# SOCIAL ENTERPRISES, SOCIAL VALUE AND JOB CREATION IN CAPE TOWN

By

Kathryn Amm

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Promoter/Supervisor: Amanda Van Den Berg

# DECLARATION

DEPARTMENT OF ACADEMIC ADMINISTRATION
EXAMINATION SECTION – NORTH CAMPUS
PO Box 77000
Nelson Mandela Metropolitan University
Port Elizabeth  6013
Tel. +27 (0) 41 504 3206 / 504 3392
Fax. +27 (0) 41 504 9206 / 504 3064

**Nelson Mandela Metropolitan University**

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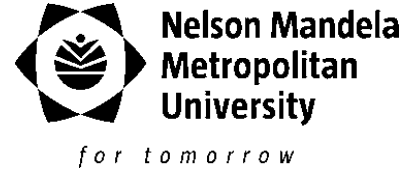
## DECLARATION BY STUDENT

**NAME**:    KATHRYN LEIGH AMM

**STUDENT NUMBER**: 208092745

**QUALIFICATION**:    MASTER OF ARTS IN DEVELOPMENT STUDIES

**TITLE**:    **SOCIAL ENTERPRISES, SOCIAL VALUE AND JOB CREATION IN CAPE TOWN**

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# DEDICATION

To my creator God who has given me abundant life and who - through revealing His heart for the poor and vulnerable – has inspired this Masters.

# ACKNOWLEDGEMENTS

Firstly, Mom and Dad, thank you for reading, rereading and reading again (and again) every sentence of this dissertation. I could not have done this without you and your many sacrifices. I am proud to be your daughter. Tim, thank you for arguing about everything and forcing me to learn to defend my point of view!

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Finally, to the managers and employees of the social enterprises in this study- and other SEs which weren't included- thank you for your time and assistance. I hope that I have represented you well and that you find something useful in this study to assist with your valuable work.

# ABSTRACT

Social enterprises are organisations which seek to meet social needs whilst generating their own financial returns. They are becoming increasingly important in South Africa as their approach is not dependent on philanthropy and is therefore largely self-sustainable. Meeting social needs can happen in many ways, but bottom up approaches, which are driven by the poor through providing access to satisifers for fundamental needs are becoming increasingly important. The impact which social enterprises have is not clearly understood and is seldom measured. There is a need to develop tools which are able to portray the social value of these impacts. This study seeks to explore the impact of three social enterprises in Cape Town. The study focuses on the social value of job creation, a pressing need across South Africa, and a social return common to all three enterprises.

The study found that a primary concern for staff was job security and earning a decent wage, and without this as a starting point other social returns are minimised. Camaraderie and a sense pride are two important social returns which are also produced. The study also showed that producing social returns must be an intentional activity, and involves a process of negotiation and understanding the needs and values of different stakeholders.

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# CHAPTER ONE:  INTRODUCTION

## 1.1    INTRODUCTION

In South Africa the public and private sectors are falling short in providing basic services and employment to large portions of the growing population. Growth in the economy has not led to a reciprocal increase in the quality of life for many poor South Africans, and the persistence of financial deprivation and unemployment has led to a type of pathology, with spiralling negative consequences such as crime, gangsterism and apathy (Levinsohn 2007:2). South Africa needs real development and not just economic growth, to improve the quality of life for her citizens. This study seeks to explore the potential impact of the emerging sector of social enterprises in providing services and creating jobs for underserviced and unemployed South Africans.

South Africa has rampant poverty and growing unemployment despite economic growth (Watkins 2007:246). Whilst South Africa boasts a respectable Gross Domestic Product (GDP) per capita, US\$ 9,757, placing us 78th out of 179 countries, our Human Development Index (HDI) ranks us at a lowly 121st place (Watkins 2007:246). The HDI measures life expectancy; knowledge and education; and standard of living, as measured by GDP per capita. The Human Poverty Index (HPI-1) value for South Africa is 23.5% (Watkins 2004:254). This measures the average percentage of the population who are not expected to survive to 40; the proportion of underweight children; and those without access to an improved water source. South Africa's HPI-1 value ranks us

85th among 135 countries (Watkins 2004:254). Traditionally economic growth and development have been seen as synonymous, therefore governments usually pursue economic growth as a priority. However, recent history and the current situation in South Africa demonstrates that economic growth does not always lead to human development.

Economic growth as a measure of development is insufficient, because unless people's quality of life improves, true development has not taken place (Peet & Peet 2000:2; Dasgupta 1993:8). One way to measure quality of life is to assess the 'possibilities people have to adequately satisfy their fundamental human needs' (Max-Neef 1991:16). The nine fundamental human needs which Max-Neef (1991:16) outlines, are: subsistence, protection, affection, understanding, participation, idleness, creation, identity and freedom. Each of these needs occurs at four different levels: being, having, doing and interacting. All needs are necessary and, except for subsistence, all needs are equal (Max-Neef 1991:17).

Any human need which is not adequately satisfied reveals a human poverty. For example poverty of subsistence, poverty of affection, or poverty of security can occur when there are unmet needs. When poverty extends beyond a threshold, it leads to a 'pathology' or sickness. There are various 'satisfiers' which can be identified: synergic satisfiers, singular satisfiers, inhibitors, pseudo-satisfiers and destroyers. Synergic satisfiers meet several needs at once, whereas singular satisfiers meet only one need. Inhibitors satisfy one need but inhibit others, while destroyers address one need initially, but end up destroying it and other needs. Pseudo-satisfiers promise to fulfil a

need, but don't actually. Satisfiers are culturally determined and are subject to change over time, but the fundamental needs do not change. (Max-Neef 1991:17-20)

Development is a process which seeks to bring about positive changes. Eradicating poverties and improving quality of life through providing access to satisfiers is one type of development (Max-Neef 1991:16). An understanding of multiple poverties and the role that satisfiers can play in meeting several needs at once provides a new perspective on development. Social enterprises (SEs) are one type of organisation whose purpose is to effect developmental change, through the eradication of various poverties. SEs are important agents of development because of their ability to generate most of their own income, while targeting specific groups of disadvantaged people. SEs are organisations which seek to produce social value, while generating their own income to ensure long term sustainability (Alter 2007:12). A social value can broadly be defined as something which facilitates human development and brings positive change to an individual or community's quality of life.

The term 'social enterprise' was originally used by non-profit organisations (NPOs) to refer to their profit-producing arms, but now includes various legal forms and operational models (Alter 2007:1-2). A social enterprise is any organisation or venture that pursues a social mission, through earned income strategies, by combining market efficiency with social and environmental justice (Social Enterprise Coalition 2009). Alter (2007:12) describes the purpose of a SE as 'mitigating/reducing a social problem or a market failure, and to generate social value'. The main difference between a social enterprise and a socially responsible enterprise, is the level of commitment and priority

given to the social mission (Alter 2007:14). The difference between SEs and corporate philanthropy is that SEs are *directly* involved in economic and social value creation through there business activities (Alter 2007:14).

Across the world social enterprises are emerging as a market-based solution to the lack of service delivery and social change needed by the poor (Dees & Anderson 2003:1; Alter 2007:8). The importance of monitoring and evaluating results, in all fields and disciplines, has grown, especially as a tool for accountability. Social value has so far been measured using models, which quantify and calculate a financial value for the social activities of the organisation. These economic approaches provide an incomplete portrait of the work of the SE; in the same way that national economic indicators can not fully represent human development. In order for the SE sector to retain its original meaning, and ensure integrity and accountability, it is important to find new, non-financial tools for measuring and monitoring social impact (Dees 2001:3). Considering the ability of the social goods they produce to meet basic human needs is one approach to this problem.

A fundamental needs approach to development says that poverties are caused by lack of access to satisfiers, and facilitating access to these satisfiers improves people's quality of life (Max-Neef 1991:16). This study proposes that social value can be measured by the ability of an activity or product to meet fundamental human needs, through the provision of access to satisfiers. From a developmental perspective the greater the ability of an activity to improve quality of life, the more social value that is created.

Each social enterprise will be pursuing numerous, different social goals, with varying levels of priority. These activities could include education, access to markets, services for low-income groups, food projects or employment of disenfranchised groups (Alter 2007:16). Each activity will have different abilities to act as satisfiers and will therefore produce differing levels of social return. Every SE also has a unique opportunity to add considerable value to the lives of its staff through the work environment it creates.

Creating employment is a top priority for many development agencies and government departments; however in South Africa the demand continues to outgrow the number of jobs created (Business Trust 2006:6). Creating employment is therefore one of the most pressing social needs and social entrepreneurs should focus on the need to produce decent work. Even if job creation is not an explicit focus for a social enterprise, it will be a by-product of most of them, and is a comparatively easy area in which to affect change.

In the rest of this chapter the problem statement will be outlined, and the benefits and need for the study will be explained. Then the research objectives will be stated and the research methodology will be briefly described. Important terminology which will be used throughout the paper will then be defined and the remaining four chapters will be outlined. The next section contains the problem statement.

## 1.2    PROBLEM STATEMENT

The problem statement for this study is rooted in the emerging field of social enterprise. The primary driver for a social enterprise is meeting social needs, or addressing social problems. Measuring tools exist to monitor the impact of social enterprises, but these are usually monetary indicators which try to quantify social impact as a financial return. Social value needs to be understood from a more holistic perspective as the ability to reduce different kinds of poverties in individual's and community's lives.

SEs exist to address social problems, and in South Africa a serious social problem is unemployment. Being engaged in productive, gainful employment is a synergic satisfier, mainly because it meets subsistence needs, which in turn empowers individuals to pursue other needs. It seems an obvious conclusion that all SEs should intentionally and aggressively pursue high levels of social returns for their employees.

Unemployment and under-employment are very closely linked to financial poverty, which often leads to multiple poverties and limits human development. Employment is therefore a highly significant social return because of its ability to meet multiple needs and to empower individuals to meet their own needs. This leads to the following research question:

**How can the social value of social enterprises be measured, especially regarding the impact on their employees?**

## 1.3    SIGNIFICANCE OF STUDY

As part of an emerging sector, social enterprises face many challenges. Social enterprises exist as hybrids between two very different worlds, business and social concerns, and there two objectives are often conflicting. These challenges are especially pronounced in a developing context where the social problems are vast and support for small businesses is limited. A defining characteristic of a SE is that it needs to be financially viable, which is difficult even for businesses which are purely profit driven. By definition SEs must also produce social value or meet a social need; however, there are no guidelines or regulations to facilitate this process in South Africa. With the rise in availability of social venture capital, it is becoming being increasingly important to be able to identify SEs, and measure and quantify the social value they produce.

There is a need for the development of sector specific tools to measure the impacts of SEs, and other social sector organisations. These tools need to encapsulate a holistic approach to development, and not only simplistic financial indicators. Developing such tools is best accomplished by experts in each sector and this goes beyond the scope of this study. There are however certain kinds of social value which should be produced by all SEs, regardless of their social mission. This social value is the value which is produced by each organisation in the lives of the people they employ, and it should not be neglected.

Most South African SEs do not currently measure their social impact in terms of their social goals or in terms of their impact on their employees. This study proposes that a human needs approach to development, understanding that development is about access to satisfiers, provides a broad framework through which the impact of SEs can be measured. While fundamental needs do not change, appropriate satisfiers are culturally determined and the most appropriate way to effectively meet people's needs is through open dialogue, to ensure suitable satisfiers are offered. In South Africa SEs are started as external interventions, which makes dialogue about needs and satisfiers even more important. This dialogue should be occurring within the organisation; as well as between the organisation and the community where they seek to add social value.

This is an exploratory study of three social enterprises in Cape Town and the perceived and real impact of employment on their employees. The findings of this study should be of interest to SE managers and owners, other social entrepreneurs, potential funders, the business research community and NGOs and NPOs who want to understand their social impact better.

## 1.4    RESEARCH OBJECTIVES

The aims and objectives of the study are outlined below.

### 1.4.1  Primary objectives

The main objectives of this study are:

- To explore the social impact of employment on the lives of the employees of SEs.

- To identify any factors which produce high levels of social return.

### 1.4.2  Secondary objectives

In order to address the main objectives, the following sub-problems have been identified:

- To understand the purpose, mission and activities of a SE.

- To compare the work experiences of employees with the impact intended by the managers of SEs.

- To understand the impact different approaches have on the effectiveness of SEs.

## 1.5    DELIMITATION OF RESEARCH AREA

### 1.5.1  Scope of the study

The study was conducted in the metropolitan area of Cape Town and in the nearby township of Khayelitsha during the months of August – October 2009. The SEs which were included in the study were at least a year old, were established to meet a social need, and were explicitly pursuing social and financial returns. The number of SEs operating in Cape Town are unknown, and only three were included in the study. The study explored the perspectives of managers and employees on the social impact of the SE.

### 1.5.2  Research Paradigm

A pragmatic paradigm has been adopted for this study. This paradigm recognises that there exists an external, physical reality as well as an internal reality. This internal reality - an individual's perceptions and feelings about the external world - are important determinants of that individual's reality. The research will therefore focus on collecting information on the perceptions and experiences of employees, as this information reveals the impact of the SE on its staff more accurately than external indicators such as salary, hours worked or number of jobs created.

### 1.5.3 Research Assumptions and Limitations

It is difficult to fully perceive, understand and represent another individual's feelings and experiences. This study can only gain a superficial understanding of the experiences of the SE employees. As a cross-sectional study there is no scope to understand how these feelings might have changed over time, and the small size of the sample can not fully represent the entire population. The researcher has come from a privileged upbringing, which limits her ability to fully understand and reflect on the experiences and expectations of those from a different socio-economic upbringing.

## 1.6    RESEARCH METHODOLOGY

### 1.6.1   Ethical issues

All sources and quotations have been given credit, whenever they have been used throughout this study and a complete list of references is supplied at the end of the study. Respondents were not coerced or rewarded for their participation in this study, and their responses have been kept confidential. The names of individuals and organisations were not used in the study. The necessary permission was obtained before gathering information from respondents. In dealing with issues of fundamental needs and poverties, utmost dignity will be afforded to the respondent and questions will be directed at access to satisfiers rather than the deprivation of those needs. The findings of this research will be shared with the participants and a copy of the final report will be sent to each participating SE.

### 1.6.2  Measuring Instrument

A semi-structured interview will be used to interview management-level employees of the SEs. The questionnaire will generate qualitative data. From this data a questionnaire will be compiled to compare the perceived impact with the actual experiences and perceptions of the employees. The questionnaire will gather quantitative data. The study therefore uses a mixed-method approach. Both groups will be asked for biographical details, general perceptions of the social enterprise as well as information on the core values and vision of the SE. The managers will be asked to provide information on the background and purpose of the SE, as well as answer questions related to the SE's performance and measurement of outcomes. Staff will be asked about how working for the SE has impacted their lives, and to comment on what these changes have meant for them.

## 1.7  DEFINITIONS OF CONCEPTS USED

Due to the emerging nature of this sector and controversy around terminology, the definitions, as they are used in this study are provided below.

### 1.7.1  Social enterprise

A social enterprise is any organisation which was created for a social purpose, or to meet a social need, while operating with the same financial discipline and

determination as a private sector business. The terms 'social enterprise', 'social business', 'social purpose business' and 'social impact business' all fall onto the spectrum of hybrid businesses and are specific examples of social enterprises.

### 1.7.2  Development

Development is any positive change which leads to improved quality of life through access to satisfiers of the fundamental human needs. Development is also called adding social value, or producing social returns.

## 1.8    OUTLINE OF CHAPTERS

Chapter one has provided an overview of the rest of the study. The background to the context in South Africa, a human needs approach to development and the potential role of social enterprises has been detailed. Then the research problem: understanding the impact of SEs, and the research objectives were stated. The scope of the research has been defined, and the limitations of the chosen paradigm were acknowledged. The research methodology was elaborated upon and new terminology has been defined.

In chapter two the literature review will provide further elaboration on the structures and models and processes which SEs can adopt. The need for SEs as a model to meet social needs will be elaborated on, and some of the challenges facing SEs will be highlighted. The literature review draws on academic as well as popular literature from practitioners in the field.

In chapter three the research methodology and research steps which were taken will be covered in detail. The justification for the selection of the approach as well as issues of reliability and validity will then be explained. Finally the data collection and data analysis procedures will be described.

Chapter four will present the findings of the study. Both qualitative and quantitative data are presented in this chapter. The research findings address the research objectives and research problem.

Chapter five contains the conclusions of the study as well as recommendations to ensure SEs maximise their social impact. The study is summarised and areas for further research will be outlined here.

## 1.9   SUMMARY

In this chapter the context of the study has been introduced. It has been made evident that in South Africa economic growth and human development do not occur simultaneously was covered. Max-Neef's theory of human development as access to satisfiers in order to realise fundamental needs and address multiple human poverties has been proposed as an alternative approach to development. The role of SEs in meeting social needs and ultimately as agents of development has been considered. A fundamental needs approach to development was suggested as an appropriate way for SE to measure and monitor their social impacts. Since the scope of social impacts

which can be produced is so vast, the study will focus on the impact SEs can have on their employees. The research objectives and significance of the research were then outlined. The research delimitations and the research methods were briefly explained. Finally new terminology and an outline of the rest of the study was provided.

In the next chapter the literature review covers the field of SEs in more detail. Various SE models are explained and the need for SEs is highlighted. Finally the challenges facing SEs will be discussed and analysed.

# CHAPTER TWO: LITERATURE REVIEW

## 2.1    INTRODUCTION

The previous chapter gave an overview of the study and introduced the concept of using social enterprises to address unemployment in South Africa. Social enterprises are suggested as a business (and therefore self-sustaining) model to offer social services and help South Africa meet its development goals. One of the central challenges of the development field is to identify and quantify human development. Max-Neef's theory of satisfying fundamental human needs was discussed as one possible approach which offers a holistic, rather than purely economic, approach to human development. In this chapter these ideas will be discussed further and the literature around various relevant topics will be reviewed. As a relatively new research field, there is little relevant literature directly pertaining to social enterprises in a South African context. Fortunately, since the social enterprise model spans two well-established areas of research, namely the small business sector and the volunteer or NGO sector, findings from literature around these two fields, as well as international research on SEs can be drawn on.

In this chapter literature on SE sector and social value will be explored in order to contextualise this study and to provide a framework for understanding current practises as well as to establish the need for this study. The first step will be to explain the theory of SEs and to consider different ideas around their structure and purpose. Then nine fundamental organisational models for social enterprises will be looked at. The

need for the SE sector will then be explained, by looking at the inability of the public, private and third sector to meet all the development needs of the poor in a developing country. Evidence from other countries, especially the United Kingdom, which have a more established SE sector will also be used. The three main types of challenges facing social enterprises will be looked at and finally the benefits of the SE sector will be explored.

## 2.2    CONCEPTUALISING SOCIAL ENTERPRISES

As part of an exploratory study into the impacts of social enterprises, it is important to first develop an understanding of the literature around the social enterprise field.

A social enterprise is a vehicle for development, which means it is driven by social problems. They are defined by their combination of social and environmental mission with business practises (Alter 2007:i). Some take the idea even further, and may focus on inclusive governance, employee ownership, fair compensation and community service (Alter 2007:3-9). These extra criteria, although they do provide a picture of how social enterprises can look, will not be considered as defining characteristics. As Peattie and Morley (2008:98) point out, the difficulty lies between identifying characteristics which typify SEs and those which define them. In order to avoid being too restrictive in the definitions used, the broadest understanding of social enterprises will be used in this study, and the other issues such as ownership will be understood as specific examples of strategies used to increase the effectiveness of a particular social enterprise.

There is a developing field of new organisations, sometimes called 'hybrid' organisations, which incorporate the social mission into the business, rather than just setting up two separate, independent organisations (Alter 2007:13; Dees & Anderson 2003:23). The hybrid sector produces institutions with various models, strategies and service systems to maximise social value (Alter 2007:21-22). There is still room for many of these structures to be properly formatted and for a supportive legislative environment to be created. However the primary research focus should be the social returns, and critiquing whether these returns are truly being produced. This is important for all kinds of organisations along the hybrid spectrum, and also for traditional nonprofits and business who wish to meet corporate social responsibility goals.

The following nine criteria were identified through a study conducted on SEs in 15 European Union countries and can be used to describe an 'ideal-type' SE (Borgaza & Defourny 2001:16-18). These criteria reflect the specific experiences of the EU, which has a large majority of cooperatives and worker-owned businesses, but provides a helpful framework through which South African SEs can be explored.

*Economic activities:*

i)      The SE engages in the production of goods and services as its primary means of generating income.

ii)     A minimum amount of paid work is available.

iii)    A significant level of economic risk is assumed by those who initiate the SE.

iv)     The SE has a high level of autonomy from government authorities and other organisations.

*Social activities:*

v)      The SE offers a significant benefit to the community or a specific group of people.

vi)     SEs are usually launched by citizens with a collective vision, but may be led by an individual.

vii)    Decision-making in the SE is not limited to capital-ownership but engages many other stakeholders.

viii)   SEs display a participatory nature and may include representation and participation by clients.

ix)     There is no/ little profit distribution outside of the organisation.

The first and fifth criteria are the non-negotiable traits of a social enterprise (Alter 2007:14). Measuring economic activity is a common and clearly understood element of business practise, but measuring social value is not very well understood. Social value is very difficult to define, identify and measure and will be looked at in more detail in the next section. Understanding social value is critical to understanding social enterprises, since this characteristic differentiates them from other businesses.

### 2.2.1  Understanding social value and social value measurement

Social value and social returns are just different terms for human development. Social value has somehow avoided attempts to quantify and measure it, and has been seen as 'beyond quantification' by players in the field (Emerson 2000:28). While it is true that it is difficult to measure the value of reading to a young child, or employing former convicts, or removing graffiti, that doesn't detract from the responsibility to try

(Emerson 2000:28). Recently there have been calls for increased accountability from NGOs, similarly SE investors want to make sure that their money is being used effectively and responsibly. SEs have to develop tools to show how their business practices are adding value in the broad sense of the word (Emerson 2003:44).

Efforts to ensure that definitions of value include social, environmental and economic elements have resulted in the term 'blended value' which includes all three elements (Emerson 2003:39). This shift at the level of individual organisations mirrors a change in a macro-economic perspective. Financial indicators, which were used to measure national development, have been supplemented with social indicators and poverty measures (Morse 2004:83). Developing a tool or system for measuring the value generated by a SE's activities has encountered a challenge in representing both the financial and social elements of social programs. Haugh (2005:9) suggests using proxy measure to assess social benefits such as: change in demand for specific services; reduced unemployment; increased education levels; reduced crime; and increased self-esteem and individual and community well-being.

Social enterprises, and some research centres dedicated to alternative economics, have proposed various tools for measuring social returns. The New Economics Foundation (NEF) and REDF both use forms of the Social Return on Investment (SROI). Emerson (2000, 2003) has proposed the Blended Value approach and others use a double or triple bottom line (Clark, Rosenzweig, Long & Olsen n.d.:3-4; Savitz & Weber, 2006:41). These measures tend to try and represent the value of the social good being produced as a financial indicator. Gross domestic product (GDP), a financial indicator commonly used to represent national levels of development, has

been described as a measure of 'monetised activity not of human well-being' (Gasper 2007:19). In the same way that GDP can only partially describe of the development of a country, financial indicators of a SE can only measure certain impacts.

In order to calculate SROI, four elements are identified (Aeron-Thomas, Nicholls, Forster & Westall, 2004:15-17):

- Inputs are the costs and resources needed to set up a SE or project.

- Outputs are the direct, quantifiable results of a business objective or programme.

- Outcomes can be direct or indirect and are changes which have occurred over a long period of time and can be measured from the perspectives of various stakeholders.

- Impacts are calculated by adjusting the outcomes to take into account what would have happened anyway, without the SE or project.

For each of these four elements, a financial cost or saving is calculated and these are used to generate the return on an original investment and to calculate the value of an enterprise, as well as its social value. The ability to put a monetary value onto what SEs, and even charities and NGOs, achieve should motivate investors and governments to provide more support to effective organisations, and motivate ineffective organisations to improve their performance. This is an exciting new field of research, but SROI won't be covered in any more detail in this study. Studies by the NEF (Aeron-Thomas, Nicholls, Forster &Westall, 2004; Lawlor, Neitzert & Nicholls

2008) and others address this in detail and provide many case studies of the SROI method.

The reason for considering the four SROI elements is their ability to measure social value from a human development perspective. This is a more holistic understanding of development and is about improving people's quality of life and meeting their fundamental needs (Max-Neef 1991:16). If development is the increasing ability for people to meet their fundamental needs, then poverties exist when *any* of these needs is not 'adequately satisfied' (Max-Neef 1991:20). If the interplay between needs and satisfiers was better understood then development policies and programmes could be structured in a way which allowed people to meet more fundamental needs and therefore live better lives.

In terms of indicators of poverty, 'quality of life and well-being are the least tangible of all' (Morse 2004:2). Following on from Max-Neef, quality of life is determined by the opportunities people have to adequately meet their fundamental needs, and this is the type of social return which social enterprises should be seeking to achieve at the very least. While we may never be able to quantify access to satisfiers as precisely as we currently quantify GDP, perhaps, as John Maynard Keynes said 'I would rather be vaguely right than precisely wrong'.

In this section the concept of social enterprises has been explored. Social value, which is an important defining trait of social enterprises, has been discussed and in the next section various models for the out-working of these theoretical ideas will be explained.

## 2.3    SOCIAL ENTERPRISE MODELS

The two defining characteristics of social enterprises are their commitment to produce social returns, and to engage in profitable business practices. In order to understand how this can be worked out in practice, a framework for classifying and grouping SEs will be considered. At the broadest level of classification of social enterprise there exist three degrees of integration between the business and social programs. When the two activities completely overlap, an organisation is classified as embedded, if there is some overlap it can be called an integrated enterprise. An external enterprise is an enterprise where the only relationship between the social program and business activities is resource-sharing. (Alter 2007:26-31)

One framework for considering the various approaches which a SE can adopt is provided by Dees (2007:6). Dees (2007:3) is a strong proponent of the need to increase the economic participation of the poor in order for development to occur. He identifies the following four areas where social businesses can work with and empower the poor:

- Poor as producers,
- Poor as consumers,
- Poor as savers,
- Poor as borrowers.

These four areas can all be identified in some of the operational models discussed below, and each produces different social returns. While Dees (2007:4) focuses on those in financial poverty, the concept can be enlarged to include people experiencing various types of poverty. The particular group of people which a SE wants to work with and facilitate development with is called their target population. This approach focuses on the active participation of the poor, and through this approach, facilitates opportunities for people to meet multiple fundamental needs. This is a bottom-up approach to development which allows the poor to be active participants, engaging with the economic systems (Dees 2007:4). Social enterprises which fail to recognise the potential of the poor in this way will be limited to producing fewer social returns, and meeting fewer fundamental needs in their target population.

There are various social enterprise operational models which have been identified by Alter (2007:32-49). These models provide a useful overview of specific ways a social enterprise can interact with its target population (to achieve social returns) and with the market (to achieve financial returns). These models are not legal models such as non-profit, or section 21 companies. An operational model can be applied to a number of different legal models. In South Africa there are no special legal forms for social enterprises, and since legal form is not a prerequisite characteristic for defining or understanding a SE it will not be addressed in this report. Other research on the situation in the United Kingdom (Smallbone, Evans, Ekanem, & Butters 2001) and the European Union (Aiken 2007; Davister, Defourny & Gregoire 2004) is available for their context specific situations. There is room for specific research into this area in a South African context, since special legal forms can facilitate the role of SEs and allow them to be more productive.

The fundamental operational models described by Alter (2007:32-49) include:

- Entrepreneur support model;
- Market intermediary model;
- Employment model;
- Fee-for-service model;
- Low-income client as Market model;
- Cooperative model;
- Market linkage model;
- Service subsidization model and
- Organisational support model.

These models will now be discussed in more detail in the rest of this section. The target population refers to the particular group of people which the SE has identified as a group experiencing some form of poverty, and needing specific intervention. The target population and social return which each SE seeks to affect will be a major determinant of which model a SE embraces.

### 2.3.1  Entrepreneur support model

The SE sells business services and financial support to its target population, self-employed individuals or firms, who then sell their products and services in the open market. The entrepreneur model is usually embedded; the social program is the business. Many micro-finance institutions follow this model. The mission of an entrepreneurial support SE is to facilitate the financial security of its clients by supporting their business activities. (Alter 2007:32)

### 2.3.2  Market intermediary model

The SE provides services to its target population, usually small producers, to allow them to access markets. The SE may offer services to add value to the client-made products, such as marketing or product development. A market intermediary model is usually embedded; its mission is to facilitate clients' financial security by helping them to develop and sell their products. The market intermediary may buy from the target population up front or will purchase on consignment. (Alter 2007:33)

### 2.3.3  Employment model

The SE provides job opportunities and employment training to the target population, usually people with high barriers to employment, and sells products or services to the market. The employment model is identified by the appropriateness of the employment opportunities it creates for its clients or the social support services it offers them. The employment model is usually embedded and it achieves self-sufficiency through the sale of its goods and services (Alter 2007:35). The employment model is also called a 'social firm', and sets a target that 25% of employees should be disadvantaged or disabled to be classified as a social firm (Smallbone *et al* 2001:79).

### 2.3.4  Fee-for-service model

The SE commercialises its social services and then sells them directly to the market, who are also the target population. The fees act as a cost-recovery mechanism for the organisation to continue to offer their services. The fee-for-service model is usually embedded and is commonly used by non-profits such as museums. (Alter 2007:37)

### 2.3.5 Low-income client as market model.

This is a variation of the fee-for-service model, and targets low-income individuals with relevant services and products which would normally not be accessible to them. This is called the 'bottom of the pyramid' approach, and is embedded in nature. The mission of these social enterprises is to provide access to products and services that increase clients' health, education, quality of life and opportunities (Alter 2007:38). Achieving financial viability can be very challenging due to the low incomes of the target population (Dees & Anderson 2003:23).

### 2.3.6 Cooperative model

The SE provides direct benefits to its target population, cooperative members, often through identifying a common need such as collective bargaining power and access to markets. The cooperative members are the primary stakeholders of the SE and share in costs and rewards and the model is thus embedded in nature. Financial self sufficiency is achieved through sales of products and services to other members and to an external market (Alter 2007:40). Unlike true cooperatives, capital is not usually provided by the members, but often comes from philanthropic sources. Cooperative businesses are perhaps one of the most clearly understood models of SE and show a diverse range of forms. Smallbone *et al* (2001:17) identified worker co-ops, consumer co-ops, housing co-ops, agricultural co-ops from a study of SEs in England and Wales.

### 2.3.7   Market linkage model

The SE facilitates trade between the target population, usually small producers or local firms, and the market, acting as a broker to connect different parties for a small fee. Market linkage SEs may also sell market information and research services, but are dissimilar to the market intermediary model in that they do not sell or market the client's products. The market linkage model can either be embedded or integrated, depending on how closely the social and business activities overlap. (Alter 2007:42)

### 2.3.8   Service subsidisation model

The SE sells products or services to an external market, and uses the income it generates to fund its social programs. This model is integrated because the business activities and social programs share costs, assets, and operations, but the business mandate is separate from the social mission. (Alter 2007:44)

### 2.3.9   Organisational support model

The SE sells products and services to an external market. This provides a funding stream to cover the costs of a parent organisation's operating and program costs. The business activities are separate from the social programs and the organisational support model is therefore external in nature, even though the SE will usually share resources and assets with the parent organisation. This model could occur when a non-profit sets up a for-profit arm (the SE) to generate income for itself (Alter 2007:45). The SE is directly responsible for profits, and not the social returns. According to

Borgaza and Defourny's (2001:16-18) characteristics of a social enterprise, the organisational support model would not be classified as a SE because it may not always exhibit high levels of autonomy, but instead supports its parent organisation.

The earliest SEs were formed as a way to provide financial support to a charity or NGO, and tended to take on an organisational support model. This meant they adopted an external approach, due to low levels of integration between social and business activities. The ability to keep the focus on the original vision is seen as an especially difficult challenge for these types of SEs, because money is only an 'input into the process, not a bottom line on the same level as mission impact' (Dees 2004:14). This problem is called 'mission drift'. Whilst this challenge affects some types of SEs, it is less likely to be true for the models in which the business and the social mission overlap closely, such as embedded models (see 2.3.1- 2.3.7 above). Newer models are becoming more common and in these examples, social mission and profit are both the bottom line.

## 2.3.10 The social value chain

Embedded organisations are those which have a high level of integration and overlap of social and business activities (Alter 2000:26) and many newer models use this approach. The value chain concept was originally proposed by Porter (1985 in Dees & Anderson 2003:3) to analyse the various source of competitive advantage for traditional for-profit forms. The simplified social value chain is shown in Figure 2.1 below:

| Procuring supplies | Employing workers | Designing the product | Producing the Product | Marketing to target customers |
|---|---|---|---|---|
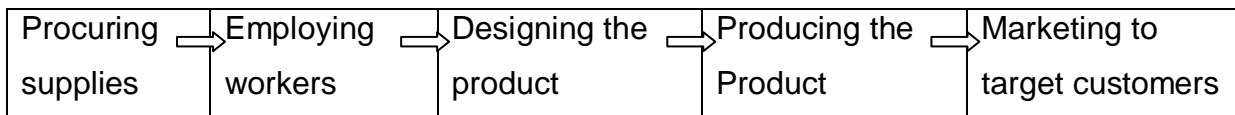
***Figure 2.1    The simplified value chain (from Dees and Anderson 2003:3)***

Dees and Anderson (2003:3-5) have used this modified approach to identify the major activities used to generate social value. The five activities are described below and Alter's operational models are assigned to different steps in the value chain. Only embedded models map onto the value chain since in these models creating social value is intrinsic to the business activity.

i.   Procurement allows SEs to add social value by purchasing from disadvantaged supplies. Procurement is a strategy used by Market Intermediary SEs (2.3.2).

ii.  Employment practises add social value through employing and training disadvantaged individuals. This is the approach adopted by Employment SEs (2.3.3) and some Co-operative Models (2.3.6).

iii. Products and services can in themselves add social value, for example education and cultural venues. This approach can be adopted by Fee-For-Service or Low-Income client models (2.3.4 and 2.3.5).

iv. Production processes and practises can add social value through the methods they employ. This applies predominantly to environmental practises, but can also include Employment models (2.3.3).

v. Marketing to target customers produces social value when the target customers are a disadvantaged market and the product adds social value. Entrepreneur support (2.3.1) and Low-income client (2.3.5) models use this approach.

Understanding the social value chain is important because SEs can take on so many diverse methods of operation and the challenges each approach faces will depend on where in the social value chain they seek to create social value (Dees & Anderson 2003:5). The more steps on the value chain which an organisation participates in, the more opportunities to create social value.

In this section the different approaches and models which SEs can adopt to meet their social and business objectives were discussed. In the next section the need for social enterprises as organisations to meet social needs in a sustainable manner will be discussed.

## 2.4 THE NEED FOR SOCIAL ENTERPRISES

The main driver for social enterprises is social problems (Austin *et al* 2006:2). In a developing country, such as South Africa there are many social problems which face people. Governments and civil society; private businesses and charities, are unable to address all the social problems, or to meet everyone's needs. Each sector faces different restrictions, such as limited finance, limited motivation and limited capacity. Social enterprises are a possible alternative to meet these social needs using a financially sustainable model.

### 2.4.1 Social problems: The driver for social enterprises

South Africa has high levels of economic poverty, mainly caused by unemployment, which often leads to a subsistence poverty, whereby people and families are not able to meet their basic subsistence needs (Max-Neef 1991:19). Extended unemployment can lead to a 'pathology', where the unemployed person reaches their lowest self-esteem and a state of apathy (Max-Neef 1991:19). In this state a person may face subsistence problems, guilt for being unable to provide for their families and the unsettling of other fundamental needs. Productive work or employment allows people to meet their subsistence needs more effectively, which in turn empowers them to pursue other fundamental needs and to reduce other poverties which they may be facing. Thus creating employment must be seen as a priority, and a vital social endeavour. While there are many good social returns which can be pursued by social

enterprises, employment is one of the most important social needs in South Africa and will be the focus of this study.

One of the effects of apartheid in South Africa was the exclusion of many African people from the formal job market, as well as limited access to quality education and skills development for a modern economy. Job creation has therefore been a priority for the South African government since the mid 1990's, and this has been pursued by a variety of initiatives such as black economic empowerment (BEE), Accelerated Growth Initiative (ASGISA), and the expanded public works programme (EPWP) (Fraser 2008:19-21). Unfortunately the labour market has grown at a more rapid rate than the creation of new jobs (Kirsten 2006 in Fraser 2008:8) and the market's need for unskilled labour has decreased with advances in mechanisation and decreasing profitability in the mining and farming industries (Baumann 2004 in Fraser 2008:19).

Small and medium businesses have increasingly been recognised as a potential source of new jobs and economic growth at the local level (Rwigema & Venter 2004:312). Recent South African government approaches such as GEAR, have also indicated support for this approach (Rwigema & Venter, 2004:312). There are numerous factors which inhibit the growth of businesses (Rwigema & Venter, 2004:312, 320-321), and for this reason it is important to support the growth of small and medium sized enterprises where possible.

The International Labour Organisation (ILO) (2009a:32) reports that 82.2% of those who were employed in sub-Saharan Africa in 2007 are classified as the 'working poor',

(i.e. those who are unable to lift themselves and their families above the US$2 per day poverty line). This shows us that although global unemployment was just 6.1% in 2004, a real problem lies in being under-employed, and working in low-paying jobs (ILO 2005:23). The 'working poor' have increasingly become a problem in developing countries across the world (ILO 2009a:32), and this has been exacerbated by the recent global job crisis (ILO 2009b:5).

The official South African definition of employment is to 'have engaged in any kind of economic activity for at least one hour in the previous week' (DPLG & Business Trust 2007:9), and can include informal subsistence farming and unpaid workers in family businesses (DPLG & Business Trust 2007:15). In South Africa the working poor are often engaged in survivalist enterprises, as well as other 'piece work' or informal sector employment (DPLG & Business Trust 2007:9-10). This is one example of a 'poverty trap', which is 'any self-reinforcing mechanism which causes poverty to persist' (Azariadis & Stachurski 2005:326). It can be called a poverty trap since the person must engage in their survivalist activities every day, and has no opportunity to find other work, or get further training, or to save money. This serves to illustrate that not only is job creation important, but 'decent work', which actually enables people to break out of poverty traps, is what we need in addition to economic growth.

Unemployment was rated as the most pressing problem by 33.1% of people in Khayelitsha (DPLG & Business Trust 2007:62). Unemployment is 'not a self-correcting problem' (Levinsohn 2007:2), instead, this problem compounds over time, as future growth is restricted and workers become less experienced and skilled for the job

market. Unemployment contributes to the social ills that accompany a loss of hope (Max-Neef 1991:19; Levinsohn 2007:2). The expanded definition of 'unemployment' includes those who have stopped looking for work, the so-called 'discouraged worker' (DPLG & Business Trust 2007:12-13). Unemployment doesn't only lead to discouragement in the area of work, but pervades the individual's whole sense of self (Max-Neef 1991:19). When unemployment is widespread in a community, this loss of hope contributes to many social ills, including 'crime, disengagement with the political process, and a lack of investment in one's future well-being' (Levinsohn 2007:2).

In addition to social problems which result from unemployment and underemployment, South Africa faces many other social problems. Urban (2008:347) describes South Africa as experiencing a 'social deficit' in which 'many governmental and philanthropic efforts have fallen far short of expectations, with social sector institutions often viewed as inefficient, ineffective, and unresponsive'.

### 2.4.2   Traditional approaches to addressing social problems

South Africa is one example of such a country where large portions of the population live in poverty, without access to basic services (DPLG & Business trust 2007:17-19). The public sector has an enormous array of responsibilities and a limited budget with which to tackle the many social ills in our country. However, it is not only the role of the state to respond to social needs, the private sector is also at fault. Private businesses, especially big business, have not been proactive, either in terms of offering quality service and products to the poor, or in terms of their conditions of employment and

corporate philanthropy. Corporate social investment (CSI) has been encouraged by the South African government (Broad Based Black Economic Empowerment Act 2003:5,6) The total amount encouraged is between 3-4% of pre-tax earnings (BBBEE Act: Codes of good practice 2003:17). CSI is an important source of finances, especially from large multi-nationals, and in recognition of this, the percentage of pre-tax income which can be donated as a tax-deductible donation, was increased from 5% to 10% as of January 2008 (South African Revenue Service 2007:24). Historically, even in developed countries, CSI and corporate philanthropy has never risen much above 4% (Koch, 1994:7-9). This is thought to be because established businesses are first accountable to their shareholders for how they spend their money. 'The freedom of top executives to pursue corporate goals unrelated to the bottom line has been circumscribed... Managerial capitalism tolerated a host of company objectives besides shareholder value. Investor capitalism does not' (Whitman in Vogel, 2006:26). SEs are able to create a different corporate culture, and can source finances from social venture capitalists, which allows them to negotiate different levels of return and shareholder expectations (Alter 2007:15).

Charities and NGOs have been created to help meet the needs of various under-serviced people groups, and can be known as the third sector, the civic sector or the voluntary sector (Seibel & Anheier, 1990:8). Many theorists believe that the primary origin of the third sector is a 'combination of market and state failure within a framework of institution choice' (Seibel & Anheier 1990:13) or a state failure to meet minority demands for public goods (Weisbrod in Seibel & Anheier 1990:13).

In South Africa the third sector has played, and will continue to play, a huge role in service delivery. For example, there are twice as many private HIV/AIDS centres as government run centres across the country (Wolvaardt, van Niftrik, Beira, Mapham & Stander 2008:224), and the not-for-profit sector is the largest private contributor to health promotion in the country (Wolvaardt *et al* 2008:226). The private and non-profit sectors have become increasingly important in primary health care, and analysts predict and encourage greater levels of engagement and public-private partnership (Wolvaardt *et al* 2008:233).

The third sector has been an area of much debate, especially in terms of what makes them distinctive from the private and public sector. Discussion also focuses on what qualifies these organisations for their special status, for example tax relief (Seibel & Anheier 1990:12). A defining characteristic of most third sector organisations is that generating profits are not their primary concern, which gives them an aura of altruism and trustworthiness (Weisbrod 2000:12).

However, their greatest strength is their greatest weakness, since a lack of profit motivation can also lead to lower efficiency and poor quality services and products (Seibel & Anheier 1990:16). Charity is important and can improve people's quality of life, especially in meeting basic subsistence needs (Dees 2007:4). Charity can be compared to a 'single satisfier'; it meets one need temporarily, but doesn't meet others, and can't bring lasting change and development. 'Charity is no solution to poverty. Charity only perpetuates poverty by taking the initiative away from the poor' (Yunus, 1999:283).

### 2.4.3 The enterprise approach to social problems

Hybrid organisations such as SEs are better able to invest a greater portion of their proceeds, maintain a social returns focus, and offer quality goods and services, than the private, public and third sector can (Smallbone *et al*, 2001:5; du Toit 2005:662-663). A SE must therefore maintain a balanced focus on social and financial returns. This allows the enterprise to be a good corporate citizen and to offer quality and value-for-money services. Being structured as a business enterprise also increases accountability and efficiency, while responding to market preferences and demands. Small social businesses and local entrepreneurs are better suited to respond to social needs since there is less bureaucracy and resistance to change (Sprague 2008:90). Social enterprises can also be expected to play an increasingly important role in service delivery, through offering services and products which meet social needs for groups who are unable to access government services.

This section has highlighted the need for social enterprises in South Africa. As a country which faces many pressing social problems, traditional approaches from government and charities, as well as newer approaches such as CSR, are insufficient to meet the growing needs of South Africa's poor. Social enterprises offer an alternative approach to philanthropy by generating a large portion of their own income and targeting specific disadvantaged groups within the population. The next section addresses the challenges which exist within the social enterprise sector.

## 2.5    CHALLENGES FACED BY SOCIAL ENTERPRISES

Social enterprises face three main kinds of challenges, which relate to their hybrid model and their pursuit of multiple returns. The first group of challenges are those which arise as a result of their business-like structure. These market pressures may put pressure on organisations to compromise on their social agenda (Dees & Anderson 2003:9). From the other end of the spectrum there are social and political pressures to limit profitability and to overinvest in social returns. The second type of challenges are related to their efforts to measure and report on social returns (Dees & Anderson 2003:9). The final type of challenges are those which are unique to social enterprises, and are the result of their inclusive management and bottom up approach to development (Smallbone *et al* 2001:8). These three groups of challenges will now be looked at in more detail.

### 2.5.1   Challenges of being business-like

A SE is likely to adopt a similar legal model to other traditional small business, at least initially, and will therefore experience many of the same challenges. Micro-enterprises rarely create jobs for more than four people, and ideally the development of small and medium enterprises (SMEs) should be encouraged to increase job creation. As exciting as the possibilities for SMEs are, there remain many limiting conditions for the formation of new businesses, and for growth of small businesses, within the South African context.

The size of small business can lead directly to them being overlooked by role-players, such as the tendency to be sidelined by policy-makers, miss out on tax incentives and business subsidies (World Business Council for Sustainable Development & SNV 2007:4). Fewer employees also means that many small businesses lack human and financial resources and may struggle with the burden required to exist in the formal sector (Rankin 2006:69). The government needs to make sure that the benefits, such as access to credit and utility services outweigh the costs of formalisation, such as taxes (WBCSD & SNV 2007:4). There are several other support needs in areas such as marketing, financial management, access to finance and the use of information and communication technology which have been identified for small businesses (Smallbone *et al* 2001:8, 25). Additional financing needs to be made available to bridge the gap between microfinance, start-up credit, and larger loans (WBCSD & SNV 2007:6). The need for additional finance is especially true for social enterprises which may take significantly longer than traditional businesses to generate a financial return on investment (Dees 2004:12).

The World Bank's report on Doing Business (2009) ranks South Africa 32nd out of 181 economies for 'ease of doing business' in 2009, up from 35th in 2008. While South Africa ranks very well for certain criteria, such as being placed 2nd for access to credit, in other areas we are lagging behind. In an economy where the need for job creation is huge, government needs to reassess why we are only rated as 102nd for ease of employing people. This is supported by Rankin (2006:17) who found that 46% of firms rated labour regulations as a major obstacle to their business.

Regarding the success of social enterprises, Dees (2004:4) warns of a high business failure rate and the compounding difficulty of pursuing both social and financial returns. Other challenges which social enterprises will potentially face as a result of being business-like are higher start up costs, lack of experienced staff and business leadership, and vision drift (Dees 2004:4). Despite an awareness of these challenges Dees is a firm advocate of the possibilities and opportunities which can be accessed by social enterprises, and his research seeks to explore how wealth creation can be aligned with serving a social purpose (Dees & Anderson, 2003:2).

### 2.5.2  Challenges faced in measuring social impact

A problem which all enterprises face is the measurement and monitoring of results, especially relating to social programmes or corporate social responsibility (CSR) initiatives. This problem actually extends beyond the business world, and continues to plague NGOs, government and development agencies around the world. When SEs are able to quantify their social impact it will provide credibility to the sector, and this will provide 'access to more work, more finance and more support, encouraging an upward spiral of success' (Shah 2003:11).

While there are a number of CSR reporting techniques which have been developed by large businesses, many of these have been criticised as public relations exercises (Hamann 2008:22). Crompton and Bull (2005:11) and Smallbone *et al* (2001:33) found that social enterprises in the UK use only informal indicators to measure performance of their social objectives, despite being committed to making a social impact.

Articulating social impacts as an output was usually just a reactive process to a funding need, as opposed to a self driven ambition. This shows that efforts towards compliance can lead to 'greenwashing', a process of selective reporting, which bypasses the need for accountability to stakeholders (Hamann 2008:22).

The Global Reporting Initiative (GRI) was established to design globally applicable guidelines for preparing enterprise-level sustainability reports (Bennett & James 1999:440). The method they advocate for measuring social returns is to assess the degree to which corporate performance matches the stated values of the corporation. This is determined by engaging with stakeholders and determining how far they feel the organisation has lived up to its promises (Bennett & James 1999:509). They recognise that reporting will oftentimes still be reactive, and prone to greenwashing, but believe this process of inclusivity and dialogue is seen as a step towards real accountability, sustainability and organisational change (Bennett & James 1999:515). This approach is similar to the one adopted for this study.

In light of this, CSR has seen a shift from emphasizing the responsibility of a business to society in general, to consider the responsibility of businesses to their stakeholders. This has had the effect of personalising and focusing CSR for businesses (Hamman 2008:11). Clarkson (in Hamman 2008:12) identifies two main types of stakeholders and discusses how the stakeholder model can work.

a)  Primary stakeholders

Primary stakeholders are those who are vital to the corporation, or who have direct, well established legal claims on the corporation's resources. Examples of primary stakeholders are shareholders, creditors, employees and government.

b)  Secondary stakeholders

Secondary stakeholders are affected by the corporation, but are not essential to its survival, and do not have legal claims, but may have ethical or other non-binding claims. Examples of secondary stakeholders are customers and local communities

The survival of an organisation depends on the continued participation of its primary stakeholders, and so its success will depend on its ability to provide 'wealth, value, or satisfaction' to all primary stakeholders, and not just the shareholders (Hamman 2008:14, Savitz & Weber 2006:180-182). This approach facilitates good corporate citizenship and emphasizes relationship, conflict management and collaboration between businesses and their stakeholders (Dees & Anderson 2003:8,20). Although this approach was developed for traditional for-profits, a social enterprise should be even more aware of its relationships with its stakeholders, because at least one set will be the very reason for the existence of that social enterprise. That the target population of the SE should be treated in a similar fashion to the primary stakeholders is necessary if the SE is to stay true to the organisation's mission.

In terms of understanding the employees as primary stakeholders, there are a number of different ways to understand their needs, with regards to their employment. Three factors are found to be consistently important to employees, and correlate very highly with their overall satisfaction in their work lives (Sirota, Mischkind & Meltzer 2005:10). These factors are found to be present across different levels of an organisation, across ethnic groups, between different genders and across different lengths of tenures. SEs, especially those focused on job creation, should concentrate on ensuring that these three factors are present with their staff since a genuinely high-morale, enthusiastic and highly-productive workforce is impossible without these needs being met (Sirota *et al* 2005:19). The three needs are equity, acheivement and camaraderie and are discussed in further in chapter four of this study.

Other social returns from employment can be represented using fundamental needs. Work is a possible satisfier for the following needs: protection, participation, creation, and identity (Max-Neef 1991:32-33). Other needs such as affection and freedom can also be met indirectly through friendly, empowering work environments. The fundamental needs approach correlates closely with the three conditions of employment identified by Sirota *et al* above.

A high level of communication is necessary to ensure that, firstly social returns are produced, secondly that they positively impact the correct group, and thirdly that the people they impact are satisfied with these returns. Consulting with primary stakeholders and target population will allow them to be much more effective, because they can respond directly to people's expressed needs and poverties as well as other

social needs. This will ensure that value is generated for as wide a population as possible. (Young 2008:57)

### 2.5.3 Challenges unique to being a social enterprise

The main challenges which relate specifically to the social enterprise approach are a result of the dual focus of producing financial and social returns. SEs need to be able to aggressively pursue a double bottom line, and compromising on either social or financial returns can prove disastrous for a SE (Dees & Anderson 2003:7). If too much attention is given to being business-like and efficient, the organisation might lose sight of the original social mission, this is called mission drift. If not enough attention is given to being financially secure, the SE will not be sustainable and will not be able to meet its social objectives.

Mission drift is a problem most commonly linked to models which are integrated or external in their approach. If the social mission and business activities are closely linked, as in embedded models, then the social goals are met while conducting the business activities (Alter 2007:26). Since in these models the business activities and the income generating activities are closely related, management are able to give enough attention to each purpose and mission drift can be avoided.

Setting up and running a successful business is extremely challenging in itself, and producing social impacts as well will offer many new challenges, especially in maintaining financial viability (Dees 2004:15-16). SEs may also have higher start up

costs and running costs since the mission is prized over efficiency and profit margins (Alter 2007:26; Hague 2008:91). An example of an organisation especially prone to this problem is a job creation project with people who face multiple disadvantages and require high levels of support.

Social enterprises also face unique support needs, which are related to their forms of ownership and participatory decision making structures (Smallbone *et al* 2001:34). As organisations which are committed to improving the quality of life for disadvantaged people, it is important that they develop human capital in the target populations in which they work. Part of this development is about encouraging participation and the development of endogenous satisfiers in a bottom-up approach, rather than imposing exogenous, top-down satisfiers (Max-Neef 1991:34). While these structures for participation and ownership are useful and important, they provide an extra element of difficulty in the management of a SE (Smallbone *et al* 2001:34). Related to this are the difficulties around finding like-minded people to employ in the SE, especially for management positions (Dees & Anderson, 2003:8).

This section has considered a number of challenges facing the social enterprise sector. Certain challenges can be minimised through changing external conditions and legislation, but others are closely linked to the specific mission and operating models used by SEs. As this sector grows in South Africa hopefully more research will be conducted to provide SEs with tools to manage these challenges. In the next section, the benefits of social enterprises will be discussed.

## 2.6    BENEFITS OF SOCIAL ENTERPRISES

The simplest way of understanding the benefit of SEs is that they produce social and financial value. The financial returns in this context usually refer to the ability of a SE to be self-sustainable. Social value is what differentiates between traditional businesses and social enterprises. For this reason the social returns and social value will explored as the main benefits of SEs.

### 2.6.1  General benefits

Economic wealth which is created in the disadvantaged communities or target population in which the SE works, can be understood to form part of its social value. Since profit generation is often not the top priority for most SEs, there will only be a limited financial impact into the broader economy. A SE might positively affect local development in terms of 'employment, income growth, increases in tax revenue, enhanced provision of services, increases in local income retention, and demonstration and motivation effects' (OECD 2003b in Haugh 2005:7). At the macro-economic level, SEs contribute to welfare reform, redistribute resources between societal groups, stimulate social innovations and create jobs (Haugh 2005:8).

By adopting a business-like model, SEs offer at least five significant advantages over NPOs and public organisations (Dees & Anderson 2003:5-6):

- Higher efficiency
- Increased innovation
- Leveraging and accessing scare public and philanthropic resources
- Responding quickly to demand
- Improved access to skilled personnel

The British Department of Environment, Transport and Regions (1999 cited in Smallbone *et al* 2001:18) explains the major objective of SEs is to provide goods and services which the market or public sector is unwilling or unable to provide. Leadbeater (1997:2) highlights the importance of the entrepreneurial spirit in producing social returns:

> Social entrepreneurs identify under-utilised resources – people, buildings, equipment – and find ways of putting them to use to satisfy unmet social needs. They innovate new welfare services and new ways of delivering existing services.

A study of SEs in England and Wales (Smallbone *et al* 2001:20) showed that SEs claim to produce social returns in seven different areas:

- Creating jobs
- Providing training and improving skills
- Providing goods / services where the state/market will not
- Providing finance and investment
- Generating surplus for community benefit
- Providing physical assets
- Involving the community and combating exclusion

Some SEs might produce multiple returns, depending on their activities. Another way of understanding the role of SEs is to simply look at their potential to 'permit the local accumulation of physical, financial, human and social capital' (Smallbone *et al* 2001:21). Physical capital refers to buildings, land and equipment; financial capital refers to loans and grants; human capital refers to training, education and skills; and social capital refers to trust and reciprocity and relationships. Leadbeater (1997:67-70) describes the 'virtuous circle of social capital', which starts with the initial contribution of social capital from the social entrepreneur and ends with the production of more social capital, the return on social capital investment.

### 2.6.2  Benefits of job creation

As explained earlier, a primary social need in South Africa is the creation of decent employment. The potential of small, medium and micro enterprises (SMMEs) for employment and poverty alleviation is vast. Statistics from 2003 show that 32% of our GDP comes from SMMEs, and 45% of all formal employment is through SMMEs (Solomon n.d. in Rwigema & Venter, 2004:312) The role SEs in particular is considered to be especially significant because they are able to create new jobs in a cost effective manner (Smallbone *et al* 2001:19). This can be achieved through skills development, employment creation and through the formation of pathways to integrate socially excluded people. While all SEs will employ at least one person, there is room to encourage job creation in this sector further (Pollin, Epstein, Heintz & Ndikumana 2006:xiv).

SEs which focus on job creation, work and training for disadvantaged people are described as 'work integration social enterprises' (or WISEs) (Aiken 2007:2). WISEs are seen to have a unique role in that they are able to provide job opportunities to the most disadvantaged groups in a community since their mission is linked to a commitment to that specific group (Aiken 2007:5). Aiken (2007:2) lists the following as examples of disadvantaged people:

- Those with low qualifications, especially young people
- Black and minority ethnic groups
- Women with children under five years and single parents
- People over 55
- Disabled people
- Those with an intergenerational history of unemployment
- Homeless people
- Ex-prisoners
- Those with addiction problems
- People with multiple disadvantages

WISEs would be most likely to take the form of an employment or cooperative model if their primary focus is on job creation. If their focus is on training and skills development they would possibly assume an entrepreneurship support, or low-income client model. Traditionally government led initiatives have valued, and therefore focused on, job creation while NGOs have focused on training and skills development (Aiken 2007:10). WISEs which span this entire spectrum can be identified and there seems to be a need for each type (Aiken 2007:8).

As the name 'work integration social enterprise' would imply, there are also organisations which create jobs and sheltered employment and training, so that their

workers can be integrated into the private sector. There is opportunity for those organisations who work with *less* disadvantaged people to be more successful in this strategy. Organisations working with individuals with a higher degree of disadvantage have been found to benefit significantly from public sector engagement either via direct intervention through grants and subsidies or indirectly through preferential procurements and contracts. (Aiken 2007:8)

## 2.7   CONCLUSION

This chapter has used current literature to justify the need for social enterprises and to explain various structures and models used by social enterprises. Three areas which might be particularly challenging for SEs have also been considered. Additional supporting literature has been gathered from the field of small business management as well the volunteer and charity sectors. Since social enterprises can be considered hybrids that need to operate as sustainable businesses, while still offering social value, it seems appropriate to reference these two fields, and the accompanying bodies of literature relating to them.

This chapter has provided a framework for understanding social enterprises and areas which need further research, particularly in relation to measuring social returns, since these are a fundamental component of what it means to be a social enterprise. The next chapter will describe the research method to be used in an exploratory mixed-methods study into the impact of social enterprises in job creation.

# CHAPTER THREE:  RESEARCH DESIGN AND METHODOLOGY

## 3.1   INTRODUCTION

In chapter one the situation in South Africa was introduced; and the problem statement, research objectives, research methodology and important definitions were explained. Chapter two contained the literature review which explored in detail the problem of service delivery, as well as the viability of social enterprises as a model to provide services and social goods, and some strengths and challenges of this new hybrid sector were discussed.

In this chapter a pragmatic research paradigm, and an exploratory research design, will provide the foundation upon which to build the research method. A mixed-methods overall research approach will be selected based on its relevance to the research question and the research paradigm and research design. These in turn will guide the selection of the primary data collection methods: semi-structured interviews with management of a social enterprise, and a researcher-administered questionnaire with the staff of those social enterprises committed to job creation. The design of the research instruments will support the mixed-method approach. The interview will collect mostly qualitative data using open questions, and the questionnaire will consist of closed questions to ascertain the experiences and attitudes of the staff.

The selection of a suitable sample will then be discussed and the sample will be briefly described. Issues of validity and reliability will then be addressed to ensure that the

instruments, sampling procedure and analysis of data conform to acceptable standards. Finally the research problem will be investigated by collecting field data, using semi-structured interviews and a questionnaire. This data will then be analysed. The research limitations and ethical considerations will be discussed. Various literature sources were consulted to guide the decision-making process around finding the most suitable methods and frameworks and to help design a valid questionnaire for the instruments.

### 3.1.1  A pragmatic paradigm

A worldview, or paradigm, can be described as a general orientation about the world, which guides how research is conducted (Charmaz 2006:6). Pragmatists believe that there is an external, physical world, and an internal reality within the mind. The pragmatic worldview therefore allows researchers to draw on quantitative and qualitative approaches. Patton (2002:72) emphasizes that 'being pragmatic allows one to eschew methodological orthodoxy in favour of *methodological appropriateness…* recognizing that different methods are appropriate for different situations'. The research questions will be explored from a pragmatic perspective, and will make use of mixed-method research where appropriate.

## 3.2   OVERALL RESEARCH APPROACH

Research can simply be understood as a disciplined process for performing an inquiry related to a problem or area of interest (Cooper & Schindler 2006:6). The purpose of research is to generate or examine theories and to contribute to knowledge (Patton

2002:10). There are three different research approaches; qualitative, quantitative and a mixed methods approach. In accordance with the pragmatic research paradigm, a mixed-methods approach will be used.

Qualitative methods facilitate the study of issues in depth; whereas quantitative methods produce broad, generalizable sets of findings (Patton 2002:14). Mixed-methods research is a research approach which combines both qualitative and quantitative research forms (Creswell 2009:4). It is more than collecting and analysing both types of data, but also involves the use of both approaches to make a study stronger than one which uses a single method. Table 3.1 illustrates the differences between the three approaches for various dimensions of research.

| Dimension for comparison | Qualitative method | Quantitative method | Mixed method |
|---|---|---|---|
| Paradigms | Constructivism (and variants) | Post positivism; positivism | Pragmatism; transformative perspective |
| Form of data | Typically narrative | Typically numeric | Narrative plus numeric |
| Purpose of data | (Often) exploratory plus confirmatory | (Often) confirmatory plus exploratory | Confirmatory plus exploratory |
| Sampling | Mostly purposive | Mostly probability | Probability, purposive and mixed |
| Data analysis | Thematic strategies; categorical and contextualising | Statistical analyses; descriptive and inferential | Integration of thematic and statistical, data conversion |
| Validity issues | Trustworthiness, credibility, transferability | Internal validity, external validity | Inference quality, inference transferability |

*Table 3.1 Dimensions of contrast among three methodological communities. Adapted from Tashakkori and Teddlie (2008:22)*

There is no single way to use mixed methods, it is more the case that mixing can take place in different ways, and at different stages in the research project (Tashakkori & Teddlie 1998:53-54). The first stage concerns the type of project, the second stage includes the type of data and research operations (such as sampling procedures and measurement), and the third stage concerns the type of data analysis. When mixing occurs within these stages, Tashakkori and Teddlie (1998:149) call these 'mixed models', or 'completely mixed studies'.

Cresswell (2009:14-15) proposes that all mixed methods can be classified into three general strategies:

- Sequential mixed methods are those where the researcher seeks to build on the findings of one method with another.
- Concurrent mixed methods are those where the researcher collects qualitative and quantitative data at the same time, and then integrates them both in the interpretation of the results.
- Transformative mixed methods applies a theoretical lens as the framework, but within this uses either a sequential or concurrent mixed methods approach.

A concurrent embedded strategy is a specific mixed methods approach which has been adopted for this study. This approach is a specific type of concurrent approach which uses one primary method to guide the project and a second method to provide support (Cresswell 2009:214). The second method is given less priority, and is therefore embedded in the first, dominant approach. Tashakkori and Teddlie (1998:48) propose a concurrent embedded approach called 'multi-level mixing' which is where a researcher chooses to utilize different methods to study different groups or levels in an organisation.

## 3.3    SPECIFIC RESEARCH APPROACH

According to Ruane (2005:12) and Schutt (2008:10) research usually pursues one of four basic goals: exploration, description, explanation and evaluation.

### 3.3.1  Exploratory research

Exploratory research is conducted for the purpose of increasing understanding of a new or little researched topic or field (Ruane 2005:12). Exploratory research tends to use a small sample of subjects and acquires in-depth information about a situation or group of people (Ruane 2005:12). Exploratory research 'seeks to find out how people get along in the setting under question, what meanings they give to their actions, and what issues concern them' (Schutt 2008:10).

### 3.3.2  Descriptive Research

Descriptive research is research which defines and describes social phenomena and provides a detailed account of the situation (Schutt 2008:8; Ruane 2005:12). Since descriptive research strives to paint an accurate picture, close attention must be paid to issues such as measurement and sampling (Ruane 2005:12).

### 3.3.3  Explanatory Research

Explanatory research seeks to answer the questions about *why* and *how* social phenomena occur (Ruane 2005:13). Explanatory analysis makes use of causal analysis to show causal links and connections.

### 3.3.4  Evaluation research

Research which describes or identifies the impact of social policies and programs is called evaluation research (Schutt 2008:11). This research is used to judge the benefits and efficacy of the outcomes of an activity (Ruane 2005:13).

### 3.3.5 Selection of Research Approach

An exploratory research approach was selected for this study. As a relatively new field, with almost no South African research into SEs, exploratory research has allowed for an in-depth study, in order to understand the role of SEs and their role in job creation. From a research approach perspective, exploratory research offers opportunities to 'develop concepts more clearly, establish priorities, develop operational definitions and improve the final research design' (Cooper & Schindler 2006:134).

## 3.4 RESEARCH DESIGN

### 3.4.1 Secondary Data Collection

Secondary sources, such as peer-reviewed articles, scholarly books and social enterprise practitioner-written books were consulted. When data which was collected and used for other research or academic writing, is used in a different report, it is called secondary data (Horn 2009:135). The main themes which were researched were social enterprises; the role of small businesses in development; employment; and the links between poverty and unemployment. Secondary literature was obtained from the University of Cape Town's library, and from the NMMU's online journals and databases. This data provided a general understanding of the field of social enterprises and related themes, and gave insight into the problem area.

### 3.4.2 Primary Data Collection

Mixed method research makes use of methods from the qualitative and quantitative approaches. This means that both closed and open ended questions can be asked, different types of data can be collected and analysis can be statistical or textual (Creswell 2009:15). As explained earlier an embedded, concurrent mixed method was used. The main type of data being collected was qualitative, which was collected during both stages of data collection; and during the second phase, the questionnaire, quantitative data was also collected.

In the interests of exploratory research, a semi-structured interview with open-ended questions was used to collect mainly qualitative data (Horn 2009:123) from the

managers of social enterprises. The interviews focused on the managers' understandings of social enterprises, and the purpose and social mission of their specific business. The interview also focused specifically on the business' role in job creation and understanding the social impact which this has on their staff. This interview data was used to identify which organisations consider themselves to be social enterprises which are prioritizing creating employment for disadvantaged groups. Three of these organisations were selected as case studies.

A questionnaire was then used to learn about staff experiences and job satisfaction, as well as learning about the impact of being employed, and whether this has led to a reduction in poverty in their lives. This relationship between employment and reduced poverty was explored using Max-Neef's framework on human development and poverties. Based on the interviews with management certain corporate values and activities, specific to each organisation, were included in the questionnaire to see how closely the two levels of the organisation are integrated. This also allowed for triangulation of the data. The questionnaire contained mainly close-ended questions, to gather quantitative data, and had some open-ended questions aimed at clarifying answers.

## 3.5   RESEARCH METHODS

There are two main ways to collect primary data; communication research and observation research. Communication research was used in this study. Communication research occurs when the researcher asks the respondents certain

questions and is able to learn about attitudes, abstract information and past events (Cooper & Schindler 2006:287). The communication approach is sometimes called questioning research, and it is heavily dependent on both the willingness of people to respond, and the quality of the questions to be asked.

There are several different communication approaches. The following considerations were taken into account when deciding which mode to use:

- Convenience for the interviewer,

- Convenience for the interviewee,

- The amount of time participants need to formulate their responses,

- The amount of time the interviewer has to reflect on the answers,

- The speed of the communication.

There are three main types of communication research; personal interviews, phone interviews and questionnaires (Cooper & Schindler 2006:363-367). The two communicative approaches which will be used in the study, personal interviews and questionnaires, are now explored in more detail.

### 3.5.1 Personal Interview

In order to collect the most detailed information and to maintain a high level of researcher control and flexibility a personal interview was used to question management of social enterprises. Due to the exploratory nature of the research, a

personal interview allowed the researcher to gain an in-depth understanding of the social enterprises being studied (Horn 2009:126). As the interviews pertain to job creation and working environments, the interviews were conducted at the workplace.

A personal interview allows for very fast communication, which requires less time from the interviewee than electronic or written communication. Conducting the interview at the workplace was the most practical and convenient for the interviewee (Gibson & Brown 2009:89). So that the researcher could fully focus on the interview, and accurately report all the information (Ruane 2005:161) the interviews were all recorded using a digital audio recording device and through written notes during the interview. A digital audio recorder provided a non-intrusive easily accessible record of the conversation.

Personal interviews were conducted with management to identify organisational values and priorities, and to identify three social enterprises which were suitable for the study. The employees of these three organisations were then used in the second stage of research, the questionnaire.

### 3.5.2 Questionnaire

Information on the staff of the three social enterprises which are being investigated as case studies was gathered using a questionnaire. A questionnaire, like an interview, is an example of a communication method of gathering data. Questionnaires use a written research instrument to gather critical information by posing questions and

collecting respondent's answers (Horn 2009:115). Questionnaires which are administered by the researcher *in situ* are able to eliminate the two main problems associated with self-administered questionnaires. Researcher administered questionnaires have much lower attrition rates, and it is easier to ensure that the sample is representative. It is also easier for respondents to get clarity on questions which they do not understand, although this may lead to the 'researcher effect' whereby the interviewer's answer may affect the response given.

## 3.6    RESEARCH INSTRUMENTS

The two research methods which were used were interviews and a questionnaire. The interview used an interview schedule to guide the questioning. A questionnaire is both a method and an instrument for data collection. The specific structure of the research instruments and the types of questions used in collecting the data will now be discussed.

### 3.6.1  Personal interviews

Interviews can be classified based on their level of structure as well as how they will be administered (Horn 2009:126). Interview structure ranges from totally structured, to semi-structured and unstructured. The level of structure is roughly determined by the presence or absence of an interview schedule.

Structured interviews are used when the subject area is well known and the researcher is testing aspects of the theory, often to produce quantitative data. The research schedule is highly inflexible, usually consisting of closed-questions, and the approach is very similar to a researcher-administered questionnaire. (Horn 2009:127)

An unstructured interview is used when the research is in a new field and often a research schedule will consist simply of 'a handful of headings or topics' and discussion will be guided by the interviewer (Horn 2009:127).

In semi-structured interviews the interviewer will use an interview schedule, but the type of questions will be very different to that used in a structured interviews. A semi-structured interview is exploratory in style and will ask probing open-ended questions. A semi-structured approach borrows the use of an interview schedule from the structured approach, and borrows the flexibility and open-ended questioning style from unstructured interviews (Cresswell 2009:179).

A semi-structured interview schedule was used in the personal interviews with the managers of social enterprises. The semi-structured interview provided the interviewer with a clearer picture of what questions to ask in future interviews, and its structure was provided through the use of an interview schedule.

The questions will focus on the intentions, practises and values of the SE with regard to social impacts and staff development. The motivation behind the structures and

activities of the SE will be discussed and the challenges around producing both social and financial returns will be looked at. The history, current situation and future ambitions of the managers for the SE will also be outlined. This data will be used to format the specific questions for the staff, to compare management's perceived impact with the experiences of the staff.

## 3.6.2 Questionnaire

A questionnaire was selected as the most appropriate way to collect data on the opinions and experiences of the staff of three social enterprises. A questionnaire allowed for data to be collected quickly, from a large group of people, in a non-threatening way. The questionnaire was administered to groups of staff, no more than eight at a time, at their place of work. This reduced the time needed for data collection and allowed the researcher to administer the questionnaire (Horn 2009:116).

The first section of the questionnaire focused on the employee's experiences at work, and required closed responses to statements about the work environment and job satisfaction. Other questions on the indirect impacts of employment, such as impacts on family and self-esteem and hopes for the future were also asked in a similar format. The final section of the questionnaire addressed the biographical data for each respondent, and consisted of open questions.

The structure of the question responses was mostly closed, with a summated rating scale for answers. This scale is similar to a Likert scale which is a way of measuring a

respondent's agreement or disagreement to a proposition (Horn 2009:121). The use of closed questions made data analysis considerably easier by providing possible answers to the questions, and this also made it easier and faster for respondents to complete (Horn 2009:120).

Rating scales produce ordinal, or ranked data (Horn 2009:117). A rating scale can tell us that one respondent thinks something is more important than another respondent, but not how much more important. Collecting ordinal data limits the amount of analysis which can be done, and favours the use of descriptive statistics over the use of inferential statistics.

A rating scale of 5 to 7 points is considered to be the ideal length to ensure optimal validity and reliability (Krosnick 1997:148). Krosnick (1997:149) also found that providing verbal labels for each point, improves reliability and validity of responses, especially among groups with low to moderate education. A five-point scale will be used for the questionnaire. This allows some differentiation and increased sensitivity to measure variability in responses, without being overly complex and unwieldy.

There are a number of problems related to using scaled responses; the most important in the context of this research problem is 'acquiescence', which occurs when the respondent tends to give an affirmative answer to a question, regardless of whether they actually agree. This can occur for a number of reasons including the desire to be polite (Leech 1983 in Krosnick 1999:39) and in situations of power inequality (Lenski & Leggett 1960 in Krosnick 1999:39). Since the questionnaire will be administered to

staff of SEs at their workplace, and is about their work, there may be a tendency to acquiesce. It is important to stress the anonymity of the results to avoid this.

Rating scaled questions were used to gather data on the staff's views and experiences of working at a SE. Their answers were used to determine their job satisfaction, the perceived value of their work and the outcomes employment on their quality of life

After the rating questions, there was one question using a ranking scale which asked respondents to consider a list of descriptors of their work environment and to indicate which were the most important to them. This will give an indication of the preferences of staff, and will allow comparison with the perceptions of management on what is important to the staff. The biographical data section is short, and uses open ended questions to gather the necessary data on the respondents and their work history.

## 3.7    SAMPLING PROCEDURE

A sample is a selection of some elements of a population which allows us to draw conclusions about the whole population (Cooper & Schindler 2006:406). Sampling is necessary for many reasons, including the cost and time associated with collecting data, as well as the time needed to analyse data (Horn 2009:111). A good sample is one which represents the characteristics of the population well, and when it does this it is called a valid sample (Cooper & Schindler 2006:406).

### 3.7.1  Sample design

There are two types of sample design, namely probability or non–probability sampling (Cooper & Schindler 2006:407). Probability sampling involves the use of a pre-determined list and a random selection process. In non-probability sampling there is no pre-set list and selection is therefore not random (Ruane 2005:115-116).

There is no list of social enterprises in Cape Town, and the diversity of forms and legal structures which they can take would probably make such a list incomplete anyway. Although probability sampling is superior in terms of producing a sample with very little sampling bias (Cooper & Schindler 2006:408), it was not possible under the conditions for this study. A non-probability sampling approach will therefore be used for this study.

There are several forms of non-probability sampling which can be used. These include convenience sampling and purposeful sampling. Purposeful sampling techniques are used when the selected cases are related to the study (Horn 2009:113). This is a quick and easy way to find cases, but cannot be regarded as representing any well-defined population. Purposeful sampling techniques identified by Horn (2009:113) include:

- Modal sampling is the selection of cases from the most common group,
- Expertise sampling uses only those with a certain level of knowledge,
- Quota sampling selects a set number of cases from pre-defined groups,
- Diversity sampling involves selecting the widest range of cases possible,
- Snowball sampling is when one participant recommend the next and so on,
- Critical incident sampling is studying important events which occur,
- Self-selection sampling occurs cases present themselves to be studied.

Social enterprises will be identified through snow-ball sampling. After the interviews with management have been conducted, three social enterprises which prioritise job creation will be identified and used as case studies.

Within each SE convenience sampling will be used for the staff sample. Employees will be asked to volunteer at their workplace. This is an easy and cheap method to gather data, but is the least reliable sampling procedure. Convenience sampling is best suited to exploratory research, such as this report (Zikmund 2000:351).

### 3.7.2  Sample characteristics

The target sample was the management and staff of social enterprises, based in Cape Town. The staff who will be questioned work at SEs which are focused on job creation. These enterprises are run as sustainable businesses and have all been running for more than a year. These SEs were identified during the interviews with management level employees. Since the sample was selected using non-probability sampling techniques, the sample could not reflect the whole population, but instead provided insights as part of an exploratory study of the role of social enterprises in job creation.

## 3.8  VALIDITY AND RELIABILITY OF THE RESEARCH INSTRUMENTS

Reliability and validity are important components of research design which 'reduce the possibility of getting the answer wrong', by ensuring that the research instrument is a good measurement tool (Desai & Potter 2006:149).

## 3.8.1 Reliability

The reliability of a research instrument is the ability of that instrument to supply consistent results (Cooper & Schindler 2006:321). When the outcome of a measuring process is able to be reproduced it is said to be reliable (Zikmund 2000:279). There are four threats to reliability, and the precautions which were taken to maintain reliability will now be discussed (Robson in Desai & Potter 2006:149).

Participant error is the result of conducting research under very different external conditions. Interviews were all conducted at the manager's place of work, in the early afternoon at a time selected by manager. The questionnaires were all administered at the workplace, in the morning, in a separate room to where their work is conducted, to avoid distraction.

Participant bias occurs where respondents give socially appropriate or expected responses. This was a very likely problem, especially in the interviews, and can also occur as a result of the optimism and idealism of those in management. The opinions and values expressed by the managers were therefore triangulated by gathering the perspectives of staff. The use of an anonymous and confidential, written questionnaire was used to reassure respondents that they could answer freely.

Observer error occurs when the observer asks questions differently in different contexts. The interviews were only semi-structured, and the use of different questions

did occur. Questionnaires are highly structured research instruments, and therefore reduce observer error.

Observer bias occurs during the interpretation of the data which has been collected. Observer bias was managed through reflexivity and the use of quantitative data to support the qualitative findings.

### 3.8.2 Validity

The validity of a research instrument is the ability of the instrument to measure what it is meant to measure (Cooper & Schindler 2006:318). Understanding and classifying validity is a growing concern in academic fields and can refer to the validity of an instrument, the accuracy of the researcher's reports and interpretations.

External validity is the degree to which the conclusions of a study can be generalised to groups and times outside of those involved in the study. The questionnaire collected quantitative data, but further studies and testing of a suitable tool are necessary before producing high levels of external validity. External validity is not the main purpose of qualitative research and is not a priority for this report.

Internal validity is about ascertaining whether observed relationships are causal, especially in quantitative research (Cooper & Schindler 2006:318). Since the purpose of the study is to explore whether social enterprises are producing social value through

creating jobs, it is important to know that any changes in quality of life are related to the job being considered.

Internal validity for the questionnaire, which is used to collect the quantitative data, has been established through a number of different practices. The questionnaire was assessed by an independent researcher to check for content validity (Horn 2009:123). The questions were extracted and formulated by consulting the relevant secondary data and the interviews with the managers. This aimed to correlate the measures with those used in literature, as well as those expressed within the specific context. The questionnaire was used in a pilot study of five respondents to establish the content validity, and seemed to support the construct validity.

As a mixed methods study, qualitative data and quantitative data will be collected. The use of mixed methods should produce higher levels of validity, by overcoming the weaknesses and biases of individual methods (Rocco *et al* 2003:20).

Descriptive validity can be established through audio recordings of the interviews and detailed interview notes. Using a semi-structured interview allows the researcher to gain clarity and get feedback during the data collection, which will increase interpretive validity. Theoretical validity will be established through testing the theory and ideas established during the interviews in the questionnaire. This is an example of methodological triangulation.

## 3.9   RESEARCH LIMITATIONS

Some of the difficulties around the research process will now be briefly highlighted. The managers of the social enterprises were usually very open to the idea of being interviewed, and most went out of their way to be of assistance. However, since they are closely involved in the day to day running of their businesses, and their time is extremely valuable it was difficult to organize convenient times with some individuals.

The questionnaire was designed to allow respondents maximum anonymity and opportunity to express their views without interviewer bias. In one enterprise in particular however, the level of education of the staff was particularly low, and this meant the questionnaire was difficult for them to understand and complete. Also, many of the staff are employed on a commission basis, and so finding volunteers to sacrifice their time, and therefore income, was difficult. Some questionnaires were not completed, the biographical details were the most commonly left out section. These questionnaires had to be excluded when compiling biographical profiles of each SE.

## 3.10  DATA ANALYSIS

### 3.10.1      Qualitative analysis

Qualitative data may be analysed using quantifying methods, or non-quantifying methods. The qualitative data collected from the interviews was analysed using content analysis to find key themes and concepts of SEs and the role of SEs in job

creation. This was then used to design the questionnaire, used for collecting quantitative data.

## 3.10.2    Quantitative analysis

Descriptive statistics is used to transform data into a form which makes it easy to understand and interpret and usually involves calculating averages, frequency distributions and percentage distributions (Zikmund 2000:436-437).

Inferential statistics which can be used for nominal and ordinal data are usually non-parametric tests, which mean they do not make an assumption about the distribution of the population (Zikmund 2000:468). To compare three groups where the data is ordinal, the Kruskal-Wallis test is the most appropriate (Zikmund 2000:502-503). This is a non-parametric equivalent of analysis of variance. The Kruskal-Wallis test was used to see if there were differences in overall satisfaction the staff of the three SE's. Kruskal-Wallis was also used to see if the level of education affects overall satisfaction.

Other analysis included grouping together various questions which measured different components of a variable, as well as measuring the frequency of agreement, by grouping "Agree" and "Strongly agree" responses. Frequencies of different age groups, education levels and time in their current job were also measured.

## 3.11  ETHICAL CONSIDERATIONS

In order to protect respondent privacy, no names were used in reporting the data from the interviews and from the questionnaires. The questionnaires were completed anonymously. Each SE which was involved in the research was not mentioned by name, but rather by a code. This means that the research can focus on similarities and relationships between the organisations and the general activities of SEs in Cape Town, rather than on an actual business.

## 3.12  SUMMARY

In this chapter the research paradigm, research design and mixed-methods research approach were outlined. The two primary data collection methods were identified and designed to collect the correct types of data needed. The sample selection process was described and the steps taken to ensure validity and reliability were stated. The research limitations and basic methods of analysis to be used were described. Finally the ethical considerations were explained.

In the next chapter the data which was collected will be described and analysed. The results and findings of the interviews and questionnaires will provide insight into the research question and sub-question. This will provide a foundation for further studies into social enterprises and their role in job creation.

# CHAPTER FOUR: RESULTS AND FINDINGS

## 4.1    INTRODUCTION

In this chapter the findings of the research and primary data collection will be explored. First, the three social enterprises which were identified through the interviews with managers will be described. Secondly, the demographics of the employees that were sampled will be explored. Then the outputs of the SEs - jobs created and services or products offered - will be described. Finally the outcomes, which are the changes over time, will be discussed.

## 4.2    DESCRIPTION OF THE THREE SOCIAL ENTERPRISE CASE STUDIES

Semi-structured interviews were conducted with the management-level employees of a number of SEs. The three SEs which were selected as case studies are described below. The names of the organisations and the managers interviewed have been withheld to ensure confidentiality. Each of the organisations met all the economic criteria set forth by Borgaza and Defourney (2001:16-18) as well as the main social criteria of offering significant benefit to the community.

## 4.2.1  TB

TB, based in Hout Bay in Cape Town, has been running for 10 years and was started by a woman who moved into the area, and wanted to do something to fight the poverty she saw in the nearby township, Imizama Yethu (also called Nelson Mandela Park). She says, 'I love living here, but every day the poverty just gets to me. I hate it. I felt I had to do something, never expecting this to happen!' TB started out as a compassion project and grew to a thriving business which sells a quality product, and is determined to not rely on 'sympathy buys'. TB uses recycled tea bags, which are emptied and ironed and then painted to decorate cards, stationery, wooden products, bags and as purely decorative pieces. There are three main ranges, a traditional African style product, nautical themed products, and a more contemporary range, each involving a labor intensive process. TB is an accredited Fair Trade organisation, is 'Proudly South African' and describe themselves as a socially responsible tourist destination. They have a shop and workshop area in Hout Bay where they welcome visitors, serve them tea and show the production line of their work. They employ 14 full-time staff, 3 part-time, and have three shops, including a stall at the Victoria and Alfred Waterfront, which 'just ticks over'. The other two shops and the workshop are less than 2kms away from Imizama Yethu where most of the employees and families live. 70% of their customers are international tourists, and TB has suppliers in 5 overseas countries. 30% of customers are locals, usually from Hout Bay and the contemporary and nautical themed products do better in this market than the traditional ones.

TB describe themselves as a 'socially-responsible business' because they;

> worry equally about profit and care for each individual and understand their living conditions and how these affect their ability to work. There is a social thing each day. A socially responsible business makes allowances and gives many warnings. We are far more tolerant than the average business.

Being a socially-responsible business is a very difficult thing to do, because you are stuck between 'a cut throat business and a charity. Its very tempting to consider being a charity because of less taxes and so on'. However TB management feel strongly that its important to be a business, to be self-sufficient, not reliant on others and hand-outs, to focus on quality and sales and customer relations.

> We've got to sell, it's all about quality. I've watched so many charities just fold because they are too much reliant on other people giving you money. And we can't do that. Having said that I'm looking at setting up… I think we need an arm of the business that is a non-profit. I'm giving in. The employees now have shares in the form of a trust…. 28% ownership. At the moment it's changing. But there is no profit, well there is profit, but its going back into the business, so there is no incentive for them.

TB is an employment model SE (Alter 2007:35), therefore they are embedded in approach, their social activities and business activities are closely linked. In terms of the social value chain, they create value at the second link, employment.

## 4.2.2 SW

SW was started by three founders in October 2000 and grew from 4 to 25 people in one year. They produce wire art and craft pieces which range from small key chains to life sized lions, and workable wire radios. The number of people SW employs varies as their trade is heavily dependent on the tourism trade, and many employees find alternative work during the winter months, they have a core staff of 50 people, and can at times employ up to 100 people. Their workshop and show room are in the centre of Cape Town, in an area called the Bo Kaap, and most of their artists travel in daily from the townships, at a cost of R5 per train trip, and perhaps additional taxi fare depending on where they live. There is a team dedicated to producing the original sample pieces, which calculate the costs of labor and materials for each piece. There are many different steps involved, and can be called either beading, or shaping. Each step is calculated separately, as one item will be made by numerous people. The artists are then paid on a commission basis per item they complete, except for the team leaders, who also earn a basic salary. There are also specific artists who have been able to 'specialise' and are the only ones commissioned to produce certain pieces, such as the Nguni cows, ostriches and geckos. Many beaders and shapers expressed their desire to be able to specialize, as it is perceived to produce higher returns.

Skill in wire art is not a necessary prerequisite for working at SW, but since wages are commission based, people who work too slowly or produce poor quality work are discouraged from working here because they earn too little. SW are proud of the fact that anyone can come and work for them, due to the nature of their commission-based remuneration system. They want to be able to offer work to unskilled people in a stable

work environment, which they enjoy doing. The particular products they offer are 'Proudly South African' and the roots of wire art are found in South African and Zimbabwean history. SW wants to be known for their innovation, creativity, 'design excellence' and 'unique, beautiful products'.

The SW tagline is 'People. Passion. Pride.' and they pursue this aggressively using business models and employment as a tool for 'upliftment' so that they can 'build the future'. They seek to create long-term, meaningful employment for their employees. For this to happen, money is important and so SW have chosen to be structured as a for-profit enterprise. They are 'driven by profit for the people downstairs', the artists in the workrooms. They have set up an 'Artist's fund' which is a lump sum they have invested and want to structure as a type of community savings project for all the employees.

SW has an embedded approach and uses a mixture of the market intermediary and employment model (Alter 2007:33-35). This is because most of their staff are not directly employed, but instead earn per piece produced and would technically be classified as suppliers. They do however consider themselves to be a job creation project since they provide work for their 'employees'. For this reason they fall in between the procuring supplies and employing workers on the social value chain.

### 4.2.3 SU

SU was started in September 2004 selling refurbished computers and offering IT support, in 2006 they opened their first Business Service Centre in Khayelitsha Mall, and in 2007 the first computer training centre was launched. At present they have: four business centres, which employ the bulk of their staff; a sales department; an IT support unit; and two computer training centres. SU have launched four new business centres, and a new training centre since February 2009 and their turnover more than doubled over this same period (from R130 000 – R330 000). Between August 2009 and February 2011 they plan to launch three new training centres and seven new business centres, and to grow their staff to 68 individuals. The new training centres will employ nine new trainers, and train an estimated 900 individuals. The new business centres will employ 35 people, and business services, such as internet and email, printing and writing CVs, are expected to impact a further 200 000 people.

SU was started when the managing director, a former teacher, noticed the lack of access to internet and computers in the schools and community of Khayelitsha. He estimates that Khayelitsha has only 2% internet connectivity, compared to 11% for the rest of South Africa and a global average of around 21%. SU's primary social mission is to 'bring value through technology' and to 'give back to the community'. Their vision is to bring IT closer to people. They accomplish this through the four business streams they offer, as well as through a radio broadcast which is a platform to educate the community about IT in general, and SU's services. SU is different to the previous two case studies, in that job creation is not the social goal of SU. Nonetheless, SU currently employs 26 people, 70% of these are former students of the computer courses they offer. SE estimates that 60% of their students are unemployed before

they study with them, and that of those, 60% get a job as a result of their qualification. SU describes themselves as a social enterprise, a business with two missions; profit and to impact the community.

> Ubuntu is a core, core, core value. A business that cares for other people, because I mean, we realize that we are nothing without this community. These people make us, and we are responsible to give back to this community… Even if tomorrow we go big and be all over the country we will never never forget where we come from, we will continue giving back to the community. We feel strongly, everywhere, that not only the community around Khayelitsha, Mzansi, Soweto that doesn't have any access to computers, we have to give them access as part of Ubuntu.'

SU has a direct impact on the community, where they focus on helping the poorest of the poor. They type and email between 5000-6000 CVs per month, and about 400 people a day use other business services, including internet. They sponsor ten pupils per computer course (the intake for each course is 340 pupils), and have deliberately positioned themselves to be able to reach a community which is underserviced in many ways.

> We don't want to be separated, we are very much more care of the community, we want not only to make it, we want to give back. People are stories. We don't want to tell only the stories of ourselves, we want other stories. That's what gives us satisfaction, when you find that person, you make a difference, and they come back and says 'because of you, I am'. More than the money. The money for us is not a driver, the thing that drives us is to see people's lives changed.

SU also has a direct impact on their employees. The managing director believes strongly in the benefits of work in developing a good work ethic, a sense of ownership and hopes to inspire young entrepreneurs in the community and in his business. 'Before I empower the community as a whole I need to empower my staff.'

SU is an embedded social enterprise, and although they have four business streams they can be classified as a low-income client or fee-for-service models (Alter 2007:37-39). Their primary social activity of empowering the community occurs predominantly in their training centre, and the internet cafes, which are based in a poorer township community. In terms of the social value chain, they are generating social value at the highest level of marketing to target customers.

In this section the three social enterprises used in the study were described using information gathered during an interview with members of management as well as secondary sources such as organisation brochures and websites. Each SE was then described using the terminology and models identified through the literature review. In the next section the employee sample will be described.

## 4.3   DESCRIPTION OF EMPLOYEES SAMPLED

The employees who formed the sample were individuals who volunteered to participate in the study. The sample as a percentage of the total population of employees is indicated in Table 4.1below.

|  | Total number of employees | Sample size | Percent of total SE population |
|---|---|---|---|
| TB | 17 | 7 | 41.2 |
| SW | +-70 | 8 | 11.4 |
| SU | 26 | 6 | 23.1 |
| Total | 114 | 21 | 18.4 |

*Table 4. 1 Table showing the number of employees, sample size and percent of population sampled at all three SEs.*

The data used to describe the SE populations was collected from the biographical data in the questionnaire, which was the last section of questions. Not all the employees completed the biographical section, and some completed it partially. This is a common problem with using questionnaires, as the respondents develop fatigue towards the end. Another possible reason for this section being left incomplete, is that respondents were afraid that their personal details could be used to identify them, even though they were assured of anonymity. For this reason the sample size will not add up to 21 for some of the questions, and the percentage compositions were calculated using the number of respondents for that question.
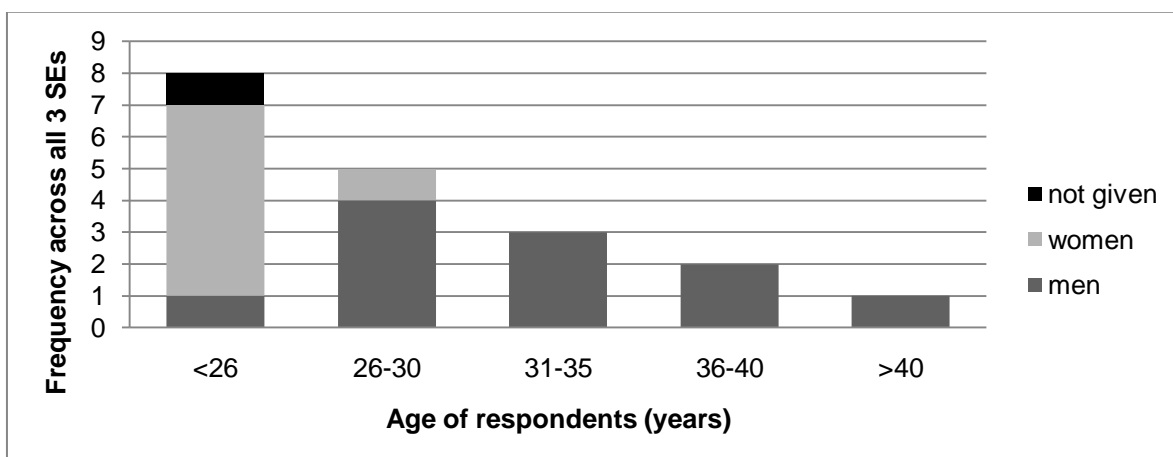
### 4.3.1 Age and gender



*Figure 4. 1 Histogram showing age and gender distribution across all three SEs.*

As shown in the graph above, the age distribution of the employees is skewed towards younger employees. All of the women sampled were under the age of 29, but only 3 men were. 53% of the employees sampled were males. Due to the nature of the sampling procedure, whereby volunteers were requested, the sample population does not reflect the organisations very well. TB for example employs 17 staff, four men and 13 women, but a disproportionate number of the men (three) were included in the sample of seven. Part-time employees were also over-represented and two out of the three part time staff at TB were included. SW management reported that their employees are very evenly mixed between males and females, men often doing the more physical work of shaping, and the women doing the beading. Women often suffer from much higher levels of unemployment than men since there are few unskilled positions which are not very physically demanding. SW and TB employees showed an average age of 30, while SU's average age was 23. SU's managing director intimated in his interview, saying that: 'They are very young, I treat them like my babies.' Since SU is a young IT company, skilled employees are needed as well as employees who can grow with the business. SU also reported that most of their new employees are recruited from students who have completed their computer training course with SU's training school. Almost 70% of the population in Khayelitsha are under the age of 30. Unemployment is especially pronounced among the youth, 56% of the unemployed are aged between 15-30 years old (Business Trust 2006:13).
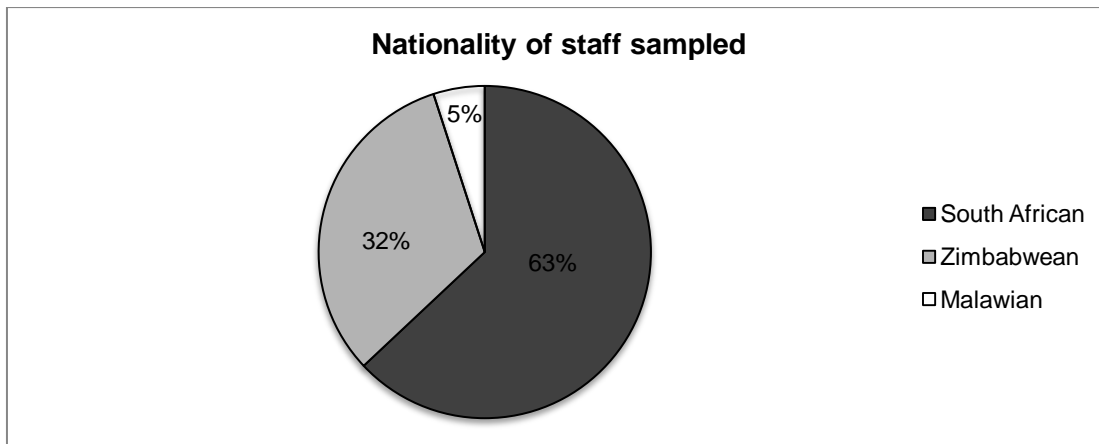
## 4.3.2 Nationality of employees



*Figure 4. 2 Chart showing % of employees sampled according to nationality.*

The sample population of the employees in the survey show that 63% of the employees are South African, and 37% are from other African countries. All three organisations stated that they are not trying to create jobs for any specific nationality, but rather for people in need of a job (SW and TB) or those with appropriate skills (SU). TB and SW both employ foreigners. SW management estimate that 50% of their employees are Zimbabwean, since wire art is a part of the cultural history of the area, and many Zimbabweans are skilled in this craft. There are many Zimbabweans seeking asylum in Cape Town. SU offers their services in Khayelitsha and other surrounding townships, where 96% of the population speak isiXhosa as their home language (DPLG & Business Trust 2007:14), therefore individuals who do not speak isiXhosa are unlikely to be employed by SU. The employees sampled from SU were all South African.
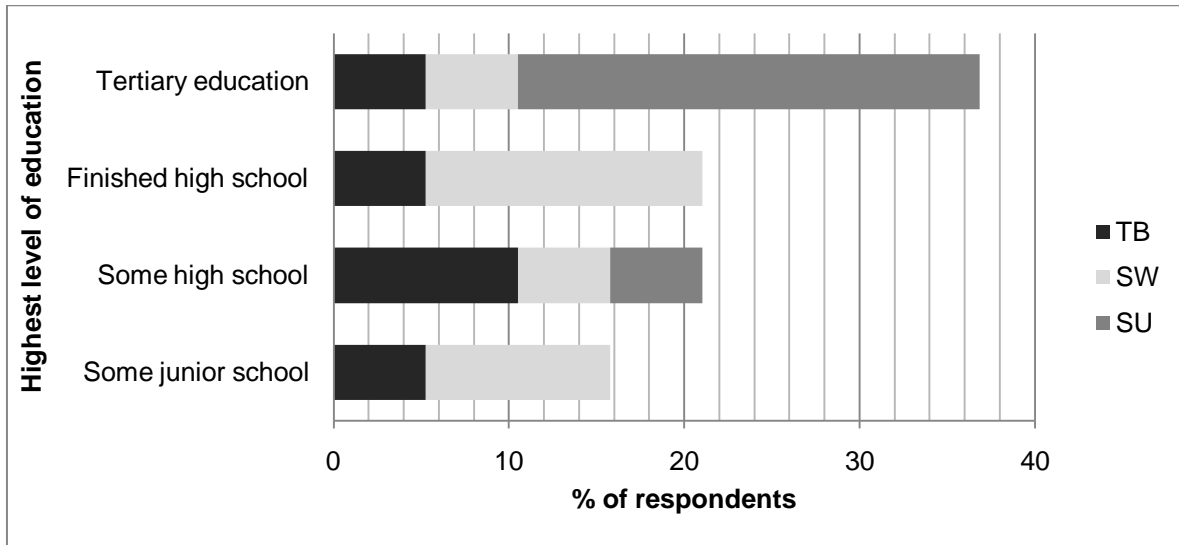
## 4.3.3 Education levels among employees



*Figure 4. 3 Distribution of employees according to highest level of education and employer.*

SU's staff was largely made up of more highly educated individuals, the lowest level of education reported was Grade 11. Most of SU's staff have a computer diploma, and some are currently studying further. SU's name means 'adding value through technology' and empowerment is a key priority for SU. SU's managing director stated 'Before I empower the community I have to empower my staff', which he actively does by sponsoring two staff members to pursue further education. The business pays half the tuition costs for these learners to study further and both are learning skills which will add value to the services which the business can offer in the future. SU also makes use of courses offered by the Business Place, such as those on personal saving and other skills. The manager director of SU is a former teacher, which is partially responsible for his views on the importance of education as a tool to empower people. As an organisation which promotes education and access to technology, SU has been proactive in promoting this among their employees, and is passionate about developing an organisational culture which values education.

TB and SW showed a wide spread of education with many having finished high school, especially the Zimbabwean employees. Compared to many South Africans, foreigners often have higher levels of education, but struggle to access work in their fields of expertise. Often this is due to a problem with refugee / asylum seeking status and foreign qualifications not being recognized in South Africa. Language is also a significant barrier to employment, even to many local Xhosa-speaking people, as they indicated Afrikaans was necessary for many jobs in the Western Cape. Economic growth has been producing more jobs, but mainly skilled and semi-skilled work, so these types of job creation initiatives are important for unskilled employees.

This section provided a description of the biographical details of the employees of the three social enterprises in the study. This forms the foundation for considering the social value which has been generated as a result of the SE and its business activities, which will be discussed in the next sections.

## 4.4   OUTPUTS OF SOCIAL ENTERPRISES

Outputs are measurable, tangible, direct products of program or enterprise activities (Innovation Network Inc 2005:12). Outputs are usually just measured by quantities or the existence of something new. Outputs can also be called deliverables or products and are the tools which lead to desired outcomes, the benefits for individuals or communities. The primary output which was measured was the jobs created, since this was common to all three social enterprises, and is the focus of this study. Then the other outputs generated were looked at briefly, as a possible explanation for the

differences between case studies. The social value chain (Dees & Anderson 2003:3) discussed earlier, (see page 30 of this document) can be used to demonstrate the different areas where social value can be created.

## 4.4.1 Job creation

Unemployment is a pressing problem facing South Africa. People who are unemployed, are 'not part of the structure that enables people to earn a living, feel productive and part of economic development and experience positive feelings about being engaged in activities that they enjoy' (Du Toit 2005:657). As a result of the three case studies in this study, numerous jobs have been created. TB and SW together have created about 100 jobs for unskilled people, as well as about 20 semi-skilled and skilled jobs in administration and management positions. SU has created 26 jobs, mostly for semi-skilled and skilled workers. As discussed earlier, a job in itself is not necessarily a satisfier for an individual's fundamental needs. Since TB and SW are established as job creation initiatives, they should be concerned with creating jobs that allow their employees to meet their fundamental needs. The first step is for employees to be able to meet their own subsistence needs, so that they can then be empowered to meet other needs. The monthly income earned by the employees and the number of dependants supported by this income will be considered. Later the outcomes of employment such as increased morale, stability and a sense of self worth will be considered.
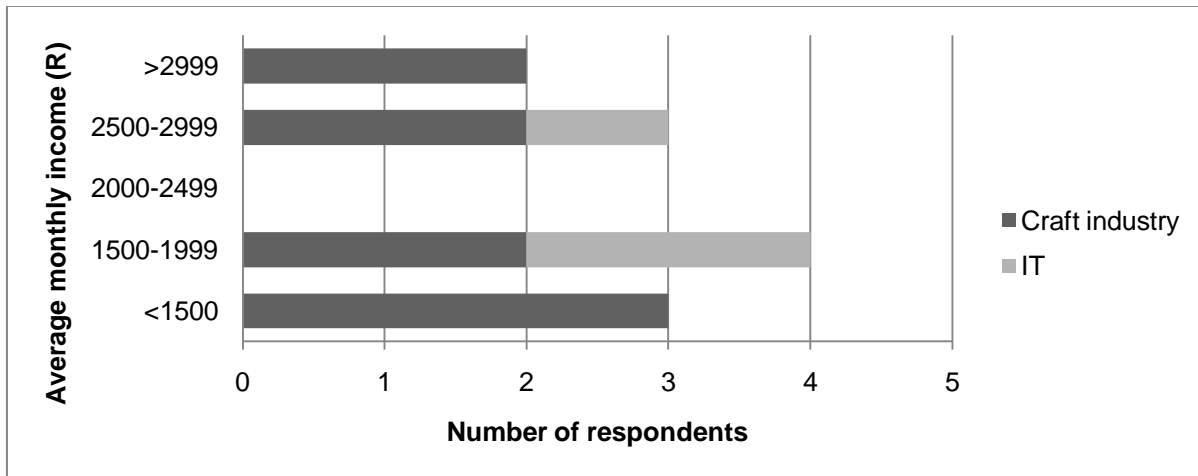
According to a report by the Department of Arts, Culture, Science and Technology (1998:32), the average monthly income of an urban crafter is about R2500. This is dependent on the physical location, weather patterns, seasonality of the trade, as well as the consumption patterns and current fashion trends. For most crafters, this is not all profit, and costs vary depending on the products and cost of raw materials. Of the 21 questionnaires collected in this study, only 12 mentioned their income, which limits the amount of information which can be inferred from this data. However, what can be seen from the table is that the majority of the respondents (7 out of 12) earn less than R2000 a month.

SW and TB have been grouped together to represent the craft industry. Both of these organisations claim to be Fair Trade accredited, and one of the requirements is that they pay their employee's wages which are higher than the industry average. TB estimated that the average monthly salary of their staff is R2587 this is on a four-day week, which they have just put their staff on, due to low turnover and demand. TB also

pays R1.50 per piece for each painting done, which can increase earnings by up to R500 a week. SW also pay their employees on a commission basis for each piece produced, which means that earnings fluctuate and depend on the skill of the individual. The average monthly wage given for SW was just over R2000 and there was a range from R1200 - R3000. Two of the respondents from SW were team leaders. They are paid a base wage of R425 per fortnight for this role, and then must also earn commission at the same rate as the rest of the beaders. The SW management estimates that 30% of the work which is done is completed after hours or on weekends, which means that staff earn approximately R1400 for the work they complete during working hours (based on an average of R2000 per month), an average of R7.78 per hour.

SU management reported that their employees start out earning a very low wage (R1200 per month), which increases every six months up to an average of R3400 per month. 11 of their 26 employees have been with the company for less than ten months, and will be earning a relatively low salary, but were not included in the sample due to their short tenure with the company. SU is a business which has shown rapid growth and predicts similar growth into the future. Only three SW employees reported on their monthly earnings, and the average is calculated at R1900.

The average household income in Khayelitsha is R1606, the average for South African households is R4092 (DPLG & Business Trust 2007:19). Household income is the total income earned by all the breadwinners in a household, and so could be higher than the wages of an individual employee. The Household Subsistence Level (HSL) has

been calculated at R1600 per month and 72% of households in Khayelitsha are below this HSL. The employees all live in townships areas, similar to Khayelitsha. The average salaries of the enterprises studied were above the HSL, the average income of all three enterprises is R1941 per month. Although this is well above the average for a township household in Cape Town, it is still far below the average for South Africa, and the employers from TB and SW both indicated they would like to be able to pay their employees more. TB management predicted that it would take at least R5000 a month to allow their employees to save for their future, educate their children better and move to better accommodation.

| | Number of dependants | | | | |
|---|---|---|---|---|---|
| | Minimum | Maximum | Mean | Median | Mode |
| TB | 5 | 10 | 6.75 | | |
| SW | 1 | 8 | 4.5 | | |
| SU | 0 | 10 | 4.5 | | |
| OVERALL | | | 5 | 5 | 5 |

*Table 4. 2 Number of dependants per employee, at each SE and the average overall.*

The staff at TB has, on average, more dependants than the other two SEs and the minimum number of people each person at TB supports is five. The mean, median and modal number of dependants for all three enterprises is five. According to the questionnaires, the types of dependants vary from immediate family, wives and children, to parents, siblings and in-laws. Many dependants are not based in Cape Town, some are in the Eastern Cape, and others as far afield as Zimbabwe. Staff at SW indicated that their support for distant relatives was a secondary concern after ensuring that their immediate family's needs were met, especially during the low-

season. Although no questions were directly asked about household size, according to a study in Khayelitsha, 54% of households consist of 1-3 people, 40% of households have 4-7 people and 6% have 8 or more.  Similar household sizes are probably found in many of the other townships around Cape Town, including those areas where the SE employees live.

## 4.4.2  Other products and services provided

In addition to creating employment, many social enterprises produce other social returns, either through specific services they offer, or the target populations which they serve. These social returns can also have direct impact on communities and groups of people which add to the social value they generate.

TB and SW both produce and sell craft and designer art pieces to local and international tourists and businesses. They were both established as job creation projects, and this is their major social return. Their products do not have a direct social impact. Both TB and SW mentioned their environmental returns; TB uses recycled goods, and SW claims to generate almost no waste from their production, and also uses recycled goods in some products. TB and SW are involved in the first two steps of the social value chain; procuring supplies and employing workers, and they seek to add social value at both steps. While the other three steps; designing the product; producing the product and marketing the product, are crucial parts of their business activities, they do not seek to produce social value through these processes.

SU was created to bring IT services to underserviced people in townships, and job creation is a secondary impact because it is a means to accomplishing this primary goal. As discussed earlier, measuring social returns is a difficult thing to do. The next section will simply try to describe some of the impacts SU has on the community to illustrate how it is different to TB and SW, rather than to gain a full understanding of its returns. SU has increased opportunity to produce social value compared to TB and SW. This is because they are involved with all five steps on the social value chain, and target low-income individuals with their products.

SU 'provides access to information technology' through four business streams;

- Business centres,
- Training centres,
- Sales, and
- IT support,

Each business stream will now be considered for their impact on the community. SU has recently grown and has now expanded into other communities, so the discussion will be focused on Khayelitsha.

SU has four business centres in local townships, two are in Khayelitsha. Their main shop is in the Khayelitsha Mall and has foot traffic of over 400 people a day. The business centres offer internet, faxing, phones, electricity payments, obituary services and printing. SU reports that they type and email over 5000 CVs per month. They

estimated that there are two other internet cafes in the area, which makes a total number of four internet cafes to service 1.5 million people.

SU has two training centres, which offer courses on Introduction to computers, MS Office and the internet. They register 340 students for their six month course, ten of whom they sponsor, and roughly 110 graduate. 60% of their previously unemployed students report finding a job as a result of their training. SU believes that training is the most economically profitable thing that they do, since their former students, get jobs or start their own businesses, then return to buy computers and to get internet connections for themselves.

Sales and IT support are the smaller business streams. In order to make computers more affordable to low-income populations, SU sells refurbished computers, for R2000, and they have organised a deal with Microsoft to provide their software in Khayelitsha, when installed on a refurbished computer, for only R100. Sales vary, but they reported average sales of 60 computers, with software, per month. IT support is provided to schools, NGOs, local SMEs, churches and individuals.

SU produces additional social value through the products and services they offer. Considering the social value chain could provide one reasonable explanation for the difference. Since SU produces social value further along the chain, they are able to add value at each link which includes - but is not limited to - job creation.

## 4.5. OUTCOMES OF EMPLOYMENT

Outcomes can be defined as the results of a process or activity; they are the changes that occur, or the difference that is made for individuals, or groups of people (Innovation Network Inc, 2005:13-14). Outcomes reflect the core achievements planned for a program. Outcomes are usually measured as either changes in learning, changes in action or changes in condition and can be measured over various time spans. These outcomes can also be called shorter-term, intermediate and longer-term outcomes. Short-term outcomes are often measured by a change in learning, intermediate outcomes are measured by a change in action and longer-term outcomes are measured by a change in condition. Short-term outcomes are things organisations 'expect to see', intermediate outcomes are things they 'want to see' and longer-term outcomes are things they 'hope to see'. Longer-term outcomes are often closely related to the goals and mission of an organisation, but are often out of its control.

Unfortunately outcomes are usually not as clearly articulated or obviously stated as the outputs are. Perhaps this is because outputs are easier to measure and manage, and are more directly under the control of the SE than outcomes are. In order to establish the outcomes, the interview transcripts, as well as the SE websites and their promotional literature were studied. These sources expressed the intentions and impacts each SE expected, and hoped to see in their employees. These have been called the 'organisational objectives'. The quotes were coded and compared across the three SEs in order to generate common outcomes and these were included in the employee's questionnaire.

The aim of the study was to compare the organisation's perceived and intended impact with the actual experiences of employees. The questions were therefore phrased to measure employee attitudes and experiences, rather than phrasing them as organisational outcomes.

Table 4.3 shows the relationship between the SE intended outcomes and the findings of the questionnaire. How each objective was addressed in different SEs is shown using quotes from interviews and other secondary sources pertinent to each SE. Not every objective was mentioned by each SE, but was measured in the questionnaire and is included as a comparison.

| | ORGANISATIONAL OBJECTIVES | OUTCOMES (% of employees agreeing with statement) | |
|---|---|---|---|
| | Active concern for staff | My employer cares about me | My ideas are valued at work |
| TB | 'a socially-responsible business...care for each individual and understand their living conditions' | 71 | 57 |
| SW | 'we are driven by profit for the people downstairs' | 75 | 75 |
| SU | - | 67 | 83 |
| | Pleasant work environment | Friendships at work | Stable work environment |
| TB | 'happy work environment', 'teamwork and having fun at work' | 100 | 57 |
| SW | 'dynamic work environment', 'one of the things our employees like most is the friendships they form' | 100 | 38 |
| SU | - | 83 | 100 |
| | Skills development | Work-related training | Training on real-life issues |
| TB | 'learn life skills', | 29 | 71 |
| SW | 'invested heavily in training and development' | 50 | 50 |
| SU | 'it will be sad to hire people from outside...so some of them (the staff) must go back to school and study hard… so that they can be part of SW in 5 years time', 'first I need to empower my staff' | 0 | 50 |
| | Staff ownership of the vision of the SE | The vision and mission of the SE are very important to me. | It is very important that my work leaves a legacy. |
| TB | - | 80 | 83 |
| SW | - | 50 | 75 |
| SU | 'from day one I make sure the staff feel ownership of the business… this is a business which will leave a legacy'. | 83 | 83 |
| | Poverty alleviation | Improved quality of life | |
| TB | 'making a difference for poverty', 'improve the daily quality of life' | 86 | |
| SW | 'address social issues of...poverty alleviation' | 88 | |
| SU | 'one day they will be able to own their own house, their own car' | 83 | |

*Table 4. 3 Table comparing SE objectives with the perceived outcome, measured by employee experiences and attitudes.*

The table does not show consistent relationships between the effectiveness of SEs in achieving their stated objectives and achieving other objectives. For example 'Staff ownership of the vision of the SE' was not mentioned by TB or SW, and yet TB's score

was almost as high as SU, who put great emphasis on this. There are many factors influencing employee perceptions, and the relative importance they, and management, give to each outcome also needs to be taken into consideration.

The last outcome shown in the table 'Poverty alleviation' is the most poorly understood, and yet arguably the most important social outcome. This outcome is foundational to all SEs and the next section tries to understand how this is outworked and experienced in employee's lives. Poverty alleviation, when viewed from a fundamental human needs perspective, involves change which can occur at the levels of learning, action and condition.

Attitudes and opinions are examples of changes in learning, which are shorter-term outcomes. These are discussed in the next section under the themes: employee satisfaction; changes in sense of self-worth and identity; and a changed view of the future. The intermediate outcomes, changes in action, were not addressed in this study as there are numerous different actions people could take to reach the longer-term goals, and there is no easily defined set of actions or changes. Further study into the role organisations have on changing the actions and behaviours of their employees is a promising area for future study, especially in the field of social enterprises. The longer-term outcomes, or changes in condition, which were considered are: amount of time spent with family; the ability to feed one's family more healthily; improved quality of life and an overall measure of satisfaction as a result of current employment and its indirect impacts.

### 4.5.1 Employee satisfaction

A serious challenge to all enterprises is to maintain employee satisfaction and to 'turn indifferent employees into enthusiastic ones' (Sirota *et al* 2005:xxii). Workers have basic human needs that management can and should want to address. When these needs are met a state of high employee morale results (Sirota *et al* 2005:xxiii). There is surprisingly little difference between the goals of organisations and the goals of their employees. From a fundamental needs approach, work has been identified as a satisfier for various needs including: subsistence, protection, participation, creation and identity (Max-Neef 1991:17). However, not all work will act as a satisfier, but could actually be an inhibitor in that it prevents other needs from being met. When employees express an overall sense of satisfaction at work it is more likely that their work acts as a satisfier for other fundamental needs. A study across hundreds of organisations shows that the average level of job satisfaction is 76% (Sirota *et al* 2005:7). There is not much variation between organisational levels, 83% of managers and 72% of hourly workers are satisfied in their jobs (Sirota *et al* 2005:7-8).

Measuring job satisfaction involved measuring the attitudes of employees towards their work. Attitudes are difficult to measure because they 'are not easily directly observed, but rather are measured or inferred from the way individuals respond to questioning or from their behaviours; these types of variables are called hypothetical constructs' (Zikmund 2000:288). An attitude can be defined as an 'enduring disposition to consistently respond in a given manner to various aspects of the world' (Zikmund 2000:288). An attitude is made up of three components (Zikmund 2000:288). The affective component reflects an individual's general feelings or emotions towards an

object. The cognitive component represents an individual's awareness of and knowledge about an object. The behavioral component of an attitude is reflected in intentions and behaviour expectations; it reflects a predisposition to action. In determining an employee's attitude these three components will be measured.

Before employee satisfaction is looked at in more detail, the overall trends in satisfaction between organisations, across education levels and as a factor of length of employment will be looked at. This will provide a reference framework in order to understand the specific components.

Kruskal-Wallis tests were used to compare the distribution of the three SE populations and then to compare the distribution according to education level. Kruskal-Wallis is a non-parametric equivalence of variance. In order to do this test, each employee was ranked from most satisfied to least satisfied, based on their total score from the Likert items in the questionnaire. They were then arranged into different groups, depending on the test. The null hypothesis for each test is that each population has the same distribution and dispersion.

The H statistic for the test comparing three different organisations and satisfaction was 2.78 (adjusted for ties). The degrees of freedom equals 2, and $p = 0.2486$. We can therefore not reject the null hypothesis that overall satisfaction is the same at each organisation.

The H statistic for the test comparing four levels of education and satisfaction was 0.61 (adjusted for ties). The degrees of freedom equals 3, and p = 0.8951. We can not reject the null hypothesis that overall satisfaction is the same regardless of highest level of education attained.

A comment on a questionnaire prompted investigation into the next trend. At SW an individual was asked if he had hope for his future and he answered 'Not any more. I have been here for ten years now. If you had asked me 5 years ago I would have said yes.' The graph below shows the relationship between overall satisfaction and length of time employed by the SE.
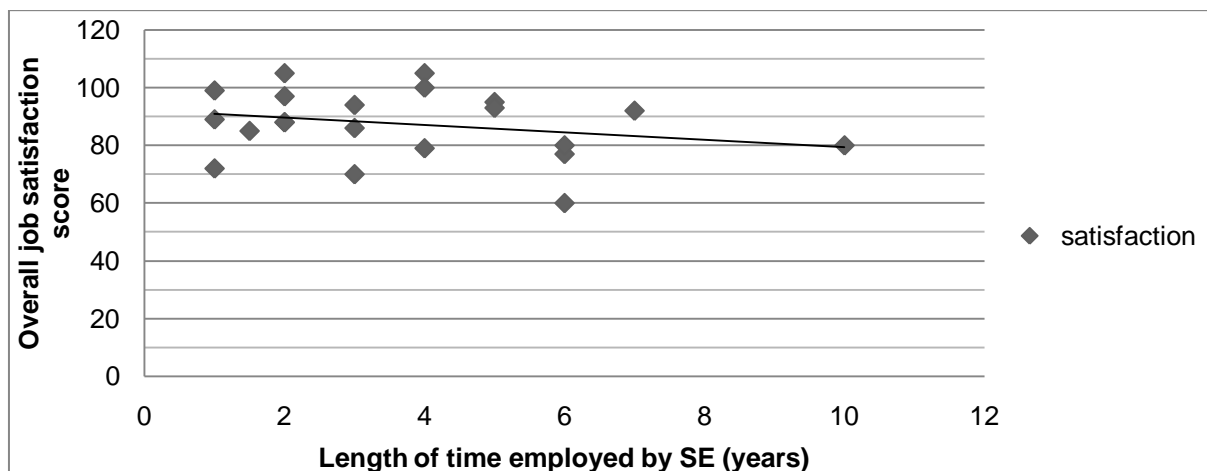


*Figure 4. 5 Graph showing the relationship between overall job satisfaction and length of tenure with SE.*

The graph shows a slight trend that the longer an individual is with an SE organisation, the less satisfied they are. Another indicator of this is the fact that two individuals who had been with their companies for over 6 years expressed a desire to leave the organisation within the next year. Compared to the fact that 60% of employees want to be with their organisation for at least the next six years, and the rest want to stay for at

least another two years, these two are out of the ordinary. They scored very poorly in terms of overall satisfaction. They explained that this is mainly because of financial stress and a sense of being unable to provide for their families. One respondent felt particularly discouraged and overlooked by management in terms of promotions and also indicated that his personal confidence and sense of pride was directly linked to how well he could provide for his nuclear and extended family. A second observation can be drawn from this; employees stay in jobs where they feel safe and comfortable, even if they are unhappy. When questioned about why he does not look for another job, one respondent commented: 'Fear. Who would want me? And I don't have a CV. You tell me, what other job can I get?'

This has been identified in other studies as an issue of 'ghettoisation'. This occurs when long-term employment has 'the effect of reaffirming the segmentations of the labour market within the wider economy, so that disadvantaged unemployed become marginalised workers' This demonstrates a tension between the effectiveness of short-term initiatives which build collective bonds between individuals, but in the medium to long term maintain individuals in another form of 'economically active' exclusion. (Aiken & Spear 2005:6).

In terms of a healthy work attitude, there are specific indicators which can be measured and correlate highly with overall satisfaction. These are different to indicators which would be used to measure attitudes towards a political party, or overall quality of life satisfaction. There are three primary goals of people at work; equity, achievement and camaraderie. These three goals have been shown to

correlate very highly with overall job satisfaction. Each goal will be described and then the findings of the questionnaire will be used to explore the level of satisfaction at the three SEs being studied. (Sirota *et al* 2005:8-9).

i)      **Equity**

Equity is the desire to be treated justly in terms of the basic conditions of employment (Sirota *et al* 2005:10). These basic conditions are:

- Physiological equity, such as safety and comfort in the workplace and a manageable work load;
- Economic equity, such as satisfactory compensation and a reasonable level of job security;
- Psychological equity, such as being treated respectfully, credible management, a fair hearing for complaints and reasonable allowance for personal needs.
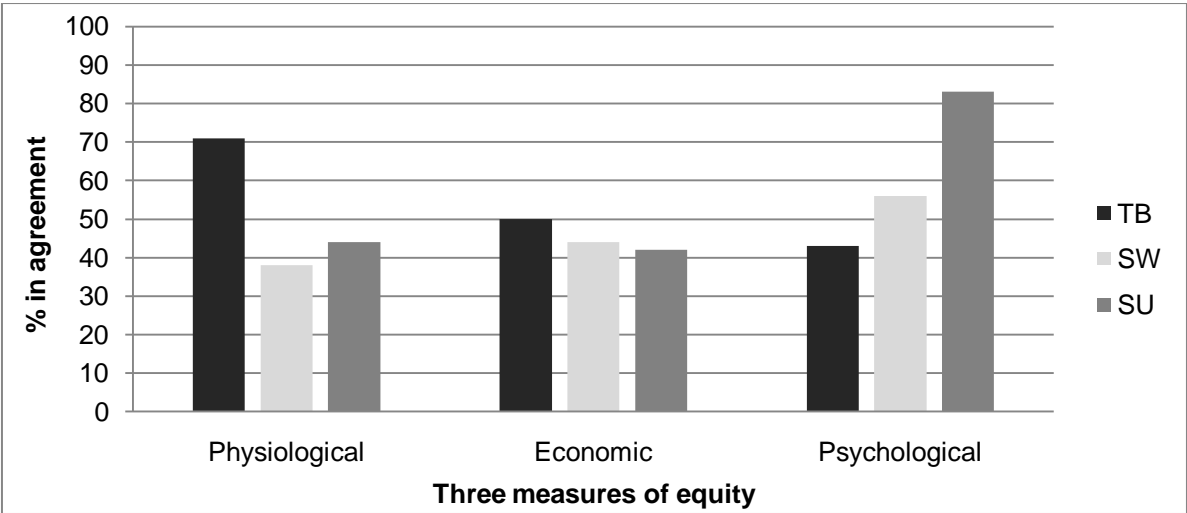


*Figure 4. 6 Graph showing the % of respondents from each organisation, and their perceptions of equity in three different areas and an overall measure of organisational equity.*

Physiological equity was measured by questions on work-family balance and a stable work environment. There was a noticeable difference between the SEs, with TB scoring much more highly than the other two organisations. Most SW employees take work home every night and weekend, so their low score is expected. SU's low score is surprising, but an examination of the responses indicated that many SU employees selected the neutral option, and so they are not indicating disagreement.

Economic equity scores were low across all three organisations. On average, only 38% of the employees feel that the amount they are paid for the work they do is fair, which is the lowest rated working condition surveyed in this report. As shown in Table 4.4 below, the employees at TB and SU were the most dissatisfied with their pay. Pay satisfaction is universally found to be one of the lowest rated aspects of work (Sirota *et al* 2005:11). This is contrasted with the finding that most employees reported being able to save for their futures. Although pay satisfaction is low, those who have employment are in much better financial positions than those who are unemployed.

| | Organisational objective: Decent income | Output: Average reported income | Outcomes (% of employees agreeing with statement) | |
|---|---|---|---|---|
| | | | Fair pay for work | Able to save for the future |
| TB | 'although we pay them more than a maid or a gardener its still not enough to get them out of the poverty cycle', 'that would give me satisfaction, if they were taking home a decent wage', 'we pay our staff regardless of whether we sell or not' | R2587 | 29 | 100 |
| SW | 'decent sustainable income', 'non-exploitative income', 'we are fair trade accredited, so we pay more than industry average' | R2014 | 62 | 57 |
| SU | 'its an interesting thing with the staff, they don't get paid so well', 'but now some of them are earning R3400' | R1900 | 16 | 100 |

*Table 4. 4 Comparison between the SE objective of 'decent income', average reported income and employee satisfaction.*

Similarly job stability was rated very poorly, although not across all three SEs. 75% of SW employees felt high levels of job insecurity, probably as a result of the quiet winter period, which the organisation had just experienced. In contrast, at least 79% of TB employees and 67% of SU staff did experience a sense of job security. On average job security was the second lowest scoring indicator measured in the questionnaire. Economic equity was measured using job stability and pay satisfaction.

Psychological equity related mainly to how the employees felt their ideas were valued in the workplace and whether management treated everyone equally and fairly. This measure also showed variation between the SEs, with TB scoring lowest and SU the highest. TB management mentioned that the organisation had just experienced a particular discipline incident, two days before the questionnaire which would have severely biased their employee's perceptions of equity. At SW there are perceptions that certain individuals and positions are better than others, such as those who specialise.

**ii)     Achievement**

Achievement in the work place comprises a sense of pride in one's accomplishments, doing things that matter and doing things well, as well as taking pride in the organisation's accomplishments (Sirota *et al* 2005:15). Three sources of a sense of achievement at work have been shown in Figure 4.7.
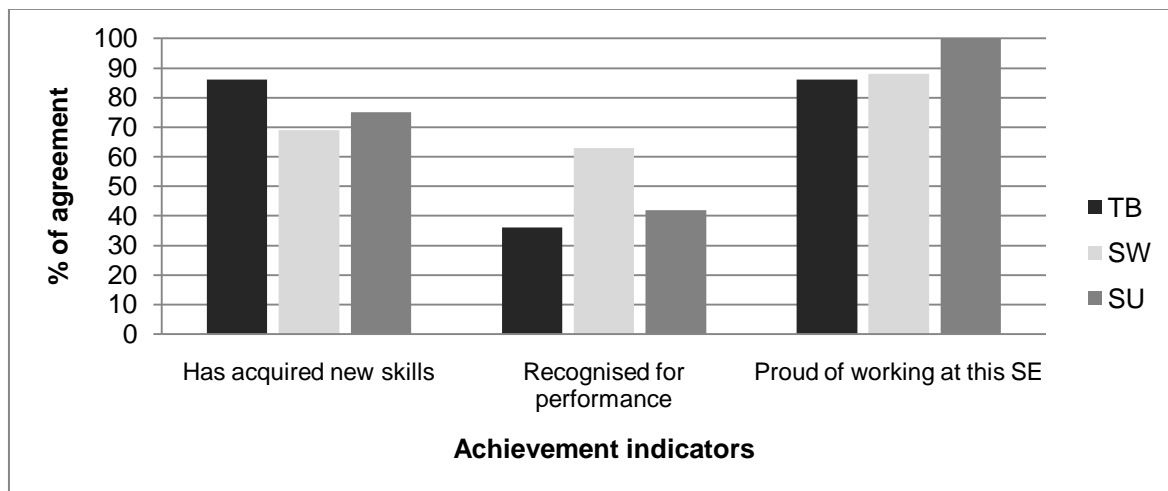
.

Employees from all three organisations feel that they have acquired new skills at work, despite the absence of work-based training (only six employees indicated that they had received any work-related training). These new skills include being able to communicate with peers and management and how to manage a team.

Recognition for performance was measured using pay satisfaction and opportunities for promotion. Since pay satisfaction is very low at TB and SU, their score is low for this indicator. SW employees express higher levels of satisfaction with their work as well as more opportunities for promotion. The SW employees who are already team leaders expressed doubts that there were further opportunities for promotion or growth within the organisation.

Most employees experience a sense of pride from working for their SE. This particular question scored the second highest score overall. This was reflected by a question on how employees value the mission and vision of the SE, shown in Figure 4.8.
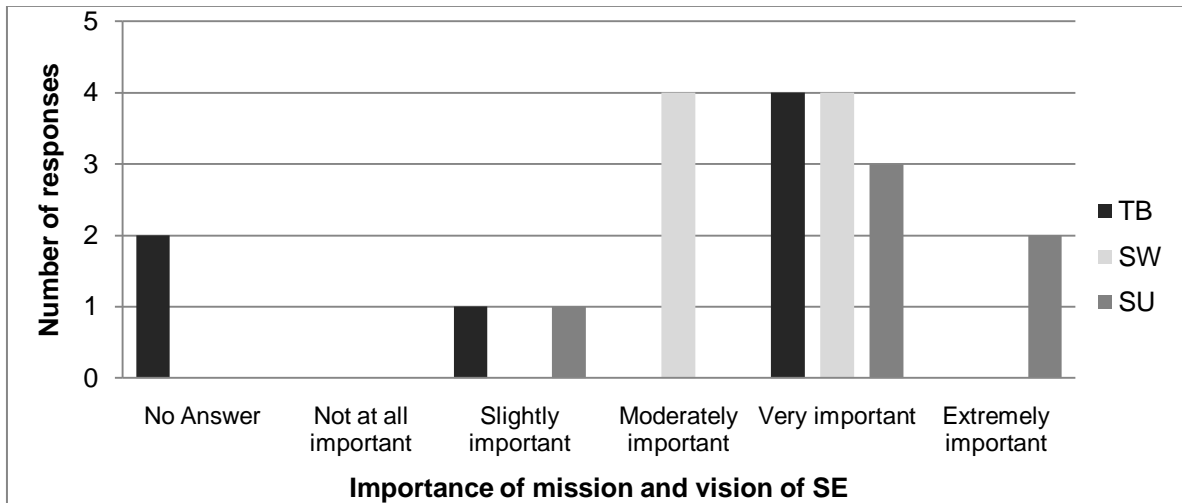
*Figure 4. 8 Graph showing the frequency of various responses to the question 'How important are the vision and mission of (SE Name) to you?'*

Most employees indicated that the vision and mission of their SE was very important to them, and there were no respondents who felt it was not at all important.

### iii)    Camaraderie

Camaraderie is the experience of warm, interesting and co-operative relations with others in the workplace (Sirota *et al* 2005:17). Managers of SEs must not lose sight of the fact that their enterprise must run as a business entity, but also as a community, which satisfies the social and emotional needs of their employees. Studies have shown that attitudes towards teamwork are more favourable at a micro-level, within units, than at a macro-level, across levels between employees and managers.
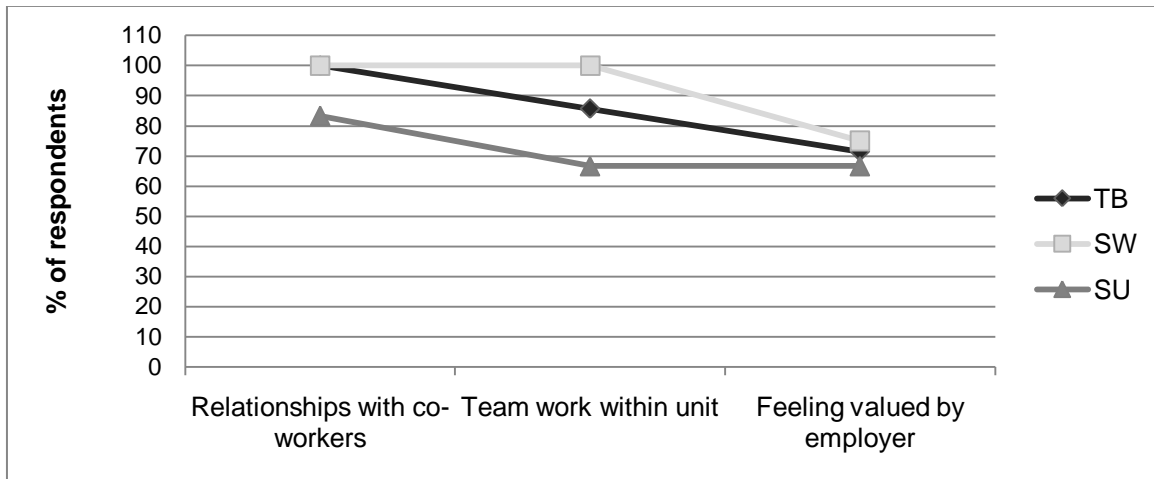
*Figure 4. 9 Graph showing camaraderie across different organisational levels.*

Figure 4.10 shows that camaraderie in the three SEs studied is highest at the micro-level or friendship-level, and decreases when measuring attitudes to their employer. The average % agreement across all three organisations for new friendships which have been formed with co-workers is 94.4%, while only 71% feel valued by their employers. Camaraderie is highest at SW, where the average employee has been with the company for 4.8 years, whereas SU had the lowest score, but on average employees have only been with them for 1.5 years. In addition to this, SU employees work at several different locations, whereas TB and SW work in one location, allowing for more friendships and relationships to form.

## 4.5.2  Changes in individual's sense of self

One of the most problematic consequences of extended unemployment is its effect on the self-esteem of an unemployed person. An unemployed person will experience a 'roller-coaster experience' where their emotions range move from shock, to optimism, to pessimism and fatalism and stagnation (Max-Neef 1991:19). Since an unemployed person is not able to meet their or their families' subsistence needs, their fundamental

needs system will be unsettled. Once an individual has a job, their improved physical state will impact positively on their emotions, identity and sense of self-worth. Figure 4.10 shows the positive affect which a job has had on the employees in the study.
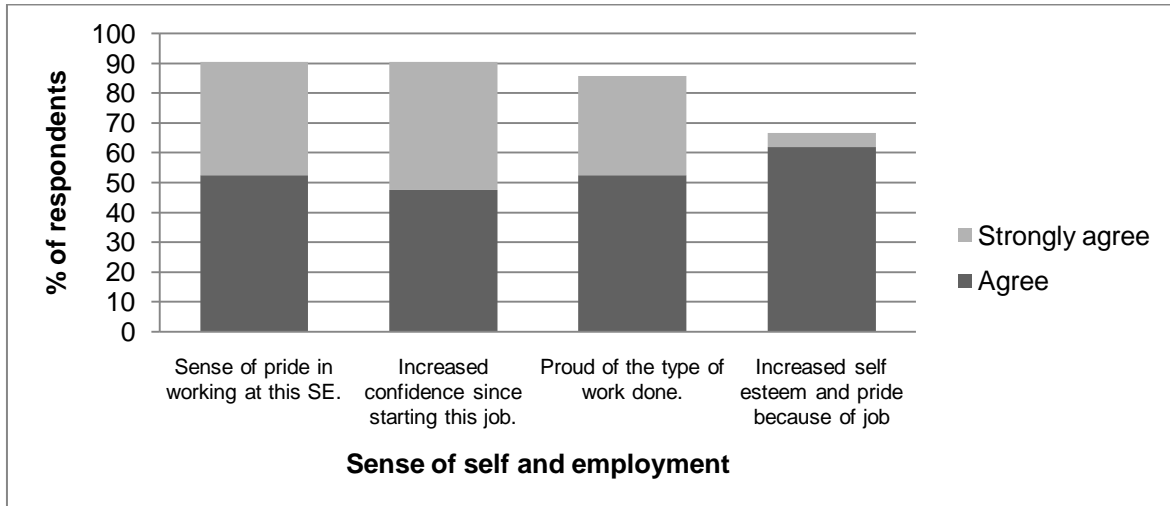


*Figure 4. 10 The average % of respondents who agree and strongly agree with four statements relating to their sense of self worth and pride, related to their employment.*

The numbers of individuals who disagreed with these statements was very low. In fact there were only two instances where disagreement occurred, and so the percentage agreement was broken down further to indicate the instances of 'strongly agree' and 'agree'. It is interesting to see that many respondents strongly agreed with the statements. This result is very encouraging, since these indicators are some of the very reasons which SE managers gave as motivation for starting their businesses.

During the interview process the different managers commented on the impact that a job has had on their employees. For example, the founder of TB mentioned 'growth', 'increased self-esteem and pride in their work', 'they inspire others to make a difference' and they have 'regained their self-worth' as some of the changes they have observed in their employees since they have been employed at TB.

## 4.5.3 Changes in individual's views of their future

The sense of stagnation and low self-esteem, which result from unemployment, often extend to an individual's view of the future, which becomes hopeless and unsettled. Job security and a stable work environment are the most immediate outcomes which a SE can influence. Once an employee is settled and secure in their current situation, they can begin to plan for their future. The five indicators which were used to measure how employment has affected employee's views of the future are job security, a stable work environment, opportunities for promotion, the ability and desire to save for the future, and a sense of hope about the individual's future.
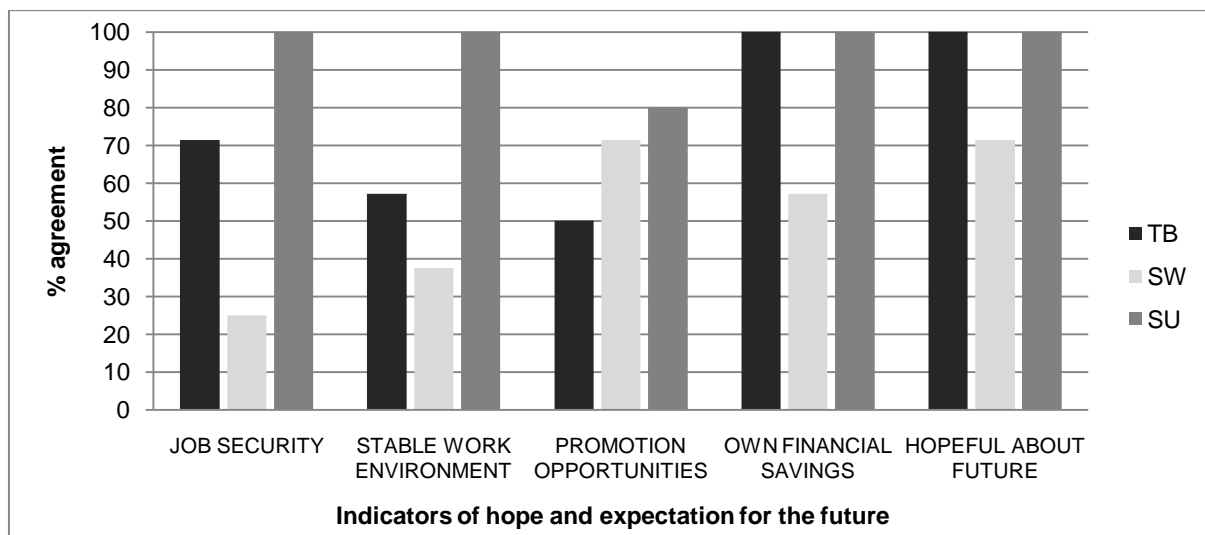


**Figure 4. 11 Graph showing the average level of agreement with five indicators about respondent's futures as a result of employment at three SEs.**

Job security was the lowest scoring indicator of these five, and was the second lowest score out of all 24 rated questions which were asked. SU showed high levels of agreement for job security and this is probably due to the nature of the business which is undergoing rapid growth and increased employment. Job security and a stable work environment were rated similarly by most respondents, and this shows that individuals

link their own job security with the overall health and stability of the SE. SW and TB both depend on the tourist trade to provide a market for their products (TB estimates 70% of their sales are to international buyers). Since the interviews were conducted just after the very quiet winter season, both of the SEs were struggling to increase their sales. TB had just cut their working hours to a four day week for many of their employees. During the winter months SW encourages their employees to take leave, and as many as 50% of their employees may leave the organisation for a few months to find other casual jobs. SW pays their employees on a commission basis (per piece produced) and are significantly affected by a drop in demand and their employees identified job insecurity and seasonality of employment as a major drawback. These concerns are probably the largest contributing factors to the low scores produced by many SW employees, especially because the questionnaires were administered in early spring, just after the low winter season.

The perception of opportunities for internal promotions was lowest at TB, which has a relatively flat employment model, most employees are production assistants and there is one production manager, and a few sales positions. SW has a more advanced organisational structure: beaders and shapers, then team leaders and specialists, design team, quality control and sales positions. SU is a rapidly growing enterprise with potential for a variety of different jobs, and possibilities for expansion. SU like to recruit from within the organisation and train up their employees and 80% of employees believe there are opportunities for promotion within the organisation.

At TB and SU all the employees indicated that they have been able to save for their futures, and are more hopeful about their futures. SW did not score highly in these categories, probably due to the insecurity and 'lean season' which they had just experienced.

## 4.5.4  Longer-term changes in condition

Longer-term outcomes are the changes an enterprise 'hopes to see' in the population they are targeting. These are usually in the form of changes in condition, and occur as a result of changes in learning (shorter-term) and changes in action (intermediate term). These are closely related to the goals and mission of the SEs. Unfortunately many organisations do not articulate these clearly or completely and can therefore be ineffective in reaching them. A SE which has a goal of 'job creation' will find it relatively easy to meet this objective, which is an output, a direct, tangible product. The bigger the goal the more difficult it is to accomplish it, and these longer-term outcomes are often outside of the control of an organisation. A SE which has a clearer understanding of its mission as a 'change in condition' can pursue this goal with more clarity and impact.

Part of this paradigm shift is to recognise that poverty is more than just an economic issue, but an issue of interrelated fundamental human needs. The SEs in this study do recognise this although would not necessarily articulate it in this way. The organisations in this study have achieved significantly in terms of creating jobs, empowering people and indirectly supporting many families, and it is not the intention of this study to undermine what they have accomplished. These enterprises have led

the way in being socially responsible in many aspects and demonstrated their commitment to their employees in times of difficulty. SEs are already attempting to meet multiple social and economic objectives and run financially profitable businesses. However, by not being explicit about what they want to achieve through their job creation activities they have limited their ability to make a more wide-spread social impact. Ideally this longer-term impact would be established through discussions and negotiations with various stakeholders, especially employees, to ensure that the desired impacts are meeting the needs of all the groups involved.

The questionnaire did not contain many questions about longer-term outcomes, or specific changes in condition. Those which were included have been represented in the graph below, as well as the response to overall quality of life as a result of current employment.
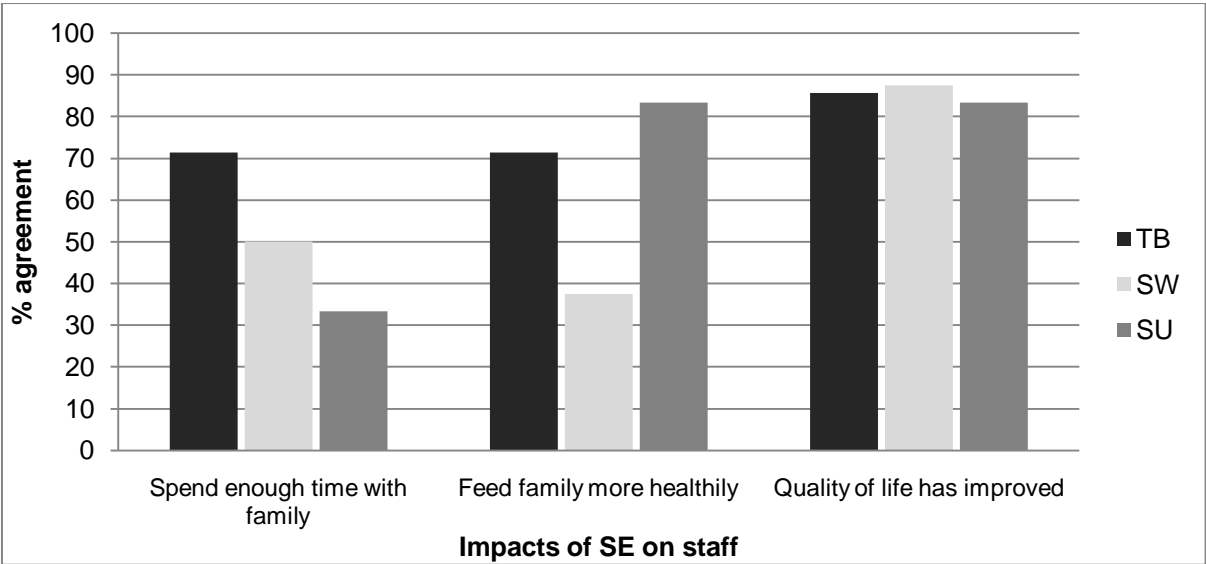


*Figure 4. 12 Graph showing employee perceptions of the impact employment has had on their lives.*

The two specific lifestyle changes which were in the questionnaire - more family time and healthier diets - score relatively poorly. Despite this over 80% of all respondents felt that their jobs had resulted in improved quality of life. The two specific changes included in the questionnaire are therefore not perceived as important measures of overall quality of life by the employees. This highlights the dangers of imposing an external set of values and perceptions on a group. It would be more beneficial to the managers of each SE to spend time understanding what their employee's value and the social issues they experience so that they can respond more appropriately.

Figure 4.12 above shows however that on average 86% of employees do feel that their quality of life has improved as a result of their job. For many unemployed individuals, earning a steady monthly income and having a job has a dramatic impact on their quality of life. It would seem that the primary fundamental need which must be satisfied is the need for subsistence, and that this single factor empowers them to be able to pursue and meet their other needs on their own, resulting in improved quality of life. Job creation, in itself, does seem to produce significant social returns in terms of improved quality of life for employees.

## 4.6   SUMMARY

In this chapter the findings of the primary data collection were discussed. Each SE was described and the demographics of the employees in the sample were described. The impact of the SE on the lives of their employees was then discussed. In the next chapter the recommendations and conclusions of the study will be presented.

# CHAPTER FIVE:  SYNOPSIS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1    INTRODUCTION

This chapter will briefly summarise the context of the research as well as the research problem, aims and objectives. The research question will be addressed based on the findings of the study and some conclusions related to this will be drawn. Based on these conclusions, some practical recommendations for social enterprises to maximise their social return will be given, and recommendations for further study will be made.

## 5.2    SYNOPSIS

The purpose of this study was to conduct exploratory research on social enterprises and the social returns they generate, especially with regard to their employees. The social enterprise sector was examined, and the theory of different organisational models, and methods of generating social returns were considered. Tools for measuring social returns using only economic indicators were found to be inadequate for measuring social value and a bottom-up, fundamental needs approach was considered as an alternative. Social enterprises exist as a response to social needs and problems, and some of the current social problems in South Africa were considered in relation to this. Job creation was found to be one of the most important kinds of social returns for two reasons. Firstly, unemployment and underemployment are some of the most pressing social problems in South Africa, and secondly, decent work empowers people to meet additional fundamental needs.

The mixed-methods research methodology facilitated the collection of qualitative and quantitative data. The data collection was primarily focused on the perceptions and attitudes of management and employees within the social enterprises. Management attitudes and perceptions of the organisation's impact on their staff were compared with the perceived impacts and experiences of employees. Employee satisfaction, changes in sense of self and changes in their views of the future were some of the indicators of social impact which were measured. The collected data was analysed and presented in Chapter 4. This research was focused on the research question formulated in Chapter 1:

**How can the social value of social enterprises be measured, specifically regarding the impact on their employees?**

## 5.3   CONCLUSIONS

The conclusions of this study are based on the primary and secondary research objectives. The secondary objectives were addressed directly in Chapter 4, and they form the foundation needed to address the primary objectives. The two primary objectives will be stated first and then any conclusions which were made in regards to them are given.

### 5.3.1 To explore the social impact of employment on the lives of the employees of SEs.

The first primary objective of this study was met through the accumulation of the primary data, as well as the secondary data gathered in the literature review. The social impact was considered from the perspectives of measurable, tangible outputs, and the outcomes; changes as a result of the organisation's objectives.

The main output which was measured was jobs created, which is common to all social enterprises. These jobs were mostly for previously unemployed individuals. The direct social benefits of those jobs were measured using the increased household income and the support for extended families. Other outputs were described, but not considered in much detail. In many social enterprises these other outputs will be more important than the jobs which they create and further research is necessary in this area.

The outcomes, or changes over time, which result from being employed by the social enterprises in the study were identified as:

- Employee job satisfaction,
- Improved sense of self-worth and pride,
- Improved views of and hope for the future,
- Camaraderie, friendships and healthy relationships in the workplace, and
- Improved quality of life.

These outcomes are produced in different degrees in different individuals' lives. There are numerous factors which influence each of these outcomes, and their impact on people's lives. Some of the most common factors were job insecurity, low wages and lack of opportunities to grow in the organisation.

Some of the work conditions which employers think are important to their staff, but do not correlate very highly with employee perceptions were:

- Sense of prestige at being able to work in town,
- Employees learning more about how businesses are run,
- Taking pride in one's work.

The lack of agreement with these indicators is interesting in itself, and also as a representation of the importance of communication between management and employees. When management structures their work environment in a certain way, or places emphasis on things which employees do not value, they are not using their resources with maximum efficiency. This limits the amount of social value they can create.

Most social enterprise staff did not feel they were paid fairly for the work they did, or that they spent enough time with their families. Looking at the average wages they were earning, many employees are not earning much above the Household Subsistence Level. Job insecurity was also identified as a problem area and impacted heavily on individual's satisfaction and views of the future. When individuals are not able to meet their own subsistence needs, or those of their families, this has a negative impact on many other fundamental needs.

### 5.3.2 To identify any factors which produce high levels of social return for SE employees.

The second primary objective was to identify any factors which produce high levels of social return. As an exploratory study which used only basic non-parametric statistics, the relationships between the social returns and different aspects of the business have not been tested statistically. The observations which have been made are based on a small sample size, from within the Cape Town area, and further studies in this field would be advised. The factors which produce high levels of social return can be broken down into two main types; factors of employment and factors in organisational approach.

The factors of employment which are significant to SE employees are:

- Job security. High levels of seasonality in demand are unsettling to all employees, even if they are not commission based.

- Wage security. Earning per piece produced and uncertainty around income for each month was found to be a major concern for many employees.

- Adequate income. In order to earn enough money to support one's family and to break out of cycles of poverty, wages need to be set at levels above basic subsistence wages.

- Camaraderie. Good relationships with colleagues as well as with those in management play an important role in overall job satisfaction.

- Opportunities for growth. Employees who had been with SEs for many years were discouraged by lack of opportunities and variation in the work available.

- Skills development. Employees expressed a desire to learn new skills and to move into different jobs, but few were able to do so within the SEs.

Factors of organisational approach are factors which are not directly impacting on employees. These factors relate to how the social enterprise structures their operational models, the type of social return they generate, and where on the social value chain they are producing social value. These were not measured directly during the questionnaire phase, but rather come from the interviews with management.

- Choosing the correct organisational model is important so that a SE can pursue their specific social and financial returns. The particular model which is chosen does not play a significant role in terms of effectiveness or higher levels of social return, but does affect what kind of return is produced. Awareness of the shortfalls and limitations of each model is also important.

- An understanding of the specific needs within a community will allow SEs to choose the most suitable model, and to seek to produce the most important social returns, based on that community profile.

- An organisation which seeks to produce value further along the value chain has increased opportunities to maximise their social value. For example, SU aims to generate social value at the highest level (marketing to target customers) but still progresses through every other level. At each level there is opportunity to generate social value, but this does require a specific, intentional focus from the SE.

- Viewing the poor as a potential market or customer base allows a SE to produce products and offer services which can improve people's quality of life.

## 5.4  RECOMMENDATIONS FOR SOCIAL ENTERPRISE MANAGERS

Based on the conclusions of the study, several recommendations have been highlighted for the managers of SEs in order to maximise the social returns they produce, especially in terms of job creation. These are listed briefly below.

- Dialogue frequently with all stakeholders, especially regarding the desired social impacts and the fundamental needs of each group.

- Have a clearly defined social mission and expected social returns and choose the best operational model to meet your social goal.

- Communicate the social mission, vision and values to all stakeholders for accountability and buy-in from each group.

- Use a suitable, holistic, needs-based tool to monitor and report on progress regarding your social mission.

- Aim to produce social value in as many links along the social value chain as possible.

- Be intentional, specific and realistic about generating social value.

## 5.5 RECOMMENDATIONS FOR FURTHER STUDY

Areas which have not yet been subjected to intense academic study were identified from the literature review and the research findings of this study. Some of these areas are:

- The state of the social enterprise sector in South Africa.

- The potential impact of social enterprises in South Africa.

- Legal and economic systems which provide supportive environments for social enterprises.

- Developing a generic tool to measure and report on social impacts.

- Understanding the impact of work opportunities on previously unemployed people.

- Long-term impacts on employees of being employed in a sheltered social enterprise work environment.

- Social enterprises, the social value chain and the bottom of the pyramid approach.

- The impact of employment on overall quality of life.

- Using a fundamental needs approach to measure social impacts.

A better understanding of these areas will contribute to the development of the social enterprise sector internationally and in the South African context. Social enterprises exist to respond to social problems and if they are able to add social value through their business activities, as effectively as some literature claims, then further research can only strengthen this sector and should be considered a priority.

## 5.6   CONCLUDING REMARKS

Social enterprises are part of a growing sector around the world. They seek to address social problems using business approaches and generating their own income. They face a similar challenge to the NGO and governmental sectors in being able to measure the social returns they generate. Traditionally social returns have been measured only using financial indicators, with the result that social returns are often undervalued and misunderstood. One of the most important and universal social benefits which social enterprises generate is new jobs. Unless there is some way of differentiating between 'traditional' employers and their employment activities, and those of social enterprises, the SE sector will continue to lack support from funders and governments. The development of a tool to measure the social value produced by various jobs is an important and urgent task. In the meantime though, social enterprises should concentrate on ensuring that their employees form part of the discussion about their own terms of employment, and that they earn enough to lift themselves and their families out of subsistence poverty.

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# 7 APPENDICES

## 7.1 INTERVIEW SCHEDULE

| INTERVIEW SCHEDULE FOR MANAGEMENT OF SOCIAL ENTERPRISES |
|---|
| NAME OF RESPONDENT:<br>POSITION:<br>ORGANISATION: |
| 1. How would you define the term 'social enterprise' / 'social business'? |
| 2. Would you define your organisation as a social enterprise based on your definition? |
| 3. How would you define social returns or social value? |
| 4. Based on your definition would you describe your organisation as producing social returns? |
| **SE= an organisation which was created for a social purpose, OR to meet a social need while operating with the same financial discipline and determination as a private sector business.**<br><br>**Social purpose/ social return= any activity which improves people's quality of life, through increasing people's opportunities to meet their fundamental human needs. (Based on Max-Neef's theory of fundamental human needs)** |
| 5. Based on *these* definitions would you say that your organisation: |
| a. Produces social returns? |
| b. Is a social enterprise? |
| 6. Could you briefly describe your organisation and what it does? |
| ● What your business activities are. |
| ● How many and what kind of people you employ, etc. |
| ● Do you have any volunteer staff working with you? |
| ● Who your target population is (services offered to). |
| ● How long you have been running for. |
| ● Motivation for particular project or service you offer. |
| ● Instrumental values – means for achieving goals of the core values. |
| 7. Which activities are the most important things your business does? |

- Social endeavours

- Business activities

8.  What / who determines the vision and mission of the SE?

9. Which groups are the most important stakeholders in your business? How important is it to the running of the organisation and your social mission to engage with stakeholders and to consider their values and objectives regarding partnering with you?

10. What are the main outputs of your business? (direct and tangible products of the activity)

- Number and description of people employed

- Number and description of people trained etc

11. Do you measure the any outcomes of your organisation? (changes, over time, in stakeholders) How, why and what are they?

- Direct outcomes- result of the outputs (eg: employment, increased income)

- Indirect outcomes – result of the direct outcomes (eg: improved quality of life, better education for children)

12. Please discuss the social returns or social value your organisation produces?

- How and why they are measured (if at all)

13. How do you balance the tension between social returns and the economic demands of running a financially sound business? Do you prioritise one over the other? Have you noticed that your priorities have changed over time?

14. How do you structure your wages and working conditions?

- How does this compare to other businesses in the same sector?

- How important is it to you that you pay your staff well? (rate 1-5)

15. Do you have particular activities for investing in / developing your staff?

16. Does staff have any formal ownership in the business? Please explain.

17. Are any of the financial returns or profits distributed among the staff? Please explain.

18. What has been your organisation's main impact into the lives of your staff, if any?

- Have you noticed positive changes in the staff that have been with you for an extended time period?

19. Would it be possible to restructure your working conditions to help staff meet more of their fundamental needs? Please explain.

20. What do you think your staff feel is the impact your organisation has had in their lives?

21. Is there room for career growth and development in your organisation for staff?

22. Are staff happy with their working conditions, and what changes would they like to see implemented in this area? What changes would you like to see in the future?

23. Is there good communication between management and your staff?

- Do they suggest improvements, voice complaints etc?

- Are there formal structures to support this?

## 7.2 QUESTIONNAIRE

Nelson Mandela Metropolitan University
Faculty of Business and Economic Sciences
School of Economics, Development and Tourism
Department of Development Studies
Main Building
Summerstand Campus (South)
University Way
Port Elizabeth
(041) 504 2111

Dear Sir \ Madam

I am a Masters student at Nelson Mandela Metropolitan University. As part of my course requirements I am conducting a research project. This research project is about social businesses and job creation. In order to understand this, it is necessary for me to learn about the different experiences of people who work in social businesses.
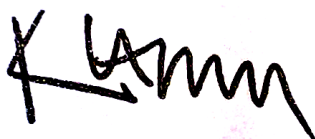
I am looking for volunteers for the study and would appreciate you filling out a questionnaire for this. I would like to emphasize that participation in the study is voluntary and if you choose to participate, you may withdraw at any point.

It is important for you to know that your identity will be kept confidential – your name will not be published and your employer will not see your completed questionnaire.

Once the study is complete you will have access to all the findings.

During the time to complete the questionnaire you will not be able to work; this may impact your day's earnings.

Kind regards,

The Researcher,

Kate Amm

| A | Read each statement or question carefully and put an 'X' in the box which is closest to your answer. | | | | | |
|---|---|---|---|---|---|---|
| **GENERAL WORK EXPERIENCE AND PERCEPTIONS** | | | | | | |
| 1 | Working at SW gives me a sense of pride. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 2 | My ideas are valued at work. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 3 | The staff are treated equally and fairly. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 4 | Working at SW gives me a sense of job security. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 5 | How many times a year you get work-related training? | Never | 1-3 times | 4 - 6 times | 7 - 9 times | + 10 times |
| 6 | My work environment is stable and reliable. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 7 | I understand more about business since being at Streetwires. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 8 | I have learnt how to be a better employee by working at Streetwires? | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 9 | I am more confident about myself since working at SW. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 10 | There are opportunities for me to be promoted at SW. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 11 | My job supports a balance between work and personal life. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 12 | I feel like I am part of a team at work. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 13 | I believe that my employers care about what is best for me. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 14 | I am proud of the work that I do. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 15 | How important are the vision and mission of SW to you? | Not at all important | Slightly important | Moderately important | Very important | Extremely important |
| 16 | How important is it that you take pride in your work? | Not at all important | Slightly important | Moderately important | Very important | Extremely important |
| 17 | How important is it that your work leaves a legacy for the future? | Not at all important | Slightly important | Moderately important | Very important | Extremely important |
| 18 | How important is it that you go to work in a different part of town? | Not at all important | Slightly important | Moderately important | Very important | Extremely important |
| 19 | I would like to keep working at SW for the next : | few months | 1 year | 2-5 years | more than 6 years | |

| 20 | I have made new friends at work. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| 21 | I receive training on real life issues at work? (eg: child care, banking etc) | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 22 | As a result of my job I am able to feed my family healthier food. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 23 | I have been able to save for my future because of this job. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 24 | I would like to learn new skills at work. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 25 | I am more hopeful about my future since working at SW. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 26 | I am able to spend enough time with my family. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 27 | My quality of life has improved since coming to work at SW. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 28 | I prefer this job to other jobs I've had. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 29 | I feel that the amount I earn is fair for the type of work I do. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| 30 | Working at SW has improved my self-esteem and pride. | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |

| **B** | **Please write a few words about what this job has meant to you and your family.** |
|---|---|
| | |

| **C** | **Choose the THREE things which are the most important TO YOU, about this job and write in the block next to each. 1 = most important, 2 = second most important, 3 = third most important.** |
|---|---|

| | |
|---|---|
| My friendships with my co-workers. | |
| The type of work that I do. | |
| The place where I go to work. | |
| The sense of pride I get from working. | |
| The mission and values of the business. | |
| The opportunity to be creative. | |
| The skills I am learning at work. | |
| The opportunity to gain work experience. | |
| The money I earn. | |
| OTHER: please explain… | |

# Personal details.

| Gender: | | | Nationality: |
|---|---|---|---|
| Home language: | | Age: | |

**Other languages spoken:**

**What is the highest level of education you have received?**

**Do you think it is important for people to work? Please explain WHY / WHY NOT?**

**How many people do you support with your income?**

**What are / were the main problems you have /had when looking for work?**

**What is your job now? Approximately how much do you earn at this job?**

**How long have you had this job?**

**What do you like most about your job?**

**What is your dream job?**

# Thank you.