Social Enterprises in South Africa
Discovering a vibrant sector
May 2018
ACKNOWLEDGEMENTS

Over the past two years, we conducted the first national survey of social enterprises in South Africa. For those who are new to the idea, social enterprises are set up to address social or environmental challenges by using business methods to achieve and maintain financial sustainability. They exist in communities all over the world and are widely studied because of the positive impact they have, as well the innovation and experimentation that takes place to demonstrate new ways of doing business or advancing social change. The aim of this, the first and largest study of its kind, was to understand social enterprises in South Africa – WHO they are, WHERE they are, WHAT they do and HOW they operate.

The results were often surprising, but always interesting and valuable. What they showed was that social enterprises form another distinct sector of South Africa’s economy, alongside mainstream business, with an important role because of WHAT they do.

The survey was led by the GIBS Entrepreneurship Development Academy at the University of Pretoria, in academic partnership with the Bertha Centre for Social Innovation and Entrepreneurship at the University of Cape Town Graduate School of Business, with funding from the Government of Flanders and the SAB Foundation.

The GIBS research team, led by Dr Kerrin Myres, included Dr Anastasia Mamabolo, Nyasha Mugudza and Lauren Jankelowitz. Plus 94 conducted the fieldwork and prepared the data. Dr Francois Bonnici, Dr Eliada Nwosu and Marcus Coetzee from the Bertha Centre contributed to the pilot stage of the research, helped to develop the research questionnaire and contributed to this final report.

Apart from academic papers that are being prepared, we believe the results are interesting enough to share more broadly in South Africa. Which is why you’re reading this report. We’ve included all the technical aspects (methodology, references) in the appendix for those who need that level of detail.

We thank all the South African social entrepreneurs who spent time sharing their information and experiences with us and acknowledge their important role in creating a healthy and prosperous society. We hope this report will go some way to advancing the understanding and legitimacy of the sector, and how to support it. Long may they thrive!
South Africa is classified as a developing market (also an emerging market), implying that work is needed to reach the standards of more mature economies such as the United States, Europe and Britain. These standards range from how people live and how they are educated to how companies are run and the technology they use.

Social entrepreneurs are not content just to give a fish or teach how to fish. They will not rest until they have revolutionized the fishing industry.

BILL DRAYTON LEADING SOCIAL ENTREPRENEURS CHANGING THE WORLD
Across the country, tens of thousands of entities – from a single person to national organisations employing hundreds of people – are working to improve literacy, numeracy, skills, health and living conditions. Most operate with very little funding, instead buying and selling goods and services to generate income that is used for the greater good. Others receive corporate social investment (CSI) funding from corporates, some from government agencies, and still others have attracted funds from international donors. Large or small, their focus is the same: improving the quality of life for marginalised South Africans.

Clearly this sector is important to our future development but, as our analysis of past research shows, little is currently known about social enterprise in South Africa. Any effort to strengthen support for social enterprises to ensure that they flourish needs more detailed information about social enterprises currently operating across the country. Understanding the current situation is the foundation for any strategy and future policy initiatives, as well as the basis for further research into the phenomenon of social entrepreneurship in South Africa.

The survey was conducted over 2016 and 2017 to gather and then analyse information on social enterprises operating across South Africa. We screened over 33,780 organisations to end with 4,553 respondents. Based on existing local and international literature on the subject, we developed a survey questionnaire with 36 closed-ended questions (a single answer) and one open-ended question (free to answer). Each respondent was interviewed (by preference – telephonically, face-to-face, or online). All interviews were conducted with the founder or person managing the enterprise.

It is important to note that although this survey is a substantial sample by any standards, and the data was collected and analysed carefully and thoroughly, at this stage we have no way of knowing how representative the results are of the whole population of social enterprises in South Africa – quite simply because we have no comprehensive database of this kind of organisation. Therefore, we should be careful about how we interpret the information in this report.

But it’s a start! And we believe this study shows that social enterprises are a vibrant and growing part of our economy. That means we should all be paying attention to them.

**Headline indicators**

The results were often surprising, but always interesting. Key findings include:

**WHO ARE THEY?**

- South African social enterprises either prioritise their social and environmental mission or strike a balance between their purpose and profits.
- The majority do not depend on grants and donations. But they consider themselves non-profit companies or social enterprises, rather than businesses, religious or community organisations.
- Most of the social enterprises in this study are based in Gauteng or the Western Cape, although they are present in all provinces.
- Most have been operating for more than three years.
- Most often, they have assumed the legal form of a non-profit organisation. However, one-quarter have adopted one of the for-profit legal forms and some use a combination of non-profit and for-profit structures.

**WHAT DO THEY DO?**

- They tend to focus on meeting basic needs in the education, health and housing sectors and are local, community-based entities.
- The majority are involved in developing skills or promoting education and literacy. The focus is often on particular disadvantaged groups such as children and the youth, or supporting women, or improving a particular community.
- Over the past 12 months, many had improved the quality of their goods/services and prepared a business plan. Around half had expanded the number of beneficiaries they served, entered a new and important partnership with another organisation or launched new goods and services.

**HOW ARE THEY FUNDED?**

- They are generally small, with only 12% generating an income of over R1 million. But they are growing, with over 65% reporting growth above inflation.
- Most do not make a profit or surplus, although around one-fifth do. Those that do make profits tend to reinvest these in developing their enterprises.
- The vast majority employ between 1 and 50 people, and serve fewer than 100 beneficiaries a month.

**HOW BIG ARE THEY?**

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**WHAT DOES THE FUTURE HOLD?**

- They were most likely to have applied for funding from government entities, charitable foundations and corporate social investment funds, but succeeded mostly in attracting funds from the public.
- They were least likely to have applied for funding from commercial banks or equity partners, but were as likely to succeed in attracting these funds as they were at applying for other sources.
- In general, funds were used to cover operating costs or increase support for existing beneficiaries.

- Half routinely involve stakeholders (employees, suppliers, subcontractors, community members) in decision-making, often through advisory boards, the board of directors, or a community trust.
- Many have established internal monitoring and learning systems, with some producing integrated reports on their social and environmental impact.
- Monitoring progress and achievements happens weekly or monthly in most organisations and they evaluate their impact on beneficiaries frequently.

Read on for more fascinating details from the 2018 survey of social enterprises in South Africa (SSESA).
Formally titled the Survey of Social Enterprises of South Africa, this research is the **largest and most comprehensive study** of social enterprises in the country to date. The result is a rich set of data that will be interesting and useful to many stakeholders, locally and globally.

A note to readers: This report is for stakeholders. Some of you will be interested purely in the results. Some may be interested in the academic research or literature behind the study. We've left these references in for your convenience.
Why this study? Why now?

Since South Africa became a democracy in 1994, poverty levels have reduced only moderately, while there has been a sharp rise in income inequality (Bhorat, 2015). This inequality is also referred to as the gap between rich and poor.

In 2016, GDP growth (gross domestic product, the primary way of measuring whether a country’s economy is growing) dropped to 0.4% from 1.3% the year before. This was “the third consecutive year of negative per-capita growth and stagnating poverty” (World Bank, 2017, p1). In the first quarter of 2017, unemployment rose to a record 27.7% (Statistics South Africa, 2017). That’s more than four times the global average for similar countries (6.2%). Turning a bland percentage into human lives, over 6 million South Africans of working age are jobless.

The World Bank (2017, p1) believes unemployment is the biggest hurdle for the country to overcome in meeting its national development goals of eliminating poverty and reducing inequality. In September 2017, the World Bank downgraded South Africa’s 2017 growth forecast to 0.6%, stating that the country’s recovery from a recession in the second quarter would not be enough to get back to actual GDP growth in 2017. GDP is expected to grow to only 1.1% in 2018 and 1.7% in 2019. Compare these figures to China, where GDP is off its highs of over 12% in 2010, but still hovering around 7% (www.tradingeconomics.com).

Simply, for a country that depends on labour, like South Africa, higher GDP translates into more jobs and that means a wealthier and healthier society. Right now, though, our population suffers from a variety of challenges stemming from poverty and inequality.

This is where social enterprise comes in. By its nature, social enterprise focuses on solving social problems while generating revenue to ensure future sustainability. This makes it a model that can strengthen both the economic and social pillars of a country (Urban, 2008; Steinman, 2010; Visser, 2011; Littlewood & Holt, 2015).

Globally, social entrepreneurship is relatively rare, on average involving under 4% of the working population. Although South Africa is structurally similar to other countries in which social entrepreneurship flourishes in the sense that it is a middle-income country, highly industrialised, with high inequality and youth unemployment, its percentage of social entrepreneurs is well below international averages (Bosma, Schott, Terjesen, & Kew, 2015).

The Global Entrepreneurship Monitor finds that less than 2% of adults are involved in social entrepreneurship activity in South Africa (Bosma et al, 2015). This suggests significant potential to encourage social entrepreneurs by strengthening the support systems they need to start and run these important organisations. The first step is to improve our understanding of social enterprises currently operating across the country so that we can build strategies and policies to help them grow and flourish.

Hence this study.

What were our aims for the study?

There has not been much research into social enterprises in South Africa, so the nature and impacts of these organisations are not well understood, either by academics or policy-makers (Littlewood & Holt, 2015). As a result, policy development has been stunted and legislative barriers and red-tape remain (Littlewood & Holt, 2015; Steinman & van Rooij, 2012; Urban, 2013). Social enterprises are isolated from each other and from mainstream economic activity, and struggle to access the resources they need to achieve the impacts so desperately needed by an under-developed population (Steinman & van Rooij, 2012). These problems with the system are made worse by a broad lack of management and leadership skills in social leaders (Urban, 2013).

The purpose was to gather and analyse information on social enterprises operating across South Africa. This included:

- Understanding exactly what makes a social enterprise in the South African context
- Describing key characteristics of enterprises in the sector, including location, size, age, industry and scope of operations
- Detailing their activities and outlining some of their management methods
- Describing their customers and beneficiaries, as well as their employees
- Understanding their financial status and the funding mechanisms they use
- Exploring their growth plans and defining the challenges that could prevent them from achieving these plans.

In addition, we are beginning to build a validated national database of social enterprises that will be extremely useful for future research, policy development and for those organisations and agencies that support and fund social enterprise.
As the basis for designing the survey and understanding its results, this chapter summarises previous research in social enterprise, both in South Africa and around the world. The review focuses on: some debates about how social enterprises should be defined; outlines the South African context; provides an overview of research conducted in South Africa; outlines the organisational characteristics of social enterprises; and considers the funding mechanisms available to social enterprises.
Why social enterprise is important

South Africa has seen a reduction in poverty levels since 1994, combined with a sharp rise in income inequality (Bhorat, 2015). In 2016, GDP growth reduced to 0.4%, down from 1.3% in 2015, making 2016 “the third consecutive year of negative per-capita growth and stagnating poverty” (World Bank, 2017). The first quarter of 2017 saw the unemployment rate increasing to 27.7% (Statistics South Africa, 2017), making unemployment one of the major factors standing in the way of South Africa’s efforts to reduce poverty and inequality (World Bank, 2017).

South Africa’s population is relatively young, with 50% of citizens under the age of 35, but the youth struggle to enter the labour market, resulting in a youth unemployment rate of 37.5% (Statistics South Africa, 2016). This is made worse by the fact that the country is one of the most unequal in the world (World Bank, 2017).

Because it focuses on solving social problems and achieving economic sustainability, social entrepreneurship is a way of strengthening both the economic and social conditions in a country (Urban, 2008; Steinman, 2010; Visser, 2011; Littlewood & Holt, 2011). In developing countries such as South Africa, social entrepreneur- ship potentially has a critical role to play in development, because governments are not able to meet the vast social needs of the population. And businesses can’t provide for all those looking for employment and economic security (Urban, 2013; Littlewood & Holt, 2015; Rivera-Santos, Holt, Littlewood & Kolk, 2015).

It seems logical that social enterprises would thrive in such situations. However, the Global Entrepreneurship Monitor finds that fewer than 2% of adults are involved in social entrepreneurship activity in South Africa (Bosma, Schreff, Terjesen & Kiew, 2015). To make matters worse, there has been little research on social entrepreneurship in South Africa, even though experts agree that it could play an important role in developing the society (Littlewood & Holt, 2015). Before this study, we simply did not know who social entrepreneurs are, how they work and what kind of socio-economic benefits they generate. As a result, it has been difficult for government to develop policies to support social enterprise (Littlewood & Holt, 2015; Steinman & van Rooy, 2012).

So, these important organisations struggle to access the resources they need to make a real difference to the communities they serve (Steinman & van Rooy, 2012).

The characteristics of social entrepreneurs in South Africa

In 2009, the Global Entrepreneurship Monitor (GEM) reported on social entrepreneur activity in South Africa (Herrington, Kiew & Kiew, 2010; Terjesen, Lepoutre, Justo & Bosma, 2009). The GEM study found that early-stage social enterprise activity was 1.8%, about the same as the average rate reported across all 47 countries involved in the GEM studies. However, South Africa had a lower rate than Uganda (2.2%), the only other sub-Saharan African country participating in GEM in 2009.

Social entrepreneurship in South Africa was believed to suit young people, particularly those who are unemployed (Urban, 2008). However, the GEM (2009) study reported that South African social entrepreneurs are most likely to be male, educated to high-school level or above, between 25 and 44 years old, and urban-based.

Research shows that we can, to some extent, predict how much entrepreneurship will occur by finding out how many people intend to start a social enterprise. In South Africa, the intention to start a social enterprise is said to be influenced by a number of factors, including moral judgement and empathy, achievement and self-efficacy – all skills that can be developed in secondary and tertiary classrooms (Urban & Teise, 2013). A recent survey of university students confirmed that motivation and ease of access in setting up a social enterprise is an important first step in encouraging social entrepreneurs (Urban & Kujinga, 2017). So, it seems that young people find social entrepreneurship an appealing way of entering the working world.

The context and management of social enterprise

Research in social enterprise emphasises the importance of context – these organisations are specifically set up to solve particular problems in their environments and they continuously adapt to suit those environments. For example, Karanda and Toledano (2012) found that social enterprise opportunity has a strongly localised flavour, to the extent that community-level cooperation is needed to solve the social problems identified and so generate social value.

In addition, when potential social entrepreneurs see regulations and institutions in their countries and communities as being supportive of social enterprise, they are more likely to feel confident that they can start an organisation that will make a difference. South African research has demonstrated that respondents have relatively favourable perceptions of the relevant regulations, and they believe societal values support social entrepreneurs. As a result, the nature of the environment makes them feel more confident that they will be able to start and run a social enterprise (Urban, 2013). A later study found that there are many different kinds of social enterprises in South Africa that do a wide variety of things with varying results, but they all have a social value and generate favourable social impact (Urban & Teise, 2015). In sub-Saharan Africa, social entrepreneurship is most likely to occur in places where there is acute poverty but similar ethnic group identities (Rivera-Santos et al, 2015).

Holt and Littlewood (2015) outline how South Africa’s legislated environment of transformation through the broad-based black economic empowerment codes (BBBEEE) influence the way social enterprises employ people and gather resources. Currently, there is no fit-for-purpose legal framework for social enterprises in South Africa. However, in a study of the legal structures of social enterprises, Cyrlé (2017) notes that a number of policy initiatives seem to be making it possible to establish social enterprises.

The challenge of pursuing a dual mission (profit and purpose) requires social enterprises to make trade-offs that might affect their ability to achieve results consistently. Operating management principles can help processes to be designed more efficiently so that resources are correctly allocated (Kodzi, 2015). In their study of the way in which tourism social enterprises influence livelihoods in
Definitional debates in social entrepreneurship

Although there is global interest in social entrepreneurship by researchers and practitioners, there is no consensus on how social enterprise should be defined (Mair & Marti, 2006; Choi & Majumdar, 2014). Some scholars argue that this lack of consensus inhibits research progress (Clanton, 2012).

Scholars have tackled the challenge of defining social entrepreneurship from many perspectives (Martin & Osberg, 2007). There are process-based definitions including the creation of non-profits, new structures to solve social problems, innovative behaviour for social objectives and social value creating activities; and then there are entrepreneur-centric definitions” (Neck, Brush & Allen, 2009 p14). Initially, social entrepreneurship was seen as an activity undertaken by non-profit organisations that wanted to raise funds to finance charitable works. Later, social entrepreneurship was positioned as a type of entrepreneurship (Neck, Brush & Allen, 2009), with the distinction that the motivating focus is social impact.

Further challenges to defining social enterprise include the tension between pursuing financial gain versus pursuing social benefits (Zahra, Gedajlovic, Neubaum & Shulman, 2009). It is widely agreed that a focus on achieving a social or environmental mission is a defining feature of social enterprise, but it is less clear how this focus could be maintained when there is a need to achieve some level of economic viability for the purpose of financial sustainability.

Social enterprises are not only multidisciplinary, their size and scope can vary widely as well. Any definition must embrace simple local initiatives such as supplying books to an isolated school in Nepal (Demsey & Sanders, 2010) to more complex initiatives such as a Fairtrade network that supports and protects the interests of small-scale farmers in developing economies (Nicholls, 2010).

Emerging clarity in definition

Although the literature is characterised by diverse perspectives and much debate, key dimensions of the definitions are illustrated in the table below:

### KEY DIMENSIONS OF SOCIAL ENTERPRISE DEFINITIONS

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<thead>
<tr>
<th>DIMENSION</th>
<th>EXPLANATION</th>
<th>REFERENCE</th>
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<tbody>
<tr>
<td>Explicit social mission, more important than profit</td>
<td>An explicit social or environmental mission is generally agreed to be the most important characteristic of a social enterprise.</td>
<td>Dees (1998); Boschee &amp; McClurg (2003); Abu-Saifan (2012)</td>
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<tr>
<td>Operates like a business</td>
<td>Social enterprises sell goods and services to their customers. This makes them less dependent on donor funding than conventional non-profit organisations.</td>
<td>Abu Saifan (2012); Kodzi (2015)</td>
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<tr>
<td>Proportion of revenue from trading as part of overall income</td>
<td>The proportion of traded revenue distinguishes social enterprises from not-for-profit organisations. The goods or services traded can be related, unrelated or central to the organisation’s social or environmental mission.</td>
<td>Littlewood &amp; Hult (2013); Hoogendoorn, Pennings &amp; Thurik, (2010); Boschee &amp; McClurg (2003)</td>
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<tr>
<td>Proportion of profit/ surplus reinvested</td>
<td>Some scholars argue all profits or surpluses should be reinvested in the organisation, but this does exclude structures such as cooperatives that distribute profits to members, or paying dividends or interest to investors.</td>
<td>Urban (2008); Hoogendoorn et al (2010); Villeneuve-Smith &amp; Temple (2015)</td>
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<tr>
<td>Social enterprise as innovator</td>
<td>Innovation may occur at the start of the enterprise by creating a unique business model or solution to address a social problem, or it may manifest in the way the organisation operates.</td>
<td>Dees (1998); Urban (2008); Villeneuve-Smith &amp; Temple (2015)</td>
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<tr>
<td>Level of social impact</td>
<td>Social enterprises measure the extent of their social change or impact, an activity that is almost universally demanded by stakeholders, donors and impact investors.</td>
<td>Herrington Kew &amp; Kew (2015)</td>
</tr>
<tr>
<td>Legal structure</td>
<td>Some scholars believe that social enterprises must have the legal form of a non-profit organisation, while others argue for no limitation on legal structure. In South Africa, social enterprises may adopt a variety of legal forms.</td>
<td>Hoogendoorn et al (2010)</td>
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<tr>
<td>Governance</td>
<td>Social enterprises vary in terms of the extent to which stakeholders participate and are involved in its governance.</td>
<td>Hoogendoorn et al (2010)</td>
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<tr>
<td>Located in type of area, scope of operation, type of beneficiary served</td>
<td>Social enterprises can be found in rural or poorer areas, serving customers and beneficiaries in otherwise underserved markets and are often highly localised in focus. Some scholars have recently argued for the importance of context in the emergence of social enterprises, particularly in Africa.</td>
<td>Riviera-Santos et al (2015); Dacin &amp; Matear (2010)</td>
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Key characteristics of the social enterprise

Social enterprises often operate in highly complex and severely resource-constrained environments, which means they are likely to develop unique ways of operating. This section focuses on the social enterprise, and earned 25% or more of their income from trading activities (Temple, 2017). In 2017, 1,581 interviews were conducted with organisations that defined themselves as a social enterprise, and earned 25% or more of their income from trading activities (Temple, 2017). Social enterprises in the UK are likely to be small or even micro in size, as measured by number of employees and turnover. There is a clear relationship between age and turnover—the bigger organisations tend to be older and more established than smaller organisations (Temple, 2017).

In the UK, social enterprises are successful, to the extent that 70% made a profit or broke even in the previous year, as measured by number of employees and turnover. There is a clear relationship between age and turnover—the bigger organisations tend to be older and more established than smaller organisations (Temple, 2017).

Constituencies: employees, beneficiaries, customers

From an internal perspective, the complexity of social enterprise presents difficult leadership challenges that may not have been anticipated when it began. These firms tend to have staff, governance members and clients who are either fairly similar in background and interests or quite different from each other. To meet the diverse needs of the organisation's operations and driving mission (Dochon & Anderson, 2009).

Social enterprises rely heavily on the individuals who work for them, for both practical, operational purposes and for the emotional commitment of employees, which allows them to deliver for very low cost to their clients (Dempsey & Sanders, 2010, Chell, 2007). In the UK, social enterprises are growing in number and becoming important employers (Temple, 2017). They are also highly effective at deploying employment opportunities as they tend to employ from local communities (such as rural villages) in which they operate (Villaneuve-Smith & Temple, 2015). Social enterprises may often employ disadvantaged groups such as disabled persons and marginalised minorities that are typically overlooked for mainstream employment opportunities (Gibbons & Mazy, 2017).

Many social enterprises in the UK sell directly to the general public and operate at local level, with a bias in local communities, to the extent that they involved their beneficiaries in decision-making (Temple, 2017). These organisations trade mainly with the general public and the public sector, but 37% trade with small businesses and 7% with large businesses.

In the UK studies, the top five types of beneficiary include: people with mental illness; individuals with learning disability; long-term unemployed; ex-offenders; older people losing independence; young people leaving care (Temple, 2017). Around 70% of social enterprises actively involve their beneficiaries in decision-making (Temple, 2017).

Activities and management methods applied

The management of social enterprises is complex, in keeping with the missions that inform their founding and sustainability. Consequently, managers in social enterprises must have the capacity to learn and pragmatically evolve stakeholder expectations and market conditions. They must often contend with resentment and resistance from the very communities they seek to serve (Tracey & Phillips, 2017).

Other management challenges in social enterprises can be broadly grouped into four categories: performing, organising, belonging, and learning (Smith, Ginn, & Besharov, 2013). Performance complexities arise from difficulties associated with the competing goals that must exist to satisfy the needs of diverse stakeholders. Organising tensions emerge when social enterprises either integrate or separate social and business activities and therefore need to recruit and manage employees with a range of skills. Establishing a clear organisational identity creates a ‘belonging’ tension, since different stakeholders have different expectations. Finally, social enterprises must balance the need for short-term financial gain with the need to achieve longer-term social impact, creating tensions in learning and competency development (Smith et al., 2013).

In an earlier review, Hoogendoorn, Pennington and Thunk (2010) arrange social entrepreneurship literature at the organisation level into two key themes, namely strategy elements and internal organisational characteristics. The strategy elements comprise topics relating to mission, goals and impact. The internal organisation characteristics theme includes governance, resources, legal form, learning and monitoring.

With respect to mission, there is general agreement that the importance of the social mission is not only characteristic of the social enterprise, but of great significance to organisational culture and operations (Hoogendoorn et al., 2010). The authors note that the “social mission must simultaneously be understood within its competitive environment” (Hoogendoorn et al., 2006, p22), giving rise to the notion of the hybrid nature of social enterprise. With organisation goals, it is interesting to note that the focus has tended to be on formulating and achieving financial goals, with the result that literature on achieving social goals is generally under-researched.

There are also limited studies on measuring and achieving social impact (Hoogendoorn et al., 2010). Social enterprises are diverse in their legal form (Hoogendoorn et al., 2010). In terms of governance, studies have tended to focus on the extent to which multiple stakeholder involvement is characteristic of managing the social enterprise and the influence this has on effectiveness and on the social entrepreneur’s span of control (Hoogendoorn et al., 2010). Social enterprises, like for-profit enterprises, are initiated and continue to operate despite resource scarcity, according to studies in the Hoogendoorn et al. (2010) review. They might similarly use creative resource strategies such as bricolage (the process of improvisation in a human endeavour). At the same time, there may be resources that are uniquely available to social enterprises, such as volunteers, donated physical assets and grant funding.

Some scholars have found that learning is a pervasive activity in social enterprise, while others note that learning is heavily influenced by organisational social capital and sympathetic stakeholders (Hoogendoorn et al., 2010). Organisational learning is ideally intended to comply with long-term investment logics that determine the underlying rationale for prioritising investment in building competencies for now and for the future (Smith et al., 2013). However, social missions require a hybrid of evolving competencies as they advance, making the managerial task of what and how to prioritise mission-critical capability unduly complex.

Innovation in social enterprise

Innovation is a key component in the inception and running of social enterprises. In the UK studies, half of social enterprises had introduced new goods or services in the previous 12 months, a clear example of the seeds of innovation at work (Temple, 2017).
Emerging indications reveal there may be some innovative behaviour in social enterprise contexts. What is less well established is the character and form of enterprise innovation (Ghobadian, O'Reagan & James, 2015). Enterprise innovation (Maclean et al, 2013; Phillips, Lee, 2007) looks at opportunity identification, contending that innovation states that this innovation is “associated with an effort to achieve blended value, these ventures often endure long periods of unprofitability and high dependency on donor funding to stay afloat” (Smith et al, 2016). This is clear when looking at the five main challenges that the future sustainability of UK social enterprises: obtaining grant funding, cash flow, lack of demand/economic climate, obtaining debt or equity finance, difficulties with public sector procurement (Temple, 2017). The broad diversity of business formats and blendable-value agendas that characterise social entrepreneurship makes it extremely challenging to formulate metrics and, even more so, to standardise these across the discipline (Smith et al, 2016). This scenario is problematic for establishing a demonstrable impact on society (Bull, 2007; Defourny & Nyssens, 2008).

In any event, scholars question the extent to which observed changes in social challenges can be attributed solely to the efforts of the social enterprise versus other extraneous factors (Dees, 1998). Difficulties in demonstrating performance have also meant that funding has often been approved based on relationships rather than actual impact of programmes (Nicholls, 2010). Nevertheless, in the UK, 77% of respondents measure their social impact to some extent (Temple, 2017). Theoretical consideration of the origins of social enterprise innovation initially pursued two paths. The first attributed innovation to an individual’s passion, typically the founding member, who at a macro level drives the development of an idea into a venture solution (Maclean, Harvey & Gordon, 2013). The second view looks at opportunity identification, contending that enterprise innovation stems from structural and contextual failures to reveal venture opportunity (Cajaiba-Santana, 2013). This approach recognises the inherent need to harness multiple thought processes, cutting across disciplines as well as engaging multiple influencers in driving social enterprise innovation (Maclean et al, 2013; Phillips, Lee, Ghobadian, O'Reagan & James, 2015).

Growth, challenges and measurement

Globally, social entrepreneurs tend to be quite optimistic in their growth aspirations (Bosma et al, 2015). Scholars argue that business optimism is an important indicator of the health of the sector, because it has direct implications for future investment and employment. In the UK, 58% of social enterprises are expecting an increase in turnover in the next 12 months (Temple, 2017). However, chronic financial constraints are an unfortunate reality of social entrepreneurship (Martin & Osberg, 2007). Some scholars argue that this funding challenge is what gave rise to blended-value thinking as those involved sought to develop the means to generate resources to self-finance their work (Mass, Lumpkin and Short, 2008). There is a tendency in social entrepreneurship literature to laud the positive features of social enterprise but simultaneously overlook the profound challenges encountered by those involved. While there is an effort to achieve blended value, these ventures often endure long periods of unprofitability and high dependency on donor funding to stay afloat (Smith et al, 2016). There is an effort to achieve blended value, these ventures often endure long periods of unprofitability and high dependency on donor funding to stay afloat (Smith et al, 2016). This new innovative bond structure was launched in 2010 in the UK. The financial vehicle allows social enterprises to navigate the regulatory restrictions of equity finance while reaping the benefits of the ability to align repayments with actual performance. In such an arrangement, the firm is given the required room to grow by pacing its debt against the realistic repayment capacity being generated.

Financial status and funding mechanisms

Access to finance plays an influential role in the shaping and survival of all organisations (Bugg-Levine, Kogut & Kulatilaka, 2012), not least social enterprises. This is the rationale for the design of many social and hybrid enterprises. Many social enterprises have to rely on a combination of sources to raise the required operating capital to fund their activities. As an added complication, these firms tend not to have balance sheets that are attractive enough for traditional debt funding (Dishon & Anderson, 2008). In other instances, regulatory requirements for social enterprises create barriers to accessing some funding structures. Consequently, the funding market for these firms is highly varied, with innovative solutions required to provide vehicles that enable prospective recipients to align intentionally with potential funders, as illustrated below.

<table>
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<tr>
<th>APPROACH</th>
<th>DESCRIPTION</th>
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<tr>
<td>Government grants (Bosma et al, 2015; Nicholls, 2010)</td>
<td>Government support in the form of grants and donations is common for social enterprises. In the UK for instance, the government has recognised the potential for these ventures to support delivery of social services in communities and proactively allocates funding to stimulate their activities.</td>
</tr>
<tr>
<td>Loan guarantees (Beckmann, Zayen &amp; Krzeminska, 2016)</td>
<td>Funding institutions such as the BII &amp; Melinda Gates Foundation have started issuing guarantees to support loans to social enterprises. These structures increase the ability to attract discounted commercial funding while reducing the debt burden. These funding structures are well-suited to social enterprises as they enable them to fund their profit-generating operations and, in turn, the returns generated support the social programmes and loan repayments.</td>
</tr>
<tr>
<td>Equity (Zahr, 2009)</td>
<td>Funding that includes an investor ownership stake in the business is a long-standing vehicle for capturing resources to fund ventures. In the social enterprise space, the funder needs to not only believe in the driving mission but also have the appetite to withstand the often-turbulent and protracted journey to profitable returns.</td>
</tr>
<tr>
<td>Quasi-equity debt (Beckmann et al, 2016)</td>
<td>This financial vehicle allows social enterprises to navigate the regulatory restrictions of equity finance while reaping the benefits of the ability to align repayments with actual performance. In such an arrangement, the firm is given the required room to grow by pacing its debt against the realistic repayment capacity being generated.</td>
</tr>
<tr>
<td>Pooling (Beckmann et al, 2016)</td>
<td>Some financing institutions have set themselves up to pool funds and use these to structure financing that suits the tailored needs of investors and recipients.</td>
</tr>
<tr>
<td>Crowd-funding (Kickul &amp; Lyons, 2015)</td>
<td>The newest addition to the repertoire of funding strategies, crowd-funding sees a large number of interested individuals contributing varying amounts to a venture. There is usually no expectation to recover any return from the donated funds.</td>
</tr>
<tr>
<td>Social impact bonds (Beckmann et al, 2016)</td>
<td>This new innovative bond structure was launched in 2010 in the UK. The bond enables private investors to invest in public projects by embracing the risk that returns are only payable on successful completion of these projects.</td>
</tr>
<tr>
<td>Debt (Dey &amp; Steyaert, 2016)</td>
<td>In developing economies, microcredit plays a critical role in funding. Women are highlighted as particular beneficiaries of this form of funding as they are typically unable to meet the hurdle conditions of traditional institutions. For larger, more established social enterprises, commercial debt financing is a viable source of capital that they are eligible to access.</td>
</tr>
<tr>
<td>Angel investors (Bosma, Schott, Terjesen &amp; Kiew, 2016)</td>
<td>The community of angel investing has grown steadily, with increasing attention to philanthropic activity. Wealthy individuals set up funds to provide resources to worthy causes and businesses of interest.</td>
</tr>
</tbody>
</table>
Potential sources of funding are highly varied for social enterprises. Practically, however, similar to conventional commercial entrepreneurship, sources vary based on the life stage of an organisation. Research shows that, during the nascent formative phases, some social enterprises face significant challenges in meeting criteria to qualify for funder attention (Diochon & Anderson, 2009). Many founding members have had to self-finance or rely on friends and family to back their fledging ideas (Dempsey & Sanders, 2010). Certain governments have chosen to allocate funding to social enterprises, particularly to support their participation in delivering public goods (Shaw & Carter, 2007). In addition, as interest and awareness of the potentially far-reaching impacts of social entrepreneurship have increased, other sources of funding are steadily emerging in the form of grants from socially-concerned foundations such as the Bill and Melinda Gates Foundation, Mayfield Foundation and Skoll Foundation, among others (Alter, 2007).

For the more established firms, however, the double bottom-line goals of the social enterprise venture structure are expected to include generating revenues that at the very least serve to keep the entity afloat (Tracey & Phillips, 2007; Moss et al., 2008). By employing sometimes-complex hybrid business models, firms set out with the goal of being financially self-sustainable (Simers, 2005). At least, these growing ventures should be able to capture equity or debt finance and honour the commercial obligations of such resources.

Nevertheless, cash flow remains one of the top three barriers for social enterprises of all types. Access to finance is the biggest barrier for start-ups and established social enterprises, with 34% of UK social enterprises having sought finance in the past 12 months (Temple, 2017). Grant funding is the most common (82%) type of funding applied for; second most common was a loan (24%). Over 60% of those applying for a loan were successful, compared to only 29% of those applying for grants. The purpose of the funding was equally for development capital and working capital at 42% of the sample, but also to purchase property or equipment (41%) (Temple, 2017).

Challenges faced in attracting funding

Social enterprises must often compete against regular market expectations. Many established social enterprises can offer some return on investment but at much lower levels than those attainable in the broader market, making them comparatively less attractive investment options (Bugg-Levine et al., 2012). Also, for younger organisations, returns may be erratic, requiring funding structures that have capacity for variable rates of return.

A limited appreciation of financial matters and financial industry dynamics makes many social enterprises blind to the opportunities of structured finance. These traditionally not-for-profit operatives often confess to being intimidated by the financial aspects of business, having limited industry networks in this regard and, as a result, relying on their own scope of understanding in accessing affordable funding to support their ideas (Villeneuve-Smith & Temple, 2015).

Those in the financial services industry express frustration at the lack of competency of some social enterprises in financial matters. The ability to engage and present opportunities in the right way and at the right level of detail is often the decision barrier between the business owner and would-be financiers. Smith, Cronley and Barr (2012) explored the decision criteria of financiers and identified three parameters: mission consistency, entrepreneurial competence and the attitude of the internal team to the respective activity streams.

One of the challenges that often comes with funding is the need to create space to accommodate the preferences of the funder. It is reasonable for one who takes a risk on a venture by extending their resources in its support to expect to wield some kind of influence to protect their interests (Zahra et al, 2009). The nature of this compromise with funders may, however, lead to the intended mission being diluted, and may have a demoralising effect on the social enterprise team.

Finally, and perhaps most significantly, investment requires the ability to set and manage realistic performance targets against which patterns of return can be anticipated (Simmers, 2005). As noted, establishing metrics to reliably track performance is a significant challenge for managers in social enterprises (Kickul & Lyons, 2015).
From a database of 33 784 South African organisations operating in the social enterprise and civil society sectors, the final sample was 453 respondents, each representing a unique social enterprise. Data from the survey questionnaires was analysed by the GIBS research team, and a full set of descriptive statistics is available on request.

Note to readers: all comments in this section refer only to the sample in the study and not the South African social enterprise sector as a whole.
Defining features of South African social enterprises

We asked five questions to identify social enterprises, including their main priority, proportion of income from grants and donations, and a description of the nature of the organisation. Each respondent was also asked what position they held in the organisation and whether they identified themselves as a social entrepreneur.

1. **Main Priority**

Respondents were asked to indicate whether the organisation’s main priority was to make a profit, achieve a social or environmental mission, or if there was a balance between the two.

- **To make a profit**: 61%
- **To achieve a social or environmental mission**: 38%
- **To make an equal balance**: 1%

While most South African social enterprises prioritise achieving their social or environmental mission, over a third balance making a profit with achieving their mission.

2. **Proportion of Income from Grants or Donations**

Respondents were asked to select a category that best represented what proportion of their income in the past 12 months came from grants or donations.

- **No donations**: 50%
- **Less than 25%**: 21%
- **Between 25% and 50%**: 9%
- **Between 50% and 75%**: 6%
- **More than 75%**: 14%

Perhaps surprisingly, nearly half indicated they had received no grants or donations in the last year. For another 20%, grants or donations were less than a quarter of total income. Only 14% were highly dependent on grants and donations for over three-quarters of their income.

3. **Description of Organisation as It is Now**

To understand how respondents identify themselves, they were asked to select a single statement that best describes their organisation as it is now.

- **Non-profit company**: 52%
- **Social enterprise**: 15%
- **Business**: 12%
- **Religious organisation**: 3%
- **Co-operative**: 3%
- **Community organisation**: 3%
- **Other**: 3%

Over half described their organisation as a non-profit company, while almost a third described themselves as either a social enterprise or a business. Still fewer considered themselves to be community organisations.

Although respondents were asked to select a statement that ‘best describes’ their organisation, it is possible for organisations to belong to multiple categories, such as a religious organisation that has taken the legal form of a non-profit company and operates as a social enterprise.

4. **Position of Respondent**

The respondent was then asked to select a statement that best described their own role in the organisation. Almost two-thirds referred to themselves as the founder.

- **Founder**: 62%
- **Senior manager**: 15%
- **Leader**: 7%
- **Principal**: 7%
- **Managing director**: 6%
- **Chairman**: 0%
- **Social worker**: 3%
- **Other**: 0%

Clearly, the information in the survey was generally provided by a member of the top management team of participating organisations. Again, respondents could fall into more than one category.
IDENTIFY AS SOCIAL ENTREPRENEUR

Interestingly, over 94% of respondents indicated that they personally identified as a social entrepreneur. For this questionnaire, social entrepreneurs were defined as “individuals who start or currently lead any kind of activity, organisation or initiative that has a particularly social, environmental or community objective” (Bosma, Schott, Terjesen & Kew, 2015).

SUMMARY OF DEFINING FEATURES

- In this study of social enterprises in South Africa, respondents either prioritise their social and environmental mission or strike a balance between purpose and profit.
- Most do not depend on grants and donations.
- They consider themselves to be non-profit companies or social enterprises rather than businesses, religious or community organisations.
- Respondents consistently self-identified as social entrepreneurs and were mostly the founder or part of the senior management team of the organisation.

1 PROVINCE IN WHICH HEAD OFFICE IS LOCATED

Respondents were asked to indicate in which of South Africa’s provinces their head office was located.

<table>
<thead>
<tr>
<th>Province</th>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauteng</td>
<td>52</td>
</tr>
<tr>
<td>Western Cape</td>
<td>17</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>9</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>8</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>5</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>5</td>
</tr>
<tr>
<td>Free State</td>
<td>3</td>
</tr>
<tr>
<td>North West</td>
<td>2</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>0.2</td>
</tr>
</tbody>
</table>

The sample is dominated by social enterprises based in Gauteng. As there is no other reliable sampling frame, we cannot determine whether this sample is representative of the actual geographic spread of social enterprises in South Africa.

2 MAIN INDUSTRY IN WHICH ORGANISATION OPERATES

Respondents were asked to indicate the main industry in which they operate, using the Statistics South Africa standard industry classifications.

<table>
<thead>
<tr>
<th>Industry</th>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education &amp; Training</td>
<td>34</td>
</tr>
<tr>
<td>Human Health &amp; Social Work</td>
<td>16</td>
</tr>
<tr>
<td>Accommodation &amp; Food</td>
<td>12</td>
</tr>
<tr>
<td>Arts, Entertainment &amp; Rec</td>
<td>12</td>
</tr>
<tr>
<td>约翰 &amp; Support Service</td>
<td>6</td>
</tr>
<tr>
<td>Agriculture, Forestry, Fishing</td>
<td>4</td>
</tr>
<tr>
<td>Info &amp; Communication</td>
<td>4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3</td>
</tr>
<tr>
<td>Construction</td>
<td>2</td>
</tr>
<tr>
<td>Water Supply, Sewerage</td>
<td>1</td>
</tr>
<tr>
<td>Professional, Science &amp; Tech</td>
<td>1</td>
</tr>
<tr>
<td>Wholesale &amp; Retail Trade</td>
<td>1</td>
</tr>
</tbody>
</table>

*Industries with less than 1% of respondents are not shown in this graph.

Organisational characteristics of South African social enterprises

Four questions focused on key characteristics of social enterprises in the sample: location of head office; main industry in which it operates; length of time operating; legal status and scope of operations.

Over one-third of social enterprises classified themselves as being in the education and training industry, followed by health and social work, and accommodation and food services. With the first three categories accounting for 62% of the respondents’ enterprises, this could indicate the necessity of fulfilling basic human needs in a disadvantaged population.
To understand how established South African social enterprises are, respondents were asked to indicate the period their enterprise had been operating, defined as receiving funds and serving beneficiaries or customers.

Over half had been operating for over five years, and a further 13% had been operating for three to five years. In other contexts, this might indicate the stability of an established sector. New social enterprises, those less than three years old, comprised 30% of the sample. Nascent social enterprises (those operating for less than three months) comprised 2% of the sample.

Almost half operate as section 21 or not-for-profit (NFP) companies and a further 11% as voluntary associations with a constitution. A sizeable portion (22%) are registered as private companies or closed corporations, structures intended to be for-profit. Interestingly, 8% of respondents indicated they had a hybrid structure that combined one or more of the other structures.

The final question in this section focused on the scope of operations, asking respondents to indicate how far their operations extended.

Local community-based enterprises comprise the majority of the sample in this study. However, it is interesting that 18% operate nationally, regionally or globally.

SUMMARY OF ORGANISATIONAL FEATURES

- Most enterprises in the survey have their head offices in Gauteng province, and have been operating for more than three years.
- They are focused on meeting basic needs in the education, health and housing sectors and are local, community-based.
- Most often, they are registered as not-for-profit legal entities, although almost a third are registered as for-profit entities or hybrids.
Activities undertaken by South African social enterprises

The third part of the study sought to understand what social enterprises do, for whom and how. Respondents were asked to describe their main activities and achievements in the past 12 months; the extent to which stakeholders are involved in decision-making; levels of innovation and monitoring and evaluation practices.

1 MAIN ACTIVITIES

Respondents were asked to indicate which activities their organisation was currently engaged in.

The majority of respondents indicated they were involved either in developing skills (73%) or promoting education and literacy (66%). They tend to focus on disadvantaged groups such as children and the youth, women and the elderly, or improving a particular community. Around half indicated they focused on health and well-being, or protecting human rights, while 43% were involved in protecting the environment. Job creation or providing goods and services to beneficiaries were other major focus areas.

### MAIN ACTIVITIES

<table>
<thead>
<tr>
<th>Activity</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developing skills</td>
<td>73</td>
</tr>
<tr>
<td>Supporting youth</td>
<td>70</td>
</tr>
<tr>
<td>Education and literacy</td>
<td>66</td>
</tr>
<tr>
<td>Improving a community</td>
<td>65</td>
</tr>
<tr>
<td>Supporting women</td>
<td>57</td>
</tr>
<tr>
<td>Improving health</td>
<td>57</td>
</tr>
<tr>
<td>Creating jobs</td>
<td>55</td>
</tr>
<tr>
<td>Providing goods and services to leaders</td>
<td>49</td>
</tr>
<tr>
<td>Protecting human rights</td>
<td>43</td>
</tr>
<tr>
<td>Protecting the environment</td>
<td>38</td>
</tr>
<tr>
<td>Supporting the elderly</td>
<td>31</td>
</tr>
<tr>
<td>Selling to customers</td>
<td>9</td>
</tr>
</tbody>
</table>

2 INVOLVEMENT OF STAKEHOLDERS IN DECISION-MAKING

We probed the extent to which beneficiaries and other stakeholders were involved in key decisions on management and operations. Respondents were asked to characterise this involvement as: informal interaction; regular formal consultation; via an advisory board comprising beneficiaries and other stakeholders; through representation on the board of directors; via a community trust or directly because employees and managers are the main beneficiaries.

Very few respondents do not involve stakeholders and beneficiaries in key decisions. For others, there was both formal (55%) and informal interaction (50%) through advisory boards, the board of directors or a community trust. Almost 38% noted that employees and managers were beneficiaries, and in that capacity, were involved in decision-making.

### INVOLVEMENT OF STAKEHOLDERS IN DECISION-MAKING

<table>
<thead>
<tr>
<th>Activity</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal consultation</td>
<td>55</td>
</tr>
<tr>
<td>Informal interaction</td>
<td>50</td>
</tr>
<tr>
<td>Advisory board</td>
<td>47</td>
</tr>
<tr>
<td>Board of directors</td>
<td>42</td>
</tr>
<tr>
<td>Employees beneficiaries</td>
<td>38</td>
</tr>
<tr>
<td>Community trust</td>
<td>20</td>
</tr>
</tbody>
</table>
In terms of innovative practices, respondents were asked to what extent they agreed with statements on goods and services being regarded by customers as new and different; delivery mechanisms being new and different; the uniqueness of goods and services in their sector; as well as the novelty of the underlying technologies and processes.

Over two-thirds believed customers and beneficiaries regarded their goods and services, as well as their method of delivery, as new and different. About half agreed there were no other organisations offering the same products and services in that area but only one-third agreed that underlying technologies and processes were novel.

In addition, respondents were presented with statements on the outcomes of innovation, namely that it resulted in: better quality products and services; ability to serve more beneficiaries; ability to operate at lower cost; and ability to deliver better profits than similar organisations.

Most agreed that innovation had made their enterprises more effective, in different ways.

### Innovation Practices

<table>
<thead>
<tr>
<th>% of respondents agree/strongly agree – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The method of delivery</strong></td>
</tr>
<tr>
<td><strong>The uniqueness of goods and services in their sector</strong></td>
</tr>
<tr>
<td><strong>Newer or different technologies or processes</strong></td>
</tr>
<tr>
<td><strong>Technologies or processes new</strong></td>
</tr>
</tbody>
</table>

### Innovation Outcomes

<table>
<thead>
<tr>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serve more beneficiaries</td>
</tr>
<tr>
<td>Better quality products/services</td>
</tr>
<tr>
<td>Better profits</td>
</tr>
<tr>
<td>Lower cost</td>
</tr>
</tbody>
</table>

### Monitoring and Evaluation

Three questions explored the respondents’ monitoring and evaluation practices. Firstly, respondents were asked to indicate the degree of effort and resources assigned to monitoring and evaluation by indicating the nature of associated activities they had in place.

Most agreed that innovation had made their enterprises more effective, in different ways.

As shown below, over three-quarters had evaluated their impact on beneficiaries in the last quarter, while a surprising 9% had never evaluated their impact on beneficiaries.

### Effort and Resources Put into Monitoring and Evaluation

<table>
<thead>
<tr>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established internal systems</td>
</tr>
<tr>
<td>Integrated reports</td>
</tr>
<tr>
<td>Activity outputs only</td>
</tr>
<tr>
<td>External evaluation</td>
</tr>
<tr>
<td>No effort and resources</td>
</tr>
<tr>
<td>No internal evaluation</td>
</tr>
</tbody>
</table>

### Frequency of Monitoring

<table>
<thead>
<tr>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly</td>
</tr>
<tr>
<td>Weekly or more often</td>
</tr>
<tr>
<td>Quarterly</td>
</tr>
<tr>
<td>Annually</td>
</tr>
<tr>
<td>Do not monitor</td>
</tr>
</tbody>
</table>

### Evaluation of Impact on Beneficiaries

<table>
<thead>
<tr>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last quarter</td>
</tr>
<tr>
<td>Two years ago</td>
</tr>
<tr>
<td>More than two years ago</td>
</tr>
<tr>
<td>Have never evaluated impact on beneficiaries</td>
</tr>
</tbody>
</table>
To understand the dynamism and effectiveness of social enterprises, respondents were asked to note their progress on 18 organisational indicators over the previous year. These included increasing or maintaining customers and beneficiaries; expanding product range or market scope or level of innovation; increasing the number of employees; improving measures such as costs, sales, profitability, product/service quality and market share.

Respondents were also asked to indicate whether they had prepared a business plan and attracted funding.

In the past 12 months, over two-thirds of social enterprises reported that they had served existing customers and beneficiaries (C + B in graph on right), improved their product/service quality and prepared a business plan. Around half had expanded the number of beneficiaries they served, entered new and important partnerships with another organisation or launched new products and services. Over one-third had implemented a new technology or increased market share. Of all respondents, 38% had increased the number of full-time employees and a further 28% had increased their part-time employees.

SUMMARY OF MAIN ACTIVITIES

- **The majority of respondents are involved in developing skills or promoting education and literacy. The focus is often on disadvantaged groups such as children and the youth, supporting women or improving a particular community.**

- **Respondents agree that innovation had made their enterprises more effective, allowing them to serve more beneficiaries and deliver better products and services. For many, innovation supported better profits and operating at lower cost.**

- **Stakeholders are routinely involved in decisions in half these organisations, often through advisory boards, a board of directors, or community trusts.**

- **Internal monitoring and learning systems are established in many organisations, with some producing integrated reports on their social and environmental impact. Monitoring progress and achievements happens weekly or monthly in most organisations, and the majority evaluate their impact on beneficiaries often.**

- **Over the past 12 months, respondents considered their ability to serve existing customers and beneficiaries as an achievement. Many improved their product/service quality and prepared a business plan. Around half expanded the number of beneficiaries they served, entered a new and important partnership with another organisation or launched new products and services.**
Customers, beneficiaries and employees

To understand the customers and beneficiaries of South Africa’s social enterprises, respondents were asked to describe the customers they target for their goods and services. They were also asked to describe the type and number of beneficiaries they serve each month.

1 DESCRIPTION OF CUSTOMERS

Respondents were asked to describe the profile of their customers, defined as the group they sell goods or services to currently. They were free to indicate all descriptions that applied to their enterprise.

Almost one-quarter of respondents indicated that they do not currently sell goods or services, which questions whether they are really social enterprises. Most described their customers as disadvantaged consumers (38%) or middle-income consumers (32%). Interestingly, government was a trading partner in a quarter of cases.

Most described their beneficiaries as being from the local community or particular groups of people, and only a minority considered their own employees to be the main beneficiaries.

2 DESCRIPTION OF BENEFICIARIES

Respondents were asked to describe their main beneficiaries by selecting one or more of the following statements: local community in which you operate (including suppliers, producers and customers); particular groups of people (such as the aged, disabled, women, youth and impoverished people); particular locations (such as the inner city, rural areas or underdeveloped areas); organisations such as small businesses, NGOs, self-help groups, community and religious groups; and employees (specifically hired to address particular challenges).

Almost 12% of the sample don’t know how many beneficiaries they serve each month. Most serve under 100 beneficiaries per month. Respondents were also asked to indicate how many of their beneficiaries were organisations, and how many were individuals. The average number of individual beneficiaries was 342, and 154 for organisational beneficiaries.

3 NUMBER OF BENEFICIARIES PER MONTH

The majority of respondents serve 100 or fewer beneficiaries per month, with the average number being 412 and the median or mid-point number being 52.

Almost 12% of the sample don’t know how many beneficiaries they serve each month. Most serve under 100 beneficiaries per month. Respondents were also asked to indicate how many of their beneficiaries were organisations, and how many were individuals. The average number of individual beneficiaries was 342, and 154 for organisational beneficiaries.

4 EMPLOYEES IN THE ENTERPRISE

In addition to total number of employees in each enterprise, respondents were also asked to indicate the breakdown of permanent salaried posts, temporary or contract employees, and volunteers.

The vast majority of social enterprises said they employed between 1 and 50 people. The average number of employees is 30, with the median number being 8 employees. The average number of permanent employees is 12 and the median number of volunteers is 15. This suggests that organisations are more likely to employ on a full-time basis than to use contract/temporary or volunteer workers.

SUMMARY OF CUSTOMERS, BENEFICIARIES AND EMPLOYEES

- THE VAST MAJORITY OF SOCIAL ENTERPRISES IN THIS SAMPLE EMPLOY BETWEEN 1 AND 50 PEOPLE. THEY MOSTLY DESCRIBED THEIR CUSTOMERS AS DISADVANTAGED CONSUMERS, MIDDLE-INCOME CONSUMERS OR SMALL BUSINESSES.
- BENEFICIARIES ARE MAINLY FROM THE LOCAL COMMUNITY OR PARTICULAR GROUPS OF PEOPLE. WHILE THE AVERAGE NUMBER OF BENEFICIARIES SERVED IS 412, MOST ORGANISATIONS SERVE UNDER 100 PER MONTH.
Financial status and funding mechanisms

The study set out to understand the financial characteristics of organisations in the sample. Respondents were asked to indicate the average annual income of the enterprise, level of growth in the last 12 months, whether they recorded a surplus or profit, and what that had been used for. They were also asked to describe the main ways in which money came into the organisation and to rank these in importance. Finally, they were asked whether they had applied for different types of funding in the previous year, whether the application had succeeded and, if so, how the money had been used.

1 AVERAGE ANNUAL INCOME
To establish income, respondents indicated the current average annual income of the enterprise.
Most social enterprises reported an average annual income of under R300 000 (less than R25 000 per month). Only 12% of the total sample reported an income exceeding R1 million. This suggests that social enterprises in South Africa tend to be very small.

2 DESCRIPTION OF GROWTH
Respondents were asked to select a single statement that described their organisation’s income growth in the past year.
Most organisations reported growth in the past 12 months, with over a third saying that they were growing either quite fast or fast.

3 USE OF PROFIT OR SURPLUS
Only one-quarter of respondents indicated that the enterprise had made a profit. This was mainly used for growth and development of the social enterprise, or to cover the cost of other aspects of its work. In almost one-third of cases, profits or surpluses were used to pay bonuses to staff or beneficiaries.

### AVERAGE ANNUAL INCOME

<table>
<thead>
<tr>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than R25 000</td>
</tr>
<tr>
<td>Between R25 000 and R50 000</td>
</tr>
<tr>
<td>Between R50 000 and R1 million</td>
</tr>
<tr>
<td>Between R1 million and R5 million</td>
</tr>
<tr>
<td>Between R5 million and R10 million</td>
</tr>
<tr>
<td>More than R10 million</td>
</tr>
</tbody>
</table>

### DESCRIPTION OF GROWTH EXPERIENCED LAST YEAR

<table>
<thead>
<tr>
<th>% of respondents – single mention only – n=453</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not growing at all</td>
</tr>
<tr>
<td>Growing very slowly (&lt;5%)</td>
</tr>
<tr>
<td>Growing slowly (5% – 10%)</td>
</tr>
<tr>
<td>Growing quite fast (10% – 15%)</td>
</tr>
<tr>
<td>Growing fast (&gt;15%)</td>
</tr>
<tr>
<td>Not growing at all</td>
</tr>
</tbody>
</table>

### USE OF PROFIT OR SURPLUS

<table>
<thead>
<tr>
<th>% of respondents indicating use – multiple mentions possible – n=109</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing and development</td>
</tr>
<tr>
<td>Building a reserve</td>
</tr>
<tr>
<td>Donations to charities</td>
</tr>
<tr>
<td>Bonuses to staff / beneficiaries</td>
</tr>
<tr>
<td>Distributed to shareholders</td>
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<tr>
<td>Repaid to shareholders</td>
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<tr>
<td>Repaid to lenders</td>
</tr>
</tbody>
</table>
Respondents were asked to indicate, from a list of ten statements, all the main ways money came over the previous 12 months. Interestingly, ‘sales of products and services’ was mentioned by four of every ten respondents as a source of funds, which is fitting since these organisations are social enterprises.

Corporate social investment was the highest-ranked source of funds, followed by government entities, charitable foundations and sales of products or services. In-kind donations, donations by the public, equity investments and membership fees were regarded as ‘important’ or ‘very important’ by three-quarters of the sample. Loans from commercial banks were regarded as important by only 47% of the sample.

Of those who applied for government grants or donations, almost 40% had succeeded. For applications from charitable foundations, 36% had been successful. Corporate social investment sources demonstrated a similar pattern, with 38% of applications successful. Approaches to the general public succeeded in 62% of cases.
4 USE OF FUNDS

Respondents who had successfully applied for funds were asked how they had used the funds. On the whole, funds applied for from any source were used to cover operating costs or increase support for existing beneficiaries (increase existing in the following graph). For in-kind donations and corporate social investment, funding was sometimes used to develop new premises in new locations.

**SUMMARY OF FINANCIAL STATUS AND FUNDING MECHANISMS**

- Social enterprises in this study are generally small (only 12% have annual income over R1 million). However, they are growing, with over 65% reporting growth above inflation. Most do not make a profit or surplus and those that do make profits (around one-fifth) tend to reinvest this in the further growth and development of the enterprise.

- While most respondents note sales from goods and services as a source of income, by importance corporate social investment ranks highest, followed by government entities and charitable foundations, ahead of the sale of products and services.

- The social enterprises were most likely to have applied for funding from government entities, charitable foundations and corporate social investment funds, but were most likely to succeed in attracting funds from members of the public. While they were least likely to have applied for funding from commercial banks or equity partners, they were just as likely to succeed with these applications as with other sources.

- In general, funds from successful applications were used to cover operating costs or increase support for existing beneficiaries.
growth expectations

Respondents were asked to indicate how much they expected the organisation to grow in the next 12 months; the main ways in which they planned to achieve growth; and the challenges that might prevent them from growing in future.

1. Growth expectations

Respondents were asked to indicate their expectations for growth in the next 12 months, defined as: very fast (+15%); quite fast (10-15%); slowly (5-10%); very slowly (<5%); no growth at all; and expecting the organisation to shrink.

Nearly two-thirds expect their organisations to grow very or quite fast in the next 12 months. However, this is an optimistic view given the historical growth of these organisations.

2. Ways to achieve growth

Respondents were asked to indicate how this growth would be achieved over the next 12 months. Three-quarters intend to increase services to existing beneficiaries, while almost two-thirds plan to launch new products and services or attract new customers.

3. Major challenges

Finally, respondents were asked to describe the major challenges their organisations faced in the next three years by ranking each of 18 challenges (as 1 = not at all and 5 = to a great extent).

When these challenges are clustered into categories, it is clear that access to resources is a dominant theme. This includes challenges in donations and grant funding; lack of suitable premises and equipment; access to capital; and access to support and advisory services. Managing financial resources is a related challenge, including cash flow and late payments from customers. Respondents also feel challenged by macro-environmental conditions such as the economy and crime, as well as regulatory conditions and access to public services.

Perhaps less so than expected, respondents feel challenged by a shortage of skills, particularly the inability to pay for the right skills; and a shortage of financial, managerial, technical and marketing skills. Recruiting senior managers at executive level and non-executive board members is also a challenge.

Summary of future plans and challenges

- Most respondents expect their organisations to grow rapidly in the next 12 months. This will support increased services to existing beneficiaries, launching new products and services, and attracting new customers.

- However, they believe growth could be inhibited by their ability to access financial and physical resources; how they manage financial resources, as well as macro-environmental conditions and skills shortages.
Here are some of the insights that emerged from this study.
Social enterprises are purpose-driven – in our study, respondents either prioritise their social and environmental mission or strike a balance between purpose and profit. This finding is consistent with the accepted defining feature of a social enterprise, that social mission is prioritised (Lepoutre et al, 2015; Boschee & McClurg, 2003; Dees, 1998).

Social enterprises pay their own way – the majority of organisations in our sample said they do not depend on grants and donations. Scholars use the proportion of traded income to distinguish between social enterprises and not-for-profit organisations (Littlewood & Holt, 2015; Hoogendoorn et al, 2010).

Social enterprises have a particular identity – the organisations described themselves as non-profit companies or social enterprises rather than businesses, religious or community organisations. Respondents consistently self-identified as social entrepreneurs and were mostly either the founder or part of the senior management team in the organisation.

In summary, South African social enterprises are purpose-driven, relatively independent from grants and donations, founder-led and likely to identify as social entrepreneurs.

Conclusion: social enterprises in South Africa are distinctively different to traditional non-profit and for-profit enterprises, in keeping with existing literature.

Social enterprises are sustainable – enterprises in our survey have been operating for more than three years, and most for over five years, but they do not appear to be dependent on grant funding for their survival. This is consistent with the literature which argues that social enterprises trade to earn income (Hoogendoorn et al, 2010), and with social enterprises in the UK where the sector is dominated by organisations that have been operating for more than three years (Temple, 2017).

Social enterprises focus on meeting basic needs in local communities – they mostly operate in the education, health and housing sectors and are local, community-based in scope. The focus of operation mirrors the needs of their communities. This is consistent with the literature which argues that social enterprises focus on the communities they serve (Mair et al, 2012). In the UK, social enterprises are similarly community-based and local in scope (Temple, 2017).

Social enterprises are diverse in legal structure – mostly, social enterprises in this sample are registered as not-for-profit organisations, although almost a third are registered as for-profit organisations. Around 8% are structured as a hybrid of one or more types. This diversity may reflect the lack of a legal framework specifically for operating a social enterprise in South Africa (Littlewood & Holt, 2015). Social enterprises choose from a range of available options to ensure their legal framework is appropriate for their operations and funding strategies.

In summary, social enterprises in South Africa are well-established, focused on local communities and their needs, and diverse in legal structure and location.

Conclusion: while South African social enterprises share much in common with their counterparts elsewhere, some aspect of their structure and functioning, specifically sector of operation and legal status, are context-specific.

Social enterprises focus on meeting community needs – most respondents are involved in developing skills or promoting education and literacy, as well as health and wellbeing. The focus is often on specific disadvantaged groups such as children and the youth, supporting women and the elderly, or improving a community. While South African social enterprises are focused on similar groups to those elsewhere (Temple, 2017), their context-specific activities reveal their concern for meeting actual community needs. The diversity of their activities is supported by the literature which sees social enterprises’ activity as ‘multidisciplinary’ (Grimes, McNullen, Vogus & Miller, 2013).

Social enterprises are innovative – respondents agreed that innovation had made their enterprises more effective, allowing them to serve more beneficiaries, and deliver better-quality products and services. Many respondents felt that innovation supported better profits than similar organisations, and enabled them to operate at lower cost. This is consistent with the literature that social enterprises are particularly innovative in the solutions they offer and modes of operation (Cajaiba-Santana, 2013) and with the finding in UK studies that social enterprises are more innovative than their private-sector counterparts (Temple, 2017; Villeneuve-Smith & Temple, 2015).

Social enterprises involve stakeholders in decision-making – in half the organisations in the sample, often through advisory boards, boards of directors, or a community trust. Involving stakeholders in decision-making is a distinctive feature of social enterprise (Temple, 2017).

Social enterprises measure their impact – internal monitoring and learning systems are established in many organisations in the sample, with some producing integrated reports on social and environmental impacts. Monitoring progress and achievements happens weekly or monthly in most organisations and the majority say they evaluate their impact on beneficiaries frequently. This is consistent with the literature (Hoogendoorn et al, 2010) that highlights this as a key mechanism for establishing the legitimacy and value of the social enterprise.
Social enterprises are small, but growing – in this study, only 12% of respondents have an income exceeding R1 million. However, they are growing, with two-thirds reporting growth above inflation in the last 12 months. Both the relatively small size and rapid growth of social enterprises in South Africa are consistent with findings in the UK, where social enterprise is described ‘commercially successful’ (Temple, 2017, p22).

Social enterprises reinvest surpluses – most respondents do not make a profit or surplus, but around one-fifth do and they tend to reinvest profits in growing and developing the enterprise. For some scholars, this reinvestment is a defining characteristic of social enterprise (Hoogendoorn et al, 2010, Urban, 2008).

Social enterprises value corporate social investment – when it comes to the importance of sources of income, corporate social investment ranks highest, followed by government entities and charitable foundations, ahead of the sale of products and services. The importance of corporate social investment to South African social enterprises is relatively distinctive in this context.

Social enterprises diversify their funding sources – enterprises in this study were most likely to have applied for funding from government entities, charitable foundations and corporate social investment funds, but most likely to succeed in attracting funds from members of the public. They were least likely to have applied for funding from commercial banks or equity partners, but as likely to succeed in attracting these funds as in applying for other sources. In general, funds granted were used to cover operating costs or increase support for existing beneficiaries.

Conclusion: As noted, social enterprises in this sample operate relatively independently of grants and donations, but actively seek funding from a variety of sources to sustain and grow their operations.
Who are they?
Defining features of South Africa’s social enterprises*

52% describe themselves as a non-profit company
15% describe themselves as a social enterprise

The achievement of the social mission is a priority for 61%

71% say grants or donations make up less than a quarter of total revenue

68% operating for more than three years

71% of social enterprises are quite localised in scope, operating at community level or across a single province

34% education sector
16% health sector
12% housing & food services sector

*data based on a national sample of 453 social enterprises

**What do they do?**
Activities and practices of South Africa’s social enterprises*

- **73%** Skills development and promotion of education and literacy
- **70%** Supporting youth or women
- **65%** Focus on developing the community in which they operate

*data based on a national sample of 453 social enterprises

**Who do they serve?**
Beneficiaries, customers and employees of South Africa’s social enterprises*

- **BENEFICIARIES TEND TO BE FROM LOCAL COMMUNITIES IN WHICH THE SOCIAL ENTERPRISES OPERATE**
- **SALES OF GOODS AND SERVICES**
  - disadvantaged consumers: 38%
  - middle-income consumers: 32%
  - non-government organisations: 28%
  - small businesses: 28%
- **PERMANENT FULL-TIME EMPLOYEES**
  - 83% employ fewer than fifty people

*data based on a national sample of 453 social enterprises

**SOCIAL ENTERPRISES ARE CONTINUOUSLY LOOKING FOR WAYS TO**

- **67%** Improve quality
- **54%** Serve more beneficiaries

Our products and services are **NEW & DIFFERENT** and innovation allows us to serve more beneficiaries and deliver better quality.

**SOCIAL ENTERPRISES MAKE A SIGNIFICANT EFFORT TO MONITOR AND EVALUATE THEIR IMPACT**

- **41%** through established internal systems
- **21%** through integrated reports

More than **70%** percent formally consult with stakeholders when making key decisions.

**THE MEDIAN NUMBER OF BENEFICIARIES SERVED IS 59**

**THE MEDIAN NUMBER OF EMPLOYEES PER ENTERPRISE: 8**

**59%** of social enterprises serve 100 or fewer beneficiaries per month.

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How are they funded?
Financial status and funding mechanisms in South Africa’s social enterprises*

80% have an income of less than R500 000 annually

37% of funding applications are successful

31% of funding applications are successful

Grants/donations

40% revenue earned from sales of goods/services

24% revenue earned from membership fees

23% corporate social investment

31% government entities

31% general public

Social enterprises that grew faster than inflation last year = 67%

Future expectations, plans and challenges*

67% of social enterprises expect to grow fast in the next 12 months

74% will grow by increasing services to existing beneficiaries

65% intend to launch new products and services

65% intend to attract new customers

57% will expand to new locations

Most likely challenges

39% access to donations or grant funding

36% the right premises and equipment

34% ability to pay for the right skills

31% managing cash flow

*Data based on a national sample of 453 social enterprises

RESEARCH DESIGN

Based on the experiences of conducting phase 1 of SSESA, as documented in a report dated 31 January 2017, it was determined that the study’s research questions could best be answered by means of a national, cross-sectional survey. The opportunity to contribute to the domain of social entrepreneurship through empirical, large-sample studies of the phenomenon is clear (Sassmannshausen & Volkmann, 2016). Therefore, this was the guiding principle for the design of the current study, which was the first national cross-sectional survey of social enterprises operating in the formal sector of South Africa.

POPULATION AND SAMPLE

The population is defined as all social enterprises operating as formal-sector organisations, across South Africa. It is generally agreed that there is currently no comprehensive, available sampling frame or database of social enterprises in the country. The study therefore adopted a purposive sampling strategy in line with similar studies throughout the world. The criteria applied for selection to participate in the study included: prioritises social or environmental mission; more than 25% of revenue from trade or memberships; and self-identifies as a social enterprise.

The sample aimed to achieve a national spread in terms of coverage of all nine provinces and aimed to achieve 500 interviews. In the absence of any reliable sampling frame, this sample size estimate was based on similar studies conducted elsewhere in the world.

Social media campaigns were conducted by GIBS and its research partners to gather lists of potential research participants. Each participant had agreed to be contacted for research purposes. A list of 669 social enterprises gathered in this way were provided to the appointed fieldwork house. A supplementary list of 33 081 non-government organisations owned by the fieldwork house was also used to identify social enterprises. Those interviewed were also asked for referrals, which generated a further list of 201 social enterprises.

A total of 453 interviews were completed for the project. There were 33 interviews conducted using an online self-completion questionnaire, and 106 through face-to-face interviews. The remaining 314 interviews were conducted telephonically. Of these, 133 came from the original telephone files that contained 669 contacts in detail, 147 came from the booster list of 33 081 contacts, and the last 34 came from referrals, out of 201 contact details provided by respondents who were interviewed.

SAMPLE ACHIEVED IN PHASE 2 OF SSESA

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>NUMBER</th>
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</thead>
<tbody>
<tr>
<td>Social media-generated list of social enterprises</td>
<td>669</td>
</tr>
<tr>
<td>Public list of civil society organisations</td>
<td>33 081</td>
</tr>
<tr>
<td>Referrals from respondents</td>
<td>34</td>
</tr>
<tr>
<td>Total contacts</td>
<td>33 784</td>
</tr>
<tr>
<td>Telephonic interviews conducted</td>
<td>314</td>
</tr>
<tr>
<td>Face-to-face interviews</td>
<td>106</td>
</tr>
<tr>
<td>Online self-completion</td>
<td>33</td>
</tr>
<tr>
<td>Total interviews conducted</td>
<td>453</td>
</tr>
</tbody>
</table>

SURVEY INSTRUMENT AND DATA COLLECTION

Data was collected by Plus 94, a specialist fieldwork house appointed by GIBS after a formal request-for-proposal process. Plus 94 adheres to the code of conduct of the South African Market Research Association (SAMRA).

A survey questionnaire was developed based on the literature, comprising 36 closed-ended questions and 1 open-ended question, and circulated to all research partners for input. The questionnaire was field-tested by Plus 94 and adaptions made to survey questions where appropriate. Interviewer training materials were prepared by Plus 94 and fieldworkers trained accordingly. Careful management of the field-force during data collection ensured quality and consistency in data collection.

Respondents were contacted telephonically and an appointment made for the interview. The interviews were lasted around 45 minutes, and were conducted either telephonically, face-to-face, or online according to the respondent’s preference. All interviews were conducted with the founder or person responsible for the management of the social enterprise.

DATA ANALYSIS

Completed questionnaires were captured, cleaned and checked by Plus 94, before being delivered to GIBS in Excel and SPSS format. A full set of descriptive statistics was prepared by the GIBS research team. This data and analysis forms the basis of this stakeholder report.

ETHICAL CONSIDERATIONS

The respondents were protected from harm through the research process by adhering to the principles of good ethical conduct as defined by the GIBS ethics committee. Firstly, only potential individuals who had been contacted via social media and agreed to participate in the research were provided to Plus 94 as potential respondents.

Secondly, as part of the questionnaire, the study purpose and how the information would be used were explained to the participants. The principle of voluntary participation based on informed consent was applied in the case of each questionnaire completed – Plus 94 has provided evidence of informed consent for each respondent. No incentives were offered for participation in the survey.

Thirdly, respondents were asked to voluntarily and explicitly agree to be part of the social entrepreneurship database to be published online which includes: name of organisation, key activities and contact details. The database is kept separate from the data collected so that anonymity and confidentiality have been protected. All respondent data was included in the data set whether or not the respondent had agreed to be part of the database, which will be used for further research in future.

LIMITATIONS OF THE STUDY

This study was a quantitative survey design in which respondents were purposively selected. This means that the results should be interpreted cautiously as a result of the following limitations:

- Since we do not know the size or structure of the social enterprise sector in South Africa, we do not know to what extent the sample is representative of the population and cannot therefore generalise these findings to all social enterprises.
- The questionnaire comprised closed-ended questions, which means that respondents were not invited to explain their answers.
- All information is self-reported and cannot be validated against objective external data.
- The data was analysed using descriptive methods only, which means that relationships between the data points were not explored.