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Financing social enterprises: constraints and opportunities in South Africa

Mclntosh Mufunani Kuhlengisa

15388647

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FINANCING SOCIAL ENTERPRISES: CONSTRAINTS AND OPPORTUNITIES IN SOUTH AFRICA

Mclntosh M. Kuhlengisa
15388647@mygibs.co.za
&
Dr. Kerrin Myres
resonate@icon.co.za

Abstract

Background: - Social enterprises (SEs) address institutional voids by solving social and environmental needs. In South Africa, SEs play a fundamental role as government led initiatives are increasingly strained in their ability to satisfy the social and environmental deficit. Consequently their funding structures are particularly relevant in the present socio-economic milieu of South Africa. **Objective:-** – This paper thus aimed to provide a detailed understanding of the nuances of funding of social enterprises in South Africa, exploring whether their structural and mission peculiarities warrant a unique funding approach. **Methodology -** This paper studied social enterprises and funders in South Africa through in-depth interviews provide a comprehensive understanding of the key funding issues from triangulating between funders and social enterprises to arrive at convergence and identify divergences. **Results:** The results indicate that there is no clarity on the structure and definition of social enterprises in South Africa. This has a direct bearing on the ability of the SE to attract funding as well as funders to provide funding. As a result, SEs pivot their structural from to fit funding requirements and funders sticking to funding approaches for traditional enterprises. Further, as social enterprises attain self-sustainability, scale is restrained by an unwillingness to accommodate traditional funding sources such as equity and debt. **Conclusion:** The results highlight the unintended funding consequence of the absence of clarity for social enterprises.

Key Words

Funding, Social enterprise, Social impact, Social value

INTRODUCTION

Social enterprises (SE) have attracted development enthusiasts and practitioners around the world (Bull, 2008; Lepoutre, Justo, Terjesen & Bosma, 2013; Doherty, Haugh & Lyon, 2014; GEM, 2015). This has resulted in increased interest in the study of social entrepreneurship (Kaumenova, 2014) and the social entrepreneur as an individual and as a change agent, innovator, and/or leader (Urban & Teise, 2015).

In addition, social enterprises are characterised by axioms not usually found in commercial enterprises and embedded in the definition. These axioms include the dual mission of achieving financial sustainability and social purpose (Lehner, 2013; Hangl, 2014; Bedi, 2014; Martin, 2015; Hanley, Wachner & Weiss, 2015; Littlewood & Holt, 2015; Farber, Caballero, Priale & Fuchs, 2015, Gupta & Beninnger, 2015).

This distinct 'dual mission' characteristic of social enterprises begs the question of whether the funding idiosyncrasies exhibit similarities or differences to that of any other enterprise. Literature published to date focuses on the financing mechanisms employed to support social enterprises (Bugg-Levine, Kogut, & Kulatilaka, 2012; Karanda & Toledano, 2012), but what is less clear, and is the purpose of this paper, is if this is unique to social enterprises or whether the nature of social enterprises present unique challenges with regard to funding mobilisation.

The paper draws on academic literature to understand funding of social enterprises as a construct paying attention to the definitional ambiguities and models as well as the extent to which they affect understanding and in turn posturing for funding. It also looks at how social enterprises are funded and what main funding issues are while contextualising this within commercial enterprise funding.

Qualitative methods through the conduct of semi structured interviews are used to elicit detailed perceptions on funding challenges and constraints by triangulating data from funders and social enterprises. The intent is to explore funding nuances for social enterprises and also how the structure of the social enterprise influences the funding it is offered or received and if it is any different from any other commercial enterprise. The semi-structured interviews are analysed through an open coding process, where key themes are developed and analysed. The analysis covers the spectrum of social enterprises from non-profits to profits with a mission as well as hybrid social enterprises that combine social and commercial objectives.

First, the paper shows that in South Africa, the concept of social enterprises is still at an embryonic stage resulting in definitional ambiguities. Second, funders are typically indifferent as to the structure and legal form of the social enterprise, with their focus on whether the enterprise delivers on the funders' mandate. Third, while legislation on broad based black economic empowerment (BBBEE) in South Africa has resulted in potentially unique funding sources for social enterprises, the grant nature of these funds is unsustainable but serves as a crucial supplement to own capital at the early stages, and that the funding structure is not unique to social enterprises. Fourth, as social enterprises attain sustainability, scale is constrained by unwillingness on the part of the social entrepreneur to accommodate traditional sources of funding such as equity and debt. Fifth, the absence of a clear focus on measuring performance in terms of social impact in the sector is a paradox because the intended outcomes and measurement of the same is a key differentiator between a social enterprise and a traditional business.

In the conclusion I return to the more general literature to argue that where concepts and definitions are contested there is considerable need for clarity and how this in turn affects the funding landscape. I then set out more specific implications for social enterprise researchers and practitioners.

LITERATURE REVIEW

Defining Social Enterprises

There is no unanimity in literature with regard to defining social enterprises, with often broad definitions factoring in non-profits and/or full for profit enterprises (Austin, Stevenson, & Wei-Skillern, 2006; Defourny & Nyssens 2009; Lehner 2011; Zahra et al. 2009). Indeed, Bacq and Janssen (2011) noted eighteen (18) different definitions of "social enterprise". This absence of a clear unambiguous definition is consistent with embryonic fields that are still to achieve paradigmatic status (Nicholls 2010). The definitional narrative for South Africa is embedded in non-profit organisations and their ability to sustain themselves through internally generated revenues, thus relying less on grants and donations (Centre for Development Support, 2013) or around small community enterprises and co-operatives (Littlewood & Holt, 2015)

What is implicit in the definitional discussions though, is the duality of purpose, which includes the depth and breadth of social impact to be realized, that is, social value creation (Dees, 1998), and the economic value to be created. This also puts into context another dimension, that of a business for good and the entire concept around shared value adoption which essentially pivots any other business to become socially oriented. Thus prioritisation of social value creation or blended value (Bugg-Levine, Kogut & Kulatilaka, 2012; Lehner, 2013; Hanley et al, 2015) over economic value creation (Martin, 2015) in a sustainable way (Bedi, 2014) becomes a useful differentiator. In a sense this prioritisation potentially becomes a determinant of funding sources that social enterprises can attract or search for.

While some authors have assigned innovation as well as market- orientation and outward- looking approaches to strategy and operations (Hangl, 2014) it is not immediately apparent if this makes social enterprises unique. The intermediation aspect places social enterprises at the juncture between receiving financial resources from social investors and seeking innovative ways to utilise the said funding to solve societal problems in a market-oriented or entrepreneurial way which is financially sustainable (Martin, 2015; Hanley, Wachner & Weiss, 2015; Littlewood & Holt, 2015; Farber, Caballero).

Consequently, social enterprises cannot be reduced to a singular construct and that the best way to analyse them and employ them as a strategy for achieving socially desirable goals is to recognize their diversity and complexity, and to build research around that understanding (Young & Lecy, 2014). SEs are progressively being viewed as a "hybrid" organizational form, entailing structures and practices that allow for co-occurrence of aspects from two or more categories (Gupta et al, 2015). Interestingly, Stevens, Moray and Bruneel (2015) in a critique of existing literature on social enterprises, notes that a consistent theme within the definitions in literature of social enterprises is the conceptual posture towards advancing social and communal welfare ("the public or common good") based on a core set of ideals. Steven et al (2015) further argue that literature seldom highlights economic value creation in social enterprises as this is not a public good, even though it is critical for sustainability going forward.

On the other hand, Defourny & Nyssens (2010) presented two schools of thoughts which set the grounds for classification of social enterprise. These are the 1) earned income school and 2) social innovation school. The earned income school classifies social enterprises mainly by earned-income strategies, that is, referring to the use of commercial activities by non-profit organizations in support of their mission and in bid to diversify the funding base.

Defourny & Nyssens (2010) postulated that the social innovation school is related to social enterprise classification based on social impact and outcome as opposed to income. In contrast, Martin (2015) classified social enterprises into two categories namely those that provide public goods and those that provide private goods, with public good social enterprises primarily mission focused and not for profit entities that create social and economic benefits not readily monetised in standard markets for goods and services. These tend to be heavily dependent on grant funding.

Private goods social enterprises also share the same mission focus, but can either be for or non-profit entities. In addition, the business models used to create the social and economic benefits are usually financially sustainable or even profitable. They typically start with grant funding but this evolves to other funding types once critical mass is attained.

The aforementioned discussion alludes to the elements that typify a social enterprise as the combination of a social objective and economic value creation, with prioritisation a key differentiator. This implies that social enterprises are increasingly transforming into hybrid structures to be able to capture value (social and economic) as well as possibly to position themselves for traditional sources of funding. The next section explores literature on how this duality of character, structure and form plays itself out in terms of access to funding.

Financing of Social Enterprises

Access to funding, like in any other commercial enterprise, is a critical component for enabling social enterprises to deliver on their mission, and can often be to the determinant of the ability to scale and achieve greater impact (Sunley & Pitch, 2012). Sources of funding can be internally or externally generated. During the early stage, social enterprises can utilise internal sources stemming from charging a fee for the services rendered to the target clients (Martin, 2011), however, they have tended to traditionally look to charity or '*free cash*' for much of their funding (Bugg-Levine et al, 2012), typically through grants and donations from the public sector and/or philanthropists. Free cash is used to refer to grants, donations and prize money, which are all non-repayable types of funding (Hanley et al, 2015).

This differs from the funding sources available to early stage commercial enterprises, which rely on family, fools and friends, and fools, that is, the three 'F's, for most of their funding. The notable exception is the very small percentage of start-ups that receive formal venture capital (Austin et al, 2006). The differentiating factor for social enterprises at this stage relates to the absence of cash flows (Austin et el, 2006) which results in social enterprises struggling to attract traditional sources of capital (Lumpkin, 2013) available to a commercial enterprise which can demonstrate cash flows (Lam, 2010).

While donor and grant funding is essential to keep the social enterprise going, it can be a double edged sword, giving rise to sustainability constraints if the social enterprise gets over reliant on this form of funding (Karanda & Toledano, 2012) or mission drift as the social enterprise focuses most of its time on fundraising rather than on the development of the enterprise (Lyons & Kickul, 2013; Hartigan, 2015; Martin, 2015). Further, grant funding, irrespective of the source, government or private, is often tied to specific projects and limited in amount, which dissuades investments in overheads or product and service development (Glanzel & Scheuerle, 2015).

This has an adverse effect on the ability of social enterprises to scale them to a level where impact investment funds may be attracted (Smith & Darko, 2014) as grant funding seldom comes with post investment support, as with common equity funding. If such post grant support is available, efficacy tends to be in conflict with the social purpose potentially leading to mission drift (Battilana, Lee, Walker, & Dorsey, 2012; Fritsch, Rossi, & Hebb, 2013).

In South Africa, legislation such as the Broad Based Black Economic Empowerment (BBBEE) provides a different nuance to funding of emerging enterprises, which may include social enterprises by seeking to increase the number of black people that manage, own and control the country's economy, and diminishing income inequalities. Through this legislation, corporates are incentivised to do business with emerging enterprises or to facilitate enterprise development.

In instances where the social enterprise achieves initial success, grants tend to become insufficient in providing the capital required for the enterprise to scale (Martin, 2014). However, if the social enterprise can demonstrate cash-flows it may be able to attract additional funding from commercial investments and the private sector through risk capital, primarily debt and equity, just like any other commercial enterprise. Prioritisation of mission over wealth creation results in misalignment between return expectations and the income-generation ability of the social enterprise, with social enterprises at this stage preferring concessional loans while investors are likely only to consider funding already profitable enterprises (Smith & Darko, 2014). This gives rise to a financial-social return gap (Bugg-Levine et al, 2012; Lyon & Kuckil, 2013), that is, not being able to access traditional financial markets, as the cost of private funding outweighs financial returns.

Swanson and Di Zhang (2010) noted three funding categories for social enterprises, that is, not-for-profit grant funded, not-for-profit partially self-funding, and social enterprise fully self-funded. This focuses attention on the sustainability of social enterprises. On the other hand, Martin (2015) alludes to the evolving funding nature of social enterprises with funding unfolding over time, initially being grant funding and then progressing to equity and debt funding as the enterprise achieves critical mass (Martin, 2015). However, a 'valley of death' (Schoonmaker & Rau, 2014; Love & Roper, 2015) exists between securing grant funding and investment capital which can be bridged by novel capital structures (*hybrids*) that blend both "patient capital" with debt and equity." The valley of death reflects the perceived imbalance of risk and reward for an investment as well as the resulting difficulty for a social enterprise in raising funds during this time.

In more developed economies, the funding landscape for social enterprises is similar to that of commercial enterprises with investors who provide capital and intermediaries who mediate between investors and investees, such as social or ethical banks, social stock exchanges and crowd funding platforms (Bertelsmann Stiftung, 2016). In terms of financial products, with the exception of social impact bonds, the rest of the products are not too similar from traditional products such as equity, mezzanine and debt though these are tailored to meet the financing needs of the social enterprises.

Irrespective of the stage of growth of the social enterprise, inefficiencies in raising capital arise due to information asymmetry (Smith & Darko, 2014) and a lack of well-defined metrics measuring the capital and social return on investment (Lyons and Kickul, 2013). The two are interrelated as this information asymmetry suggests weaknesses in the intermediary function that brings prospective financiers and investments together. Performance metrics are key to address not only the financial credibility gap that social enterprises sometimes face, but also enables internal validation of the social enterprises own impact on society and the environment. This however, can be complicated by the multitude of stakeholders interacting with the social enterprises that tend to have differing aims, some driven by the social undertaking, others by financial imperatives. In addition, measuring the social impact becomes a key differentiator relative to commercial enterprises which place reliance on financial performance measures, market growth and so forth. This lends social enterprises to a myriad of funding sources, all of which have different motivations and expectations unlike a commercial enterprise with a singular purpose to create wealth by building a profitable company and realising an attractive return.

In summary, funding sources for social enterprises differ with the stage of growth as well as the structure and form of the enterprise. Available funding include grants, debt, equity, and more recently the sector has started attracting funding through impact investors and crowd funders which can be more directly related to their social objectives. At early stage, due to absence of cash flows, sources of funding available differ from other commercial enterprises, while as they reach growth and maturity, social enterprises become increasingly attractive to traditional funding sources as they begin to mirror traditional enterprises in terms of cash flows. However, the lead times for reaching the growth and maturity stage, wherein they attain scale and sustainability tends to be longer relative to commercial enterprises, which does not lend itself very well to equity funding.

RESEARCH QUESTIONS

The review of the literature explored how social enterprises are defined and structured drawing comparisons with traditional commercial enterprises including the funding sources as well as the funding innovations within social enterprises and how this compares with commercial enterprises. Based on this, the paper derives four research questions for social enterprises which are discussed and explored in the context of South Africa:

- How are social enterprises defined in South Africa?
- Are there different funding sources for social enterprises in South Africa and how do these compare with funding for traditional commercial enterprises?
- Do social measurement metrics serve as a differentiator for social enterprises in South Africa with regard to access to funding?

METHODOLOGY

In an attempt to understand the funding challenges and constraints for social enterprises in South Africa, the authors use a qualitative approach based on in-depth interviews with twelve (12) actors in the social enterprise sector. A qualitative research approach was chosen in order to provide a comprehensive in-depth understanding (Boyce & Neale, 2006) of the key funding issues from the perspectives of both funders and SEs with triangulation to arrive at convergence and identify divergences (Golafshan, 2003). Additional triangulation was also provided through making use of supporting data, where available, such as interview notes, and supporting documents provided by the respondents. The interview notes captured the researcher's reflective commentary (Shenton, 2004; Morse, Barrett, Mayan, Olson, & Spiers, 2002) as the project unfolded.

The sample includes a broad selection of the entities that make up the social enterprise landscape in South Africa, from non-profits to social for-profits, as well as funders from foundations to dedicated social enterprise funds. Furthermore, from each sub-group of social enterprise players, the authors selected representatives that would reflect the possible variability between members within the group.

The social enterprises were identified due to their varying missions and organisational structure and also to ensure representation beyond just one geographic region (such as Johannesburg, KwaZulu Natal and Western Cape). This was motivated by the understanding that this type of study had not been done before and thus required an in-depth understanding of the difference nuances of the social enterprise. The research design thus entailed involvement of a plethora of SEs at different stages, rather than focusing on familiar successful social enterprises and the attendant bias associated with that with regard to access to funding.

Interviews were conducted on a semi-structured basis, around a prepared questionnaire consisting of several general guiding questions, but leaving room for the interviewer and interviewee to pursue and elaborate on whichever subjects arose during conversation. The interviews were audio recorded and transcribed with supporting field notes also used to capture the discussions, as well as respondents' emotional state and body language. This is consistent with Tessier (2012) who argue for combining field notes and transcripts to provide a stronger analysis. The interviews were conducted with the founder of the enterprise and were supplemented with interviews with funders.

Analysis followed Hsieh and Shannon (2003) for quantitative content analysis and entailed encoding the data by grouping various passages exhibiting the same phenomena and sorting and organizing the data set in an effort to discover meaningful patterns. The codes were grouped into categories enabled sorting the various pieces of information according to relevant attributes and clearly defined themes for analysis, with the categories themselves emerging from the interpretation of the data from the interviews. This led to the construction of conceptual themes on funding social enterprises in South Africa, as well as to conclusions regarding the research questions.

MAIN FINDINGS

This section presents the findings under four funding themes: identity, options and awareness, stage of growth and measurement. Each theme is deliberated on with reference to existing literature. Illustrative quotes from the transcripts are built-in where suitable for explanatory reasons.

Identity crisis

In South Africa, there is no clear impression of what constitutes a social enterprise as no single legal edifice or business format captures the term. Most of the social enterprises interviewed identified themselves within the confines of for-profit, sociality, impact and scalability and seeking to make an impact in sectors considered social or environmental, such as education, health, early childhood and recycling. In essence, it is an acknowledgement of the novelty of the concept in South Africa as well as the prioritization of addressing social inequities rather than a business form.

".. It's a business with a very clear social personal intent. It could even be for profit non-profit or some hybrid that trades some sort of product of service in the markets that's has some sort commercial sustainability but scale is very clear and measurable social. So it's a combination of social intent, social impact and commercially scalable model..."

The social impact itself does not always manifest itself in the output of the social enterprise (that is the product or service offered by the social enterprise) but by the way that the organization's processes are designed, for instance what one would consider as a commercial enterprise, such as a coffee shop, but whose business model is premised on recruiting disabled persons only. It relates to an increasing level of social awareness about the rationale for business and the realization that it is not enough to just make a profit but that this has to be done in a manner that it's socially, environmentally and economically impactful.

However, the absence of a clear definition and clarity on the form and structure of a social enterprise creates confusion, and in an environment of narrow confines, it becomes difficult to create specific funding interventions for social enterprises. This has partially resulted in the pivot from traditional societal interventions through NGOs/Charities to private companies seeking to make a social impact and motivated to access funding in order to scale and grow. In contrast, however, despite the pivot by social enterprises to better position themselves for funding, funders, especially the later stage funders, tend to be indifferent to the classification.

"It's mythology so, so actually which is why I say we don't specifically look for something called a social enterprise, we look for companies that are working in the fields in the areas where, that are important to us and we see if there is a way we can engage with them."

The funders are not particular about the definition at all but rather whether the for-profit entity is mission aligned with the specific funders' mandate, which will enable the funder to achieve impact in the areas they are focused on. It was also opined that there is no distinction between a small & medium enterprise (SME) and a social enterprise. This raises two fundamental issues; that social enterprises are contextualised at SME level and that there is an awareness of a social enterprise but that its form and characteristic is still subject to debate. This is important in the sense that it becomes challenging for a funder to develop a specific funding product for a construct that is existentially abstract and by default lends itself to social enterprises being extended finance facilities tailored for SMEs.

Thus, from the data, neither for-profit nor non-profit status, or legal structure (NGO or private company for instance) is a clear distinguishing feature for a social enterprise, with such enterprises combining non-profit and private-sector approaches to achieve social impact and financial sustainability. Such hybridisation seeks to fuse for-profit and non-profit edifices that permit the best of both models to materialise. The focus, in terms of funding, should thus be less about how the business is legally structured, and more how it goes about meeting its social impact objective.

A corollary to this is an observation by one of the funders in this study that social enterprises "tend to be schizophrenic as they cannot decide whether they are for profit or not for profit in many instances, resulting in a number of them setting up as for profit but probably with the view that they will never ever make profit".

The unwillingness to make profit does not make sense from a funder perspective as it is akin to funding "a black hole".

Notwithstanding the posturing, irrespective of the social enterprise dichotomy, for funding purposes, the principles are the same as with any other SME, in that social enterprises have to learn how to pitch their businesses properly, outline their value proposition, and determine what makes their enterprise different to any other traditional commercial enterprise.

Funding Options

The funding available for social enterprises is contingent on their level of growth. Indeed, there are very limited funding opportunities for SEs from idea conceptualisation to start up, including proof of concept. As a result, social enterprises have to put in own capital or generate funding internally, like any other SME (Baporikor, Nambira & Gomxos, 2016) to prove the concept while operating a very lean model to keep costs low, which in effect constitutes financial bootstrapping. Such internally generated funds do not, however, meet the volume to expand reach and scale the programmes to drive sustainability. The internal revenue generating is driven less by business growth intentions and more to maintain a certain level of sustainability.

Early stage funding is also available through winning competitions. However interviewees highlighted inconsistencies with regard to competitions as there are very few programs that run every year.

Grants, mostly unencumbered, either from government, corporate or foundations provide another funding option for social enterprises, and represent a departure from the typical SME funding of debt and equity. In addition, it points to nuances of South African legislation on Broad Based Black Economic Empowerment (BBBEE) influencing the funding landscape of social enterprises. In terms of the empowerment codes, by providing funding to emerging enterprises (which may include social enterprises if they meet the BBBE criteria) corporates are able to also accrue tax and empowerment benefits, which serve as an incentive. Funding could be though grant funding for enterprise development or supplier development. Enterprise development tends to be more generic business support to SMEs or aspiring enterprises while supplier development looks at ensuring that emerging enterprises within the specific corporate's value chain are given support to be able to supply goods and services the corporate may desire. More recently, some innovative corporates are utilising the same budgets to set up 'empowered' venture funds which in turn do not have restrictions in terms of who they can support because the structure of the fund itself has attained empowerment status. There is a return expectation on this funding depending on whether it was allocated for capacity/business support or as an equity stake.

"Our business model is, we primarily get funding from corporates, so in terms of their socio-economic development spend, their 1% of net profit after tax, their enterprise development which is 1% net profit after tax and supplier development which is 2% of net profit after tax…"

Corporates funding social enterprises using enterprise development budgets were criticised for trying to change the social enterprise model before they had committed funds and lacking an understanding of the entrepreneurial journey. For instance, one of the social enterprises was prompted by a potential corporate funder to continuously adjust its price point upwards to meet the funder's investment comfort levels, which detracted from the social enterprise's intended mission of providing an affordable service.

Consistent with the observation of funders on definition and structure, notwithstanding the social impact, a number of the enterprise development programmes do not consider the social enterprise for funding if the social enterprise is not 51% black owned, even if the service or product that it provides create impact in terms of what could be considered a broader, black economy or target market.

Development Financial Institutions (DFIs,) such as the industrial Development Corporation (IDC), Small Enterprise Funding Agency (SEFA) and Jobs Fund provide funding for social enterprises, but there is limited awareness of these. For instance, while the IDC has its own dedicated social enterprise fund (funded in part from the IDC's budget as well as the Flanders government and does purely grant funding); there was a general apathy and/or lack of awareness of this Fund by the social enterprises interviewed. Where social enterprises had approached the DFIs, the feedback (in terms of response time) and processes (documentation required) were considered inimical.

Incidentally, there is limited appetite for debt and in some cases equity funding as well among the social enterprises. This apathy towards debt and equity within the social enterprises sector contrasts with a number of the funders interviewed, whose core product offering is actually debt and equity. Part of the reluctance for this form of funding was fear of undue influence in the operations of the social enterprise which may lead to mission drift as well as the need to ensure that any equity partners would have the same social interests.

"I would not be interested in partnering with anybody who wanted equity but I would be interested in somebody who wanted to give us a grant'…. they have to share common value."

Almost all the interviewed SEs identified themselves as start-ups or in the early stage of development, irrespective of the number of years they have been in operation. This is largely attributable to the perceived inability to have scaled and attained sustainability. At the same time, funders interviewed considered social enterprises more broadly as really marginal and therefore making investment very difficult. Funders acknowledged that the early stage scale-up enterprise was un-bankable and afforded a lower risk adjusted return which was compounded by a high loss rate. This necessitates the highest return to compensate for the risks that are higher than those in other stages (Wonglimpiyarat, 2015). This in turn, thus lends this stage of growth to self-funding or grants cover costs as shown in Table 2 below:

Table 1: Stage of Growth and Funding Received

SE	**Legal Structure**	**Years in operation**	**Self-defined stage of growth**	**Funding type received**
SE 1	Pvt Company –for profit	3,5 years	Start-up	Corporate CSI/ED budgets
SE 2	NGO	1 year	Start-up	Donations
SE 3	Hybrid (NPO+pvt company)	25 years	Growth	Grants
SE 4	Pvt company NPO	6 years	Growth	Competitions CSI grant Internally generated
SE 5	Pvt company (for profit)	1 year	Start-up	Angel investor
SE 6	Pvt company (for profit)	15 years	Gone past start-up but	Internally generated

			slow growth	
SE 7	Pvt company (for profit)	4 years	Start-up	Internally generated

The SEs that have both NPO and private company structures attributed the duality to the fact that it is much easier to raise grant funding through a NPO because of the tax rebate that corporates who provide the funding would get.

Part of the stage of growth narrative is the constant pivoting of the SE's models, either in response to the social issue being addressed, funding requirements or positioning for additional or different sources of funding or purely strategic as the SEs embed new learning along the way.

One of the observed contradictions during the interviews was the implicit conflict between scale and sustainability in the 'older' social enterprises and their approach to funding. For instance, three of the respondents, having been in operation for at least six years, have built a self-sustaining model through grants and internal revenues. From the discussions, it was apparent that possible greater impact would be achievable through scaling the model, either by expanding into other provinces, countries, or opening new factories. The respondents all indicated reluctance for equity funding due to the perceived interference in their operations.

Measuring Social Performance

Given the social mission of social enterprises, the measurement of their social performance is essential in not only understanding their impact but also in providing potential leverage when searching for or attracting funding as a key differentiator when compared to commercial enterprises. Social measurements not only reinforce the essential social dimensions, but also hold social enterprises accountable for their social performance. Incidentally, most of the interviewed SEs did not see reporting on social impact as a significant value proposition in terms of attracting for and searching for funding, with a preference for accounting and revenue/market share metrics.

"for us it all stems down to your profitability, and that's why I said earlier where business faces social enterprising, if you profitable, you know you are making an impact, specifically in business, you getting patient numbers through the door which means that we are providing a great service and needed service and that your patient numbers are increasing. We haven't looked extensively at the social impact indicators as much as they do in the US."

This was also consistent with the view from the sources of capital, who considered social metrics as secondary to commercial reporting measuring performance on commercial terms, using normal private sector business case metrics like revenue, earnings before interest and tax and operating cash flow.

By definition, the primary outcomes emanating from social enterprises are social impact and social change which ultimately leads to accrual of social benefit. The absence of a clear focus on measuring performance in terms of social impact is a paradox because the intended outcomes and measurement are key differentiators between social enterprises and traditional businesses. Indeed social enterprises address market weaknesses that not only due to price imbalances or the failure of some people to access products and services but also market weaknesses arising from externalities and disparities. Part of the dilemma with social measurements could be the absence of a standardised reporting framework for social indicators in the country, as well as the additional cost of funding such assessments.

DISCUSSION AND CONCLUSIONS

Defining Social Enterprises

In general, there is no clear formal definition of a social enterprise in South Africa. Interviewers identified social mission as a key aspect of the enterprise which is consistent with the literature. Compounding this is the lack of a specific legal structure for social enterprise. The unintended consequence of this is that social enterprises register under different business forms and use whichever legal form to pursue a given agenda. For instance if grant funding is only available to a non-profit, then the social enterprise will have a non-profit registered to be able to access that grant, similarly with enterprise development funding.

In addition, the lack of a defined legal framework for social enterprises means there are potentially some enterprises whose business model is socially driven but are not fully aware of the potential social impact of their businesses and how this could be aligned with a commercial lens to enhance the impact and scale.

Preliminary discussions towards developing a community of practise for social enterprises will go a long way to bring clarity to the definitional issues. A community of practise is a group of people who share a concern or passion for something they do and learn how to do it better through regular interactions. What is critical in such endeavours is that they have to be holistic with the social enterprises running the agenda. It is even more relevant within the confines of designing funding products tailor-made for the intricacies of social enterprises. The inner workings of such a community of practise would decrease uncertainties and provide a structure for commonality of purpose.

Funding Sources

There are limited funding opportunities for social enterprises from idea conceptualisation to start up, including proof of concept. However, this is not unique to social enterprises. Funding sources, which include grants, donations, and internally generated revenues, are consistent with the literature.

Specific to the South African social enterprises is the potential to leverage off enterprise development funding enabled through the Broad Based Black Economic Empowerment legislation. While the legislation is not directly targeted at benefitting social enterprises, social enterprises whose social objectives are aligned with the intent of the empowerment codes can potentially access the funding.

To enhance the impact of enterprise development funding, there is need for enterprise development money to consider a new hypothesis for black economic empowerment. This would look at economic enhancement over the long term, beyond ownership that is, rather than the current blunt tool in the enterprise development that if you are not black owned by a certain percentage you are out. This is even more critical if the solution is hugely valuable to society and it is hugely disruptive.

Social measurement metrics

In the literature, social mission, and the prioritisation of the same over economic value creation has been lauded as a key differentiator between social enterprises and traditional commercial enterprises. There are, however, clear frameworks to measure the ability of social enterprises to deliver on their social mission in as much as traditional commercial enterprises would measure their performance through earnings, growth in revenue and so forth. The potential value-add of these social measurement frameworks within South Africa is not well understood or appreciated.

Limitations and Future Research

Two main limitations prevented the creation of a complete sample of social enterprises in South Africa. First, there is an absence of an official database of social enterprises in South Africa. Second, some entrepreneurs are not keen to refer to their entities as 'social enterprises' despite having features synonymous with social enterprises as referred to in the literature. This is attributable to an informational deficiency around the notion or rejection of the concept of an enterprise that is traditionally associated with profits at all costs.

As a sector in its early stages there are significant areas for future research, notably the efficacy of current financing models for social enterprises, including enterprise development funds and how they can enhance social enterprises or the potential effects (positive or negative) of such funds on the social objective of the enterprise. Other areas of potential future study include

- The role of government institutions in the creation of favourable environment for social enterprises;
- The evaluation of social and environmental impact with regard to value creation and its influence on policy discussions.
- The key enablers for an efficacious social enterprise financing ecosystem (i.e. abundance of funding alternatives, including philanthropic and commercial investors, networks, stakeholders);
- The internal workings of the various model iterations would be a way of ascertaining each model's core competencies which can be instructive in terms of generating codes of good practices for social enterprises.

Conclusion

Social enterprises adopt a mission to create and sustain social value, drawing on relevant practises in both non-profit and for-profit businesses. They operate in a myriad of sectors, at different stages of growth, with varying legal form. South Africa, however, lacks a clear framework for social enterprises with the unintended consequence being that when it comes to funding, it is subject to constraints synonymous with any other business form, depending on the nature of funding it seeks. This has resulted in social enterprise business and legal forms metamorphosing in response to funding requirements. The ability to develop a clear methodology to evaluate social impact can potentially be a differentiator for social enterprises in South Africa with regard to funding enabling more directed and relevant funds to flow to the sector.

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