1 )	<ul style="list-style-type: none"> <li>• Social impact before generating income</li> <li>• Generating income in order to make a social impact</li> <li>• Social impact &amp; generating income are given equal priority</li> </ul>
8	With what funding was the social business started?	<ul style="list-style-type: none"> <li>• Own income (founder/manager)</li> <li>• Commercial Loan</li> <li>• Family/ friends loan</li> <li>• Grant/donation</li> <li>• Competition winnings</li> <li>• Venture capital</li> <li>• Angel investor</li> <li>• Other _____</li> </ul>
9	Has your organisation ever received <ul style="list-style-type: none"> <li>• a grant, (cash)</li> <li>• in kind support</li> <li>• interest free loan</li> </ul>	Yes No Yes No Yes No
10	Do grants/donations received equal more than 50% of total revenue generated	Yes No Don't know



11	Does income generated through trade (selling goods or services) equal more than 50% of total revenue generated?	Yes No Don't know
12	Do you receive other income?	Yes _____ pls No
13	Are you reliant on grants?	Yes No
14	Does your organisation EARN sufficient income to sustain its activities? (through income generating activities)	Yes No
15	Does your organisation: take on debt?	Yes No
16	Does your organisation offer equity in order to raise funding?	Yes No N/A
17	Does your organisation have equity in any other business?	Yes No
18	What % of profits are reinvested into the business?	0% Less than 25 % 26% - 50% 51% - 75% More than 75%
19	What % of dividends are paid to shareholders?	Less than 25 % 26% - 50% 51% - 75% More than 75% Not applicable
20	How long did it take you (or do you expect) to breakeven?	Less than 1 year 1 to 3 years 4 to 5 year More than 5 years
21	To date is your organisation profitable? (i.e. is it showing positive net profit)	Yes No
22	Has your organisation used any creative or innovative tools to generate income? i.e. Cause related Marketing campaigns, Partnerships, Crowd sourcing, Social exchanges, social media campaigns etc.	Yes (specify) _____ No