



International
Labour
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INTRODUCTION TO SOCIAL ENTERPRISE (ISE)

LEARNERS' GUIDE





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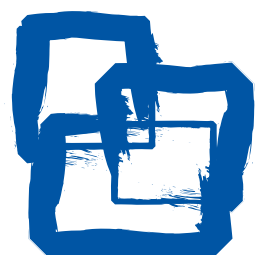


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ABOUT INTRODUCTION TO SOCIAL ENTERPRISE

Introduction to Social Enterprise (ISE) is part of the International Labour Organization's Social Business Development Services Resource Pack. This is a system of interrelated training packages and other resources for social entrepreneurs with limited or no previous exposure to management training. The training products in the package include Introduction to Social Enterprise (ISE), Generate Your Social Business Idea (GYSBI) and Generate Your Social Business Plan (GYSBP).

The ISE programme is for people who have no previous exposure to social enterprise and wish to find out more about it. The main target audience is potential social entrepreneurs, but the programme is also relevant for existing entrepreneurs, employees of non-profit organisations, conventional for-profit businesses, business development service providers or other support agencies, policy makers or other stakeholders.

The ISE Learners' Guide will provide a basic introduction to social enterprise, helping participants to be able to:

- Describe the background to social enterprise and the increasing interest in it internationally;
- Appreciate that social enterprise is attracting increasing interest in South Africa;
- Define concepts such as social enterprise, social entrepreneur and the social economy;
- Consider how social enterprises could be relevant in their own communities;
- Identify common characteristics of social enterprises and social entrepreneurs and consider whether they are suited to social enterprise;
- Identify where they can go for further information on social enterprise and help in developing their own social businesses.

The material in this guide has been developed by Real Development for the ILO. It has been developed in and is intended for use in South Africa, although much of the content will also be relevant elsewhere.

Accompanying this ISE Learners' Guide is a Trainers' Guide and a slide presentation that trainers can use to deliver the material, adapting it as necessary for their audiences. There is also a set of 25 case studies of social enterprises in South Africa on which trainers and learners can draw if necessary.



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MODULE 1

BACKGROUND TO SOCIAL ENTERPRISE

Section 1.1 What do we mean by social enterprise?

We will learn later that there is no single agreed definition of social enterprise, but put simply, a social enterprise is an organization that is run like a business but that has a social purpose.



Social enterprises occupy the middle ground between conventional Non-Profit Organisations (NPOs) and conventional businesses, and may be legally registered as either. They may take for-profit or non-profit legal forms; what matters most is how any profit generated is used, and who benefits from it.

There is no special legal form for social enterprises in South Africa. You can find social enterprises that are registered as Section 21 companies, cooperatives, voluntary associations, trusts, close corporations and even Pty Limited companies. It is not possible to identify a social enterprise just by its legal form and you need to understand what an organisation does, why, and how, to decide whether it is a social enterprise. In particular, you need to know who benefits from its operations and what impact it has on society.

Social enterprises differ from conventional enterprises in that social impact is considered as more important than maximising profits.

Social enterprises are unlike conventional NPOs as they earn a substantial proportion of their income rather than being dependent on grants. However, many social enterprises rely on a mix of grant funding and earned income, particularly in the first few years of existence or in the transition from grant-dependency to becoming financially sustainable.

We will look in more detail at the definition of social enterprise and related terms later in this Guide.

Section 1.2 The emergence of social enterprise as a concept

There is increasing interest in social enterprise around the world. Examples of such social enterprises have existed for a long time, but the phrase only really started being used in the 1970s. Since then, the concept has gained popularity. Three of the factors that have encouraged this are:

- Pressure on non-profit organizations to find new income streams to maintain and expand their programmes in response to the decline in traditional sources of revenue such as charitable contributions and government grants.
- The recognition that business approaches can be applied to tackle social problems in a sustainable way. This has led to the emergence of new forms of social purpose business.
- The outsourcing of the delivery of some public services by governments.

In some countries, governments have made efforts to encourage the growth of the social enterprise sector, recognising the value that they bring to society. Some countries have set up special units within their governments to promote social enterprise. There are even new legal forms that have been established specifically for social enterprise.

While social enterprises are part of the social economy sector (including cooperatives, mutual benefit societies, associations and foundations), they do not necessarily follow the principles of democratic governance or collective ownership as closely as

some of these other social economy organizations. However, there is increasing recognition of social enterprises as one among many forms of social economy enterprises.

The recent global economic crisis has led to increased interest in alternative business models seeking to combine social and financial goals, which has focused attention on social enterprises.

Section 1.3 The relevance of social enterprise in South Africa

As elsewhere in the world, interest in social enterprise and the social economy is increasing in South Africa. The New Growth Path announced by the Economic Development Department in October 2010 identifies the social economy as part of the economy that has the potential to create many decent jobs. The Honourable Minister of Economic Development, Ebrahim Patel has stated that “the social economy is a frequently under-recognised, under-appreciated and under-marketed part of the modern economy”.¹

In South Africa, social enterprises could represent new growth opportunities offering a politically attractive win-win solution including new job creation and improved service delivery. They have the potential to tackle many of the social problems faced in South Africa today, especially poverty alleviation and job creation, but also other social and environmental challenges. Social enterprise has the potential to build human dignity and self-worth, thereby addressing many of the ills created by South African history.

Various organisations in South Africa have emerged in recent years that seek to support social enterprises and social entrepreneurs. Some of these are listed in Module 6 at the end of this Guide. Mainstream small business development agencies are starting to develop tailored support services for social enterprises.



MODULE 2

DEFINITIONS AND PRINCIPLES

Section 2.1 Concepts related to social enterprise

Despite interest in the social economy and social enterprises (especially from academics), there is no common conceptual agreement and understanding of social enterprise and related concepts. Defining them is further complicated by the difference between theory and practice. As a result, various concepts are often used interchangeably, e.g. social entrepreneurship, social entrepreneurs, social enterprises, social businesses and social economy.

However, it is important that we create a common understanding of concepts. Typically **social entrepreneurship** refers to a general process or overall culture, whereas **social enterprises** and **social business** refer to the organizations that arise from this culture and that put it into practice. The term **social entrepreneur** refers to the founder/leader of the initiative or sometimes to those people who are the driving force behind social innovation. The **social economy** is the part of the economy that includes social enterprises and other forms of economic organisations that have a social purpose and that focus particularly on collective ownership, economic justice and democratic participation.

We will consider these definitions in more detail in the remainder of this Module.

Section 2.2 What is the social economy?

The term 'social economy' was first coined in the 19th century to describe an economy which contributes to improved quality of life for all people in the community rather than only a privileged few. It is built on economic justice and democratic participation.

The social economy is often defined in terms of the legal status of the enterprises and organisations that exist within it. For example, the Government's New Growth Path says: "The social economy includes myriad not-for-profit institutions that provide goods and services, including coops, non-governmental organisations and stokvels".² However, it is also often characterised by some common principles, especially:

- Placing more value on people and work than on money;
- Independent management;
- Democratic decision making processes;
- Collective ownership.

In recent years, the social economy concept has been broadened to include diverse forms of social enterprises and social entrepreneurship. In 2009, delegates from across Africa defined the social economy as "a concept designating enterprises and organizations, in particular cooperatives, mutual benefit societies, associations, foundations and social enterprises, which have the specific feature of producing goods, services and knowledge while pursuing both economic and social aims and fostering solidarity".³



Section 2.3 What is a social entrepreneur?

A variety of definitions of social entrepreneur exist. Here we provide some examples of existing definitions.

In 2009 the Schwab Foundation defined a social entrepreneur as someone who “builds strong and sustainable organisations, which are either set up as not-for-profits or companies”.⁴

According to Ashoka, social entrepreneurs “are individuals with innovative solutions to society’s most pressing social problems. They are ambitious and persistent, tackling major social issues and offering new ideas for wide-scale change”.⁵

In 2001, the Director-General of the International Labour Organization (ILO) noted that social entrepreneurs shared the vision, creativity and determination of business entrepreneurs to create new products and services and even entirely new industries, and that social entrepreneurs use these qualities to create sustainable market-based solutions to social problems.⁶

While business and social entrepreneurs share the same drive to create viable and sustainable businesses, the social entrepreneur uses his/her business to find solutions to problems in communities. Thus, social entrepreneurs focus on creating social value in addition to economic value.

Social entrepreneurs are change agents and the driving force behind sustainable social innovation, transforming fields such as education, health, environment and enterprise development. It is important to understand that despite this focus, social entrepreneurs differ from social activists and advocates. They use entrepreneurial skills and business methods to build concrete and sustainable for-profit or not-for-profit organisations which become the vehicles to achieve their social objectives.

Section 2.4 What is a social enterprise, or social business?

Some people use ‘social business’ to refer particularly to for-profit social enterprises, to distinguish them from ‘enterprising non-profits’. However, in this guide, we use ‘social enterprise’ and ‘social business’ interchangeably.

While it is difficult to find a single definition for social enterprise, many of the definitions and descriptions commonly used speak the same language:

- The Social Enterprise Coalition in the United Kingdom views social enterprises as “businesses trading for social and environmental purposes.”⁷
- Kim Alter, founder and managing director of Virtue Ventures (an international consulting firm specialising in social entrepreneurship) defined social enterprises as “any business venture created for a social purpose – mitigating/reducing a social problem or a market failure – and to generate social value while operating with the financial discipline, innovation and determination of a private sector business.”⁸
- In 1999 the Organisation for Economic Cooperation and Development (OECD) defined social enterprises as “...any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals.”⁹
- The Government of the United Kingdom believes a social enterprise to be “...a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.”¹⁰
- In marketing a Social Business Plan Competition on the Cape Flats in 2009, The Business Place defined social businesses as follows: “A social business uses business methods to address social problems. A social business should have a solution to a problem in your community. Also, this solution must have a way of making money. Some of the areas in which there are opportunities for social business are recycling, waste management, housing, community services, food security, crime prevention, education/skills development, health care, childcare, employment opportunities for disadvantaged groups, arts and culture, care for elderly, leisure and recreation, and environmental protection.”¹¹



These definitions pinpoint two distinct characteristics of social enterprises:

- Delivery of social value as the principal aim as opposed to maximising profit for the owners/shareholders.
- The production of goods or the provision of services on an ongoing basis with a view to generating an income that covers costs and potentially allows for a surplus.

Social enterprises are also sometimes defined in terms of the origin of income, which may be a mixture of:

- Grants and donations (including subsidies, donor funding, charitable donations and grants); and
- Income generated through trading.

Section 2.5 Examples of existing social enterprises in South Africa

This section includes brief summaries of 25 existing social enterprises in South Africa. More details on each can be found in a set of case studies available alongside this Guide.


Bobs for Good Foundation is a registered public benefit Trust based in Cape Town. The organisation uses a “one-for-one” model to ensure its financial sustainability and to implement its purpose. Shoes for men are retailed via an online shopping platform and the profit from each sale is used to manufacture and distribute a pair of school shoes for a disadvantaged child.

The Bondtitis Benefit Scheme is a cooperative based in Vosloorus that consolidates the membership of 35 burial societies to provide an integrated and more sustainable service. The group collects membership fees from 900 principal members across Gauteng and Mpumalanga, and is underwritten by an insurance company. Through this scheme, individual members have a greater sense of certainty regarding the payout of their claims.

The **Creative Design Company** is a registered (Pty) Ltd. company based in Cape Town which aims to maximise employment by growing the local clothing design and manufacturing industry. The social enterprise sells its designs to major retailers and uses local suppliers to make the clothes. The organisation also advocates for policy change to allow the sector to grow.

Dreamhouse Workshop for the Blind in Pretoria aims to increase the job opportunities available for people with disabilities as well as for the unskilled. The organisation trains potential employees in various skills and then employs them in one of their three companies which manufacture window blinds, cane furniture and packaged fertiliser sticks. A hybrid structure comprising non-profit and for-profit entities is used to achieve this.

Emmanuel Haven is a Section 21 not-for-profit company and registered Trust which is working towards the vision of an HIV-free Motherwell (the largest township in Port Elizabeth). The organisation provides home-based care services, offers treatments at day-care clinics and runs projects for children infected with or affected by HIV. It also runs several awareness-building projects



on HIV/AIDS prevention. Emmanuel Haven uses a hydroponics project to grow vegetables which it sells to earn an income. The organisation recently launched a radio station which delivers social messaging to the residents of Motherwell and earns an income through selling advertising space.

Food & Trees for Africa is a Section 21 not-for-profit company based in Johannesburg addressing the issues of climate change and food security. To ensure its financial sustainability, the social enterprise sells energy certificates and the service of carbon offsetting to corporates, government and other non-profit organisations. It also implements government contracts on urban greening.

The **International Centre for Eyecare Education Africa** is a Section 21 not-for-profit company headquartered in Durban. The organisation was created to respond to the needs of millions of people on the continent who do not have access to basic eye care services. To achieve this, ICEE Africa has established Vision Centres which retail spectacles and other eye care products at low cost, and provide vision screening services.

The **Johannesburg Housing Company** is a social housing company structured as a Section 21 not-for-profit company, with subsidiaries that are non-profit and for-profit entities. It provides affordable rental apartment accommodation in the inner city of Johannesburg to people with low incomes. The organisation also offers complementary social services to its tenants, both for the purpose of raising the value and competitive advantage of its properties as well as to uplift its clients socially.

Khulisa is a Section 21 not-for-profit company based in Johannesburg with offices throughout the country and an international office in the United Kingdom. The primary aim is to reduce the levels of crime in the country by providing holistic community development and individual behavioural change programmes. The organisation maintains its financial self-sufficiency by selling its services to the public and private sectors.

Learn to Earn is an organisation in Cape Town that seeks to create economic access and opportunity through skills development and enterprise development. Close to half of the organisation's income is earned through facilitation fees for enterprise development, preferential procurement and personnel recruitment; as well as through The Feel Good Project, an innovative partnership between Learn to Earn and the Foschini Group. The organisation uses a hybrid structure of non-profit entities to achieve this purpose.

Life College in Johannesburg offers programmes focused on creating a "champion" mentality in the youth. These are implemented in Soweto and Eldorado Park and make use of prominent public figures as examples on which the learning is based. The organisation has a hybrid structure – a (Pty) Ltd. investment company invests in suitable businesses and sells the organisation's programmes; this company is wholly owned by a Trust; and a Section 21 not-for-profit company implements the developmental activities.

Magwa Volunteers is a small close corporation founded in the deep rural Gwexintaba village near Lusikisiki on the Wild Coast. It was created with the aim of achieving sustainable development of the village and implements various initiatives, such as permaculture projects. To generate its income, the company sells tour and volunteer packages that provide an indigenous African experience to international tourists. The tourists come to the Gwexintaba village to volunteer in various community projects and learn more about rural African life.

SHAWCO is one of the largest student volunteer bodies on the African continent with over 2000 volunteers running over 22 health and education projects in five SHAWCO centres. SHAWCO has developed a transport business, coordinates an international social entrepreneurship programme and manages a clothing project to generate income. The organisation forms the student volunteer arm of the University of Cape Town and is structured as a Section 21 not-for-profit company while its transport project is structured as a for-profit business.

Shonaquip is a (Pty) Ltd. Company and a Section 21 company based in Cape Town. The organisation manufactures and sells wheelchairs, back supports, positioning and assistive devices, therapy equipment, communication devices and incontinence products. In addition, trained occupational therapists assess and prescribe positioning and seating equipment for persons with disabilities.

The **Small Enterprise Foundation** in Limpopo aims to eliminate poverty by providing a range of financial services to enable the poor to realise their potential. The Section 21 not-for-profit company provides micro-finance loans to disadvantaged people in a community in order for them to start businesses. The organisation then provides mentorship and advice to support the development of the businesses.

The **Sodla Sonke Cooperative** was formed in the Walmer Township in Port Elizabeth to address various social problems in the community. The main income-generating initiative is an office/property cleaning service. By winning competitive tenders, the cooperative has been able to provide job opportunities for unemployed people from the community. In addition, the cooperative runs a small recycling project to increase its income.

Sport For All is the first registered social franchising company in South Africa. The organisation sells sport franchises to create opportunities for people to offer coaching clinics and to provide recreational activities for children in disadvantaged communities. Sport is used as a vehicle to teach life skills to children while the sale of franchises creates entrepreneurs within the community. Sport For All is based in Johannesburg and has a hybrid structure, with a (Pty) Ltd. company that implements the franchising model and a Section 21 not-for-profit company which accesses grant funding to provide services to orphans and vulnerable children.

St. Philomena's is a Section 21 not-for-profit company in Durban. The mandate of the organisation is to respond to poverty, unemployment, lack of skills/education and family dysfunction in surrounding communities. St. Philomena's financial sustainability is provided through Saints Hospitality, its sister organisation, which is structured as a (Pty) Ltd. company. Saints Hospitality has a conference, accommodation and catering facilities from which it earns its income.

Stitchwise is a (Pty) Ltd. company based in Carletonville in Gauteng. The company develops safety products for mines, including personal protective equipment for miners and backfill support bags which form the pillars that prevent the mine ceiling from collapsing. The company also employs people with disabilities and encourages and mentors unemployed people in mining communities to start small enterprises.

Streetwires is a close corporation, located in Cape Town, which trains unemployed artists or disadvantaged people interested in art to make a sustainable income from wire and bead craft. The organisation also retails the products made thereby creating a stable income for the artists. Streetwires ensures that artists are not exploited and receive fair value for their work with business and individual clients.

The Broccoli Project in Cape Town develops and sells technology that is used to monitor and measure donations provided to large numbers of beneficiaries. This is coupled with an incentive scheme that uses food vouchers to motivate the poor and unemployed to undertake positive behaviours. The technology can be applied to various social issues such as encouraging people to undertake medical testing or motivating students to attend school. The organisation uses a hybrid structure made up of a Trust which implements the charitable activities and a company structure that developed the technology.

The Clothing Bank enables marginalised women to become micro-entrepreneurs in their communities. The services provided by The Clothing Bank are the collection and repair of donated clothes, and business training for the women. The organisation then sells the clothes to the women at a nominal amount which the women sell in their communities at market-related prices. The Clothing Bank is a Section 21 not-for-profit company based in Cape Town.

The Lapdesk Company, a (Pty) Ltd. company in Johannesburg, produces and distributes a product called the Lapdesk, a durable, recyclable product designed to provide support for a child while s/he studies. It serves the same purpose as a desk, providing a sturdy support for the child's books. The product was developed in response to severe desk shortages in South Africa and other countries.

Wizzit Bank was created as a (Pty) Ltd. company in order to bank the unbanked. The organisation started by offering transactional banking capability and then went on to offer other financial services such as loans and micro insurance. The organisation is based in Johannesburg and has international operations in sub-Saharan Africa and Europe. It makes use of field agents called Wizz Kids who promote and sell the bank's products in communities.

Zip Zap is a performing arts school based in Cape Town and is registered as a public benefit Trust. Zip Zap teaches circus skills to children of different socio-economic backgrounds to enable interaction and understanding of each others' lives, cultures and life experiences. The children are taught to apply the lessons behind the circus skills to their lives and are given the opportunity to use their skills in performances across South Africa, as well as around the world.

MODULE 3

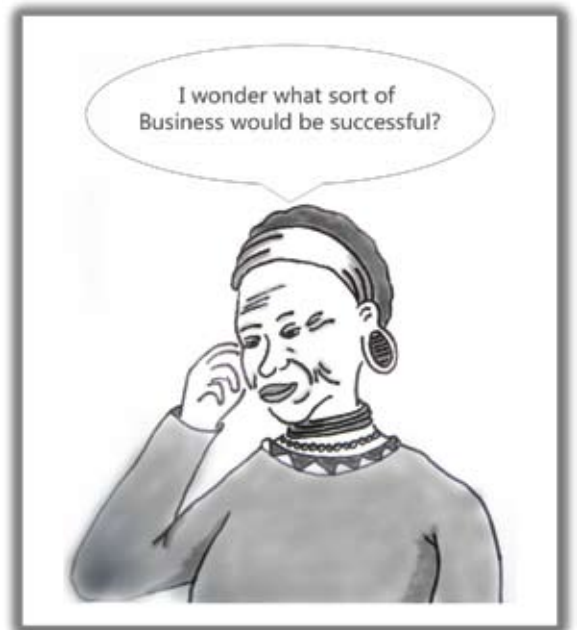
HOW ARE SOCIAL ENTERPRISES ESTABLISHED?

Section 3.1 How do social enterprises start?

The process of establishing a social enterprise is not always the same. For example:

- An existing commercial business may choose to transform into a social enterprise based on needs that become evident in the community. The transformation into a social enterprise is not the same as becoming involved in a community through donations. Such donations usually form part of the corporate social investment (CSI) programme of a business and do not affect the operations of the business or its profit-maximising nature. In contrast, the primary focus of social enterprises is addressing community needs rather than maximising profits.
- An existing community-based or non-profit organisation may become a social enterprise by increasing the proportion of its income that it earns. For example, protective/sheltered workshops for people with disabilities can be transformed into fully sustainable social businesses. A social enterprise is characterised by its ability to earn income from trading and operational activities.
- A social entrepreneur may identify a specific community need or problem which leads to the establishment of a new business as a social enterprise.

Regardless of these factors, the first step for the establishment of any social enterprise is being aware of a specific problem requiring attention. It is often because social entrepreneurs are in touch with their communities that they are able to identify social/environmental issues as a first step.



Section 3.2 How do personal experiences lead to social enterprises?

Many people who become involved in community activities or try to improve the world they live in feel compelled to do so because of their own experiences. Many non-profit organisations have their origin in the personal trauma and hardship of the founding members. This is also true of social entrepreneurs who focus their careers on changing circumstances that they are familiar with.

For example, a person who lost a close friend due to a drug overdose might be keen to start a social business that prevents or treats drug abuse. A woman who escaped an abusive relationship might well start a shelter for abused women or a training centre to skill women and increase their employability.

CASE STUDY: SHONAQUIP¹²

Shelley McDonald was born in 1981 and diagnosed with cerebral palsy. Finding appropriate assistive devices proved to be more difficult than the McDonald family initially realised.

The family chose to take a positive view despite the difficulties and challenges they were facing. According to Shelley's mother, Shona, they "decided to turn the negative diagnosis and accompanying negative advice and depressing prognosis into positive decisions, useful resources, personal development and parental empowerment."

The McDonalds refused to accept the inadequate assistive devices available in South Africa in the 1980s and Shona decided to apply her personal experience of Shelley's needs to designing a suitable device. Before her third birthday Shelley was able to test her first motorised wheelchair, designed and built by her mother.

Shona soon found that Shelley's need for specialised equipment was not limited to their family. Many people with disabilities needed similar equipment. In 1992 Shonaquip was born as a small close corporation. It sold custom-made buggies and support devices to parents of children with disabilities and operated out of the McDonald's garage and employed only two staff members.

However, the business grew into a reputable social enterprise employing over 40 technicians, seamstresses and therapists (many of whom are wheelchair users). Today the head office in Cape Town supports branches in Gauteng, the Eastern Cape and Limpopo. The close corporation has been replaced by a (Pty) Ltd company and a charitable foundation.

The personal experience of one woman and her family has positively affected the lives of hundreds of people with disabilities in South Africa through the provision of assistive devices and support. Shona has won many awards for her pioneering work.



ACTIVITY TWO:

The example of Shona McDonald is certainly inspiring, showing that hardship can not only be overcome, but even create new opportunities for growth and development.

Think about your own experiences and try to identify one or more that could lead to a social business idea. Use the space below to record your thoughts.

Notes:

My personal experiences that could lead to a social business idea:

<p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p>

MODULE 4

WHAT DIFFERENCE DO SOCIAL ENTERPRISES MAKE?

Section 4.1 What social problems can social enterprises address?

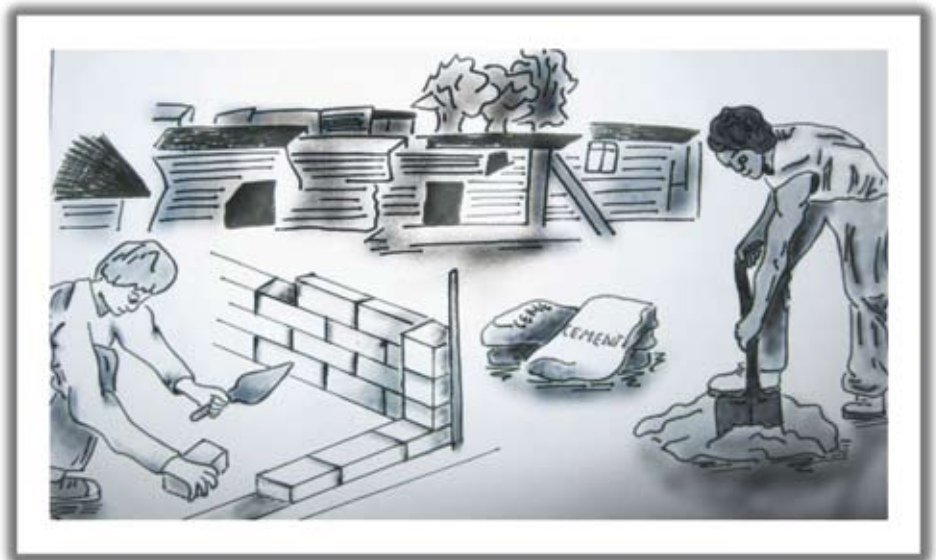
Social enterprises exist to fulfil a social purpose, rather than solely to make a profit. Running a social enterprise gives you the opportunity to make a real difference in your community.

The range of social problems that social enterprises can work on is huge. However, typically social problems fall into broad categories. The South African Revenue Service (SARS) has defined various activities as Public Benefit Activities (PBAs):

- Welfare and humanitarian activities;
- Health care;
- Land and housing;
- Education and development;
- Religion, belief and philosophy;
- Cultural activities;
- Conservation, environment and animal welfare;
- Research and consumer rights;
- Sport;
- Providing of funds, assets or other resources; and
- General activities.

However, this list is not complete. You could think of social causes and activities that social enterprises could undertake that are not on this list, so only use it as a starting point.

The ability to change your own world can be very rewarding – a social entrepreneur gets the satisfaction of tackling the social problem that is significant to him or her. In addition, many social enterprises provide the opportunity to employ local people, perhaps creating jobs for people who would ordinarily find it difficult (if not impossible) to find work. The opportunities for developing new skills can be even more significant than simply finding employment.



Different types of people can benefit from a social enterprise, including people who have been unemployed for a long time, people with disabilities, ex-offenders, ethnic minorities, women and young people. The social enterprise might have an impact that benefits society at large rather than a particular group or community.

Section 4.2 How social enterprises respond to social problems

Just as social problems differ, the proposed solutions also vary due (partly) to the different interests and values of the parties involved. Social entrepreneurs not only need to define the social problem they want to address, but also how they will do so.

Social enterprises need to generate revenue to sustain themselves. This enables them to achieve their social and/or environmental aims. Earning income is not seen as an end in itself, but simply as a means to an end. However, any successful social enterprise needs to carefully consider where its income will come from, and ensure that it can cover its costs.



ACTIVITY FOUR:

For each of the three most critical social challenges you identified in the previous activity, try to identify what kind of social enterprise might address these social challenges. For example, if a lack of childcare facilities in your community means that young mothers are not able to go to work, a possible social enterprise that could address this might be an affordable crèche. Remember to consider where the income would come from for the social enterprise.



Notes:

Social problem 1:	
Potential social enterprise:
Social problem 2:	
Potential social enterprise:
Social problem 3:	
Potential social enterprise:



MODULE 5

ARE YOU SUITED TO SOCIAL ENTERPRISE?

Section 5.1 Characteristics of social enterprises

In Modules 1 and 2 you were introduced to some of the key concepts and definitions in the world of social enterprises. We will now consider whether starting a social enterprise is the right choice for you.

We should start out by reminding ourselves of the two defining characteristics of social enterprise:

1. Delivery of **social value as the principal aim** as opposed to maximising profit for the owners/shareholders.
2. The **production of goods or the provision of services on an ongoing basis** with a view to generating an income that covers costs and potentially allows for a surplus.

These characteristics are often accompanied by the following further descriptors, which apply to most social enterprises:

3. The social enterprise **clearly states its social purpose**.
4. The business is **independent**. This distinguishes social businesses from the public (government) sector and projects within larger organisations.
5. The **business earns most of its income from trading**. This distinguishes a social business from a conventional non-profit organization that relies on grants.
6. A **significant proportion of any profit made by the business is used in line with its social purpose**. Social enterprises are driven by social objectives rather than maximising profit for private gain. This distinguishes social enterprises from conventional businesses, even those with some corporate social investment (CSI) activities.
7. There is a **commitment that if the social business is dissolved, all remaining assets are used in line with its social purpose**.
8. Social enterprises **measure and can demonstrate their social impact**.

With these characteristics in mind, you should consider whether running a social business feels right for you. This is a personal decision and you should not feel ashamed if the answer is no. Many people feel more comfortable working in the public sector, for a conventional charity, or for a conventional profit-maximising business. Assuming the answer is yes, let's see if you have what it takes to be a social entrepreneur.

Section 5.2 Are you the right kind of person to be a social entrepreneur?

Social entrepreneurs are typically characterised by a number of traits:

- A need for achievement;
- A need for autonomy;
- A creative tendency;
- The ability to take calculated risks; and
- A strong social purpose.

The motivation for starting a social enterprise differs from person to person. For some people this motivation can be found in their personal desire to help other people; for others it is a social need and for yet others it is driven by something that has happened in their lives. It is important that you understand your own motivation for wanting to start a social enterprise.





ACTIVITY FIVE:

It requires motivation and commitment to be a successful social entrepreneur making a real difference in your community. Do you think you have what it takes?
Consider whether you have the characteristics typical of social entrepreneurs listed above. Then review your interest in social enterprise by completing the questionnaire below.

1. Do you think you have the following characteristics?

- A need for achievement YES / NO
- A need for autonomy YES / NO
- A creative tendency YES / NO
- The ability to take calculated risks YES / NO
- A strong social purpose YES / NO

2. Why do you want to start a social enterprise? List your reasons in order of importance.

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3. What barriers are you likely to face in establishing a social enterprise?

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4. How will it affect you and your family if you start a social enterprise?

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Review your answers to these questions and consider whether you have what it takes to start a social enterprise.

Many social entrepreneurs do not have enough skills, all the characteristics or are not in the right situation when they start to plan a new social enterprise. However, skills can be learned, characteristics developed and situations improved. You can strengthen your skills and characteristics as a social entrepreneur by:

- Seeking help from others. Talk to your friends, family, trainers and other social entrepreneurs.
- Observing successful social entrepreneurs. Think about what they do and see how it helps to achieve success.
- Attending training to strengthen areas where you are weak.
- Reading books to improve your knowledge and skills.

Section 5.3 Where to go for more information

Congratulations! You have completed the training in Introduction to Social Enterprise. If you wish to find out more about social enterprise or are interested in starting up your own social enterprise, contact any of the organizations listed in Module 6. You might like to register for training in Generate Your Social Business Idea (GYSBI) if you feel that you need help in identifying and structuring your social enterprise idea.



MODULE 6

FACT SHEETS

Section 6.1 Frequently Asked Questions (FAQs)

1. What are social enterprises?

Social enterprises are businesses that have a social purpose. They use business principles and methods to achieve social change. Social enterprises are not grant-dependent charities, but are revenue-generating businesses. For some examples of successful social enterprises in South Africa, take a look at some of the 25 case studies that are available alongside this Guide.

2. Why start a social enterprise?

Most social entrepreneurs start a social enterprise because they feel strongly about a particular social issue and they want to do something about it in a practical and sustainable way. Social enterprises tackle social issues in various ways, including:

- To provide skills training and/or employment opportunities to the needy and disadvantaged (i.e. those who have higher than usual barriers to employment, such as people with disabilities or ex-offenders) as a means to (re-)integrate them into society and encourage them to be self-reliant.
- To provide subsidised services to needy and/or disadvantaged beneficiaries, ensuring that the people who could not usually afford certain services have access to such services to improve their quality of life.
- To serve society's needs or address certain social issues in other ways. These issues can include social cohesion and community building.

3. Are all social enterprises small businesses?

Social enterprise refers to any type of business with a social mission. It can be large or small.

4. Can the owners and members of the social enterprise take profits out if the business is doing well?

To be considered a social enterprise, most of its profits should be used to tackle the social purpose. This could mean reinvesting in the business to help it to grow, or spending the proceeds on activities that fulfil the social purpose. Many social businesses use all of the profits in this way, but some allow for a portion of the profits to be shared among the owners and shareholders. Using profits for the social purpose is intended to:

- Demonstrate that the enterprise exists for a social purpose, rather than solely to provide private benefit to its owners or members;
- Encourage sustainability of the enterprise and the opportunities for its employees;
- Ensure that the bulk of the income received (whether donated or self generated) ends up benefiting the target communities.

5. What happens to the profits?

Most of the surplus or profit should go towards building the reserves of the social enterprise, building organisational capabilities, or expanding operations and providing increased social value. In some cases, a limited share of the profits is distributed to investors.



6. Can I invest in a Social Enterprise?

There are attempts to encourage more investment in social enterprises. There is even a discussion about establishing a Social Stock Exchange in South Africa. Of course, you are free to invest in a social enterprise, as long as the social enterprise is willing to accept the investment. But you need to consider what return you expect from that investment. Most investors require a return on their investment in the longer term as well as seeing social impact. Whether a social enterprise can distribute part of its profits to investors depends on its legal form and the business model chosen.

7. I have set up a social enterprise, but my revenue is not able to cover costs. Can I get funding from other sources to make up the difference?

Social enterprises should ensure that they are financially sustainable in the long-term. To ensure sufficient funding to cover start-up and operating costs, social enterprises should explore different funding options appropriate to their stage of business development. These can include earned-income, government start-up grants, donor funding and private investments, depending on the legal form of your social business.

8. Can I finance my social enterprise through grant funding only?

Financial support from donors or grants should be specific and short-term, designed to catalyse and enable the start-up of the business, but it should not be the main source of continuous funding for social enterprises. It is suggested that more than 50% of your income should come from income generation e.g. services rendered or products sold. To be sustainable in the long term, the social enterprise must have a sustainable business model to provide their customers with value for money products and services beyond the stage when donor funding is reduced or phased out. If you prefer to set up a non-profit organization that is totally dependent on donor or grant funding, that's fine, but it wouldn't be considered a social enterprise.

9. What is the best legal structure for a social enterprise?

It depends on the circumstances, the people involved and what they want to achieve. You should be clear about your business and social objectives before you start to think about legal structures. Many times social enterprises lose out on valuable incentives or give themselves unnecessary difficulties just because they register under the wrong legal structure. Social enterprises use a wide variety of legal forms including: private companies; Section 21 companies; voluntary associations; trusts; close corporations; and cooperatives. See the Guide to Legal Forms for Social Enterprise in South Africa for more information on legal structures.

10. How long does it usually take for a social enterprise to reach financial sustainability?

Social enterprises often take longer than conventional businesses to reach breakeven (where income is sufficient to cover costs). This can take a number of years. Setting up a social enterprise is often harder than setting up a normal business, particularly if its business model includes providing services at subsidised rates to its target group. Some emerging social enterprises seek grants in their early stages to enable them to reach this point.

11. Can I earn a good income as a social entrepreneur?

The simple answer is yes. There is no reason that people who set up or manage social enterprises can't earn a reasonable income, as long as this does not conflict with the social purpose of the enterprise. Staff employed by successful social enterprises can earn salaries that are comparable with the rest of the private or non-profit sector. Paying decent salaries to managers and staff is necessary to ensure that they remain committed and able to work for the social enterprise, and hence to ensure its sustainability. However, the social entrepreneur may need to look at how he or she earns income

differently. While some conventional entrepreneurs do not factor in a salary for themselves in their business plan, seeing profit as their income, social entrepreneurs should build their personal income into the business plan as salaries or directors' fees, before profit is calculated. This is because a social enterprise generally reinvests or distributes most of its profits in line with its social purpose, rather than paying it to its owners or staff.

Section 6.2 Glossary

Business idea	A short and precise description of the basic operations of an intended business.
Manufacturers	Businesses who use raw materials (e.g. leather, wood, cloth or metal) to make new and different products out of those materials (e.g. furniture and shoe manufacturers, tailors and dressmakers).
Product	An object that people (customers) pay for, including self-manufactured items and items bought for re-selling (e.g. tools, baked goods, clothes and retail goods).
Retailers	Businesses who buy ready made goods from wholesalers or manufacturers to resell at a profit (e.g. grocery stores, hardware stores, clothing boutiques, spaza shops and stationery shops).
Service	Something done for people which they pay for (e.g. shining shoes, delivering goods for other businesses, hairdressing, keeping money safe in a bank and repairing items).
Service providers	Businesses who sell a particular service (e.g. transporters, hairdressers, bankers, laundries, cleaning services and building contractors).
Social economy	An economy which contributes to improved quality of life for all people built on economic justice and democratic participation. It is characterised by placing more value on people and work than on money, independent management and democratic decision making processes. The concept has broadened in recent years to include diverse forms of social enterprises and social entrepreneurship.
Social enterprise	A business or other organization characterised by: <ul style="list-style-type: none"> • the delivery of social value as the principal aim as opposed to maximising profit for the owners/ shareholders; and • the ongoing production of goods or the provision of services to generate an income that covers costs and potentially allows for a surplus.
Social entrepreneur	Social entrepreneurs share the vision, creativity and determination of business entrepreneurs to create new products and services, and even new industries, but use these qualities to create sustainable market-based solutions to social problems. They focus on creating social value in addition to economic value to ensure sustainability.
Social problems	A generic term describing a range of conditions and behaviours evident in a society which is deemed unacceptable by some members of the society. Different people view social problems in different ways.
Target group	The people exposed to a social or environmental problem or experiencing specific needs. For a social enterprise the target group includes customers and beneficiaries.

Section 6.3 Sources of information and support focusing on social enterprises

African Social Entrepreneurs Network (ASEN)	www.asenetwork.org
UnLtd South Africa	www.unltdsouthafrica.org
Ashoka	www.southernafrica.ashoka.org
The Schwab Foundation for Social Entrepreneurship	www.schwabfound.org
GIBS Network for Social Entrepreneurs	www.gibs.co.za
University of Johannesburg Centre for Social Entrepreneurship and Social Economy	http://www.uj.ac.za/EN/Faculties/management/departments/CSE/Pages/home.aspx
Heart Global	www.heartglobal.org

Section 6.4 Other sources of information

The Small Enterprise Development Agency (SEDA)	www.seda.org.za
The National Youth Development Agency (NYDA)	www.youthportal.org.za
The Business Place	www.thebusinessplace.co.za
Real Development	www.smallbusiness.co.za
The South African Institute for Entrepreneurship	www.entrepreneurship.co.za
Real Enterprise Development Initiative (RED Door)	www.capegateway.gov.za
Learn to Earn	www.learntoearn.co.za

Endnotes

¹Address by Ebrahim Patel, Minister of Economic Development, South Africa to the Regional Conference on the Social Economy, Johannesburg, 19 October 2009.

²Economic Development Department (2010) The New Growth Path Framework, document presented by Minister Ebrahim Patel, November 2010.

³Included in the Plan of Action of a Regional Conference on the Social Economy: Africa's response to the Global Crisis, Johannesburg, 19-21 October 2009.

⁴Sourced from www.schwabfound.org/sf/SocialEntrepreneurs/index, 28 May 2010.

⁵Sourced from www.ashoka.org/social_entrepreneur, 28 May 2010.

⁶Reducing the decent work deficit – a global challenge. Report of the Director General to the 89th session of the International Labour Conference held in Geneva in June 2001.

⁷Sourced from www.socialenterprise.org.uk, 31 May 2010.

⁸Sourced from www.4lenses.org, 29 May 2010.

⁹Sourced from www.ecademy.com, 28 May 2010.

¹⁰Department of Trade and Industry (2004). Social Enterprises – a strategy for success

¹¹Extracted from a flyer for the Social Business Plan Competition on the Cape Flats (2009).

¹²This case study was compiled using information drawn from the company's website www.shonaquip.co.za.





New forms of social purpose business are emerging in South Africa. Community-based organizations are recognizing the need to generate sustainable income streams to fund their social purpose, to reduce their dependence on grants and donations. Social entrepreneurs are setting up enterprises that are run like businesses but that exist for a social purpose rather than private benefit.

This training guide is part of the International Labour Organization's Social Business Development Services Resource Pack. This is a system of interrelated training packages and other resources for social entrepreneurs with limited or no previous exposure to management training. The training products in the package include Introduction to Social Enterprise (ISE), Generate Your Social Business Idea (GYSBI) and Generate Your Social Business Plan (GYSBP). Each has a Trainers' Guide and a Learners' Guide.

The Resource Pack also includes a set of 25 case studies of social enterprises in South Africa, two guides on finance and legal forms for social enterprises in South Africa, and a Social Business Plan Competition Handbook.

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