

# The funding model of small and medium social enterprises in KwaZulu-Natal, South Africa



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**Background:** Small and medium social enterprises (SMSEs) in developing countries, particularly in South Africa, play a crucial role in a country's economy. With an entrepreneurial mindset, they respond innovatively to social, economic and environmental societal problems. However, SMSEs in emerging economies experience critical survival and performance challenges, including financial sustainability. Thus, investigating the funding model is important to overcome those challenges.

**Aim:** The study aims to investigate the funding model of SMSEs in KwaZulu-Natal (KZN), South Africa, to identify the initial and primary funding source, and to explore the revenue-generating activities and revenue growth.

**Setting:** The research was conducted in KZN with SMSEs participated in the champions' programme of local economic development (LED) project at the University of KwaZulu-Natal (UKZN).

**Methods:** A qualitative research design of 10 purposively selected case studies were conducted using an in-depth interview. The data were analysed using NVivo software.

**Results:** The study found that self-funding followed by revenue generated from a commercial business is the most common funding model SMSEs adopt. A lack of access to different funding sources to secure success and sustainability hindered the development and growth of SMSEs.

**Conclusion:** Diversifying funding might help SMSEs avoid the challenge of sustainability and will enable them to focus on improving their activities towards achieving their social mission.

**Contribution:** The study brings a new theoretical approach to the funding model of SMSEs. Furthermore, the study contributes to the enterprises' management.

**Keywords:** social enterprise; small and medium social enterprise; funding model; entrepreneurship; revenue generation and growth.

## Introduction

Small and medium social enterprises (SMSEs) are enterprises that are oriented towards solving community problems innovatively, through the production of goods and services to sustain their businesses financially (Bacq & Eddleston 2018). They typically have a few employees, ranging from 20 to 100 for medium enterprises and from 5 to 19 for small enterprises with less than a million turnover (Álvarez Jaramillo, Zartha Sossa & Orozco Mendoza 2019; Loader 2018). The primary goal of SMSEs is to facilitate social change in those parts of the community where the government and other institutions fail to act (Arena et al. 2018). Their combined social and economic objectives make SMSEs different from traditional and commercial enterprises. Small and medium social enterprises undertake trade for social and environmental purposes (Littlewood & Holt 2018). However, in emerging economies, such as South Africa, SMSEs are typically characterised by their small competitive position and individualised management practices (Littlewood & Khan 2018; Mamabolo & Myres 2020). Furthermore, a lack of resources, in terms of human resources and time, and the accessibility to capital to spend on supplementary projects (Almansour, Almansour & Almansour 2019) characterise SMSEs.

Small and medium social enterprises are mainly challenged by financial insecurity and a high likelihood of failure. Small and medium social enterprise sustainability is affected by exposure to higher levels of risk, due to economic instability and many size-related factors (Davies, Haugh & Chambers 2019). These factors include access to funding, access to customers and markets,

retention of knowledgeable and competent staff, influence over communities, research and development, access to technology, and the productivity and quality of their value-added outputs (Jackson, Nicoll & Roy 2018). Most SMSEs, particularly in South Africa, have little knowledge about the funding model to support their enterprises. The business operation of their enterprises mainly depends on funding from traditional sources such as philanthropic foundations and private and government institutions (Choi, Kim & Yang 2018) to achieve their social goals. The lack of diversification in SMSE funding is explained because, even when SMSEs are applying for credit, only a few enterprises are accepted and granted the requested funding because banks and financial institutions are reluctant to fund these enterprises (Bengo & Arena 2019). The knowledge gap this study addressed was whether identified initial and primary source of funding for SMSEs is enough to secure their growth and sustainability. Another gap was whether SMSEs have balanced their funding requirement between their social and economic missions through identifying revenue-generating activities.

A social entrepreneurship (SE) is an entrepreneurial business ventures with a clear social or environmental mission, which assumes market-based approaches to follow a self-sustaining revenue model, and distributes substantial resources or profits to fulfil its social or environmental mission (Davies et al. 2019:1620).

As SEs interact continually with a diverse set of internal and external stakeholders who are integral to the functioning of the enterprise, this study is based on stakeholder theory. Additionally, theories of change base the study. Stakeholder theory accounts for all individuals who are socially impacted by, or have a social impact on, the firm through social drivers and barriers (Burga & Reznia 2015). Bellucci and Manetti (2018) classified internal and external stakeholders according to their drivers and barriers to social responsibility practices and weighed these drivers and barriers to assign them to a category.

In the social entrepreneurship literature, there is regular reference to stakeholders. For Davies et al. (2019), the best way for SEs to achieve their desired outcomes is to empower stakeholders to become an integral part of the solution and put mechanisms and systems in place to reduce stakeholder dependency. In their comparative study of conceptions of social entrepreneurship and SEs in Europe and the United States, Defourny and Nyssens (2010) identified different types of relationships between SEs and their stakeholders, linked to differences in their respective institutional environments, which inform the presence and prevalence of different social enterprise funding models in these different contexts.

Thus, with the aim of investigating the funding model of SMSEs in KZN, South Africa, the following research objectives were explored: to identify the initial source of funding, the primary source of funding and revenue-generating activities of SMSEs.

## Literature review

### Small and medium social enterprises

Small and medium social enterprises play a critical role in the development of a nation's economy. They create and provide jobs, especially when the government lacks them (Ayandibu & Houghton 2017; Hillary 2017). Because SMSEs employ the citizens in developing countries such as South Africa, they assist in reducing crime rates (Ayandibu & Houghton 2017). Small and medium social enterprises are a source of entrepreneurial and innovative spirit and exploit individual creative efforts. They create competition and are the starting point for future businesses (Choi et al. 2018; Lee et al. 2016).

Small and medium social enterprises are mainly challenged by financial insecurity and a high likelihood of failure. Small and medium social enterprise sustainability is affected by exposure to higher levels of risk, due to economic instability and many size-related factors (Davies et al. 2019). These factors include access to funding, access to customers and markets, retention of knowledgeable and competent staff, influence over communities, research and development, access to technology, and the productivity and quality of their value-added outputs (Jackson et al. 2018). To respond to these challenges, scholars (Davies et al. 2019; Hillary 2017; Jackson et al. 2018) and practitioners suggest the identification of a funding model for SMSEs and increased involvement of stakeholders within the enterprises.

### Funding model

The funding model is used by SMSEs to fund their enterprises to achieve their social mission. The literature mentions various funding models for SMSEs, including grants and donations from public and private institutions, self-funding, family support, stakeholders, bank credit and investment companies (Bengo & Arena 2019; Guo & Peng 2020). However, the majority of SMSEs rely on grants and public funding (Bugg-Levine, Kogut & Kulatilaka 2012). The business operation of their enterprises mainly depends on funding from traditional donors such as philanthropic foundations and private and government institutions (Davies et al. 2019) to achieve their social mission. Small and medium social enterprises are heavily engaged in the community, creating strong relationships with different groups of stakeholders (Mair & Marti 2006). These relationships can create opportunities to legitimise SMSEs (Teasdale 2010). However, recently, scholars have highlighted that a funding model that depends on grants and public funding is not convenient in the long run, for three main reasons (Bengo & Arena 2019; Lyon & Owen 2019). Firstly, donor and public administration spending capacity has been limited due to the debt crisis, putting SMSEs under pressure to find funding (Lyon & Owen 2019). Secondly, traditional funding sources generally focus on specific projects with a limited budget and time horizon (Chong & Kleemann 2011). Thus, SMSEs with innovation capacity and scaling strategies that require more sustainable funding cannot be supported over a longer time with such grants

(Bengo & Arena 2019). Finally, the decision to depend on non-commercial financial sources can lead to a problem of 'grant dependency' (Bugg-Levine et al. 2012).

Scholars have called for SMSEs to diversify their funding sources to survive in a competitive business environment, to sustain their business and to scale up (Arena et al. 2018; Nicholls 2009). However, despite the call of scholars and practitioners for SMSEs to diversify their funding sources through accessing credit and other commercial finance, they rely heavily on public grants and self-funding. Furthermore, SMSEs are expected to indicate their social performance and impact within the community for the banking and investment communities to release the requested funds (Christlieb 2012; Crucke & Decramer 2016). However, SMSEs with few resources experience difficulty in measuring their social value and impact as there are no unified measurement frameworks (Florman et al. 2016).

Small and medium social enterprises encounter several challenges and barriers in obtaining funds to administer and run their activities. Firstly, SMSEs share similar problems with SMEs because of certain inherent characteristics of many small-sized organisations. They generally have a low-level structure, with the lack of a formal organisational structure and inexperienced accounting, management and control systems (Bull 2007; Costa & Pesci 2016; Margaretha & Supartika 2016). They are well known for lacking financial resources (Bengo & Arena 2019). Secondly, SMSEs lack collateral and tangible assets that financial investment communities can use to provide credit (Bengo & Arena 2019). This problem amplifies the correlation between firm size and the probability of bankruptcy (Arena et al. 2018; Arias & Arango-Botero 2019).

Furthermore, investment communities, such as banks, have little knowledge of the characteristics of social business organisations in terms of their business model, organisational structure and governance (Álvarez Jaramillo et al. 2019; Choi et al. 2018). Because the investment communities are less aware of a business model that generates both social and financial returns, they are resistant, and very careful, to invest in SMSEs (Arena et al. 2018). Thus, there is a need to investigate the funding model of SMSEs.

## Research methods and design

In this section, the methodology of the research is discussed, based on the study design and setting, the study population, the sampling strategy, and the data collection and analysis used for the study.

### Research design

To address the research aim of investigating the funding model of SMSEs, the study adopted a qualitative research design. Qualitative research is a social action method that

expresses how people interpret and make sense of their experiences to understand individual social realities (Mohajan 2018). Based on the aim and objectives of the study, qualitative research is appropriate for this study. The empirical analysis was based on the case study of 10 KZN SMSEs participating in the champions' programme of the local economic development (LED) project at the University of KwaZulu-Natal (UKZN) from 2016 to 2019. Yin (2017) suggested that the case study approach is the most appropriate if the researcher wants to understand the situation in depth. Furthermore, a case study allowed the researcher to obtain deep and detailed qualitative data by getting closer to the phenomenon.

The number of participants (the size and composition of the sample) in qualitative research depends on the problem under study (Patton 2015; Subedi 2021). In qualitative study, the researcher needs and judgement play a major role in constituting how many samples are required and who can participate as a sample in a particular study (Creswell & Poth 2016; Patton 2015; Subedi 2021). The sample was homogenous in terms of the enterprises' scale and the way of funding their enterprises. Creswell and Poth (2016:155) stated that it is essential that all participants have (similar lived) experience of the phenomenon being studied. However, the selected SMSEs perform various community services and have different legal forms of registration, based on South African business registration. Prior thematic saturation and the inductive thematic saturation point were reached after seven SMSEs. This study adopted a simple method to assess and report saturation in qualitative research developed by Guest, Namey and Chen (2020).

### Setting: Description of participants

In detail, social enterprise 1 and social enterprise 7 are enterprises engaged in agricultural sector with the mission of equipping people with better planting practices and cultivating environment-friendly and self-creating businesses and better income. To extend the analysis, we include social enterprises (social enterprise 2 and social enterprise 4) that strive to assist young children coming from rural, disadvantaged backgrounds by empowering them with education and to train ex-offenders and substance abusers on finding a job, returning to school and help establish businesses to live a better life, respectively. Table 1 shows the selected SMSEs and their main activities.

### Target population and sampling

The study's target population includes 54 SMSEs identified in the champions' programme of the LED project at the UKZN from 2016 to 2019.

The International Labour Organization (ILO) study in South Africa highlighted that social and solidarity organisations including social enterprises are developmental in their approach working across sectors that range from education

**TABLE 1:** Enterprise mission, objectives and main activities.

Enterprise	Location	Year of creation	Main activities
Social enterprise 1	Umlazi Durban (KZN)	2019	<ul style="list-style-type: none"> <li>• Consultancy.</li> <li>• Cultivation (on personal land).</li> <li>• Training and skills development for better agricultural results and development.</li> <li>• Technology (develop hydroponic systems to sell as a subscription model to clients and any business).</li> <li>• Create a product that assists farmers in saving resources and being eco-friendly.</li> <li>• Conservation of resources and development of hydroponics.</li> </ul>
Social enterprise 2	Umzimkhulu (KZN)	2017	<ul style="list-style-type: none"> <li>• Assist young kids in high school in preparing application forms for further studies, assist in the identification of courses provided by the universities and opportunities for studying certain courses.</li> <li>• Assist kids who drop out of school due to reasons such as financial constraints, but have unique skills and talents like woodwork in following and using their unique talent to pursue forward as such as opening business. An electrician with a CETA-credited organisation uses their talent and converts it into a business where they can make money for themselves.</li> </ul>
Social enterprise 3	Based in Pinetown (KZN), with 10 offices in other provinces	2014	<ul style="list-style-type: none"> <li>• To train and place unemployed youth into a job.</li> <li>• To provide enterprise support to hundreds of small business entities' development annually, mainly funded by NPC cement company for the community around KZN.</li> <li>• To help facilitate big property developers' engagement with local stakeholders.</li> <li>• To train hundreds of people for a driving licence to work with Uber Eats.</li> <li>• To provide support in tourism projects: the foundation helps tourism companies struggling due to COVID-19 by providing support and advice on overcoming the COVID-19 struggle.</li> </ul>
Social enterprise 4	Newlands West and Verulam (Durban, KZN) and Mpumalanga	2016	<ul style="list-style-type: none"> <li>• To train substance abusers.</li> <li>• To hire substance abusers once they leave the rehab in terms of engaging in manufacturing our products or selling items or products.</li> <li>• To launch their business activities, follow-ups and monitor their behaviours.</li> </ul>
Social enterprise 5	Primarily KZN and moved to Mpumalanga	2019	<ul style="list-style-type: none"> <li>• To promote collaboration between artists and crafters.</li> <li>• Facilitate markets and platforms for product placements.</li> <li>• To assist with product development of craft products.</li> <li>• Promote culture through lifestyle.</li> </ul>
Social enterprise 6	KZN	2015	<ul style="list-style-type: none"> <li>• To provide infrastructure, such as one training room for poultry, aquaculture, hydroponic and training facilities.</li> <li>• To provide infrastructure for member co-operatives when the training is undertaken. Take the form of an incubator.</li> </ul>
Social enterprise 7	Howick and Impindle (KZN)	2013	<ul style="list-style-type: none"> <li>• Co-ordinating agricultural activities training for students coming from universities and colleges.</li> <li>• Facilitating a farming learnership programme.</li> <li>• Provide training and consultation on agricultural activities.</li> <li>• Production of crops and vegetables such as broccoli, cauliflower, cabbages, ginger, etc.</li> </ul>

KZN, KwaZulu-Natal; CETA, construction education and training authority.

to healthcare (ILO 2021). The majority (55%) of ILO study participants responded that their organisation focuses on delivering community services in the education of skill and training sector in South Africa. However, there are no data or information specifically about SMSEs delivering community services in the skills and training sectors in South Africa, specifically in KZN. Therefore, it was impossible to determine the industry's size. The researchers purposively focused on SMSEs identified and registered for the LED's programme for UKZN by the eThekweni Municipality's LED department. Purposive sampling allowed the researcher to choose cases that exemplified the features or procedures the research is concerned about (Chimhundu 2018). This type of sampling suits a qualitative case study because it allows the researchers to pursue categories where 'the process being studied is most likely to occur' (Denzin & Lincoln 1998:202). Selecting cases purposively makes the research 'a piece of information' – a rich case study to explore specified research issues (Saunders, Lewis & Thornhill 2009:142).

Purposive sampling was employed to select the participants in the study. It was used to reach out to expert participants who have gained the necessary knowledge in the area. In South Africa, social enterprises are a catalyst for the country's economic development. Most SEs in South Africa are small and medium in scale (Gordon Institute of Business Science [GIBS] Study 2018). Furthermore, many SMSEs in South Africa conduct training and skills development in the education sector (GIBS Study 2018). Thus, to achieve the aim of the study, 10 SMSEs in the education, agriculture and tourism sectors that provide training and skills transfer as their main activities, based in KwaZulu-Natal, were selected purposively. The inclusion criteria were that SMSEs should

play a crucial role in providing solutions to societal problems at the individual and community levels; 60% of their operations should be local community-based; and they should be conveniently accessible to the study. Furthermore, the SMSEs should prioritise social and environmental missions. They should be self-identified as SMSEs and based on the study area. Additionally, the SMSEs should have had prior experience in monitoring and in evaluating performance assessments. They must have been operating for more than 3 years. They had to be registered with the champions' programme supported by the LED project at UKZN.

## Data collection

The researcher chose in-depth interviews and documentation because of their combined capability to fully understand this study's evidence requirements.

The in-depth interviews for this study enable the researcher to gather 'a rich set of data' (Saunders et al. 2009:215) on the funding model of SMSEs in KZN. The interview created an opportunity to fully understand the primary and initial funding and the funding model adopted and the reasons for the decisions taken by the SMSEs' managers, founders and/or executive directors, and their reactions to performance and its impact on their business. Furthermore, the interview method allowed flexible and responsive interaction between the interviewer and interviewees (Saunders et al. 2009).

A total of seven interviews were conducted. As the data collection technique for the interview, the study used an interview protocol and/or checklist. The list of points for

discussion in the checklist was based on the specific research issues and subsequent data needs (Adhabi & Anozie 2017). The interview protocol included topics for discussion, rather than a set of questions. In this study, the interview protocol acted as a guide. All interview items were appropriate for the founders, managers and/or executive directors of the SMSEs, so developing multiple interview protocols was not necessary.

Each interview lasted between 40 min and 60 min. All interviews were recorded and transcribed. The interviews focused on the three elements: the primary funding of SMSEs, the initial funding and the revenue-generating activities of SMSEs.

### Data analysis

NVivo software was used to analyse the data. Initially, the research questions were imported to NVivo for easy reference. Summaries were written after careful reading of each transcript. A research journal was created to write up the key issues from the interviews. Responses from the interviews were coded from the research journal and were related to the study research questions. The qualitative data were analysed by revealing themes using numerous coding procedures to extract relevant meanings and themes from the abundant text. The researcher started with open coding to determine major categories that guided further exploration. The advantage of qualitative data is that it allowed the researchers to explore themes, patterns and interrelationships within the data and understand the phenomenon of performance measurement.

### Reliability and validity

This study achieved validity through a comprehensive literature review on SMSEs and funding model for SMSEs, focusing mainly on the initial source of funding, the primary source of funding and revenue-generating activities of SMSEs. After completing the literature review, an interview guide was developed. The items in the interview guide were subjected to item judgement by experts. The experts consulted were the researcher's supervisor at the UKZN and lecturers and scholars in the African Network of Social Entrepreneurship Scholars (ANSES). A panel of experts or fellow researchers can evaluate the clarity and purpose of a research instrument, thereby ensuring its validity (Creswell & Poth 2016).

Applying multiple methods, such as observation, interviews and recordings, will lead to more valid and reliable, and a varied construction of, reality (Bashir et al. 2008). Patton (2002:205) recommended triangulation, stating, 'Triangulation strengthens a study by combining methods'. This study used triangulation in the data collection and analysis to ensure reliability.

A case study will be more relevant if more researcher's questions investigate and explain some current circumstances (e.g. 'how' and 'why' some social phenomenon works) (Yin 2017). This study aimed at investigating the funding model

of SMSEs. A case study approach is appropriate for this study for several reasons. Firstly, it helps in investigating the funding model with in-depth and rich descriptions, explorations and an understanding of the initial and primary source of funding currently used by SMSEs. To review this process intensely, three research questions using 'how' and 'what' were proposed. Secondly, a case study can tackle 'how' and 'what' questions (Yin 2013). These questions helped the researcher provide a descriptive and exploratory interpretation of the phenomena through social interactions, experiences and the actions of SMSEs and how they gave meaning to funding source. To this extent, it required the researcher to pay attention to the situations in which these elements occurred. Furthermore, a case study allowed the researcher to obtain deep and detailed qualitative data by getting closer to the phenomenon.

### Ethical considerations

The UKZN code of ethics for conducting research was used by the researcher to compile an application for ethical approval. The College of Humanities Ethical Committee in UKZN granted the ethics approval for this research with a reference number of HSSREC/00001005/2020. Furthermore, voluntary participation of participants is supported by participant's written signature on the informed consent form. The anonymity of the participant social enterprises is ensured.

### Results

During in-depth interviews, respondents were asked to explain their enterprises' funding models which enabled them to operate. The funding models explained how the SMSEs fund their enterprises – initially and later. Identifying the funding model of SMSEs helped in understanding how SMSEs establish their businesses, differentiate their businesses from other enterprises and overcome the challenges they encounter regarding the sustainability of their enterprises. The funding models and the initial and primary sources of funding are explained in the following subsections.

The funding models of the participating social enterprises, regarding the sources of their initial funding, primary funding and income-generating activities, are summarised in Table 2 and Table 3.

### Initial source of funding

Participating social enterprises were asked to describe their initial source of funding. Table 2 shows that the initial funding (startup capital) for most of the enterprises emanated from self-financing or 'self-funding', in the words of interviewees, from the personal savings of the founder(s), family support, member contributions or other forms of income, such as rewards. For example, the founder of one of the enterprises (social enterprise 4) reported that the initial funding of the enterprise came from the reward obtained by winning a startup business competition.

**TABLE 2:** Funding model of social enterprises.

Social enterprise	Initial source of funding	Primary source of funding
One (1)	Self-funded	Self-funded through services to big businesses.
Two (2)	Personal savings and family support	Twenty percent from Profit Mankho Events (a profit organisation created by the same founder 2 years before creating BFL) is injected into BFL annually. Sponsorship from different companies like Engen Garage, Siawe Service Station, and the Sunflower Foundation, etc.
Three (3)	Self-funding, personal savings, and support from family in the United States; a friend who was doing business in South Africa	Self-funded through Catalyx Consulting (a profit-making initiative by the same founder), consulting companies such as Mr. Price, Spar, ABSA, NPC, Tongaat-Hulett's, Capitec, and government entities, such as NYDA, local municipalities, etc.
Four (4)	The founder won the competition for young and startup businesses and used the money as initial funding to start the business.	Revenues from Iziko Stove (a business branch of social enterprise 4 created during the same year by the same founder).
Five (5)	Contributions from members	Biko Land Enterprise (a profit-making business created by the same founder) funds Siyabusa Art and Lifestyle Foundation as its social responsibility, with 20% of the revenues generated from the business. External fundraising (they managed to secure relief from the Department of Arts and Culture in Mpumalanga in 2019).
Six (6)	Funding from the annual revenues of TN Pty. Ltd., a public grant (from a municipality), and member contributions. (Initially, a member contributed R200.00 to Asikule SE, for the establishment of the enterprise.)	Funding from TN Pty. Ltd. – a commercial company which injects 40% (R50 000.00) of its revenues into Asikule SE annually.
Seven (7)	Self-funding	Self-funding

BFL, bright future leaders; ABSA, amalgamated banks of South Africa; NPC, non-profit company; NYDA, national youth development agency.

**TABLE 3:** Revenue generation activities.

Social enterprise	Revenue generation activities
One (1)	Consultancy: revenue from offers of farming services rendered to clients. Sales: the anticipated generation of sufficient income through the sales of crop fields, shortly.
Two (2)	Consultancy: revenue from services rendered to clients.
Three (3)	Consultancy: revenue generation from different projects with different stakeholders.
Four (4)	Sales: revenue generation from manufactured welded products, such as food trailers, gates, burglar bars, camping stoves, etc.
Five (5)	Sales: revenue generation from the sale of art products and services.
Six (6)	Consultancy: revenue generation from services rendered to clients through a skills development project implemented by NT Pty. Ltd. to support Asikule SE. Each project keeps generating revenues through the business they undertake.
Seven (7)	Sales: revenue generation from crop and vegetable sales.

The founder used the prize money to start the enterprise. For another enterprise, the initial funding used to establish the enterprise originated from more than one source: social enterprise 6 was initially funded from two sources, with financial injections from the revenues (40%) of a commercial venture called TN Development Project Management and Training (TN Pty. Ltd.) that the same founder had established,

and from a public entity (the Municipality of eThekweni's Maritime Cluster), which provided a grant of R70000.00.

Additionally, in social enterprise 6, member contributions added to the funding mix as each member had contributed R200.00 towards the initial funding of the enterprise. According to an interviewee, the member contribution policy is 'to show others that a business must start by investing yourself in it before someone else invests'. It is worth noting that the funding from TN Pty. Ltd. (40% of its annual revenues) was maintained as an annual source of funding for social enterprise 6 as its social branch. This funding model, wherein a profit-making enterprise is the initial source, or becomes the primary source, of funding for the social enterprise (of NPO spectrum) and is initiated by the same founder(s), is common among the participating social enterprises in this study. For social enterprise 2, the interviewee stated that:

'20% from Profit Mankho Events [a profit organisation created by myself as a founder two years before creating this social enterprise] is injected into my social enterprise annually.' (Social enterprise 2 interview respondent, Female owner)

Furthermore, social enterprise 4 interviewee indicated that:

'revenues from Iziko Stoves [a business branch of social enterprise 4 created during the same year by myself as founder] are used as my primary source to fund my social enterprises.' (Social enterprise 4 interview respondent, Male founder)

### Primary source of funding

There is a unique self-funding model where, as seen in Table 2, the social enterprises are funded through the profit-making SMEs linked to them, through income-generating activities, or from membership fees. Four of the seven participant social enterprises are connected to profit-oriented small business ventures created by the same founder(s), which became the primary source of funding. The profit-making enterprises inject a considerable percentage of their annual revenue into their respective non-profit social enterprises. For example, 20% of the profit generated by Mankho Events is injected annually to sponsor its social enterprise (social enterprise 2). Similarly, social enterprise 6 obtains 40% (R50000.00 in 2020) of the annual revenues generated by TN Pty. Ltd.

In some cases, there was no clear delineation between the non-profit and profit-making enterprises connected to it in terms of funding. For example, the primary funding source for social enterprise 3 is a profit-making company named CC Pty. Ltd. The latter generates its revenues through consulting services to:

'[C]ompanies such as Mr. Price; Spar; Amalgamated Banks of South Africa [ABSA]; Non Profit Company [NPC]; Tongaat's Hulett's; Capitec; and government entities, such as National Youth Development Agency [NYDA], local municipalities, etc.' (Social enterprise 3 interview respondent, Male Founder)

It is unclear what percentage of the revenue is injected into social enterprise 3. The same applies to social enterprise 4, whose primary funding source is revenue generated from its profit-making entity known as IS Pty. Ltd.

Some social enterprises reported additional funding sources, such as external fundraising. For example, social enterprise 5 secured a relief fund from the Department of Arts and Culture in Mpumalanga in 2019 and collected membership fees. Similarly, in addition to revenue injected from its profit-making organisation, social enterprise 6 obtained a grant of R70000.00 from the Municipality of eThekweni's Maritime Cluster to implement an aquaculture project.

In addition, income-generating activities such as consulting services rendered to other organisations, and sales, constitute an important primary funding source. This, for example, is the case for social enterprise 1, whose only funding is obtained through providing consulting services to other organisations. Currently, the enterprise has signed a lease agreement with traditional authorities to provide land to plant and cultivate crops such as cauliflower, lettuce, spinach and beetroots.

### Revenue generation activities

The revenue generation activities reported by each participating social enterprise are summarised in Table 3. Social enterprises have different income-generating activities. However, in most cases, there was no clear separation between the income-generating activities of the social enterprises and their non-profit-making branches. This is because the former, as indicated earlier, constitute an important primary source of funding for the latter.

Consultancy is the predominant income-generating activity. At least four enterprises offer consultancy services to clients in their respective domains. For example, CC Pty. Ltd, the profit-making entity of social enterprise 3, offers consulting services to various clients, including commercial ventures (Mr. Price, ABSA, etc.) and government entities. Other enterprises, by contrast, rely on the production and sales of goods and services as their income-making activities. This is the case for social enterprise 4, whose profit-making entity manufactures and sells welded products, such as food trailers, gates, burglar bars, camping stoves, among others.

## Discussion

This article aims to investigate the funding model of SMSEs in KZN, South Africa, paying particular attention to the initial and primary funding of SMSEs and the revenue-generating activities of SMSEs.

The findings of the study reflected that the majority of the participants mentioned different initial sources of funding that allowed the enterprises to be established and run. There was a general agreement among participating social enterprises that the initial source for their enterprises was self-funding. Most of the social enterprises initially

established their enterprises from savings, family support and contributions. The literature states the social enterprises, which function between non-profit organisations and commercial enterprises, experience challenges in obtaining repayable finance from the investment community and can seem less attractive to investors as they try to balance and achieve both their social mission and business objectives (Doherty, Haugh & Lyon 2014; Lyon & Owen 2019). Thus, most of the initial funding for social enterprises comes from their savings or family support. However, Mikołajczak's (2017) research found that social enterprises focus on attracting private and institutional grants or donations to finance their activities. Two participant social enterprises (see Table 2) received grants from government institutions.

Furthermore, the participating enterprises used revenue generated from their own commercial businesses (see Table 2). The literature supports this finding (Doherty et al. 2014; Lyon & Owen 2019; Ormiston & Seymour 2013). Social enterprises strategise to generate revenue and sustain their organisation from commercial activities (Ebrahim & Rangan 2014; Guo & Peng 2020). Through the sale of goods and services, social enterprises strive to achieve their social missions.

Social enterprises may generally rely on unearned income and commercial revenue or depend fully on business income to achieve their social objectives. However, most SMSEs, especially in an emerging economy, experience challenges in obtaining initial funding from commercial activity or grants from government institutions due to several reasons. Firstly, social enterprises encounter a unique governance challenge: balancing the trade-offs between their social and commercial activities to generate enough revenue, without losing sight of their social purpose (Ebrahim & Rangan 2014). Secondly, when social enterprises obtain a grant or donation from private and government institutions, they become accountable to their stakeholders for achieving their mission (Erin et al. 2018). Therefore, SMSEs in an emerging economy, with limited funding sources, can adopt either a merged model of obtaining funds from different sources, such as obtaining grant or donation and applying for credit from investment companies, increasing income-generating activities such as sale of their product and services, participating on challenges with financial and non-financial awards, or consider social investment, which is important to finance their enterprise's continual growth and development.

A second result of the empirical analysis is related to the primary source of funding. Participating social enterprises agreed that they had to identify funding sources to secure the sustainability of their social enterprises. They considered using multiple sources, such as their savings and the profit-making SMEs linked to them; income-generating activities; or membership fees as a funding source. The participating social enterprises were connected to profit-making small business ventures created by the same founder(s), which became the primary funding source. The profit-making enterprises inject a considerable percentage of their annual

revenues into their respective non-profit social enterprises. The views of participants concerning the primary source of funding highlighted that obtaining an initial funding source is more than just for starting enterprise activities and implementing of their entrepreneur strategy. Rather, there is a focus on their capacity to ensure the sustainability of their enterprises and respond to the challenges in achieving their social missions. This view of the participants is consistent with the reviewed literature where scholars, such as Lyon and Owen (2019), view multiple sources of funding as crucial for sustaining the growth and development of social enterprises. Reilly (2016) considered multiple funding sources for social enterprises to respond to sustainability challenges. Providing solutions to basic social problems entails sustainable investment that grants and/or donors and government cannot provide (Reilly 2016).

The participating social enterprises saw no clear delineation between the non-profit and profit-making enterprises connected to them in terms of funding. Scholars (Defourny & Nyssens 2014; Grieco 2015; Lall 2017; Reilly 2016) support this view: 'social enterprises are for-profit or non-profit businesses whose products and services address major unmet needs of society' (Reilly 2016:297). Social enterprises' operations range from selling goods and services, to sustaining the charitable activities of non-profits (Defourny & Nyssens 2014), to creating new ventures that combine the for-profit and not-for-profit businesses into a hybrid form (Grieco 2015; Lall 2017). These social enterprises develop a business model by generating sustainable revenue. Adopting this model allows more independence from donors' decisions. Scholars (Dees 1998; Doherty et al. 2014; Grieco 2015; Littlewood & Holt 2018) have highlighted that social enterprises, in conducting business activities, increase their independence from public administration and philanthropic organisations (Dees 1998), while on the other hand, it provides the opportunity to obtain resources from social investors (Manetti 2014).

Even though the adoption of the hybrid model provides benefits to social enterprises, clear risks also exist. For example, two participating social enterprises were challenged to identify what percentage of the revenues generated were injected into the non-profit organisation. The literature reflects the challenge in finding a balance between developing a clear social enterprise with a social mission and creating an organisation with a purely profit-making purpose, masked as a social enterprise (Abbas et al. 2019; Al Shobaki et al. 2018; Reilly 2016).

The participating social enterprises identified external fundraising as another source of funding. This finding is consistent with the literature. Researchers (Lyon & Owen 2019; Mikołajczak 2017) have emphasised that other revenue sources for social enterprises are national and international funds obtained from public and private sources (Mikołajczak 2017). In addition to their business activities, social enterprises try to attract the attention of

private and public institutions to access grants or donations to finance their social priorities. However, some researchers are critical of this. Alexander, Brudney and Yang (2010) emphasised the accountability of social enterprises for the donation or grant obtained. Responding to the stakeholders' expectations is crucial to maintaining trust. Thus, social enterprises stress return on investment rather than achieving social value. Furthermore, social enterprises experience difficulty in satisfying all the stakeholders' needs and expectations and providing them with formal accountability (Karamoy, Pangemanan & Ventje 2017).

The third issue that emerges from this research is represented by possible areas of generating revenue for SMSEs. 'Social enterprises are entrepreneurial organisations that innovate to solve societal problems' (Bugg-Levine et al. 2012:122). Scholars (André, Cho & Laine 2016; Battilana & Lee 2014; Davies et al. 2019) have stated that they combine for-profit and non-profit businesses. Their return balances social benefits and financial income. They exist in different forms, but all ask a crucial question: 'can they generate enough revenue and attract enough investment to cover their costs and grow their activities?' (Bugg-Levine et al. 2012:130). Similarly, there were mixed views regarding revenue-generating activities among the participants. While some believed that revenue-generating activities were essential to sustain the enterprise, others believed that if there was constant support from national and international, private and public institutions, rather than focusing on revenue-generating activities, the focus could be on activities directly related to providing a solution to societal problems. However, all the participating social enterprises adopted revenue-generating activities. The views of participants are consistent with those of Bugg-Levine et al. (2012), who argued that social enterprises can make a profit that is sufficient to run the enterprise.

In most cases, all the participating social enterprises saw no clear separation between the income-generating activities and their non-profit-making branches. This finding is consistent with the literature. Researchers (Campi, Defourny & Grégoire 2006) have highlighted that one characteristic of social enterprises is that social and economic objectives are related to social and income-generating activities. Furthermore, Campi et al. (2006) stated that social enterprises' social mission is connected to particular community benefits. The economic goal is related to the entrepreneurial nature of producing goods and services to achieve financial sustainability in the long term. However, what is not clear yet is the connection between these two. Some scholars believe that social mission primacy is the essential characteristic of SEs, with the injection of funds to supplement the organisation's social ends (Ebrahim & Rangan 2014; Littlewood & Khan 2018; Nicholls 2006).

Others have highlighted the equilibrium between social, economic and environmental objectives (Bengo 2012). Likewise, some authors (Battilana 2018; Battilana & Lee 2014; Doherty et al. 2014; Nicholls 2009) believe in the harmonious merging of

the two purposes into a single organisation and use terms such as 'hybrid', 'blended value' or 'double bottom line' (Battilana 2018). The literature describes blurred boundaries between social enterprises' social, economic and environmental goals.

Most of the participating social enterprises are engaged in consulting as an income-generating activity. The literature has noted that social enterprises are known for performing different activities. SEs commonly participate in education, social and healthcare, training and skills development, consulting, advocacy and activism, environmentalism, and mining (Davies et al. 2019; European Commission 2015). Specifically, social enterprises in South Africa develop skills or endorsements for education and literacy through consultation (GIBS 2018). The production of goods and services was the second-most important income-generating activity mentioned by the participating social enterprises.

## Recommendations

It is recommended that SMSEs in an emerging economy, with limited funding sources, can adopt either a merged model to obtaining funds from different sources or consider the social investment, which is important in financing their enterprise and in maintaining sustainability and development. Diversifying funding will help SMSEs avoid the challenge of sustainability and will enable them to focus on improving their activities towards achieving their social mission. Small and medium social enterprises can diversify the funding source, to include grant provider institutions, investment communities such as banks, public and private institutions, national and international social entrepreneurship fund providers, and any institutions willing to participate in social entrepreneurship.

Small and medium social enterprise managers, founders and/or directors should know the funding possibilities based on the social mission and activities needed to achieve it. Small and medium social enterprises may benefit from diversified funding sources to achieve their social mission and avoid the challenge of sustainability. The use of diversified funding sources further helps the SMSEs to move up in their business development phase.

This study uses a sample of founder and/or manager of SMSEs in KZN. Future research could also be conducted for other provinces in South Africa for identification of initial and primary funding sources and developing funding model that can be used by SMSEs to secure their sustainability and avoid mission drift. The study found that SMSEs do not diversify their funding model through creating a relationship with investment communities such as banks and credit associations. It would be valuable to explore in the future why this is the case.

## Strength and limitation

The case study approach in qualitative research design might result in a lack of rigour. According to Yin (2017), the most common concern in case study research is that researchers fail to follow a scientific procedure in conducting

the research. They may display negligent behaviour or allow ambiguous evidence to impact the direction of findings and conclusions (Stake 1995; Yin 2017). Researchers in case studies are expected to avoid such actions. The critical point in conducting case study research is the importance of thorough preparation and planning, merged with the development of an organised implementation structure (Harrison et al. 2017; Merriam & Tisdell 2009; Yin 2017). Aligning the philosophy and methodology with the research purpose and methods employed underpins a rigorous research process (Surmiak 2018).

The qualitative research design and purposive sampling techniques decrease the generalisability of the study. However, various authors and researchers try to explain the issue of generalisation in case study research. For instance, Yin (2017) contended that analytic generalisation is the appropriate method for generating theory from the case study. He meant that a previously developed theory is used as a template to compare the case study's empirical results. If two or more cases are shown to support the same theory, replication may be claimed (Yin 2017:31). Furthermore, Stake (2006) highlighted that, in doing case study research, the goal of the researcher will be to expand and generalise theories (analytical generalisation) and not to extrapolate probabilities (statistical inferences). To ensure the transferability of qualitative case study research, researchers must apply purposive sampling and replication logic in multiple case studies seeking analytical generalisation. Additionally, in data analysis, researchers must compare evidence with the existing literature to reveal commonalities and conflict areas and then promote generalisation across cases (Chimhundu 2018; Yin 2003).

## Conclusion

To achieve their social mission, SMSEs are expected to diversify their funding source. Identifying the funding model of SMSEs helps the enterprises to manage the funding sources accordingly and show accountability, so that the public or private funding institutions continue the funding. Private and public funding institutions require reports on how well their funding is spent. Thus, identifying the funding sources gives SMSEs an exact performance measurement tool to enable them to be accountable for stakeholders and inform them on the amount of funding required to sustain the enterprises, and how well the funds are spent. The overall conclusion of this study reflects that, for the majority of the participating social enterprises, the initial funding source for their enterprises was self-funding. Most participating social enterprises initially established their enterprises from savings, family support and contributions. In addition, as the enterprises continue to operate, most participating social enterprises indicated that they diversify their funding to include revenue generated from the commercial businesses established by the same owners. Therefore, SMSEs in an emerging economy with limited funding sources can adopt either a merged model of funding from different sources or consider the social investment, which is crucial to finance and maintain sustainability and development.

Regarding the primary funding source, the majority of participant social enterprises of the current study concluded that participant social enterprises are connected to profit-oriented small business ventures created by the same founder(s), which became the primary funding source. The profit-making enterprises inject a considerable percentage of annual revenues into their respective non-profit social enterprise. The views of participants concerning the primary source of funding highlight that obtaining an initial funding source is just more than a start of enterprises activities and implementation of their entrepreneur behaviour. But this is rather the focus of their capacity to ensure the sustainability of their enterprise and respond to the challenges to achieve their social missions.

The current study's findings indicated that all participating social enterprises adopted revenue-generating activities. However, all the respondents stressed that there was no clear demarcation between the income-generating activities and their non-profit-making activities of their branches. While some believed revenue-generating activities were essential to sustain the enterprise, others believed that if there was consistent support from national and international, private and public institutions, rather than revenue-generating activity, their focus could be on activities directly related to providing a solution to societal problems. The participating social enterprises alluded to the challenges they experienced with mission drift between their profit-making and non-profit-making enterprises.

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### Data availability

The data that support the findings of this study are not openly available due to confidentiality and are available from the corresponding author, O.T. upon reasonable request.

### Disclaimer

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