

**A paradigm shift in non-profit management: Exploring transition  
from philanthropy to social enterprise in NGOs**

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**By**

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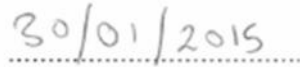
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# Declaration

I hereby declare that this research report is my own unaided work, and that I have given full acknowledgements to the sources utilised.



Huni Chengetai Victor



Date

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# CHAPTER ONE

## Introduction to the Study

### 1.1 Introduction

Several NGOs have prudently adopted social enterprise as a framework for non-profit management in an attempt to attain financial stability and mission consistency amongst other ends. However, the process of adopting social enterprise principles in non-profit organisations is a complex one given the problems associated with “using commercial undertakings to cross-subsidise social interventions” (Flower, 2000, p. 645). This study thus focuses on the transition of non-profit organisations from being aid dependent to self-sustainable management which is aided by adopting social entrepreneurship.

### 1.2 Background of the study

NGOs remain heavily dependent on foreign aid to address social problems experienced in South Africa and the world at large. This has, however, come under scrutiny in recent years with various scholars questioning the effectiveness of the aid system and even forecasting the conceivable downfall of foreign aid due to the erratic global outlook. This has seen several NGOs struggling to deliver sustainable social development programmes. As a result, the value of aid is gradually deteriorating. Flower (2000, p. 642) echoes these sentiments stating that “while the proportion of tax-derived aid to NGOs is currently climbing, overall levels of aid are rapidly decreasing. It is apparent that, in the eyes of policy makers, aid is losing its value for global development.” Inevitably, the dwindling donor aid has left NGOs competing for fewer donations and grants. This has compelled several NGOs to seek alternative ways of funding prompting the adoption of social entrepreneurship (Dees, 1998; Smith, Cronley and Barr, 2012). Precisely, the gradual decline of donor aid as the sole provider in funding development agencies has triggered the rising expansion of social enterprise as an alternative to foreign aid for promoting sustainable social development.

The increasing prominence of social enterprise as an alternative model for non-profit management influenced by the uncertainty of donor funding has prompted several NGOs into seeking additional revenues. This is done through commercial undertakings to preserve their financial stability and most importantly, uphold their reputation as frontiers of social change initiatives (Dees, 1998). Apart from that, the compatibility of social enterprises with social missions and the liberty to diversify funding streams to include not only grants and donations but also earned income are inter alia, the impetus driving NGOs to adopt social enterprise as a framework for management (Smith, Cronley and Barr, 2012). As such, a number of NGOs have embarked on the transition from being purely donor dependent to a social entrepreneurial framework for managing non-profit organisations. This shift from the conventional NGO modus operandi that relies on philanthropic funding to social enterprise which puts emphasis on self-income generation establishes the core focus of this study in which the researcher examines the change dynamics that are inherent during the transition process. In other words, the process of managing change in organisations which is largely complex, given the continual reshaping of organisational structures to accommodate ever-changing internal and external demands, characterises the essence of this study (Sirkin, Keenan and Jackson, 2005; Rune, 2005).

### **1.3 Statement of the problem and rationale of the study**

The complexities inherent when NGOs transition to the social enterprise model of operation within the South African context remain uncertain. Previous research on NGO transition to social enterprise from other parts of the world show that the adoption of social enterprise principles in non-profit management comes with complexities stemming from mission inconsistency and entrepreneurial competence inter alia, in maintaining the fundamental visions and strategies of NGOs (Smith, Cronley and Barr, 2012). In some cases, employees struggle with maintaining the social impact whilst being required to ‘sell’ their services to sustain the social impact (Smith, Besharov, Wessels, and Chertok, 2012). It is thus important to explore the transition process of NGOs from philanthropic mode of management to social enterprise in South Africa to accentuate some of the complexities inherent in the transition process.

It is hoped that through exploring the transition process of NGOs from a philanthropic mode of management to an entrepreneurial mode of management, we can be able to construe

various dynamics associated with adopting social enterprise as a framework of management and different factors needed for success in adopting social enterprise as a framework of management in NGOs. It is also hoped that the findings of the study will allow NGOs intending to transition to social enterprise to learn and benefit from the experiences of organisations that have implemented social enterprise as a framework for management.

## **1.4 Primary aim of the study**

The aim of the study is to explore the transition of NGOs from a philanthropic mode of management to an entrepreneurial mode of management.

## **1.5 Research questions**

The study will seek to answer the following questions:

1. Why are NGOs transitioning from a philanthropic mode of operation to an entrepreneurial mode of management in South Africa?
2. How do NGOs experience the transition from a philanthropic mode of operation to an entrepreneurial mode of management?

## **1.6 Secondary objectives of the study**

The secondary objectives of the study include:

1. To explore the factors that influence the transition from philanthropy to social enterprise by organisations in the South African non-profit sector
2. To explore the factors that influence the choice model when NGOs adopt the social enterprise mode of operation
3. To explore employees and management perceptions about the vital considerations needed when managing the change management process from philanthropy to social enterprise.
4. To explore the challenges experienced in transitioning from a philanthropy to a social enterprise in the non-profit sector.

## **1.7 Research Methodology**

The study employed a qualitative approach which was exploratory in nature to produce in-depth and detailed information that generated understanding of the phenomena (Patton, 1990; Babbie and Mouton, 2001). A qualitative exploratory approach was utilized in this study given that it is the best method to obtain individualized insight and experiences of the change management process of moving from aid dependency to social enterprise as a framework for management in NGOs (Patton, 1990). The study adopted a case study design which explored, individually, the change management process of one NGO. This allowed the researcher to explore a phenomenon within its context to enable the multiple facets of the phenomenon to be revealed and understood (Baxter and Jack, 2008).

## **1.8 Organisation of the Report**

The report is organised as follows. In Chapter 1, I introduce the topic of the study and present the background to the study, statement of the problem and rationale of the study. I also outline the primary aim as well as the secondary objectives of the study, before going on to briefly describe the research methodology employed. In Chapter 2, I present a review of literature that gives insight into NGO transition to social enterprise. The chapter begins by discussing the definition of NGOs before presenting a historical background highlighting the evolution of NGOs. The chapter moves on to discuss NGOs within the South African context showing how NGOs became prominent role players in promoting social development. Following from this, the chapter examines the integration of NGOs in the aid system. The chapter moves to discuss a more familiar issue with NGOs relating to donor aid crisis and the subsequent emergence of social entrepreneurship as a remedy to address this predicament. It also explores issues of change management which give insight to the transition from philanthropy to social enterprise.

Chapter 3 discusses the research design and methodology utilised in this study. This includes discussions on the research paradigm utilised, the research population and sampling methods employed, the data collection methods used, the steps followed in analysing the data and the limitations and delimitations of the research design and methodology. The chapter concludes by specifying ethical considerations that guided the study.

Chapter 4 focuses on the presentation and discussion of findings discovered in this study. The chapter attempts to provide the best possible description of all the findings of the study. Themes that emerged from the data analysis are presented and discussed in detail under each of the four objectives of the study.

Finally, in Chapter 5, I summarise the main findings of this study which explored the transition of NGOs from a philanthropic mode of management to an entrepreneurial mode of management. The chapter concludes by pointing out recommendations for future research that will help enlighten this research area.

# CHAPTER TWO

## Literature Review

### 2.1 Introduction

This chapter reviews existing literature that reflects on the history and emergence of NGOs as an important role player in development matters. Furthermore, it delves into literature on the subject of donor aid assistance and its role in expanding the size and scope of the non-profit sector. The chapter also explores literature on the predicament of dwindling donor aid facing NGOs in South Africa and globally at large owing to the global financial crisis. This is followed by further probing of the literature deliberating on the emergence of social entrepreneurship as the remedy for addressing the crisis confronting NGOs. Finally, this chapter engages with the literature on the subject of change management exploring the dynamics associated with the transition of NGOs from donor aid dependency to social enterprise.

### 2.2 NGOs: Definition and history

According to Lewis (2009), NGOs are best known for two different reasons: (1) they mobilise resources to provide goods and services to disadvantaged people in society and (2) they organise “policy advocacy and public campaigns in pursuit of social transformation” (p. 1). In this regard, NGOs have made significant progress in their work and this has subsequently raised their stakes on the landscape of the global development context. NGOs are now regarded as major role players in promoting social development around the world. A cursory look at the impact of NGOs shows that they have made significant progress in providing social services to society and propelling social transformation. Edwards (2005) reveals the various ways in which NGOs have permeated the society over the last decade and a half in which he draws up some of the positive effects of NGO activities. These include:

- Changing the terms of debate on globalisation, leading to the emergence of a new orthodoxy about the need to manage the downside of this process, level the playing field, and expand policy space for developing countries;

- Cementing an intellectual commitment to participation and human rights as basic principles of development assistance, and:
- Keeping the spotlight on the need for reforms in international institutions and global governance on issues such as unfair terms of trade and investment, global warming, Africa and humanitarian intervention.

**(Sourced from Edwards (2005, p. 20))**

It is evident from the above that the impact of NGOs within the global development arena is beyond question. As such, NGOs have “assumed a far greater role and profile on the landscape of development than they had previously” (Lewis and Kanji, 2009, p. 25). In other words, writes Edwards (2010, p. 13), the “NGO universe has been substantially transformed, with rates of growth in scale and profile that once would be unthinkable.” Given the proliferation of NGOs around the world and the increasing importance of their role in development matters, it is important to understand the character and growth of NGOs. This involves defining NGOs, and unfolding the nature and character of NGO’s motivations and management strategies.

### *2.2.1 Defining NGOs*

The spurt of NGOs has certainly had an impact on discourses of development in many countries with the acronym becoming part of everyday language. However, even though the acronym is common in developmental discourses “the challenge of understanding the phenomenon of NGOs remains a surprisingly difficult one” (Lewis and Kanji, 2009, p. 2). Moreover, the diversity of NGOs further complicates the prospect of making any generalisations. And adding to that problem, are over-lapping terms used synonymously to refer to NGOs such as ‘non-profit,’ ‘voluntary’ and ‘civil society’ organisations (Swilling and Russell, 2009). Needless to say that Najam (1996) has compiled a comprehensive list of 47 different acronyms that refer to NGOs around the world. Because of this, scholars have come to the understanding that NGOs are “difficult to pin down analytically” and “remain terra incognita” (Lewis and Kanji, 2009, p. 3; Martens, 2002, p. 272). To this end, there is no consensus on what is and what is not an NGO (Swilling and Russell, 2009).

It is beyond the scope of this study to discuss the conceptual contentions that surround the phenomenon of NGOs. However, various definitions have gained prominence over the past

decade. In this study, I have chosen to work with the definition proposed by Lewis and Kanji (2009) and Worth (2012). They posit that, there are observable organisational features that conceive the definition of NGOs. In other words, the definition of NGOs is derived from key organisational features that capture the nature and purpose of NGOs. In this case, they point out five key characteristics that unravel the phenomenon of NGOs which are outlined below.

- *They are formal, that is, the organisations are institutionalised in that they have regular meetings, office bearers and some organisational permanence;*
- *They are private in that they are institutionally separate from government, though they may receive support from government;*
- *They are non-profit distributing, and if financial surplus is generated it does not accrue to owners or directors;*
- *They are self-governing and therefore able to control and manage their own affairs; and;*
- *They are voluntary, and even if they do not use volunteer staff as such, there is at least some degree of voluntary participation in the conduct or management of the organisation (Lewis and Kanji, 2009, p. 10 and Worth, 2012).*

The above characteristics clarify the nature and position of NGOs in our society. Certainly, these characteristics help to explain what qualifies as an NGO and what does not.

### *2.2.2 Historical background of NGOs*

Understanding the histories and contexts in which NGOs have evolved is a necessary subject matter to explore. It expands our understanding of NGO management and embodiment of social development principles they are known for advancing. While this is important, the amount of literature that covers this subject matter goes beyond the perimeter of this study. As such, this study will limit the discussion of the historical background of NGOs to the evolution of NGO motivations and management. The focus is on these two aspects because, first of all, they help us to understand the intentions and ideas represented by NGOs. Secondly, they help us to comprehend management strategies utilised by NGOs through key variables such as human resource, finance and communication, to mention but a few.

As a point of departure, NGOs came to light during the early 20<sup>th</sup> century in response to “situations that created suffering and took away human security, well-being and dignity”

(Flower, 2000, p. 639). The emergence of NGOs and their motivations in this period was primarily encouraged by devout principles and philanthropic values (Lissner, 1977; Lewis and Kanji, 2009). In other words, the devout principles and philanthropic values motivated NGOs to address the situations that created suffering and took away human security, well-being and dignity. This inevitably shaped the management of NGOs which was focused on short term delivery of social and human services to address emerging social problems. The history of Western NGOs in particular, proves that NGOs in this period were motivated by development as a social concern out of compassion for those who were suffering. For instance, the creation and action of NGOs during the early 20<sup>th</sup> century “were humanitarian responses to effects of man-made misery, especially those resulting from international conflict”, unfair trade terms and slave trade (Flower, 2000, p. 639; Lewis and Kanji, 2009). Some of these NGOs operated in the form of religious organisations and Community Based Organisations (CBO) long before government and development agencies discovered them (Lewis and Kanji, 2009). Lewis (1999) cites a research done by a social anthropologist in West Africa during the 1950s and 1960s as an example. It reveals voluntary association’s initiatives that operated in the form of religious organisations and CBOs to ease the integration of urban migrants into their new environment. In retrospect, during this period the management of NGOs was shaped by religious and philanthropic motives emanating out of compassion for those who were suffering.

The events of the 1950s and 1960s changed the nature of NGOs as they shifted their attention to structural transformation of politics, economics and society. As noted by Flower (2000, p. 639), “Non-governmental organisations arose or became motivated by development as a political project, rather than out of compassion for those who were suffering.” A major political project instigated by NGOs, for example, involved the processes of decolonisation. This strengthened the position of NGOs in society (Lewis, 2010; Flower, 2000). The influence of NGOs on the political, economic and social landscape was particularly augmented by political ideas informing anti-colonial and liberation movements which “increased outsourcing of the delivery of social and human services by government agencies and multinational companies to non-profit organisations” (Worth, 2012, p. 4; Flower, 2000).

Furthermore, a system of international aid established through the Bretton Woods initiative was set up to fast track development in countries lagging behind as far as social and economic growth was concerned. This, as Nelson (2006) points out, was to be achieved by and through state governments and later NGOs who were mandated to promote development

in less developed countries. In some measure, this changed the modus operandi of managing NGOs. Essentially, the resultant factor of political ideologies and a system of donor funding to motivate and subsidise NGO activities transformed the management of NGOs. This transformation was fuelled by an increased demand for NGOs to be accountable for the financial backing provided by donor agencies and government (Worth 2012). There was also an increased concern with organisation's capacity through its management strategy to deliver programs and services to society. And this was driven by the requirements that NGOs meet the funder's expectations (Flower, 2000; Worth, 2012). Moreover, the demand for NGOs to be accountable for the financial support provided was also "prompted in part by doubts about the capacity of the state to cope with its own welfare, developmental, and environmental problems" (Anheier, 2005, p. 10).

The late 1970s and the 1980s witnessed a shift in the history of NGO management and motivations. Hearn (2007) asserts that the understanding of NGOs became centred on a broader historical context of power relations between Africa and the North. The power relation was one characterised by patronage politics in which the North exercised dominance over Africa through the aid system and development policies. This is evident in the case of 'structural adjustment programmes' advocated by the International Monetary Fund (IMF) and the World Bank to national economies. "Domestic policies being pursued in donor countries, particularly economic liberalisation and the privatisation of government services spilled over into foreign policy and into official aid" (Flower, 2000, p. 640). As a result, the terrain in which NGOs operated became heavily cratered by neoliberal principles which subsequently changed their approach to providing social services. Put simply, the adoption of neoliberal principles as a guiding framework for development policy drew NGOs further into the aid system (Nelson, 2006, Flower, 2000). This has had implications for the management of NGOs and their motives of promoting development. Some of the implications, as Nelson (2006) argues, are tied to the aid system through financial, political, ideological, technical and personal engagement.

The integration of NGOs in the aid system during the 1980s has certainly had a lasting impact on the motives and management of modern NGOs around the world. Now, more than ever, NGOs have become technocratic structures that subscribe to development thinking inspired by international agencies that fund them. The management of NGOs is now centred on ensuring that aid provided by donor agencies or government is used effectively and efficiently in the form of managing programs and services, staffing and financing (Worth,

2012). The motives of NGOs as some scholars argue, point towards meeting the funder's expectations even though they are committed to creating social value in communities (Flower, 2000; Hearn, 2007; Worth, 2012; Lewis, 1999; Anheier, 2005).

### **2.3 NGOs within the South African context**

Until the 1980s, NGOs in South Africa were established to serve the minority group. Before that, the political and legal system only permitted NGOs to provide social services to the white settlers whilst neglecting other racial groups. In essence, NGOs in this time deepened the racial divide that had been created by the apartheid regime (Habib and Taylor, 1999). NGOs established had no choice but to go along with the set of rules made by the apartheid regime to guide their activities. NGOs that did not abide by the rules were as Habib (2003, p. 4) points out "either actively suppressed or marginalised from the formal political processes."

The years leading up to 1994, however, saw the NGO sector undergoing a rapid expansion owing to a liberalised political environment and increased funding offered by international organisations, foreign governments, and philanthropic foundations (Habib and Taylor, 1999). Habib (2003) writes that at the dawn of South Africa's independence, we witnessed a formal emergence of a civil society comprising of NGOs in the political sphere who had been previously banned from participating in any form of social or political activities. NGOs became predominantly anti-apartheid or "protest organisations championing the interests of the colonised" or the neglected racial groups (Hopkins, 1973 as cited in Matanga, 2010, p. 115). Walters (1993) discusses how NGOs throughout South Africa became intricate networks which formed part of the broadly defined democratic movement pioneered by Scandinavian countries, the European Union and the US. They shared a common purpose which aimed at defeating the apartheid regime and they achieved this by (p.2) "empowering the poor and the oppressed through civic action, community work, political work, education, research and resource provision to build organs of people's power and strengthen community-based organisations and to promote democratic processes and practices." Given the expansion of NGOs in numbers and influence before the downfall of the apartheid regime, it is evident that consolidating democratic movements (pioneered by international institutions and foreign governments) and effectively delivering social services to the oppressed moulded the way in which NGOs were managed.

The demise of the apartheid regime also saw the consolidation of NGOs as key role players in the delivery of social services to those that had suffered discrimination and oppression at the hands of a biased political and economic system. Given the role of NGOs in bringing about democracy, the democratically elected government placed them in central role for advancing human and social development. Swilling and Russell (2009) attest to this view noting that the government's commitment to the Reconstruction and Development Programme (RDP) after the first democratic elections in 1994 put NGOs at the forefront of human and social development.

However, the replacement of RPD with a neo-liberal macro-economic programme known as the Growth, Employment and Redistribution Strategy (GEAR) changed the approach to human and social development which subsequently redefined the roles of NGOs (Mueller-Hirth, 2009). GEAR strengthened the for-profit sector by placing them as the central role players in economic growth and service delivery whilst the NGO sector was repositioned to the role of poverty alleviation (Mueller-Hirth, 2009; Swilling and Russell, 2009). The remarks by the Minister of Social Development capture the redefined role of NGOs in South Africa since the adoption of GEAR:

*The basic twin expectations of government are that NGOs will firstly, continue to act as monitors of the public good and safeguard the interests of the disadvantaged sections of society. The performance of this social watch role requires both transparency and accountability on the part of NGOs. The government's second expectation is that NGOs will assist in expanding access to social and economic services that create jobs and eradicate poverty among the poorest of the poor. This requires cost effective and sustainable service delivery. (Swilling and Russell, 2009, p. 4).*

The above remarks elucidate some aspects of the motive and management NGOs in modern South Africa. First, transparency and accountability became key management variables of NGOs. Secondly, the motive of NGOs shifted from administering empowerment centred activities towards the delivery of social services to the poorest to alleviate poverty (Hashim and Hassan, 1999). This is not to exclude other aspects that characterise the motive and management of NGOs. But it is to point out the key characteristics that redefined the role of NGOs since the adoption of GEAR and the subsequent macro-economic policies.

## 2.4 The integration of NGOs in the aid system

The aid system, as mentioned earlier on in this chapter, was a Bretton Woods initiative that introduced a system of financing poor countries by rich countries to address socio-economic challenges. The system, as noted by Tvedt (2006, p. 681), has “gradually developed into a complex mixture of development aid, emergency assistance, financial institutions and instruments, and foreign policy initiatives.” The product of this complex mixture contains what has become an important development machine fuelled by an agenda for social development. In one stroke, donor aid has formed the bedrock for NGOs to promote social development. This conception of the aid system necessitates a discussion on NGO-funder relationships which is crucial in understanding the integration of NGOs into the aid system.

As a point of departure, Nelson (2006) provides a framework that characterises NGOs’ engagement with the aid system as a function of six organisational dimensions. He asserts that the integration of NGOs in the aid system (p. 703) “can be understood by taking into account, in each case, the relative strength and relevance of these dimensions.” Below is an outline of these dimensions which are discussed in relation to the NGO-World Bank relationship.

- *Technical dimension*: Refers to the organisation’s capacity to effectuate, i.e. the skills and organisational assets employed to achieve a given objective. For example, a method of child protection documentation;
- *Resource dimension*: Refers to the organisation’s need for funding and other resources, and strategies used to mobilise them;
- *Values and Mission*: Refers to the cultural and ideological approach used by organisations to achieve their goals;
- *Interpersonal relationships*: Includes friendships and antipathies among individuals, the movement of individuals among organisations, relationships across boundaries between state and non-state etc;
- *Political life*: Refers to networks and partnerships within and between organisations, for example political allegiances or affiliation with social movements;
- *Legal dimension*: Refers to the statutory, regulatory, contractual and other formal arrangements that shape NGOs (Nelson, 2006, p. 703-705).

In light of the above dimensions, Nelson (2006) underscores the fact that NGOs are integrated into the aid system through one or more of these dimensions. In South Africa, for

instance, major NGOs apply for funding from government and international institutions in a bid to mobilise resources for running their programs. One such organisation is Lovelife, South Africa's largest national HIV prevention initiative for young people. Given the financial needs of the organisation, Lovelife employs a strategy to mobilise funding from various donors around the world. This illustrates one of the ways in which the above dimensions, (in this case, the resource dimension) advanced the integration of NGOs in the aid system.

The political activities that took place before the demise of the apartheid regime in South Africa also played a part in integrating NGOs into the aid system. NGOs pledged their allegiance to a democratic social movement pioneered by western countries. In the same vein, donors conditioned their aid to NGOs on the adoption of liberal democratic principles which ultimately brought the apartheid regime to a halt (Hearn, 2000; Boyce, 2002). This also illustrates that through the dimension of political life, NGOs were integrated in the aid system.

The interactions of the six dimensions above continue to shape the structure and nature of NGOs. Moreover, the integration of NGOs in the aid system through the six dimensions outlined above has created an insatiable thirst for aid that is almost impossible to quench. NGOs are heavily reliant on donor aid (Hearn, 2007; Flower, 2000). It is apparent that NGOs' engagement in donor-sponsored activities remains sustained in developing countries (Lewis and Kanji, 2009). This is evidenced by the increased flow of official aid to NGOs since the 1980s. For instance, by mid 1990s, NGOs had accounted for more than US\$1 billion of aid based on the statistics collected by the Development Assistance Committee (DAC) according to Van Rooy (1997). In South Africa alone, the NGO sector had an estimated income of R14 billion in 1998 (Swilling and Russell, 2009). The consequence of such increased flow of aid fuelled NGOs' thirst for donor aid which eventually developed a dependency relationship. NGOs have now become heavily dependent on government funding and foreign aid for their own administration and for providing social services.

#### *2.4.1 The donor aid crisis*

Although donor aid continues to be the bedrock of NGOs, recent trends around the world reveal that donors are withdrawing aid from NGOs. Gwandure and Mayekiso (2013, p. 44),

for example, point out that there are “signs of donor withdrawal, a reduction in funding, suspension of ongoing HIV and AIDS projects, announcements of donor-funding cuts and diminishing donor visibility in sub-Saharan Africa.” The Netherlands, Ireland and US in particular have indicated that they will reduce funding pledged towards HIV and AIDS projects. The International NGO Training and Research Centre (2012), also notes that the UK having pledged its support to India in May 2012, changed its decision and announced that it would not be providing aid to India after 2015. This is also the case in South Africa that by 2015 the UK will conclude several development projects that it has supported (Stuart, 2013). The reduction in funding also appears to have been a general trend in most industrialised countries with early signs of donor withdrawal observed during the mid to late 1990s (Malhotra, 2000).

There are several reasons that are associated with the reduction of funding to NGOs. These are by no means complete but highlight the main factors determining the global donor aid trends:

- **Global financial crisis:** Donor resources available to NGOs continue to decrease as a result of the global financial crisis which has affected the ability of donor countries and agencies to provide financial support to NGOs (Gwandure and Mayekiso, 2013; Layton, 2006);
- **Governance issues:** The widespread corruption and continued wastage and abuse of donor money prompted donor governments and agencies to withdraw their funds from NGOs (Gwandure and Mayekiso, 2013);
- **New Development and research interest:** Donors are paying more attention to funding specific, highly political or popular regions of the world, for example, Afghanistan, Haiti, Iraq and Sudan (Layton, 2006);
- **Donor reluctance to fund NGOs with unproven record:** The growth of NGOs in numbers worldwide increased the competition among NGOs for limited funding. As a result, donors are unwilling to pledge funds to NGOs with an unproven record (INTRAC, 2012; Alymkulova and Seipulnik, 2005 as cited in Hendrickse, 2008).

Against this backdrop, NGOs face a daunting task of sustaining and supporting their activities financially. In essence, “NGOs that have largely depended on their governments or multilateral agencies for their funding have had to contemplate a future without aid or at least with greatly diminished aid” according to Malhotra (2000, p. 657). Several NGOs facing this

situation appear to have been completely unprepared for the funding cutbacks resulting in job losses or complete shut-down of several NGOs (INTRAC, 2012). The donor aid crisis inevitably demands NGOs to explore other alternative avenues of ensuring financial sustainability. And it is in this search for an alternative, that ‘Social Entrepreneurship’ has emerged as a funding remedy for NGOs affected by funding cut backs in South Africa.

## **2.5 NGOs seek a funding alternative: The Emergence of Social entrepreneurship**

NGOs are under immense pressure from various stakeholders in the social and economic fraternity to find alternative ways of sustaining their activities. On the economic front, the global economic climate is increasingly becoming unfavourable for NGOs to solely rely on donor aid for their survival. On the social front, poverty and inequality remain prevalent particularly in developing countries thus calling for NGOs to do more in addressing these issues in a sustainable way (Flower, 2000). In light of this, social entrepreneurship has emerged as a viable solution to address the issues affecting the operational and financial sustainability of NGOs. The emergence of social entrepreneurship, therefore, signals an important step for NGOs to address the socio-economic pressures they are experiencing. A number of NGOs have already taken this step while some are preparing to adopt social entrepreneurship in the event of unexpected withdrawal of funding. It is evident that social entrepreneurship is increasingly gaining popularity around the world in the NGO sector (Flower, 2000; Fury, 2008; Martin and Osberg, 2007; Peredo and McLean, 2006; Wolfgang, 2009; Volkmann, Tokarski and Ernst, 2012). As such, the following discussion will explore the literature deliberating on the emergence of social entrepreneurship as a remedy for addressing the donor aid crisis confronting NGOs. Before that, it is important to define the term ‘social entrepreneurship’ as well as gain some insight into the climate surrounding the phenomenon.

### *2.5.1 Towards a definition of social entrepreneurship*

Although social entrepreneurship has gained recognition rapidly around the world, there is no consensus on how the concept is defined. The concept has become “a large tent where many different activities are finding a home under a broad umbrella of activities and process to

promote social development” (Santos, 2009, p. 3). As a result, the concept of social entrepreneurship remains elusive with no clear definition and demarcation of its boundaries (Martin and Osberg, 2007). Adding to the disagreements and lack of clarity on the concept “are differences between the concepts of social entrepreneurship and social enterprise, which are often used interchangeably” (Fury, 2008, p. 3). Because these terms invoke similar meanings, Peredo and McLean (2006) assume that social enterprise holds the same meaning as social entrepreneurship. Although clarifying the meaning of both terms is important, this part of the report is essentially devoted to deliberating on the growing legitimacy of social entrepreneurship in the NGO sector as opposed to highlighting the contestations around the definition of social entrepreneurship. Nevertheless, it is imperative to clarify the concept social entrepreneurship and provide a workable definition that will be employed in this research report.

### *2.5.2 Entrepreneurship*

Understanding the term ‘entrepreneurship’ is essential in defining social entrepreneurship. As Tan, Williams and Tan (2005, p. 354) suggest, “part of the reason why there is no clear definition of social entrepreneurship is that there is no clear definition of the term ‘entrepreneurship’ either.” Henceforth, the starting point in defining the term ‘social entrepreneurship’ is to elucidate the meaning of the term ‘entrepreneurship’ (Tan, Williams and Tan 2005; Martin and Osberg, 2007; Dees, 1998; Chell, 2007).

According to Davis (2002), the concept of entrepreneurship has evolved over time and is commonly associated with for-profit business. However, several scholars have expanded this limiting idea, outlining the elements, behaviours, traits and characteristics that define entrepreneurship (Davis, 2002; Dees, 1998; Mair and Noboa, 2003). Dees (1998) and Martin and Osberg (2007) frame their understanding of the term entrepreneurship based on the works of French economist Jean-Baptiste Say and Austrian economist Joseph Schumpeter. In the early 19<sup>th</sup> century, Jean-Baptiste Say described the entrepreneur as one who maximises economic resources or creates value such that it results in higher productivity and greater yield. Developing on this concept of value creation, Schumpeter identified the entrepreneur as an agent of change in the larger economy whose force fosters innovation which catalyses economic growth (Dees, 1998). It is from this theoretical standpoint that they posit that “entrepreneurship describes the combination of a context in which an opportunity is situated,

a set of personal characteristics required to identify and pursue this opportunity, and the creation of a particular outcome” (Martin and Osberg, 2007, p. 31; Dees, 1998). Essentially, entrepreneurship involves exploitation of opportunities available in a particular location to achieve a particular outcome by an entrepreneur who possesses certain skills.

The above description of entrepreneurship exhibits important elements that are important to consider when identifying the notion of entrepreneurship. Mair and Noboa (2003) point out that entrepreneurship identifies imbalances and gaps in society, and sees this as an opportunity to provide new solutions, products, services or processes. Furthermore, they outline that the ability to recognize opportunities in society stems from a unique set of personal characteristics that are brought by the individual to the situation. These characteristics, which are vital to the process of innovation, include inspiration, creativity, direct action, courage and fortitude. Entrepreneurs are inspired to change the status quo as a result of frustration experienced by themselves or other people. They are also able to come up with creative solutions to problems experienced in society to improve the situation. Finally, entrepreneurs take direct action instead of waiting for someone to solve problems and also display great determination and courage throughout the process of innovation which enables them to take risks and overcome unexpected setbacks (Mair and Noboa, 2003; Martin and Osberg, 2007).

### *2.5.3 What is social entrepreneurship?*

Having defined the term ‘entrepreneurship’ above, the next step towards understanding and providing a workable definition for the concept of social entrepreneurship is expounding what it actually means. The pertinent questions that arise in this regard are: how could the definition of ‘entrepreneurship’ be employed in building a definition of social entrepreneurship? How does one identify entrepreneurship that is social? And what does it actually mean? (Tan, Williams and Tan, 2005; Martin and Osberg, 2007) As mentioned earlier, scholars and stakeholders from different sectors understand social entrepreneurship in different ways which makes it difficult to have a univocal concept. However, answering the above questions enables us to have a working definition which is necessary for the purpose of this report.

In answering the first question, Martin and Osberg (2007) suggest that the best way to employ the definition of entrepreneurship in construing the concept of social entrepreneurship is to see it as grounded in the three elements of entrepreneurship discussed above. In this case, social entrepreneurship embodies the elements of entrepreneurship which include opportunism, inspiration, creativity, direct action, courage and fortitude. This approach builds an understanding of the term social entrepreneurship as it demarcates the domain in which social entrepreneurship takes its identity. Establishing attributes that distinguish entrepreneurship that is social therefore draws us closer to understanding the term social entrepreneurship. The question of how one identifies entrepreneurship that is social illustrates the way in which the definition of entrepreneurship is employed to build a clearer understanding of the term social entrepreneurship.

Peredo and McLean (2006) identify elements that are considered when using the term social entrepreneurship. They conclude that the term is applied when a person or a group (p. 64):

- (1) aim(s) at creating social value either exclusively or in some prominent way;*
- (2) show(s) capacity to recognise and take advantage of opportunities to create social value;*
- (3) employ(s) innovation in creating social value;*
- (4) is/willing to accept an above-average degree of risk in creating social value; and*
- (5) is/are unusually resourceful and not limited by environmental constraints in pursuing their social venture.*

In the same vein, Martin and Osberg (2007) outline three elements that constitute the notion of social entrepreneurship. In this case, entrepreneurship that is social (p. 35):

- (1) Identifies imbalances and gaps in society that cause the exclusion, marginalisation or suffering of a segment of humanity that lacks the financial means or political clout to achieve any transformative benefit of its own;*
- (2) Identifies an opportunity in this problem and developing a social value proposition, and bringing to bear inspiration, creativity, direct action, courage and fortitude thereby challenging the status quo; and*
- (3) Forges a new status quo that releases trapped potential or alleviates the suffering of the targeted group and ensuring sustainability to create a better future for the targeted group and society at large.*

Drawing from the above, it is clear that the entrepreneurial elements of opportunism, inspiration, courage and fortitude underpin the meaning of social entrepreneurship. Moreover, social value or benefit holds an important cue for defining the term social entrepreneurship. Where maximisation of profits is the main motive for other forms of entrepreneurial activities, Peredo and McLean (2006, p. 64) state that “it is a commitment to providing social value that makes the divide between social and other forms of entrepreneurship.” As such, any definition of social entrepreneurship to be adopted in this paper must reflect the importance of social benefit or creation of social value as a product of the entrepreneurial processes. There are several scholars who attest to this view in defining the notion of social entrepreneurship. Flower (2000) defines social entrepreneurship as the creation of viable socio-economic structures, relations, institutions, organisations, and practices that yield and sustain social benefits. Tan, Williams and Tan (2005) define it as a process with altruistic objectives that benefits a segment of society while Trexler (2008) defines it as any venture that generates income for sustainable social benefit. Emerging from these definitions is the primacy of creating social value. This, report, therefore takes the view that social entrepreneurship encompasses a range of activities that take advantage of opportunities to create sustainable social benefits for a segment of society or society as a whole. This view is far from complete but necessary to guide this report. The field of social entrepreneurship is still in its infant stages and therefore subject to continuing analysis and fluctuating definitions.

#### *2.5.4 The trends towards social entrepreneurship*

The increasing recognition of social entrepreneurship has been epitomised by the success of social entrepreneurs in creating sustainable social value. The prestigious Nobel Peace Prize has been awarded to social entrepreneurs in three consecutive years. Namely, Wangari Maathai of the Greenbelt Movement in 2005, Yunus the founder of Grameen Bank in 2006 and Al Gore, an environmental campaigner in 2007 (Nicholls, 2006). The award to Yunus stands out as the impetus that thrust social entrepreneurship into the global spotlight (Haugh, 2007). The Grameen Bank which is the world’s largest micro-finance organisation is known for elevating thousands of people, mostly women out of poverty. As a result, “social entrepreneurship is becoming established as a vocation and a mainstream area of inquiry, not

only in the United States, Canada and Europe, but increasingly in Asia, Africa, and Latin America” (Bornstein, 2004, p. 3).

Nicholls (2006) and Bornstein (2004) reflect extensively on the rise of social entrepreneurship in which they reveal how it has become prominent globally. In illustrating the current climate of social entrepreneurship, they point out the growing number of socially entrepreneurial organisations globally during the past periods of rapid social transformation citing practical examples of the trends and developments of the notion. Ashoka, which is used as an example, has continued to expand its network of social entrepreneurs and this symbolises the increasing scope and focus as well as the ascendancy of social entrepreneurship as a consequence of its success. India has also seen an upsurge of entrepreneurial activities including establishment of partnerships between government and civil societies to maximise sustainable social and economic development. Britain has witnessed dozens of new born social ventures that are growing rapidly. Many of them are NGOs which have been established in response to the unmet needs of the society. These include the traditional social cooperatives, voluntary sector structures contracting for services, health and social care mutual and voluntary organisations (and Nyssens, 2008). Similarly, Africa has also witnessed the ascendance of social entrepreneurship with many of them being social organisations or NGOs established in response to unmet needs in society (Nicholls, 2006; Karanda and Tolendano, 2012). Notably, several organisations are encouraging social entrepreneurial activity in Africa, namely Ashoka: Innovators for the Public; the Schwab Foundation for Social Entrepreneurship to mention but a few (Thomas, 2004). In Hong Kong, social enterprises have been increasingly proclaimed as a sustainable social development strategy to create employment opportunities for the disadvantaged. The Seed Money Project which was initiated by the Social Welfare Development to support NGOs in setting up social enterprises to employ people with disabilities indicates the growing recognition of social entrepreneurship in Hong Kong (Ngan, 2011).

The notion of social entrepreneurship has also gained popularity in academia with institutions such as, Harvard in US, Columbia, Stanford, and Yale leading the debates of the social enterprise discourse (Chell, 2007; Peredo and McLean, 2006; Haugh, 2007; Defourny and Nyssens, 2008; Nicholls, 2006). This has now spread to universities across the world given that “social entrepreneurs have found themselves the focus of research that seeks to understand, explain, and share with others their success in combining business purpose with social and environmental outcomes” (Haugh, 2007, p. 744). Programs on social

entrepreneurship are now being offered in universities to assist the development of social entrepreneurs. Furthermore, several top journals on the topic have emerged over the past few years. Volkmann, Tokarski and Ernst (2012) provide examples which include Stanford Social Innovation Review, 2003; Social Enterprise Journal, 2004; Journal of Social Entrepreneurship, 2010; and Journal of Social Entrepreneurship and Innovation, 2011. In addition, conferences focused on social entrepreneurship are being launched in different parts of the world. For example, the Skoll World Forum on Social Entrepreneurship, NY-Stern conference of social entrepreneurship and the National Conference on the enabling environment for social enterprise development in South Africa.

## **2.6 Factors making social entrepreneurship attractive to the NGO sector**

Even though donor aid crisis stands out as a significant factor driving NGOs to adopt social entrepreneurship, there are other factors that have swayed NGOs to seek alternative means to sustain themselves. Wolfgang (2009, p. 73) summarises factors gathered from different writers as driving forces behind NGOs adopting social entrepreneurship. These include:

- *Make up for lost government or philanthropic dollars;*
- *Gain freedom from the constraints imposed by the government or philanthropic dollars;*
- *Diversify funding sources*
- *Fund overhead, innovation, or unpopular causes;*
- *Provide long-term sustainability and solutions to social problems;*
- *Take advantage of new opportunities;*
- *Meet new expectations from funders who ask non-profits to be self-sustainable;*
- *Spur the desire to meet double-bottom-line (social value and income) or triple-bottom-line (social value, income, environmental neutrality);*
- *Create entrepreneurial spirit in the organisation;*
- *Show an enhanced understanding of clients (need for commercial success);*
- *Add skills and competencies to organisations;*
- *Enhance organisational profile among funders, and in the community;*
- *Globalisation and economic collapse.*

It is evident from the listed factors above that the driving forces of social entrepreneurship point towards addressing social problems in a sustainable way. Some of the factors stipulated are discussed in detail below.

First, as highlighted earlier in this chapter, the global environment characterised by perpetual economic collapses has triggered the demand for “innovative social and environmental action to be able to respond to the new challenges posed by the so-called wicked problems” (Bornstein, 2004 as cited in Volkmann, Tokarski and Ernst, 2012, p. 40). These problems include: climate change, environmental degradation, inequality and poverty, lack of access to basic healthcare, clean water and energy, mass migration and international terrorism. The demands for solutions to such problems are opportunity spaces to act on which are identified by entrepreneurs (Neck, Brush and Allen, 2009). The threat posed to the environment has been particularly attention-grabbing with notable evidence showing that there is significant degradation of the environment as a result of remorseless drive for profit making (Bornstein, 2004). Hence, the emphasis on providing innovative social and environmental action to address the situation on a large scale.

Secondly, the increased interconnectedness as a result of forces of globalisation has enabled citizens and NGOs to identify problems and devise solutions for addressing them. The significance of networks and networking as a form of action and mobilisation which is embodied by theories of globalisation has presented an opportunity for social entrepreneurs to connect local and global issues. People are confronted with similar problems of inadequate education and health systems, environmental threats, declining trust in political institutions, entrenched poverty, high crime rates to mention but a few (Bornstein, 2004). The shared experiences around the world provide people with opportunities of working together to provide sustainable solutions to social problems. Indeed, an advance in telecommunication technology as well as the rise of new social media has aided this process and has been a major influence in driving social entrepreneurship into the global spotlight (Breslin, 2012). For example, the internet which was formally available only to the elite class has proved to be valuable for the larger citizens in providing information on how to tackle problem situations as well as mobilising people to pursue social change (Bornstein, 2004). This has strengthened their pursuit for sustainable social change which is seen in various platforms and networks that are being established through which social entrepreneurs can interact and promote sustainable social change. Ashoka, an organisation established by Drayton, is an example of a platform that supports social entrepreneurs which operates in forty-six countries

across Asia, Africa, the Americas and Central Europe (Breslin, 2012). Apart from that, Nicholls (2006) points out that the concept of social entrepreneurship has gained recognition as a result of the support social entrepreneurs are getting particularly from powerful and influential organisations located in the West, particularly the USA. Social entrepreneurs have thus become paragons of value creation in society by demonstrating the “kind of impact that people can have within a global society and how such an impact can be achieved” (p. 120).

The third major factor influencing the rise of social entrepreneurship, according to Volkmann, Tokarski and Ernst (2012), has been the redefinition of the state’s role which has seen the state being limited to safeguarding the free market system. This neoliberal approach is based on the premise that market forces are responsible for distributing resources to society enabled by high economic growth and consumption. The state is required to intervene only when the market fails to meet the needs of society (Zebrowski, 2009). However, the inefficiencies of the market and the state to correct market failures has resulted in poor provision of welfare services affecting a population’s access to healthcare, education, shelter to mention but a few (Volkmann, Tokarski and Ernst, 2012). It has become more visible to many people that development policies and strategies to address poverty, drugs, and crime implemented by the government have failed to make significant difference. As such, many people hold the view that:

*while governments must be held responsible for translating the will of the citizenry into public policy, they are not necessarily the most effective vehicles, and certainly are not the sole legitimate vehicles for actual delivery of many goods, and they are often less inventive than entrepreneurial citizen organisations* (Bornstein, 2004, p. 8).

In the same vein, Dees (2007) argues that government service delivery is hindered by bureaucratic, ineffective, fraudulent, and wasteful management of resources. This has presented opportunities for social entrepreneurs and NGOs adopting social entrepreneurship to correct the market failures by drawing on innovative ways of addressing social problems, using entrepreneurial skills to influence market principles (Phills, 2006). The priority within the market for social entrepreneurs is creating social value over creation of wealth by serving the needs of the poor, disadvantaged and neglected communities. Social entrepreneurship is therefore driven by the prospect of creating sustainable social change.

Finally, the increasing number of not-for-profits and other civil society organisations as well as the recurrence of economic recessions has seen a growing mismatch between the supply

and demand of resources to sustain NGOs (Volkman, Tokarski and Ernst, 2012). In other words, while NGOs continue to grow in numbers across the world, their survival is under threat with various scholars questioning the effectiveness of the aid system and also forecasting the conceivable downfall of donor aid due to the adverse economic conditions globally. Moreover, the increasing number of NGOs has resulted in more competition for fewer donor-funding putting social organisations in a precarious position to deliver sustainable social change (Flower, 2000). Some scholars also suggest that donor-aid has become an instrument for advancing interest of funders often superseding the real development concerns of society (Dees, 2007; Flower, 2000). On the whole, this has prompted NGOs to diversify their funding streams and identify more effective programming methods to increase their social impact while developing more sustainable sources of funding (Weisbrod, 1998). Furthermore, social entrepreneurship has attracted NGOs as it offers the opportunity to combine social interest with business practices which is likely to produce the greatest social impact (Flower, 2000; Neck, Brush and Allen, 2009). Apart from that, Nicholls (2006) mentions that NGOs have come under pressure to increase social impact, and be accountable for the outcomes. A number of NGOs have thus turned to social entrepreneurship in response to the pressure put on them to achieve sustainable social change.

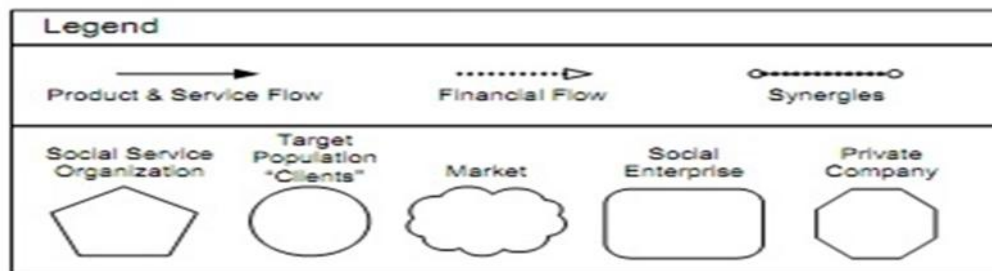
## **2.7 NGOs adopting social entrepreneurship: Social Enterprise Models**

I have thus far discussed the concept of social entrepreneurship, the trends of social entrepreneurship and the factors driving NGOs to embrace social entrepreneurship. With this said, there are different types of social enterprise models that are adopted by NGOs. Each model is designed based on the vision for the social enterprise that conveys its purpose in line with the NGO's mission (Alter, 2006). There are several factors that influence the choice model when NGOs adopt the social enterprise mode of operation. Alter (2006) notes that in most cases, before NGOs decide on which model to adopt, a market study is used to analyse internal and external factors that inform the modus operandi of the model. Some of the factors may include: (p. 211) "market forces, investment capital, available assets, opportunities and threats, ease of implementation, profit potential, organisational strengths and weaknesses, client needs and capabilities, legal environment, and so on." Alter (2006) further outlines seven core models and two that integrate aspects of these models based on

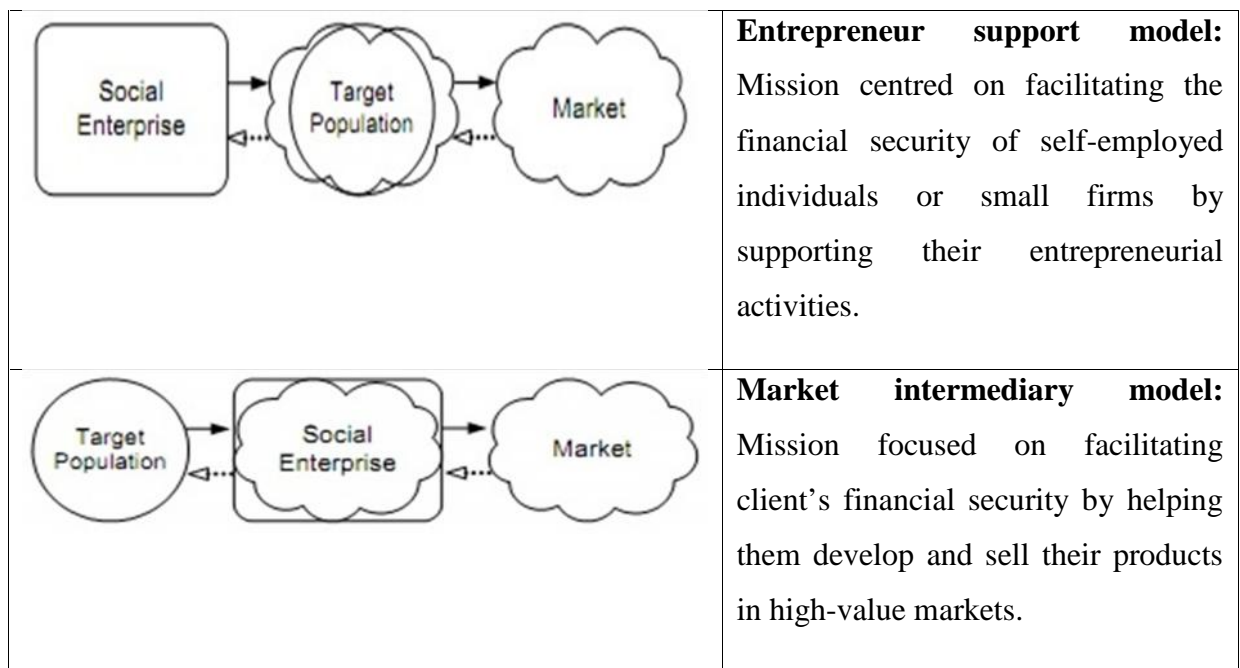
the vision for the social enterprise that conveys its purpose in line with the NGO's mission as follows:

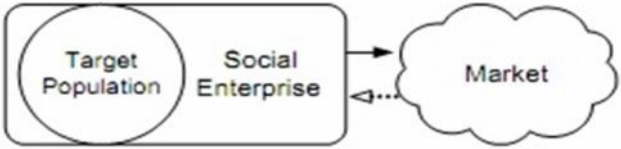
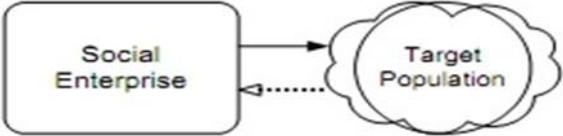
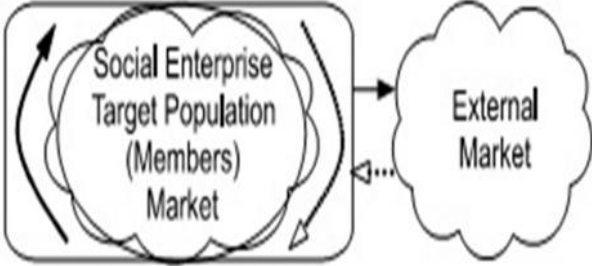
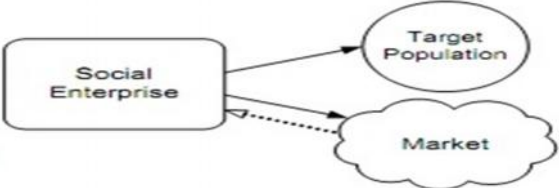
Figure 1 show how the symbols can be used to interpret the social enterprise diagrams.


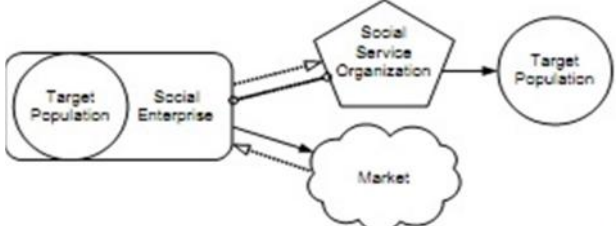
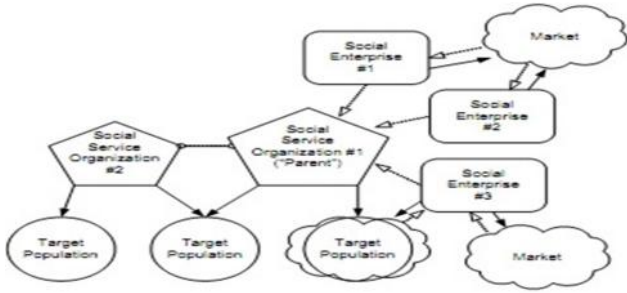
**Figure 1: Legend for interpreting social enterprise paradigms Alter (2006, p. 214-226)**



**Figure 2: Social enterprise models**



	<p><b>Employment Model:</b> Mission centred on developing skills and employment opportunities for its clients (disabled, homeless, at-risk youth). Achieves financial self-sufficiency through the sales of its products and services.</p>
	<p><b>Fee-for-service model:</b> Commercialises its social services and sells them either directly to the clients or to a third party payer. Achieves financial self-sufficiency through fees charged for services.</p>
	<p><b>Cooperative model:</b> Mission centred on providing member services (Market information, technical assistance/extension services, collective bargaining power etc). Financial self-sufficiency achieved through the sales of its services and products to its members as well as commercial markets.</p>
	<p><b>Service subsidisation model:</b> Sells products or services to an external market and uses the income it generates to fund its social programmes. Employed primarily as a financing mechanism.</p>

	<p><b>Organisational support model:</b> A financing mechanism that uses business activities separate from social programs to cover programme cost and operating expenses of the parent organisation.</p>
	<p><b>Complex Model:</b> Combines any two or more operational models into one social enterprise.</p>
	<p><b>Mixed model:</b> Combines social and business entities to diversify social services and capitalise on new business and social market opportunities.</p>

The operational models described above demonstrate configurations used to create social value (measurable impact) and economic value (income). They should thus not be understood as organisational or legal structures (Alter, 2007).

## 2.8 NGOs adopting social entrepreneurship: Change Management

While social entrepreneurship has presented a viable alternative for NGOs to sustain their activities in the face of donor uncertainty, the transition to adopt it as a model for management heralds an important subject matter discussed below. This subject matter speaks to the issue of change management. The concept of change management, as noted by Moran and Brightman (2001, p. 111), is a “process of continually renewing an organisation’s direction, structure and, capabilities to serve the ever-changing needs of external and internal

customers.” Given that organisations operate in the midst of an ever changing environment which compels them to constantly adapt in ways that maintains balance between organisations and their surrounding environment, change management holds the key to organisational success and survival (Rune, 2005). As such, it is important to ascertain fundamental aspects concerning the notion of change management in order to understand the transition process of NGOs from aid dependency to social enterprise.

I discuss some of the fundamental observations about change management that have been identified by scholars. For the purpose of this study, I assume that these observations are part and parcel of the NGOs’ change management (given that there is lack of literature on NGO transition to social enterprise) initiative intended to facilitate the shift from aid dependency to social enterprise. I pay particular attention to the vital considerations needed when managing change as well as the challenges associated with this.

Overton, du Toit and Smit (2012, p. 15) describe change management as “a combination of science and art” where the ‘what’ denotes a science and the ‘how’ denotes an art. They further argue that organisational change then, requires a practical change methodology and efficient tools that point out ‘what’ must be done, and ‘how’ it should be done. They underline the importance of the ‘how’ which entails understanding how employees react to change; the appropriateness of change to the culture of the organisation and the preconditions necessary to establish change sustainability. In their work over the past years, they have examined the art and science of change management in which they have identified five fundamental observations about managing change. These are briefly discussed below:

- *It is all too easy to underestimate change management: in many instances change management has been under-resourced, initiated too late or stopped too early, neglected by leadership; and approached with woefully inadequate standards and poor discipline;*
- *People will only change if they start doing things differently: the foundation of sustainable change does not lie only with understanding and acceptance of what will change, but requires the people to do things differently and experience things differently;*
- *People don’t mind change, but they do mind being changed: people tend to be unaffected by communications regarding an impending change until they truly get to understand how it affects them;*

- *People will change, sometimes by seeing the light but more often by feeling the heat: readiness to change is influenced by subjective perceptions of the desirability of the status quo versus the desirability of the future state. Some people require minimal change management intervention while others require substantially more change facilitation;*
- *It matters who does change management: organisations should take great care to ensure that they understand who – at an individual level – will be employed as change facilitators; and that these individuals are suitably qualified and a good fit to the organisation.*

(Sourced from Overton, du Toit and Smit (2012, p. 15-23))

The fundamental observations highlighted above reveal vital considerations needed when managing change in organisations. In some way, they also uncover challenges that might be experienced in transitioning from aid dependency to social enterprise. These in no way make a comprehensive reflection of the notion of NGO transition from aid dependency to social enterprise. However, these observations provide a good starting point for understanding some of the dynamics involved in NGO transition from philanthropy to social entrepreneurship.

## **2.9 Summary and Conclusion**

In retrospect, the history and emergence of NGOs as important role players highlights their worth in development matters. Donor aid or philanthropic assistance has been instrumental in expanding the size and scope of the non-profit sector. However, with the predicament of dwindling aid facing NGOs in South Africa and globally at large owing to the global financial crisis, social entrepreneurship has emerged as a remedy for addressing the donor aid crisis. The adoption of social entrepreneurship draws to attention an important subject of change management which entails exploring the dynamics associated with the transition of NGOs from philanthropic mode of management to social enterprise. It is this phenomenon that developed into an area of interest for the study given the limited literature available to explain the dynamics associated with the transition process. In the next chapter, an outline of research processes followed to investigate this phenomenon is provided in detail.

# **CHAPTER THREE:**

## **Research Design and Methodology**

### **3.1 Introduction**

This chapter aims to discuss the research design and methodology utilised in this study. This includes discussions on the research paradigm utilised, the research population and sampling methods employed, the data collection methods used, the steps followed in analysing the data and the limitations and delimitations of the research design and methodology. The chapter concludes by specifying ethical considerations that guided the study.

### **3.2 Research approach**

This study adopted a qualitative research approach which was exploratory in nature to produce in-depth and detailed information that generated insight into the phenomena under study. According to Mason (1996, p. 4), the qualitative research approach “is concerned with how the social world is interpreted, understood, experienced or produced.” Auerbach and Silverstein (2003, p. 1) define “qualitative research as research that involves analysing and interpreting text and interviews in order to discover meaningful patterns descriptive of a particular phenomenon.” This approach therefore speaks to viewing social phenomena through the lens of those engaged in the social processes and interactions taking place. Moreover, this research approach serves the purpose of exploring a phenomenon. This had implications for the research design because an exploratory study, as Babbie and Mouton (2001, p. 80) point out, serves to “(1) satisfy the researcher’s curiosity and desire for better understanding, (2) to test feasibility of undertaking a more extensive study, (3) to develop methods to be employed in any subsequent study, (5) to determine priorities for future research, and (6) to develop new hypothesis about an existing phenomenon.” The nature of this research study certainly befits an exploratory type of inquiry given that the research is a small but significant contribution to our understanding of this new phenomenon which has considerably yielded little insights. In this case, there is very little information on the transition of NGOs from aid dependency to social entrepreneurship in South Africa and Africa at large.

### **3.3 Research design**

The key task at the research design stage, as Mason (1996) puts it, is to develop some understanding of how and why particular research methods and data sources are going to help the researcher address the research questions. This process should start by identifying the research design that would guide the process of conducting the research. In this respect, the design that was adopted for this research is the case study. A case study research design “allows investigators to retain the holistic and meaningful characteristic of real-life events” (Yin, 2009, p. 4). In simple terms, it allows the research to capture the meaning and experiences of social beings within the context of their environment. Within the case study research design, the researcher used two different sub-methods to generate data, namely interviews, and document and records analysis. This according to Gillham (2000, p.13) is part of what is called the “multi-method approach.”

Yin (2009) points out that the pursuit of in depth information in complex social phenomena drives the need to use the case study research strategy. Eisenhardt (1989 as cited in Rowley, 2002, p. 16) says that the case study strategy is “particularly well suited to new research areas or research areas for which existing theory seems inadequate.” From these viewpoints, the case study research strategy will help the researcher to address the research questions for this study for two reasons. First, NGO transition to social entrepreneurship is a research area for which the existing literature seems inadequate. Secondly, the focus is on investigating NGO transition to social entrepreneurship as a contemporary phenomenon within its real-life context as Gillham (2000, p. 11) puts it, “from inside out: to see it from the perspective of those involved.”

### **3.4 Research population**

After clarifying the research strategy adopted for this study and, how and why it will help the researcher to address the research questions, the next step was to identify the units of analysis utilised to generate data. This involved choosing a sample from a population that the researcher investigated. Before selecting a sample for the study, the researcher defined the population to determine inclusion criteria for those selected to be in the sample. The population in research terms, as Banerjee and Chaudhury (2010, p. 66) point out, refers to “an entire group about which some information is required to be ascertained.” The research population is thus important to define as it determines the quality of sample for the study.

Understanding the nature of the population from which the sample will be drawn enables the researcher to develop meaningful social explanations (Mason, 1996).

In identifying the research population, the researcher defined the population as a group of individuals employed by an NGO in South Africa which adopted social enterprise as a framework for management. The age of the organisation ranged between 6 years and over. The organisation had social enterprise as framework for management in which they have adopted for a minimum of 2 years. The employees of Regional Psycho Social Support (REPPSI) therefore formed a group of people about which some information required was ascertained. The rationale for choosing this population was that only those that have been part of the transition from philanthropy to social enterprise can provide adequate information that will help answer the research questions.

### **3.5 Sampling**

According to Rithchie and Lewis (2005, p. 78), “qualitative research uses non-probability samples for selecting the population for study.” This type of sampling is used to purposely select the units of analysis within the research population. It therefore provides the best platform for understanding social phenomena as it draws perspectives from units that possess the features related to the phenomena under study (Marshall, 1996).

The researcher utilised the purposive sampling strategy in selecting the sample. This sampling strategy was most suitable for this study because it allows the researcher to select units of analysis with direct reference to the research questions being asked (Bryman, 2008). Drawing from Marshall’s (1996) work on this subject, the researcher developed a framework of variables that might have influenced the individual’s contribution to the study to select a productive sample. These variables include NGO employees and NGOs which have adopted social entrepreneurship. The researcher had planned to have a sample comprising of 15 participants. However, because the researcher investigated an under-researched area it was difficult to find participants with the necessary knowledge and experience on the topic. As such, the sample comprised of 9 participants (See Table below). The size of the sample was determined by the quality of information gathered from the participants. This is in line with what Sandelowski (1995) suggest when deciding on the sample size. She asserts that the appropriateness of a sample size lies in the quality of information obtained from the sample.

**Table 1: Sample**

<b>NGO</b>
Executive Director (CEO)
Deputy CEO
Human resource manager
Finance manager
Social enterprise/business manager
Training Officer
Additional employee not in management
Additional employee not in management
Additional employee not in management

### **3.6 Research instrumentation**

The next step taken by the researcher after identifying the sample was to design a tool or a research instrument for obtaining detailed information. It was ascertained that a semi-structured interview would be a suitable research instrument for obtaining the information required to address the research questions. In formulating the interview schedule, the researcher took into consideration key features of semi-structured interview suggested by Ritchie and Lewis (2005). These include: (1) a semi-structured interview combines structure with flexibility in which the interviews are based on a topic guide to cover specific issues or topics. However, the interview schedule is adaptable to the interviewee's knowledge and experiences of the phenomenon under study, (2) a semi-structured interview comprises of open-ended questions to allow interviewees to freely express when responding to questions and, (3) a semi-structured interview employs a range of probes and other interview techniques.

There were two types of semi-structured interview used to generate data. One was for top management and board of directors and the other one was for the general employees which lasted for approximately 40-45 minutes each (See Appendix). All of the interviews were audio recorded and transcribed for analysis.

The interview schedules were set to meet the four objectives of the study which include: to explore the factors that influence the transition from philanthropy to social enterprise by organisations in the South African non-profit sector; to explore factors that influence the choice of model when NGOs adopt social enterprise mode of operation; to explore employee and management perceptions about the vital considerations needed when managing change from philanthropy to social enterprise; and to explore challenges experienced in transitioning from philanthropy to social enterprise in the non-profit sector.

Another means that was also used for obtaining information although not necessarily a research instrument was requesting for documents and records pertaining to the transition of the NGO from aid dependency to social entrepreneurship. These as cited by Gillham (2000, p. 21) can be “letters, policy statements, regulations and guidelines for the documents and any things that go back in time but may provide a useful longitudinal fix on the present situation.”

### **3.7 Pretesting the research instrument**

The researcher tested the research instrument prior to the study in order to ensure it was capable of obtaining sufficient information to address the research questions. As Cohen, Manion and Morrison (2007) note, pretesting the research instrument enables the researcher to check the completeness and appropriateness of the research instrument. In essence, it helps “in determining if there are flaws, limitations, or other weaknesses within the interview schedule” (Turner, 2010, p. 757). This allows the researcher to make the necessary adjustments to the interview schedule prior to the implementation of the study. One of the advantages of conducting a pre-test, as pointed out by Chenail (2009), is that it alerts the researcher on possible pitfalls of the research project in terms of the formatting and structuring of the questions. The pre-test of the instrument is conducted with a small sample of participants who are selected using the framework of variables utilised in the main study. Three participants who are employed by REPSSI, an NGO that adopted social

entrepreneurship, were selected to participate in piloting the research instrument. These participants did not take part in the main study. There was one limitation identified after piloting the research instrument. This limitation centred on questions around the choice of social enterprise model utilised by the organisation. Participants who took part in the pilot study appeared to be uncertain about the model utilised by the organisation. As such, adjustments were made to the format of questions in such a way that participants are able to answer without any restrictions. Apart from that, the researcher also received positive feedback on the research instrument pertaining to the time allocated for the interview and the types of questions asked during the interview.

In addition to conducting a pre-test with a small of sample of participants that did not take part in the main study, another method was utilised to pilot the interview schedule. This method is called 'interviewing the investigator.' Chenail (2009) describes this form of pre-testing as an approach in which the (p.17) "researcher assumes the role of a study participant and enlist a colleague to conduct the interview or the investigator can play both the role of the interviewer and interviewee." The overall interview process is recorded and assessed after it is completed. This was beneficial to the researcher and the research instrument as it allowed for critical assessment of the overall interview process. The researcher was able to review and adjust the interview schedule based on the content generated from some of the questions. Once interviewing the researcher was completed, the researcher played back the recording to analyse what worked and what did not work during the interview (Chenail, 2009). The outcomes of this process were used to refine the interview schedule for the main study.

### **3.8 Methods of data collection**

Earlier in this chapter I discussed and described the research population and the sampling strategy utilised. In doing this, the researcher was able to identify suitable sources of data that would help address the research questions of this study. This highlighted the methods utilised for generating data from the sources. In essence, the "data sources were those places or phenomena from or through which the researcher believed data can be generated whereas data generation methods were the techniques and strategies which the researcher used to do this" (Mason, 1996, p. 36).

The researcher collected data by conducting face to face interviews and video Skype interviews. The researcher also requested for documents and records that comprised of policy statements, guidelines, regulations as well as any things that were recorded during the transition process that may prove to be useful. In preparation for each of the interviews, the researcher communicated with the participants beforehand via email to acquaint them with the study. In this case, the research sent the participants information sheets to inform them about the purpose and objective of the study (See Appendix 3). On the day of the interview, the researcher went through the information sheet with the participant before commencing the interview. The researcher fully explained the nature and purpose of the study to the participants. Issues of voluntary participation, confidentiality and audio recording were, among other things, the point of discussions prior to commencing the interviews. The researcher also consulted with the participant to agree on a suitable time and place for conducting the face to face interview. As for the video Skype interview, the researcher consulted with the participant to agree on a convenient time for conducting the interview. The researcher ensured that internet connectivity was at the required standard to conduct a video Skype interview. A semi-structured interview was used as a guideline for conducting the interview which lasted for approximately 40-45mins. This guideline had prepared open-ended questions that covered specific issues and topics to help address the research questions. These questions were meant to gather information about the transition process of NGOs from aid dependency to social entrepreneurship.

Another method that was used by the researcher to generate data was done by requesting for records and documents pertaining to the transition of organisation from aid dependency to social entrepreneurship. These were obtained from the senior management in the organisation. The documents and records included detailed frameworks utilised to guide the organisation's design and change management and captured records with all issues and proceedings that took place during the transition process.

The researcher also noted down any thoughts or ideas that were triggered by the interviews or information obtained from the organisation's documents and records in a research journal.

### 3.9 Data analysis

As the researcher was moving through the different stages preceding data analysis, a pathway for analysing data was created. The epistemological and ontological position of the study essentially determined the method utilised for analysing data generated. Ontologically, this study asserts that there are multiple realities or truths to the phenomenon of social entrepreneurship. Epistemologically, this study is of the view that knowledge of social entrepreneurship is understood through socially constructed and subjective interpretations (Creswell, 2009). As such, thematic analysis was employed to analyse the data. It “is a method for identifying, analysing and reporting patterns (themes) within data” (Braun and Clark, 2006, p. 79). This method of data analysis was chosen because it allowed the researcher to think about the data and to create links between the research questions and the data. As Braun and Clark (2006) state, what counts as a theme in analysis of the data is something that captures important aspects of the data in relation to the research question. Thematic analysis was thus theoretically and methodologically well-matched to the research questions that needed to be addressed. In analysing the data, the researcher had the intention to give a rich description of the data given that the phenomenon under study is under-investigated. Throughout this process, the researcher engaged with literature that was relevant to the data analysis. The researcher followed a six step process of analysing qualitative data outlined by Braun and Clark (2006). It is important to note that the researcher did not follow these steps in a linear process. Instead, the process was continual moving back and forth until the researcher had exhausted all possible themes to emerge from the data. Below are the steps that were taken in analysing the data:

#### *1. Familiarising yourself with your data*

The data analysis stage required the researcher to familiarise himself with the data collected. This involved repeated reading of the data to remind the researcher of the “depth and breadth of its content” (Bazeley, 2013, p. 101). The researcher familiarised himself by transcribing the recorded interviews. This, as Braun and Clark, 2006) point out marks a good way to start familiarising yourself with the data. The researcher thus took the opportunity to familiarise himself with the data as he was transcribing it, noting down ideas about the data and what was interesting about it.

## *2. Generating initial codes*

During this phase the researcher began producing initial codes from that data. These codes enabled the researcher to identify the latent feature of the data. As such, the transcribed data was organised into meaningful groups (Tuckett, 2005 as cited Braun and Clark, 2006). The coding was essentially done based on the latent feature of the data that appeared interesting and that could be assessed in a meaningful way in relation to social entrepreneurship. The coding thus established the foundation for further analysis to develop themes in the next phase.

## *3. Searching for themes*

After organising the data into meaningful groups, the researcher began searching for themes in the data groups. The themes were identified as succinct statements of what was important in the transcripts that contained ‘enough particularity to be grounded and enough abstraction to be conceptual’ (Bazeley, 2013). The researcher thus proceeded to search for themes with the above mentioned characteristics. The process, as Gibson and Brown (2009 as cited in Bazeley, 2013, p. 191) note “involves working out relationships between code categories, and the significance of such relationships for the development of theoretical conceptions and statements.”

## *4. Reviewing themes*

At this stage, the researcher began refining themes that had been identified. The researcher interrogated each of the themes to determine their validity and relevance in terms of the study’s purpose and questions. This involved two levels of reviewing and refining the themes identified. At level one, the researcher read through all the grouped extracts for each theme and considered whether they appeared to form a coherent pattern. Themes that did not fit were reworked to ensure they adequately captured the extracts that formed them. At level two, the researcher assessed the validity of the themes in relation to the transcriptions. This involved reading through the transcriptions and assessing whether the themes made an accurate representation of the whole data set (Braun and Clark, 2006).

## *5. Defining and naming the themes*

At this point, the researcher defined the themes that were presented for the analysis. As Braun and Clark (2006) note, defining, refining and naming the themes imply identifying the

underlying connotation of the themes and the data sets that are captured by these themes. Furthermore, they state that names given to themes need to be (p. 93) “concise, punchy, and immediately give the reader a sense of what the theme is about.” The researcher thus made an effort to name the themes accordingly.

#### *6. Producing the report*

At this stage, the researcher did the final analysis and write up of the report. A thick, in-depth and detailed description was done in the write up. The researcher took heed of Braun and Clark (2006) recommendations by attempting to produce the report in a way that convinces the reader of the merit and validity of the analysis.

### **3.10 Trustworthiness**

According to Williams and Morrow (2009), researchers are obliged to convince the readers that their work has followed all the necessary research processes. This helps the readers to evaluate the worth of research findings. The researcher employed three approaches to establish the trustworthiness of the research study. These are derived from Lincoln and Guba (1986) who championed the strategies of establishing the trustworthiness of a study. The following provisions were thus made by the researcher to enhance the trustworthiness of the study:

#### a) Credibility

Credibility is concerned with the extent to which findings are congruent with reality (Shenton, 2004). To enhance credibility of the study, the researcher adopted research methods that are well established in qualitative research. The procedures employed to conduct the study were derived from those that were successful in previous comparable studies. The researcher also used triangulation which involved the use of different methods of generating data which compensates for any shortcomings in individual data sets. Opportunities for review by the researcher’s supervisor and peers were also afforded. This enabled the researcher to develop coherent arguments and greater explanation of the research design and findings (Shenton, 2004).

### b) Transferability

Transferability is concerned with the “extent to which findings of one study can be applied in other situations” (Shenton, 2004, p. 69). The researcher attempted to ensure sufficient information about the context of the organisation and the phenomenon under study was provided such that it can be transferable should the reader want to make inferences. This included a thick description of the phenomenon under study as well as information about the participating organisation, number of participants, the inclusion criteria for participants and the methods of collecting data (Shenton, 2004).

### c) Dependability

Dependability is concerned with the extent to which research can be repeated with the same methods and obtain similar results. This is difficult to achieve in qualitative research given the changing nature of phenomenon under study (Shenton, 2004). However, Lincoln and Guba (1986) argues that the issue of dependability can be addressed more directly by reporting all the processes within the study in detail. As such, the researcher provided a detailed description of the research methodology and design employed in this study to address the issue of dependability. In particular, the quotations from participants are presented in verbatim which help to ensure dependability of the study.

## **3.11 Limitations of the study**

The researcher was the primary research instrument of the study and therefore decided how data was collected and analysed. This left open the possibility of bias in the collection and analysis of data which may compromise the credibility of the findings. Data was subjectively interpreted based on the researcher’s experience, feelings and knowledge of the phenomenon under study. The issue of bias in qualitative research is affirmed by Sarantakos (1998) who states that it is almost inevitable for bias to occur given the researcher’s closeness to the data.

The sample of the study also raised issues of representativeness and generalisability of the findings. Although generalisation of findings was not the priority of this research, Shenton (2004) argues that researchers must determine how far they are confident making their findings transferable to other situations. In light of this, it was challenging for the researcher to determine how confident he is in transferring the findings of the study to other situations.

This is because the phenomenon under study is still in its embryonic stages, and therefore similar situations were hard to identify at this stage.

## **3.12 Ethical considerations**

### *3.12.1 Voluntary Participation*

Voluntary participation is a major tenet in research that informs potential participants that their participation is voluntary and may withdraw at any time from the research without any repercussions (Babbie, 2011). The researcher highlighted this principle verbally and through the written information sheet to potential participants. This ensured that the participants understood that their participation was voluntary and had the right to withdraw from the study without any repercussions.

### *3.12.2 Informed consent*

Informed consent is an important ethical norm that confirms granted permission by research participants after they have understood the purpose of the research and its background (Bryman, 2008). The researcher sought permission from the employing organisation first before approaching the individual participants. In order to get permission from the participants, the research ensured that participants have all the necessary information about the study and have fully explained the nature and procedure of the study. In the case of face to face interviews, the participants signed a statement indicating that they are aware of the purpose and procedure of the study and have chosen to participate anyway. In the case of Skype video interviews, the participants agreed to participate by word of mouth indicating that they understand the purpose and procedure of the study.

### *3.12.3 Avoidance of harm*

Avoidance of harm speaks to the need for researchers to “anticipate and guard against consequences for research participants which can be predicted to be harmful” (Bryman, 2008, p. 118). The researcher did not foresee any physical or emotional risk for participating in this study. Participants were informed that if there were any issues arise during the study that may negatively affect them, arrangements will be made for referral services for the affected participants.

#### *3.12.4 Confidentiality and anonymity*

Confidentiality and anonymity are two important ethical principles that emphasise the need to protect the identity of research participants. A research study guarantees confidentiality when the researcher can identify the participant's responses but pledges not to do so publicly. Anonymity is accomplished when neither the researcher nor the respondents can identify a given response with a given participant (Babbie, 2010). Against the above mentioned, the researcher guaranteed confidentiality to participants and also highlighted that the research supervisor only will have access to the information collected. However, the participants were informed that anonymity may not be guaranteed given that interviews will be tape recorded and the researcher may be able to identify given responses with a given participant. To mitigate the risk, the researcher used pseudo names with research participants to ensure anonymity in the final research report.

#### *3.12.5 Feedback to participants*

Feedback to participants is an important principle in research that is used by researchers to express their appreciation as well as report on the preliminary findings of the study. It also benefits the participants who have contributed to the research and may find some of the results useful for their future encounters (Babbie, 2011). The researcher will ensure that feedback on research findings will be provided to participants of the study. In addition to making copies of full reports readily available should the participants require them, summary reports will be provided to all the participants.

#### *3.12.6 Submission of proposal for ethics clearance*

The researcher obtained ethics clearance from the University of the Witwatersrand ethics committee non-medical before undertaking the research study. This is an important requirement for all researchers that wish to conduct a research study. A copy of the ethics clearance is attached in appendix 1 of the thesis.

### **3.13 Summary of the chapter**

This chapter has outlined the research design and methodology utilised in this study. This includes discussions on the research paradigm utilised, the research population and sampling methods employed, the data collection methods used, the steps followed in analysing the data

and the limitations and delimitations of the research design and methodology. The chapter concluded by specifying ethical issues taken into consideration to guide the study and the process followed to obtain ethics clearance.

# **CHAPTER FOUR**

## **Presentation and Discussion of Research Findings**

### **4.1 Introduction**

This chapter focuses on the presentation and discussion of findings of the study. Themes that emerged from the data analysis are presented and discussed in detail under each of the four objectives of the study. The first objective sought to determine the factors that influence the transition from philanthropy to social enterprise in NGOs. The second objective sought to identify the factors that influence the choice of a social enterprise model. The third objective focused on the perceptions of employees and management about the vital considerations needed when adopting social enterprise. The last objective sought to identify the challenges experienced by NGOs in transitioning from philanthropy to social enterprise.

### **4.2 Factors influencing the transition from philanthropy to social enterprise**

The first step in exploring the transition of NGOs from a philanthropic mode of management to an entrepreneurial mode of management was to establish the factors that are propelling REPSSI as an NGO into this transition. In doing this, the researcher was able to obtain background information and an insight into the transition process within the context of REPSSI. Apart from this, this objective is important because it allowed the researcher to gain some insight into the growing popularity of social entrepreneurship within the non-profit sector and to some extent the private sector. Against this backdrop, several themes emerged during the interviews relating to the factors that influence the transition from philanthropy to social enterprise.

#### 4.2.1 Dwindling donor aid

The findings of the study show that there is an undisputed understanding that the main reason why REPSSI embarked on social entrepreneurship is the diminishing financial support from donors. All participants indicated that donors were withdrawing their financial support for various reasons including recurrent global economic turmoil, shifting priorities to mention but a few. As such, REPSSI began to contemplate the idea of operating without aid in the near future. This impelled the organisation to turn to social entrepreneurship as an alternative means of generating income. As one participant pointed out:

*“a couple of years ago funders came and said look guys we can no longer just provide indefinitely funding to REPSSI so it will in fact be coming to an end in 2013. So essentially 2014 and 2015 there was supposed to be no money but we managed to reach some kind of a consensus with them so the funding has been extended up to 2016 to give us some time to strategize on how we are going to sustain ourselves”*

Similarly another participant observed that:

*“...there has been some kind of an economic crash which led funding partners to limit the resources that they have... there is less donor funding which is available now and as a result we are forced to start looking for our own funding.”*

This finding was expected to surface in this study given that dwindling donor aid is a common topic discussed in the literature associated with the emergence of social entrepreneurial activities in NGOs. This goes without mentioning the global financial crisis which has had a damaging impact on donor capability to provide support to NGOs. The financial and economic climate has created many problems in Africa and Central Asia where NGOs are heavily reliant on donor aid. Donor aid support in Central Asia, as Alymkulova and Seipulnik (2005) point out, is unstable and gradually diminishing. Similarly, Kharas (2007) asserts that development aid to developing countries has steadily shrunk over time around in Africa. Many NGOs have found that their (p. 657) “funding base has significantly shrunk” as a result of the global economic and financial crisis (Malhotra, 2000). This has made it difficult for NGOs to sustain themselves as they struggle to keep up with the financial and management demands of operating an organisation. Consequently, NGOs are turning to social entrepreneurship to leverage or replace the donor aid support to meet their operating and administrative expenses (Dees, 1998). The donor aid crisis facing NGOs thus represents

a major factor driving REPSSI to rethink how they will sustain themselves. In the process of doing that, social entrepreneurship emerged as a viable alternative to address this predicament. The pertinent issue from this finding is that the global environment is ever changing, particularly on the economic front. Recently, the changes have been negative and this has had a trickle-down effect on NGOs. Social entrepreneurship represents one of the ways NGOs can mitigate the trickle-down effect. What remains to be seen, however, is whether REPSSI and other NGOs can do away with something they have been reliant on since their conception. Needless to say, the reduction of donor funding may offer NGOs an opportunity to realise financial sustainability.

Apart from the issue of dwindling donor funding, the impact of the global financial crisis on donors means that there is competition for fewer resources. In other words, the shrinking base of donor support has stiffened the competition among NGOs for donor funding. This puts NGOs in a dire situation as they become uncertain of securing funding from donors. One participant commented on the issue of stiffer competition for donor funding in the midst of global financial crisis and said:

*“...if the government of America got a deficit in the budget. What should they do? What basically they do is, they make sure they try to cut where possible and it so happen that they will then cut the foreign aid. So when this happen, that means there’s now more demand for the few resources and when we have a situation where we have more demand in the market and few resources, organization is chasing for few resources, then what it means is we have to find alternative means of complementing our budgets. In other words we have to find means of actually raising more funds to supplement the budget.”*

It is evident from these views that the demand for donor aid in NGOs is escalating whilst the supply is gradually shrinking. Certainly, there is more competition for fewer donations and grants, and donors are beginning to feel the strain to cope with the demands for more financial support. Brandi (2014) describes the disparity that exists between the increasing request for donor support and the availability of funding. He argues that the increasing request for donor support reflect growing needs of society. However, given the financial restrictions due to unfavourable economic conditions donors can only give what they can and in several cases this does not satisfy the needs of the NGO community. In the same vein, Stuart (2013) notes that funding cutbacks experienced in South Africa have resulted in

increased competition among NGOs for funds. This has depleted donors' ability to support worthy causes because of limited funds available to address social needs of communities. Furthermore, the increasing competition for donor funding among NGOs may drift them from their mission as they are likely to spend more time pursuing financial needs of the organisation. As long as NGOs are financially insecure, particularly in an environment where they have to compete against each other to win over donors, social value creation drops down the pecking order in terms of priorities.

#### *4.2.2 Shifting donor priorities*

In addition to the shrinking donor support base, participants also highlighted a change of approach by donors in how they provide financial support. It appears from the study findings that donors are becoming more strategic and selective in how they give. In light of limited funds available to support NGOs, findings indicated that donors have decided to take a different approach through which donor priority and social needs are taken into consideration in determining the recipient of donor aid. There are two issues that dominated discussions concerning shifting donor priorities. The first is donors are urging NGOs to begin thinking of ways to sustain themselves. In essence, the focus is shifting from providing perennial financial support to creating an enabling environment for NGOs to sustain themselves. One participant when asked to elaborate this issue said:

*“We had one of our funding partners who kept on urging us....the partner was a private foundation, Novartis foundation for sustainable development, who kept on triggering our thinking around, ‘you need to be able to sustain yourself’. If you look at our donors that we have had, we have had three main donors funding us now for the past twelve years which is a rare occurrence in most of this NGO funding and so, we had organizational development and restructuring, it helped us to begin to introduce (social entrepreneurship) from a strategic point of view to the organization in terms of moving forward, and we said ‘this is what we want to do, we are going to be selling some of our services...to partners whom we work with’.”*

Another participant echoed the same sentiments stating that:

*“...most donors really want to see that there going to be life after we (leave), we are not going to fund REPSSI for the rest of their life. What they want to see is the programs and the projects initiated by us, will you as an organisation be able to sustain those beyond our funding? They want to see that. Because I think they are saying we are here today, if we are going to tomorrow does that mean end of the project? End of REPSSI? So I think that’s the main thing. Even from REPSSI’s point of view today a donor can say we are going to fund you until 2015, after 2015 it’s not certain that the funders will come on board. So even from REPSSI’s point of view it’s also a matter of thinking that in the view that we do not get this funding, is it lights out for us or we are going to be able to sustain this program.”*

The second issue that dominated discussions concerning shifting donor priorities is that donors are confining their support to certain NGOs with a proven track record and to certain social problems that are deemed important to address. This means some NGOs may lose out on funding because they do not provide social services that are prioritised by donors or because they do not possess a proven track record that gives donors assurance of effective delivery of social services to communities. To counter this situation, some NGOs could simply repackage their look and brand themselves in such a way that the social services they offer are those prioritised by donors to attract funding. However, instead of following donor trends, REPSSI opted to adopt social entrepreneurship to address this challenge. As such, the findings of this study show that the shift in donor priorities prompted them to adopt social enterprise. As one participant stated when asked about this issue:

*“...there is a shift in priorities when you are looking at the millennium development goals and how HIV/AIDS was top on the list and now it doesn’t necessarily enjoy the status that it used to have. So that shift on its own, it means some funding partners are also shifting their priorities to issues like environment, ending poverty...”*

Another participant also echoed the same sentiments explaining how the shift in donor priorities influenced their organisation to adopt social enterprise:

*“...if you look at areas that we have been operating in, in terms of the direction where the donors would then want, it’s changing. HIV/AIDS used to be a critical component 10 years back, to say when now when we talk of say ‘I’m HIV positive’, it was*

*something that people say, 'oh...really?' and that stigma. But now it's now like an ordinary disease like you have got Malaria and all that. So then the donors now are turning. They are now moving their attention to other areas. So, in particular, REPPSI has to now respond to that. And what it means when it has to respond to that, It has to push the social enterprise..."*

Parks (2008) observes a trend in mission changes by NGOs as a result of constantly shifting priorities of their donors. He points out that many NGOs face a crisis as donors continually alter their priorities and this is a trend likely to continue given that the factors that influence funding decisions are ever changing. While donors want to continue supporting NGOs, the economic environment requires them to be savvy in how they give. Bearing in mind that this may result in possible cutbacks of funding to some NGOs, donors are “galvanising NGO practitioners to explore alternative financing approaches, and more effective programming methods” (Alter, 2006, p. 206).

The challenge with changing missions to adapt to donor priorities, according to Parks (2008), is that it undermines the credibility and effectiveness of social services meant to address social problems. It goes against the heroic view of NGOs which “emphasises their independent agency, their principled agendas and their ability to contribute to an independent global civil society” (Keck and Sikkink, 1998; Glasius et al., 2002; Khagram et al., 2002 as cited in Nelson, 2006, p. 702). Funders determine the social services provided by NGOs. What this implies is that NGOs provide services based on what donors ascertain as felt needs of the society. However, the problem with this is that what donors establish as social problems that need to be addressed may not be the real needs of society. Social entrepreneurship allows NGOs to engage with communities and identify social impediments that are affecting them. The communities therefore determine the social services provided by NGOs which means the real needs of the society are more likely to be addressed.

#### *4.2.3 Rude awakening*

Another key issue that was revealed from the study in relation to factors influencing NGOs to adopt social enterprise was the experiences of other NGOs as a result of funding cut backs. The findings indicate that REPSSI began taking social entrepreneurship seriously after learning about the crisis that some organisations found themselves in after donor aid had been

terminated. REPPSI was in for a rude awakening when they realized that some NGOs had been negatively affected by funding cutbacks. One participant observed this and said:

*“...we have the global financial crisis and we have a lot of organisations in South Africa, they have closed down. We are just looking at a case study of Noah. Noah is an organisation that closed down as a result of I think USAID changing their funding mechanism. So it’s the environment that we are living in, we are getting used to that and our desire to explore social enterprise avenues is to try and build our sustainability beyond the 2016.”*

Another participant, also commenting on cases where donors have pulled out their funding, said:

*“The way things are were the NGOs have strong networks they get to know that certain donors have pulled out of certain programs and so it awakens us we think if they can pull out from that program then they might also pull out of our program. Then we look ahead and say in the event that they did pull out should we sink because they have pulled”*

If REPPSI was confident that it would receive financial backing from donors despite suffering from the curse of global financial crisis, then the fateful events of other NGOs served as an impetus to start taking social entrepreneurship seriously. Based on the above, it becomes clear that the desire to change was to a certain extent influenced by circumstances that were deemed detrimental to the wellbeing of REPPSI. This speaks to the notion that people often change by feeling the heat. Overton, du Toit and Smit (2012, p. 20) assert that “readiness to change is strongly influenced by subjective perceptions of the desirability of the status quo versus the desirability of a future state.” In this case, the less desirable the status quo is, the more likely change is going to occur. With respect to REPPSI’s transition to social entrepreneurship, it is the donor aid predicament facing other NGOs that is less desirable, eventually catalysing the change process. The Non Profit Job Losses and Service Cuts report (2012) confirms the predicament facing NGOs which reveals that out of 695 organisations that took part in a job losses and service cuts survey, 80% reported significant funding cuts in the previous year. 11% of those organisations had over 80% of their funding cut. The Cape Town Child Welfare Society, for instance had to shut down their offices in Du Noon Township due to funding cutback according to West Cape News (2012).

#### 4.2.4 *Further strengthen social impact and build sustainability*

The fifth and final factor that was determined as a catalyst driving NGOs to adopt social entrepreneurship is the quest to strengthen social impact of REPSSI's programs and to become self-sustainable. These two go hand in hand in the sense that the capacity to strengthen social impact cannot be maximised without being self-sustainable and vice versa. This goes without mentioning the fact that being self-sustainable enables the NGO to determine how they can promote social development. This is a rare condition in NGOs that rely on donor aid as they have to operate within the confines of donor priorities. A condition which, if removed, can 'further strengthen social impact' of NGOs as they break the donor imposed limits. One participant speaking about the importance of becoming self-sustainable to strengthen social impact said:

*"...our desire to access resources or to mobilise resources based on the services that we are offering, we want to offer those services at a cost so that we can further strengthen our social impact."*

Another participant speaking about the importance of becoming self-sustainable to strengthen the social impact said:

*"...you need to be self-sustainable, you need to have income generating projects, you need to start packaging your products so that it becomes self-reliant. You don't really rely on donors. Only then can you strengthen the impact of your work"*

Apart from becoming self-reliant, this notion also speaks to becoming self-directed as an organisation. A viewpoint put across as a factor why REPSSI adopted social entrepreneurship by one participant who said:

*"one of the reasons why we did that (adopt SE), is to be able to be independent and not follow donor trends, not be driven by donor priorities but be driven by our vision and mission and money is power in a way, and so if we have got our own resources we should be able to independently do what we think is best in our context in terms of making a contribution to the response."*

It is evident from these views that adopting social entrepreneurship was not only a strategy for financial survival but also an imperative for organisational effectiveness, relevance and viability. Indeed, as Bowman (2011 as cited in Padilla, Staplefoote and Morganti, 2012, p. 2)

notes, “the challenges of establishing financial capacity and financial sustainability are central to organisational function.” As such, the goal of financial sustainability, according to Padilla, Staplefoote and Morganti (2012), is to sustain and expand social programs provided by the organisation while building more resilience to economic shocks. Moreover, establishing financial sustainability enables organisations to become self-directed, producing innovative and entrepreneurial solutions to social problems (Alymkulova and Seipulnik, 2005).

### **4.3 Factors influencing the choice of SE model**

There are different factors that surfaced from the study pointing to how the organisation came to decide on which model was best suited to meet their needs. However, not all participants were aware of the model utilised by their organisation. This could be attributed, on one hand, to ineffective communication methods used in the organisation to help everyone understand the model utilised. On the other hand, the fact that the change management process itself is still on-going means one can foreseeably expect some confusion or delay in getting everyone to the same level of understanding regarding the model utilised. This is evident in one participant’s response when asked to describe the model utilised by the organisation:

*“I think we are still deciding on the model. To the best of my knowledge we have not yet finalised or agreed on a certain model that we are using. I am aware that we are still trying to decide whether we split the organisation and have part of the organisation as purely business function that sells and that would mean we register that part of the organisation under a different section or we continue to generate income not for profit but more like cost recovery, to recover the cost that we use. So to the best of my knowledge we have not yet agreed whether we set it up separately or keep it within the organisation”*

Similarly another participant said:

*“...this is an organisation in transition and REPSSI... That must be very clear. REPSSI is an NGO that was already in existence with a social conscience right, with a social need that it was trying to fill up. In the process we are now saying what are some of things that we are doing that we can actually build SE out of those things. So*

*you will find that we are building up an organisation which is going to be raising resources.”*

In light of this, there were challenges in identifying factors that influenced the choice of model adopted by the organisation. The documents available to the researcher also did not explicitly indicate the model utilised. With one exception, participants did not name the model utilised by the organisation but nevertheless described how it operates and what influenced them to operate in that way. For instance, one participant said:

*“We have various people who are supporting us in this including a Swiss consultant and I know he has looked at those things. But at the moment I also think we’re sort of looking at a mixed model”*

Another participant said:

*“...if you are doing some training we make sure that we ask the other partners to contribute in terms of the facilities, the fees and all that. So that the training is self-sustaining. So this is how the model would operate.”*

Another participant also said:

*“We are a Charity with goals to try and raise resources and in our period of time we want to be able to sustain ourselves. In my mind that is the positioning that we have chosen (referring to the model they are working with).”*

It is difficult to ascertain the model utilised from the above viewpoints given by the participants. The transition process is still in progress and the organisation is not at the point where they can safely pinpoint the model applicable to how it will operate.

Although this hindered the researcher’s objective, there were common themes that arose from the discussions on the social enterprise model. These are things that participants felt were important to consider before deciding on the model best suited to the structure of the organisation.

### 4.3.1 Cost recovery

The findings of the study show that one of the factors that would influence the choice of model adopted is the need to recoup the operational cost incurred by the organisation. Given that NGOs are facing the prospect of funding cutbacks from donors, “the recovery of all, or most, of the cost associated with providing social services” should be taken into consideration in deciding the social enterprise model (McDonald and Pape, 2002, p. 18). One participant citing an example of how they intended to recover cost of providing their services said:

*“...with the model we want to try to sell our product so that at least we recover the operating costs.”*

Another participant described how the organisation intends to operationalize the model and highlighted the importance of recovering costs:

*“We need to be able to sustain the services that we are providing. For instance if we are talking about research and knowledge development and advocacy, no one may want to pay for that, but if it means we have given our services to a private company for instance, that money we will then use it to do our advocacy, to continuously do research and we continue to invest in research and that investment will give us the returns one way or the other through either directly offering our services to private organizations and that way we may, we are able to sustain our social impact”*

The above example highlights one of the ways in which the organisation would generate income to recover the cost incurred as a result of providing their services. What is also clear in this example is the emphasis put on getting returns financially for the services delivered in order to sustain them. The model chosen must therefore exploit opportunities to recover all, or most of the costs incurred as a result of delivering their services. According to the Social Enterprise Alliance (2010), the critical questions to address in shaping the operating model are: what is the cost of the organisation’s activities? And how will the organisation recover this cost? If the organisation intends to recover cost by selling their services to the target population or a third party, the model selected must be configured in such a way that the organisation gets financial returns for the services they provide. Cost recovery is certainly one of the issues that are expected to dominate dialogues pertaining to the model chosen. In essence, one can conclude that the notion of cost recovery leans towards the commercial activities that NGOs engage in running a social enterprise.

### 4.3.2 Create social value

The findings of the study also revealed that another important factor that would influence the choice of model is the creation of social value. Although the organisation has incorporated business activities, creating social value remains the sole mission. As such, the model chosen should be able to maximise REPSSI's potential to create social value. The following is what one participant said when asked about the factors that would influence their choice of model:

*“For me, I do not want to say that REPSSI is being driven by the SE, but it uses the SE to achieve its mission. Our sole aim is to create social value and so we will position ourselves in a place where we can maximise on that”*

In a board meeting recorded, one of the key issues that were emphasised was also ensuring that creating social value remains the sole aim of the organisation in the process of defining their model. A statement from that meeting said:

*“The primary driver is to create social value. That will determine how far REPSSI wants to go from charity towards pure business”*

From the above, there seems to be an assumption that there are some models that do not prioritise creating social value. However, the hallmark of social entrepreneurship, as Alter (2006, p. 205) defines it, “is in its ability to combine social interest with business practices to effect social change.” What that means is, regardless of the model chosen by the organisation, the creation of social value is always prioritised. This is not to say that all the models achieve the same impact or the same objectives. In fact, from an operational perspective, Alter (2006) underlines that the characteristics of each of the social enterprise models reflects methodological differences in how social value and economic value are created. As such, although creating social value is a determinant factor in choosing the model, the question should delve deeper into which model entails processes compatible with the organisation's business activities, social programmes, purpose and mission. Essentially, these processes are what will determine the choice of model.

With this in mind, there are no clear indications from the participants outlining how the creation of social value will determine their choice of model. Precisely, the processes involved in creating social value did not emerge as dominant themes during the study. This, as mentioned earlier, could be attributed to the fact that the transition is still in progress and

participants may not have sufficient knowledge about all the things as they are still learning their trade in social entrepreneurship.

### *4.3.3 Beneficiary participation*

Another factor that emerged from the findings of this study is that the model chosen to run the social enterprise should have room for service users or at least third parties to make a commitment towards the delivery of services. The general understanding from the participants is that, if service users or third parties take responsibility for the services being rendered to them, they make an effort to ensure that they get value for their money. In other words, by paying some or all cost of a service provided by the organisation, one can appreciate its true value. One participant explained why this is important in shaping their model and said:

*“...you can fly people to a conference, they spend one week, half the time they are probably physically there and mentally absent or they are literally both physically absent as well as mentally absent and for them, they will probably not feel an obligation because they would not have made a contribution. So we are saying we want to really get the partners to pledge their commitment to the services that we are providing because they will feel an obligation to get value for their money.”*

Another participant also underlined the importance of getting service users to pledge their commitment to the services rendered by their organisation:

*“...if I am a recipient and I am told look here is something, can you just maybe show some commitment, meet us somewhere, and as you are doing that there is a shift in the mind-set and culture, people will now think and say I am recipient and beneficiary but even as I get the benefits of this project or program, I must be able to put something on the table as well. We shift the way people are thinking and even as they are waiting for you bring the services to them they are busy thinking about what their contribution will be. So the ownership is there because they contributed to it, they look at it differently.”*

What the participants highlighted above defines a moral compass for service providers and users which is based on give and take. In this case, all give and no take or all take and no

give from both the service provider and service user creates an unhealthy environment where resources are not utilised effectively.

Microfinance exemplifies the notion of promoting beneficiary participation to achieve greater social impact. It is a system of group lending aimed at alleviating poverty that affords disadvantaged people or low income people who do not qualify for mainstream banking to borrow money (Yunus, 2007). Groups of borrowers pledge something to the lender to secure loans and agree to be held liable for all debts incurred. Should there be any defaults in repayments of the loan, all members of the group take responsibility for that (Yunus, 2007). What is relevant to the findings of the study from this example is that the beneficiaries take responsibility for the services rendered to them. They are paying some cost for the services provided and hence are more likely to appreciate the true value of securing loans.

#### **4.4 Vital considerations needed when managing the transition process from philanthropy to social enterprise**

One of the important objectives in this study was to ascertain vital considerations needed when transitioning from philanthropy to social enterprise. What makes this objective important is that there is very little reference points for which organisations intending to embark on this transition can make. With that said, it is hoped that the findings of the study regarding this objective may provide a valuable reference point to NGOs intending to embark on social entrepreneurship. REPSSI has gained valuable experience and learned some lessons that could be beneficial to any organisation that intends to adopt social entrepreneurship. Below is a presentation of the findings reflecting what participants communicated as prerequisites for a successful transition to social entrepreneurship.

##### *4.4.1 Develop a culture of learning – capacitate employees with skills needed to run a SE*

One of the findings to emerge in this study is that in order to succeed at implementing social entrepreneurship, it is important to develop a culture of learning in the organisation. Doing this enables the organisation to capacitate employees with the skills needed to operate a social enterprise. Bearing in mind that social entrepreneurship entails business-like activities, NGOs

which are accustomed to non-profit activities find themselves in an unknown place because they were initially not established to conduct business practices. As one participant states:

*“...usually the staff you find in an NGO are people like us who are trained in development studies like psychology and conducting ourselves in a business manner is not something that is we have been trained to do.”*

Hence the importance of developing a learning culture to capacitate employees with skills necessary to run an NGO as a social enterprise. The executive summary report of the organisation highlights the notion of developing an internal learning culture as a case for change stating that:

*“REPPSI must strengthen its learning culture and knowledge sharing to make the most of its people and their knowledge. Staff and management will need to understand the new mechanisms of the SE model and adapt to it during a transition period over several years”*

Another participant speaking of the importance of developing a learning culture in the organisation said:

*“Develop that culture of learning, go into it, the idea that we are now building up and in building up, if the risk doesn't pay off it's at the expense of learning it's not at the expense of lost money. You almost have to set aside some risk capital which you say, 'this may go and it may not, but if we lose it it's ok', it's like when you go into the casino, you know, I might make it big and I might just come in here and spend this money and leave.”*

What stems from the above is that not only does developing a learning culture help in capacitating the organisation with skills but it also allows people to realise what works and what does not work. This culture of learning, according to Gill (2009, p. 31), “helps the organisation to continually improve, achieve goals and attain new possibilities and capacities.” Ultimately, it is a cycle where the learning culture and knowledge sharing forms a huge part of the planning and training involved as the organisation transitions to social entrepreneurship. Without a learning culture, the transition process is likely to be stifled as the employees in the organisation may fall short of acquiring skills necessary to run a social entrepreneurial venture.

Adding to developing a learning culture in the organisation, the findings also reveal that another vital consideration needed is to infuse a culture of social entrepreneurship within every employee's work. This speaks to skills building in the organisation so that employees may be able to carry out the delegated task associated with running a social enterprise venture. As mentioned earlier, this emerged as an important issue to consider mainly because REPSSI is transitioning to an unfamiliar territory and thus needs to be well equipped to navigate the transition process successfully. One participant was keen to underline the importance of skills building and said:

*“I think for me the starters would be skills building. You need to really invest in your staff so that they can have the skills required to do the job. Because I think a change from being purely a development agency to being a development consultancy, you really need a certain skill; you need to up the skills of your staff.”*

The executive summary report for REPSSI's organisational development also specifies skills building as one of the functional core requirement to build change resilience. The report says:

*“Management and staff often do not have the necessary skills to enable them to cope with a changing environment. Workshops, mentoring sessions, coaching sessions are all tools that can be used to help here. Another effective tool is to build a network of change agents within the affected departments/divisions. This brings people with influence in their area into the project team and gives them the skills to assist with managing resistance to change within their environment.”*

A similar finding emerged in a report on 'effective capacity building in non-profit organisations' prepared by McKinsey and Company (2001). It underlines the importance of building the capacity of organisations if they are to maximise their social impact. Furthermore, it states that enhancing the skills in the organisation improves its ability to deliver against its aspirations. This is true in the case of organisations transitioning to social entrepreneurship. If the organisation is adequately capacitated, it increases its chances of successfully transitioning from aid dependency to social entrepreneurship. However, the report asserts that there are challenges of capacity building in non-profit organisations. Precisely, it states that capacity building can be “difficult, time-consuming, and expensive in the short run” (p. 27). Unless adequate time and funds are put aside to allow NGOs the opportunity to capacitate their employees with entrepreneurial skills, it is unlikely that they

will be able to infuse a culture of social entrepreneurship in every employee's work. This poses a major challenge for NGOs that adopt social entrepreneurship as a result of an unhealthy financial state. Such cases demand quick solutions to address problems with limited financial flexibility and NGOs may not have the time and the financial capital to infuse a culture of social entrepreneurship.

#### *4.4.2 Have a committed team that will drive the process*

Another vital consideration that emerged from the findings reveals that the transition process needs to have full support from senior level managers and relevant stakeholders if it is to become successful. The rationale for this is that if you have a committed team to lead from the front, the influential stakeholders put in effort for a common cause which makes it easier to achieve your objectives. The REPSSI executive report for board discussion and recommendation approval puts this as a precondition to successfully implement the new organisation structure and states:

*“REPSSI board and management have made a commitment to Social Enterprise. Despite the need for greater clarity and understanding amongst staff and management there is a recognition that change towards self-sustaining is required. However, without full commitment and buy-in from all managers, Social Enterprise will fail. Social Enterprise will require a new and progressive operational culture that is different from that of a historic traditional NGO.”*

One participant echoed similar views describing the importance of making sure the transition has the full support of the board of directors and said:

*“I think then one of the critical issues, in my view, for the take-off for the social business development was the board of directors commitment to the idea as well as, the rest of our funding partners commitment to the idea and one would understand that from both the donors and as well as the board of directors perspective. The donors had funded us for a long period and obviously they are looking at that as one of their exit strategy. For the board obviously they want to see REPPSI live in perpetuity and be able to provide the services and so if we can't find the money from elsewhere we have to make the money.”*

It is evident from the above that you need a committed team that will have the determination to effect change at all levels of the organisational structure. This view is concurred by Scott (1987 as cited in Bryson, Gibbons and Shaye, 2001, p. 275) who argues that “legitimacy and support must be cultivated both internally and externally” for NPOs enterprising their schemes to remain viable. Drawing from hard-won lessons of nonprofits and social entrepreneurs, the Social Enterprise Alliance (2010) asserts that you need to have a champion in order to make this venture successful. You need to have that respected ‘voice’ in the room that can drive an idea or make things happen. In respect of this study, the champion is the board of directors and other relevant stakeholders that have the power to drive an idea or make things happen. This finding speaks to ensuring that there is political will from both the board of directors and funders to support and drive the transition process. In other words, the adoption of social entrepreneurship calls for active participation and commitment from all relevant stakeholders, particularly at the top level.

#### *4.4.3 Effective leadership*

The findings of the study also reveal that effective leadership is essential to succeed at implementing social enterprise. Participants pointed out that the head of the organisation needs to play an active role in terms of providing direction to staff, galvanising the change process and preserving the identity of the organisation. The leader needs to be knowledgeable about what the organisation intends to do, the organisational dynamics at play and how the organisation intends to achieve its objectives. Without a purposeful leader, the change process is likely to be fragmented, lacking direction and putting the existence of the organisation under threat. Speaking on the significance of effective leadership, one participant said:

*“Leaders need to be much more engaging with the change processes itself and be the ones actually driving the change process with the support of the consultant and not the consultant leading as such. And truly as you mentioned, understanding the dynamics of the organization also would have entailed understanding those staff members who are struggling and walking with them along the way so that they get to appreciate why we are having those changes.”*

A similar position in this regard was also documented as a critical success factor during the implementation of social enterprise and it stated that:

*“It is crucial that there is a strong focus on leadership/executive management in order to ensure a smooth transition and transformation of REPSSI. The senior management team will be expected to lead, guide and support staff at all times.”*

What we can deduce from these above observation is that the head of the organisation, together with the executive management, play a crucial role in ensuring that the transition process is successful. Although board of directors are collectively responsible for the functioning of the organisation, the top manager of the organisation is the CEO and therefore should take the lead in facilitating the transition process. De Smet, Lavoie and Hioe (2012) point at putting leadership development at the heart of change management in which leaders ought to have certain skills in order to propagate changes throughout the organisations. These skills include (p. 1) “the ability to keep managers and workers inspired when they feel overwhelmed, to promote collaboration across organisational boundaries, or to help managers embrace change programs through dialogue, not dictation.” According to Lee (1977), the ability and opportunity to produce change is largely obtained from the power possessed by the leader as a result of their position. In other words, the leader can influence behaviours in change management and therefore provide direction to staff, galvanise the change process and preserve the identity of the organisation.

#### *4.3.4 Effective communication*

Another vital consideration that emerged from the study findings show that effective communication is essential for a successful transition to social enterprise. Participants indicated that it is necessary to create dialogue in the organisation between executive management and the rest of the staff. In the same vein, findings also reveal that the CEO has an important role to play in ensuring that information is exchanged effectively. In short, effective communication allows everyone to get to the same level of understanding in terms of what is expected, and it also gives staff an opportunity to give feedback in terms of what is working and what is not working. The importance of effective communication is documented delicately in one of the reports availed to the researcher and it says:

*“A structured process of communication should be implemented both internally and externally. It must manage the consistency of messaging to staff and all external stakeholders. Whilst it is not the CEO’s responsibility for all communication, it is an imperative that the CEO provides clear messaging and content direction via appropriate engagement resulting in each EXCO member and their teams aligning with. REPSSI will now need to manage internal and external messaging from a shared perspective and not falling into the historical trap of allowing individual’s within the REPSSI team to communicate only elements of core messages or aligned to personal agendas.”*

It is evident from the above that emphasis is given to the CEO playing an important role in ensuring that information is transferred effectively in both directions between executive management and staff. Another participant was keen to underscore the point that effective communication can help address resistance to change and said:

*“People try and assess and say that ‘no these people are just sugar coating so they resist changing’... so the best you can do is give them information and keeping them in the loop with everything that you are planning to do and also seek their input. Get their view as well on how best you can get to where you want to go. Ownership! Let them know that as we get to that place I had my say. I was given a platform even if I didn’t open my mouth I was given that platform to say something. People appreciate that. So you communicate and give them a platform to contribute and whatever decisions that are made, they must know.”*

The significance of communication to the success of organisational change is reinforced by Caldwell (1993) who argues that effective communication is a way to inform, involve and motivate people to participate in the change process in a committed way. This supports the participant’s views given above which emphasises the fact that communication channels must open between executive management and general staff. Furthermore, Simoes and Esposito (2014) assert that a continuous exchange of information throughout the change process can allow new meanings to develop as people become closely related to the objectives that have to be achieved. Moreover, the use of upward feedback permits participation of lower level staff in making decisions which ultimately increases employee morale, satisfaction and job involvement (Miller and Monge, 1985). In other words, it helps to alleviate change related

uncertainty in the organisation. People become aware of what the organisation intends to achieve and what methods it will use to achieve that.

#### *4.3.5 Risk taking*

From the study findings, most participants indicated that risk taking is a necessity when adopting social enterprise. Most participants were adamant that there has to be some level of risk taking if the change process is to be managed successfully. This is probably inspired by the fact the adopting social enterprise is moving into the realm of the unknown. As such, one cannot identify what is best for the organisation without testing it. Interestingly, literature speaks of social entrepreneurs as prominent risk takers. Dees (1998) and Bornstein (2004), for instance, argue that social entrepreneurs are risk taking actors who tackle social problems. One participant related to her experience whilst pointing out an important aspect to consider when adopting social enterprise and said:

*“There is an element of risk taking and looking more broadly at the way we’ve been doing things in the past. So risk taking should be encouraged because that is the only way we can learn”*

Furthermore, participant stated the pros and cons of taking risk and said:

*“...you know once you’ve taken one risk and it’s worked, it becomes easier to take the next one. However if you take one risk and it fails there will be more resistance to taking another risk next time. For us to date we have been good in our risk taking, we haven’t had any major failures yet”*

From the above, it is logical that some level of risk taking is needed for an organisation to successfully change to social entrepreneurship. For example, selling social services is a risk worth taking as it provides the organisation an avenue for generating income. Dees, Emerson and Economy (2001) write extensively on understanding risks and rewards, and they highlight the positive implications of risk taking for enterprising nonprofits which include: (1) diversifying your revenue or capital base, (2) discover new ways to pursue one’s missions, and (3) redefine yourself in your social market as being a profoundly innovative non-profit in your community. It is thus evident that risk taking is vital for NGOs adopting social entrepreneurship. If one considers the factors driving NGOs to adopt social enterprise, it is difficult to achieve the objectives of the transition process without some level of risk

taking. Certainly, the notion of risk taking plays out from the start in the transition process. In this case, if one looks at the limited availability of literature on NGO transition to social entrepreneurship, the decision to adopt social entrepreneurship by REPPSI is in itself a form of risk. There is little information, particularly related to NGOs' transition to social entrepreneurship that the organisation can use to provide guidance on how best they can adopt it.

Against this backdrop, it is worthwhile to be alert that risk taking needs to be managed carefully. Another participant (7) was keen to underline that it is important to take informed risk and avoid dabbling into the habit of gambling. This participant said:

*“...we hope it's an informed risk taking and so you know, its not the machine that won you something... the winner it is the machine that you've studied your market and studied your abilities and strengths and have an understanding of what you can do. So in that regard it shouldn't be a total gamble, but there is an element of taking a risk no matter what you do.”*

What is pointed out above is certainly relevant not only to non-profit ventures but also to for-profit ventures. With regard to the transition process from philanthropy to social entrepreneurship, it is necessary to make calculated risk by establishing the benefits and disadvantages of taking risks to determine if it is worth undertaking. This view is also held by Dees, Emerson and Economy (2001, p. 127) who posit that “by understanding risk and how best to manage risk exposure, social entrepreneurs can move ahead with some degree of confidence that they have done their homework and understand what may lie ahead.” Although risk taking is an important aspect of enterprising, nonprofits should thus be applied with caution.

#### *4.3.6 Retain experienced staff and recruit skilled personnel*

Retaining experienced staff and recruiting skilled personnel are two vital considerations that emerged from the findings. With regard to the issue of retaining experienced staff, participants emphasised that it is important to retain important staff in order to have some continuity in the organisation and also because the cost of losing staff may have negative effects on the organisation. One of these effects is losing the identity of an organisation, an

issue which one participant brought up while discussing the issue of retaining staff. The participant (1) said:

*“I think there would be need to ensure that there staff who will remain in the organisation (during the process) who understand the organisation’s vision otherwise you can quickly turn into a cut-throat profit making organisation and in the end lose partnerships that are vital to REPSSI because you are competing and chasing after money.”*

It is evident from the above quotation that losing staff that have the organisation at heart may have dire consequences on the transition process and let alone the survival of the organisation. An organisation needs staff members that identify with values and missions of the organisation. These staff members can help the organisation to remain true to its vision as it embarks on business practices. Apart from that, these staff members have valuable experience and skills gained over the period they have worked that they could use to the benefit of the organisation. With reference to this, one participant went on to state that, even if some of staff members become irrelevant, they remain valuable and important to the organisation in its quest to achieve its objectives. The participant (3) said:

*“The best thing is to look find a place where employees can function. Utilise the skills that employees have even when some of their skills are no longer as important in the organisation. You cannot have stayed in REPPSI for 5 years and not have acquired certain skills that are so pertinent to the organisation. Even when we don’t find the skills we are looking for in the employees we try to build capacity in these people so that can be able to carry out certain tasks. I think that is very important in as much as we need expert skills, we shouldn’t throw out what we have already. Let’s use what we have built up together with what we bring to find our best form”*

Several scholars corroborate the views above pertaining to keeping hold of experienced staff where there has been organisational change. For instance, Cosack, Guthridge and Lawson (2010) observe that in order to manage successful transitions that achieve sustainability, there is need to target retention strategies at important staff in the organisation using a tailored mix of financial and nonfinancial incentives. In the same vein, Morrell, Loan-Clarke and Wilkinson (2004) note that firms that implement change in their organisations should manage employee turnover and keep hold of the right staff to avoid multiple and indirect cost of

losing staff. In other words, retaining key staff is crucial for managing change in organisations.

While retaining key staff is crucial for managing a successful transition, the findings also indicate that recruiting personnel equipped with skills needed to run a social enterprise is equally important. The transition of REPPSI into an unknown field required staff who are conversant with the field of social entrepreneurship and able to play a leading role in galvanising the change process such that all staff may be able to identify with social enterprise. One participant spoke about beginning to look at recruiting people with sets of skills rarely found in people working for NGOs and said:

*So what we are looking for now is to break that wall and bring in people from the corporate... you know people who are able to make money not just write proposals to NGOs and they say wow this seems to be good on paper. So we are trying to get a whole new set of skills within the organisation. Not the traditional skills that we have had. Expertise that when they come in they do not need direction, they direct us.”*

Similarly another participant emphasised the need to recruit the right personnel and said:

*“You need social business development experts. Somebody who has genuinely run a business and they have been able to make a profit. Somebody who is able to establish a business and put the processes in place and it may be very difficult to get that expertise and align it to the type of work that we are offering.”*

The recruitment of skilled personnel is best shown when REPPSI established a social business department in which a new staff member was recruited to act as the lead person in the transition process. As documented records reflect:

*“The Head of Social Business will be required to drive a large part of the social enterprise strategy implementation”*

The findings above indicate that a successful transition to social enterprise also requires the organisation to recruit skilled people particularly those with proven skills in managing a social enterprise for the purposes of generating revenue, strengthening social impact and building sustainability. Robinson (2002) supports these views and argues that enterprising nonprofits require a skilled person to assume the responsibility of managing a social enterprise venture. If the person is hired from outside, the organisation must ensure they (p.

30) “hire someone who loves the organisation’s mission as much as he enjoys building a business.” More importantly, the person must fit the profile of running a successful social enterprise venture.

#### **4.4 Challenges experienced in transitioning from philanthropy to social enterprise in non-profit sector**

The fourth objective of the study explored the challenges faced by REPSSI during its transition to social enterprise. This objective is important because it conscientises the researcher and readers who may be interested in learning about the transition from philanthropy to social enterprise about some of the challenges experienced. Moreover, it gives NGOs intending to adopt social enterprise an opportunity to devise better change management strategies that will help address some of the challenges experienced during the transition process. Below is a discussion of the challenges that emerged from the findings.

##### *4.4.1 Selling psycho-social services not an easy task*

Most participants highlighted that selling mental health services is a difficult task to accomplish. What makes it challenging is that the services offered by the organisation are not perceived as important to society and therefore not in high demand. One participant spoke at length about the difficulty of selling social services and said:

*“...it is not easy to sell our type of services that we are offering. Not because that they are not important, no, but because mental health issues are always receiving a low status in the society anywhere. If people are talking about mental health promotion, no one worries about it until they see somebody who is almost going to psychiatric unit which will be too late in the process. So selling mental wellbeing, selling psychosocial wellbeing, it is a huge undertaking. The issue of the market research has shown us that it’s easier for people to say ‘yes we want to buy this’ but it’s very difficult for them to commit and to put money on it. Why? Because the result for psychosocial peer and support may not be immediate, it’s not like you have given a child a pencil and you tick one child one pencil crayon. It’s in terms of the qualitative results; they may not be immediately visible. You can talk about number of children reached but for us it is more about the improvements in the quality of life.”*

From the above quotation, it appears REPSSI finds itself in a difficult situation where they are in a place that requires them to find alternative ways of funding and selling their social services being one of the ways selected to generate income. If selling psycho-social services remains a challenge, the organisation may fail to sustain itself and let alone create social value. Needless to say this probably calls for the organisation to reconsider their model and opt for one that utilises other means to generate income. NGOs facing this challenge will need to find other ways of generating income. It is evident from the above viewpoints that selling psycho-social services can be tough given that this type of service does not appeal to large sections of communities. Even with NGOs reliant on donor aid, psycho social services receive little attention from donors. This gives a gloomy outlook for mental health NGOs intending to adopt social entrepreneurship. However, with proper research and planning, organisations can devise other suitable ways to overcome this challenge.

#### *4.4.2 Fear of the unknown*

The findings from the study also reveal that one of the challenges in implementing social entrepreneurship is the unpredictability of the process. Because there is very little literature to provide insight on NGOs embarking on social entrepreneurship, REPSSI took a big risk which will be known at a later stage whether it paid off. The fact that REPSSI is taking a risk for something they have little knowledge about presents a major challenge. One participant alluded to this notion and stated that:

*“Well, we know, I always say to my friends you can’t take someone where you have never been. The only constant thing is change. You see, if you look at the change in management, there were so many lessons that were learnt and that we are still learning but of course some of the things you realise as you go. Some of things you can’t really tell...”*

Similarly, another participant noted that there is no guarantee of certain results in implementing social entrepreneurship:

*You know, change is always a risk...it’s a risk and as much as we can support the change it may not work, it may not bring in the money that we are hoping it’s going to bring in for REPPSI.*

It appears REPSSI are learning as they navigate through the transition process about the different dynamics associated with adopting social enterprise. This is understandable given that the organisation needs to establish how best they can operate as a social enterprise. However, in the broad spectrum of things it presents a challenge for the organisation as they do not have complete leverage over the outcome of the transition process. The fear of the unknown is a common theme in change management literature. It is the one of the main reasons that causes difficulties in organisational change. Luecke (2003), for instance, highlights that the fear of the unknown is a huge obstacle that leads to stress and anxiety in organisational change.

#### *4.4.3 Culture of donor dependency difficult to break*

One of the challenges experienced in transitioning to social enterprise is breaking the culture of donor dependency. This stems from the traditional modus operandi of NGOs in which they have been heavily reliant on donor aid for their survival and services provided. The adoption of social enterprise requires REPSSI to break from this dependency but this has been met with resistance from some people in the organisation who want to preserve the culture of donor dependency. One participant highlighted the resistance experienced by donor dependency and said:

*“A lot of people when they first arrived they were afraid, they said ‘man we are not social enterprise people, we are not business people, my job here is to drive the agenda of PSS (pscho social support) for many years, now you are asking us to do things we don’t know.’”*

Participant echoed similar sentiments regarding difficulty in breaking donor dependency culture and said:

*“...you will have some dysfunctional behaviour which I would explain now. If we had said we are going to imbed the fundraising activity in your job description for every employee so that you make sure that you contribute to this social business development or you contribute to funding or to fundraising. Yes, people would actually start saying ‘no to me that’s not my job’ or ‘to me I’m just trained to do this’ or ‘to me I’m an accountant’ and ‘to me this is something else’ and all that. Yes you would have that challenge especially when you give that assignment or you give the*

*responsibility to someone who was at the time of inception was never engaged to do the fundraising per se.”*

One can expect this to be a challenge for most NGOs intending to adopt social enterprise. The culture of donor dependency is deeply entrenched in most NGOs since their emergence to become pioneers of social change was inspired by donors themselves. Breaking from this culture is thus like cutting ties with a mother that gave birth to you. It is not an easy process and requires persistent actions to completely do away with this culture. Luecke (2003, p. 74) also argues that “anytime people perceive themselves as losers in a change initiative, expect resistance.” In this case, there are some employees who hold negative perceptions about social enterprise which imply that the organisation may be losing out by moving away from donors.

#### *4.4.4 Job insecurity and Employee turnover*

Issues of job insecurity and employee turnover emerged as challenges experienced during the transition from philanthropy to social enterprise. Some participants were of the view that the change in the organisational structure left some employees feeling uncertain about their position and worth, which ultimately prompted some to leave the organisation. In some cases, employees felt threatened and undervalued when new people were hired to join the organisation. One participant (8) spoke at length about this and said:

*“When you talk about fear, one of the major things that bring in fear is when you bring in new people. Employees will think to themselves and ask that does it mean they are here to replace us? But it doesn’t mean that. What it means is if we can, first and foremost look at the skills that we have and the new role that we have and we ask ourselves do we have someone that can fulfil that new role? If we do have, we can advertise internally and see who can take up that role. That is always number 1. The second thing we ask ourselves is can we be able to build up somebody’s skills within the organisation so that they can take up that new role? And if there is anybody willing to do that then we do it. But I will tell you now people are not willing to take up a completely new role they would rather develop in the area that they are already in. So after that, you take it out, you bring in new people who can hit the ground running because they have already got the skills and the expertise. They will give us*

*the direction that we need. So now when these people join us, we reward them quite handsomely in terms of salaries and that is where the fear comes from because people already in the organisation will start questioning why they receive higher rewards when they have been with the organisation for a longer period of time. So that is where some of the resistance comes from which is a big challenge for us.”*

This is detrimental to the transition process as the NGO may have lost staff members that identify with values and missions of the organisation. Long term serving staff that can help the organisation to remain true to its vision as it embarks on business practices. However, there are some employees who leave the organisation simply because they do not agree with the new organisational culture and structure. As one participant (5) said:

*“...from what I have assessed, it’s an issue of job insecurity and that, besides the social impact. Job insecurity becomes number two for me and I think this is where either you can lose some staff, they go away because that’s not what they are looking for in an organization. They want to get into an organization which has got all the resources that they want, they don’t want to be bothering about where these resources are coming from and that is understood.”*

This gives the impression that one can expect some employees to leave during the transition to social enterprise. In as much as the organisation may want to retain experienced staff, it is almost inevitable that you will find some who do not agree with the direction of the organisation and thus eventually leave. Robinson (2002) argues that not everyone is comfortable with NGOs embarking on commercial activities. Long-time staff and board members may view entrepreneurial behaviour as a betrayal of the mission and thus opt to leave the organisation. Although an acceptable explanation, job insecurity and employee turnover present a considerable challenge to the organisation’s ability to manage a successful transition to social enterprise. It is difficult for everyone to be focused on achieving the objectives of the organisation if you have employees feeling uncertain about their future and therefore opting to leave in search for a greener pastures.

## **4.5 Conclusion**

From the above presentation and discussion of findings, it can be concluded that NGOs face serious problems that may hinder their ability to create social value in communities. These

problems include issues pertaining to financial stability, organisational effectiveness and sustainability of social services provided. In the face of these serious problems, social entrepreneurship has emerged as a way out of danger. The findings show that the adoption of social entrepreneurship is motivated by the need to fix the serious problems affecting them. Furthermore, what is evident from the findings is that NGOs realize that they play a key role in addressing the social problems that continue to inhibit the functioning of communities. Social entrepreneurship offers NGOs the prospect of addressing the real needs of communities hence strengthening their social impact.

From the analysis of factors that influence the choice model within social enterprise, it can be concluded that identifying a model that is congruent with the vision and mission of the organisation is not an easy process. It takes time to know the model that maximises the organisation's potential. Moreover, one can deduce from the findings that it is important to study the market forces and evaluate the strengths, weaknesses, opportunities and threats of each of the models before making a decision on the model that is compatible with the organisation's mission and vision. Overall, the data gathered result in the conclusion that cost recovery, social value creation and beneficiary participation are essential components that must be configured in models chosen by NGOs transitioning to social enterprise.

The analysis of the vital considerations needed to transition to social enterprise provide insightful suggestions from participants that can be useful to NGOs intending to adopt social enterprise. Certainly, the data gathered adds to the existing body of knowledge related to NGO transition to social entrepreneurship. Precisely, NGOs intending to transition to social entrepreneurship need to ensure that they have the required level of competence together with the right personnel. They also need effective communication and leadership to steer them through the transition process. Lastly, NGOs must be willing to take the risk and challenges that come with adopting social enterprise.

The findings also give an insight into some of the risks and challenges that come with adopting social enterprise. This enables NGOs intending to adopt social enterprise to prepare for what might deter them from a successful transition. The challenge with selling psycho social services in particular calls for NGOs to carefully consider how best they can generate income to cater for their operating cost.

# CHAPTER FIVE

## Summary of Findings, Recommendations and Conclusion

### 5.1 Introduction

This chapter summarises the main findings of this study. Thereafter, it makes recommendations based on the findings and also suggests areas for future research that will be useful to the body of knowledge concerning NGO transition to social entrepreneurship. The chapter concludes by evaluating the extent to which the study answered the research questions.

### 5.2 Summary of Main Findings

### 5.3 Factors influencing the transition from philanthropy to social enterprise

#### *5.3.1 Dwindling donor aid*

There is an undisputed understanding among the participants that the main reason why REPSSI embarked on social entrepreneurship is the diminishing financial support from donors. Donors are withdrawing their financial support for various reasons including recurrent global economic turmoil, shifting priorities, to mention but a few. This resulted in some NGOs losing out on donor funding. Adding to that, there is increased competition among NGOs for donor aid as the funding base has steadily shrunk over time. NGOs are thus turning to social entrepreneurship to leverage or replace the donor aid support to meet their operating and administrative expenses.

### *5.3.2 Shifting donor priorities*

There is a notable shift in donor priorities resulting in some NGOs losing out on funding or in some cases, changing their mission and vision to match donor interest. Donors have decided to take a different approach through which donor priority and social needs are taken into consideration in determining the recipient of donor aid. In some cases, donors are urging NGOs to begin thinking of ways to sustain themselves. The focus is shifting from providing perennial financial support to creating an enabling environment for NGOs to sustain themselves.

### *5.3.3 Rude awakening*

REPSSI began taking social entrepreneurship seriously after learning about the crisis that some organisations found themselves in after donor aid had been terminated. In other words, the organisation was in for a rude awakening after learning the fate of other NGOs as a result of funding cutbacks. The decision to adopt social entrepreneurship was therefore influenced by circumstances that were deemed detrimental to the wellbeing of REPSSI. Indeed, the fateful events of other organisations increased the sense of urgency within the organisation to identify a solution before it ends up in similar fate.

### *5.3.4 Further strengthen social impact and build sustainability*

REPSSI's quest to strengthen social impact and to become self-sustainable influenced them to adopt social entrepreneurship. In becoming self-sustainable, the organisation achieves independence which frees it from the restrictions employed by donor funding which is usually provided on the basis of matching the vision and mission with donor priorities. The benefit of being self-reliant is that the organisation can strengthen the impact of social services they provide as they are not restricted by donor policies. This finding is thus viewed as a strategy for financial survival and an imperative for organisational effectiveness, relevance and viability.

## **5.4 Factors influencing the choice of SE model**

### *5.4.1 Uncertainty over choice of SE model*

There were challenges in identifying factors that influenced the choice of model adopted by the organisation. To begin with, it was difficult to ascertain the model utilised from the viewpoints given by the participants. The analysis of the findings show that this uncertainty may be due to the fact that the transition process is still in progress and the organisation is not at the point where they can safely pinpoint the model applicable to how it will operate. To overcome this challenge, the researcher decided to change the line of questioning to obtain views from participants about what kind of factors would influence the model suitable for their organisation. Some valuable themes emerged from the discussions on this issue as participants pointed out what they felt were important things to consider before deciding on the model best suited to the structure of the organisation. These themes are discussed below

### *5.4.2 Cost recovery*

The need to recoup the operational cost incurred by the organisation emerged as one of the factors that would influence the preferred model. With NGOs facing the prospect of funding cutback, it is necessary to find alternative ways of recovering all, if not most, of the cost of operating the organisation. In short, what is evident from this finding is the need to get returns financially for the services provided to communities. Moreover, it is vital to carefully evaluate an appropriate cost recovery mechanism that can generate income for the organisation.

### *5.4.3 Create social value*

Although the organisation incorporates business activities through the adoption of social entrepreneurship, creating social value remains the sole mission. As such, social value or benefit characterises an important factor that would determine the choice of model. This is not to say that there are models that do not prioritise creating social value. But the question of which model merits selection lies in the processes compatible with the organisation's business activities, social programmes, purpose and mission.

#### *5.4.4 Beneficiary participation*

The model chosen to run the social enterprise should have room for service users or at least third parties to make a commitment towards the delivery of services. If services users or third parties take responsibility for the services being rendered to them, they make an effort to ensure that they get value for their money. In other words, by paying some or all cost of a service provided by the organisation, one can appreciate its true value.

### **5.5 Vital considerations needed when managing the transition process from philanthropy to social enterprise**

#### *5.5.1 Develop a culture of learning – capacitate employees with skills needed to run an SE*

In order to succeed at implementing social entrepreneurship, the findings revealed that it is important to develop a culture of learning in the organisation. Doing this enables the organisation to capacitate employees with the skills needed to operate a social enterprise. It also allows people to realise what works and what does not work. Without a learning culture, the transition process is likely to be stifled as the employees in the organisation may fall short of acquiring skills necessary to run a social enterprise venture.

#### *5.5.2 Have a committed team that will drive the process*

The transition process needs to have full support from senior level managers and relevant stakeholders if it is to become successful. The rationale for this is that if you have a committed team to lead from the front, the influential stakeholders put in effort to ensure that the objectives are achieved. Precisely, this speaks to ensuring that there is political will from both the board of directors and funders to support and drive the transition process. In other words, the adoption of social entrepreneurship calls for active participation and commitment from all relevant stakeholders, particularly at the top level.

### *5.5.3 Effective leadership*

Effective leadership is essential to succeed at implementing social enterprise. In particular, the head of the organisation needs to play an active role in terms of providing direction to staff, galvanising the change process and preserving the identity of the organisation. The leader needs to be knowledgeable about what the organisation intends to do, the organisational dynamics at play and how the organisation intends to achieve its objectives. Without a purposeful leader, the change process is likely to be fragmented, lacking direction and putting the existence of the organisation under threat.

### *5.5.4 Effective communication*

It was also established that effective communication is essential for a successful transition to social enterprise. It is necessary to create dialogue in the organisation between executive management and the rest of the staff. This allows everyone to get to the same level of understanding in terms of what is expected, and it also gives staff an opportunity to give feedback in terms of what is working and what is not working. One can also look at it as a way to alleviate change related uncertainty in the organisation. People become aware of what the organisation intends to achieve and what methods it will use to achieve that.

### *5.5.5 Risk taking*

There is a need to allow some level of risk taking during the change process. The irony in this case is that risk taking is inherent in adopting social enterprise as NGOs are moving into the realm of the unknown. The understanding that comes out of this notion is that one cannot identify what is best for the organisation without testing the waters. However, although beneficial to the change process, it is worthwhile to manage risk taking carefully. In other words, it is necessary to make calculated risk by establishing the benefits and disadvantages of taking risks to determine if it is worth undertaking. Thoughtless risk taking may put more damage than harm to the organisation.

### *5.5.6 Retain experienced staff and recruit skilled personnel*

It is important to retain experienced staff and recruit skilled personnel for the organisation to be successful in implementing social entrepreneurship. Losing experienced staff members that have the organisation at heart may have dire consequences on the transition process and let alone the survival of the organisation. It is crucial to retain staff members that identify with values and missions of the organisation. On the other hand, the transition of REPSSI requires staff who are conversant with social entrepreneurship and would be able to play a leading role in galvanising the change process such that all staff may be able to identify with social enterprise. It is therefore necessary to recruit individuals who can add value to the organisation's transition to social enterprise as well as its mission and vision.

## **5.6 Challenges experienced in transitioning from philanthropy to social enterprise in non-profit sector**

### *5.6.1 Selling psycho-social services not an easy task*

The findings from this study show that selling mental health services is a difficult task to undertake. This is one of the options taken by REPSSI to generate income to leverage or replace the donor aid support to meet their operating and administrative expenses. The experiences thus far reveal that perceptions held by service users towards mental health belittle their importance to communities. It thus makes it challenging for NGOs to sell mental health services as they are not held in high regard by communities. This gives a gloomy outlook for mental health NGOs intending to adopt social entrepreneurship. However, with proper research and planning organisations can devise other suitable ways to overcome this challenge.

### *5.6.2 Fear of the unknown*

One of the challenges in implementing social entrepreneurship is the unpredictability of the process. Because there is very little literature to provide insight on NGOs embarking on social entrepreneurship, REPSSI has taken a big risk of which the outcome can only be known at a later stage. The fact that REPSSI is taking a risk for something they have little

knowledge about presents a major challenge as they do have complete leverage over the outcome of the transition process.

### *5.6.3 Culture of donor dependency difficult to break*

It is difficult to break a traditional culture of donor dependency as REPSSI transitions to social enterprise. The adoption of social enterprise has been met with resistance from some employees in the organisation who want to preserve the culture of donor dependency. On one hand, the resistance stems from employees not willing to move out of their comfort zone and explore new ways of working. On the other hand, the resistance stems from traditional views about how NGOs should operate.

### *5.6.4 Job insecurity and employee turnover*

Change in the organisational structure left some employees feeling uncertain about their position and worth, which ultimately prompted some to leave the organisation. Some employees left the organisation for the simple reason that they do not share the same vision and mission of the organisation. This is detrimental to the transition process as the NGO may have lost staff members that identify with values and mission of the organisation. As previously show in this chapter, it is important to retain long term serving staff that can help the organisation to remain true to its vision as it embarks on business practices.

## **5.7 Implications of the research findings**

Based on the findings of the study, it can be concluded that NGOs are experiencing significant challenges in their quest to create social value in communities. These problems include issues pertaining to financial stability, organisational effectiveness and sustainability of social services provided. In the face of these challenges, social entrepreneurship has emerged as a possible solution that could strengthen NGOs' ability to create social value. What is evident from the findings is that NGOs realize the key role they play in addressing the social problems that continue to inhibit the functioning of communities. Social entrepreneurship offers NGOs the prospect of addressing the real needs of communities hence strengthening their social impact.

The factors that influence the choice model within social enterprise also reveal a crucial issue that speaks to the importance of identifying a model that is congruent with the vision and mission of the organisation. It is important to study the market forces and evaluate the strengths, weaknesses, opportunities and threats of each of the models before making a decision on the model that is compatible with the organisation's mission and vision.

The research findings also imply that NGOs intending to transition to social entrepreneurship need to ensure that they have the required level of competence together with the right personnel. They also need effective communication and leadership to steer them through the transition process. NGOs must also be willing to take the risk and challenges that come with adopting social enterprise.

## **5.8 Recommendations**

The transition of NGOs to social entrepreneurship embodies a new era for civil society. It is good for NGOs as it allows more freedom to express themselves. Moreover, this development upholds and advances the principles of social development which advocate socio-economic empowerment through merging social and economic goals (Midgley, 1995). It will be interesting to see how this trend progresses and its impact on the global socio-economic status over time. Meanwhile, there are key success factors that can be taken from this study by NGOs intending to adopt social enterprise. The following recommendations are supported by the findings:

- (1) NGOs still reliant on funding should make projections of state and donor aid to establish the inflow of aid. The reason for doing this is that, should they be at high risk of losing out on funding, the projections will help them to plan and prepare for life without funding;
- (2) NGOs should strive for independence politically and financially as it enables them to freely express themselves and advance sustainable development;
- (3) NGOs should do thorough research, feasibility study and planning to implement social enterprise successfully. In particular, there is need to familiarise with social enterprise models as they are essential in guiding the transition process. The benefit of doing this is that it helps to link the determinant factors identified for the choice of

model utilised by the organisation to give a categorical understanding of factors that may be influential in selecting a specific model;

- (4) NGOs should allow some flexibility during the change process given the unpredictable nature of adopting social enterprise;
- (5) The transition process should be continually monitored to check for progress and respond to unexpected snags that may be obstructive;
- (6) NGOs should be fully aware of dynamics relating to the culture, needs and structure of the organisation and its employees before embarking on the transition. Any developments that take place should result from informed decisions to support the needs of the organisation;
- (7) NGOs should be consistent and focused on their vision and mission to change the traditional perceptions about them within and outside the organisation. This will help in changing the beliefs around donor aid dependency.

## **5.9 Suggestions for Future Research**

The study focused on the factors driving NGOs to adopt social enterprise and the experiences of transitioning from a philanthropic mode of operation to an entrepreneurial mode of management in South Africa. The themes that emerged from the study invite further inquiries that may be useful to gain more understanding on NGO transition to social enterprise. The following areas have been identified as possibilities for further research:

- (1) There is need to conduct more studies on NGOs transition from philanthropy to social enterprise to acquire more information to be able to make nuance inferences. Furthermore, the purpose of doing this is to find if the results can be replicated in a different study;
- (2) Do further investigation on determinant factors of social enterprise models and NGOs awareness of social enterprise models. One weakness of this study is that it could not obtain considerable information to ascertain the factors that influenced the choice of model. An investigation in this area will thus help to address this weakness;
- (3) Conducting research on income generating mechanisms that are utilised by NGOs would prove to be useful to understand other ways that can be utilised to establish financial stability;

- (4) Another weakness inherent in this study is that the researcher did not manage to obtain views from change management consultants that provided assistance during the transition process. Exploring the transition process from a change management consultant perspective may be valuable to providing a deeper insight into dynamics associated with adopting social enterprise;
- (5) Breaking the culture of donor dependency emerged as one of the challenges experienced during the transition process. This challenge poses a serious risk to the success of the change process. It may thus be helpful to explore what is needed to change organisational culture from being aid dependent to self-dependent.

## **5.10 Conclusion**

The ever-changing global environment calls for innovative solutions to problems that continue to impede the social functioning of individuals and communities. In light of this, the transition of NGOs from a philanthropic mode of management to an entrepreneurial mode of management shows that there is a desire to address social problems that have become stagnant stains in our society.

Against this backdrop, there are positive signs that social entrepreneurship could be the panacea that may well provide a permanent solution to the problems we face. This research attempted to flesh out the positives of social entrepreneurship from an NGO perspective. It identified the following: (1) the factors influencing NGOs to adopt social enterprise; (2) the factors that will be taken into consideration in deciding on the model; (3) the perceptions of employees on key success factors to adopting social enterprise; and (4) the challenges experienced during the adoption of social enterprise.

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# APPENDICES

## Appendix 1: Ethics Approval Letter

### APPENDICES

#### Appendix 1: Ethics Approval Letter



**HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)**  
R14/09 Huni

<b>CLEARANCE CERTIFICATE</b>	<b>PROTOCOL NUMBER H13/08/15</b>
<b>PROJECT TITLE</b>	A paradigm shift in non-profit management: Exploring transition from philanthropy to social enterprises in NGOs
<b>INVESTIGATOR(S)</b>	Mr CV Huni
<b>SCHOOL/DEPARTMENT</b>	Human & Community Development/Social Work
<b>DATE CONSIDERED</b>	16/08/2013
<b>DECISION OF THE COMMITTEE</b>	Approved Unconditionally
<b>EXPIRY DATE</b>	11/09/2015
<b>DATE</b> 12/09/2013	<b>CHAIRPERSON</b>  (Professor T M. Ian)

cc: Supervisor: Dr V Chikodzi

**DECLARATION OF INVESTIGATOR(S)**

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10003, 10th Floor, Senate House, University.

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

  
Signature

30, 01, 2015  
Date

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

## Appendix 2: Approval Letter from REPSSI



**Date:** 23 March 2014

To whom it may concern:

Mr Chengetai Victor Huni was hereby given permission to interview 9 individuals employed at REPSSI, for the purposes of his research requirements towards his MA degree in Social Development.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'L. Chabeli', is written over a horizontal dashed line.

**Lehlohonolo Chabeli**

Head: Social Business Development

### **Appendix 3: Participant information and consent form**



Good day.

My name is Chengetai Victor Huni and I am a student registered for Masters of Arts by coursework and research in Social Development at the University of Witwatersrand. As part of the requirements for the degree, I am conducting research on the transition process of NGOs from depending on financial aid to social entrepreneurship which requires NGOs to raise funds from within the organisation. It is hoped that through exploring the transition process, we can be able to understand various dynamics associated with adopting social enterprise as a framework of management and different factors needed for success in adopting it.

I therefore wish to invite you to participate in my study. Please note that your participation in this study is voluntary and there is no reward for participating or penalty for not participating. Involvement in the study requires your participation in an interview for approximately 45 minutes which will be scheduled at a time and place that is suitable for you. You will not be obliged to answer any questions with which you are uncomfortable and therefore have the option to decline or to respond to any questions asked. You will also have the option of terminating your participation at any stage during the interview.

With your permission the interview will be audio-recorded. The recorded interview will be treated within the strictest confidentiality. Your name will not be used during the study to protect your identity as a participant. The tapes and interview schedules will be kept for two years following any publications or for six years if no publications emanate from the study.

Please feel free to ask questions regarding the study. I shall answer them to the best of my ability.

I may be contacted on email: [victorhuni@gmail.com](mailto:victorhuni@gmail.com) or [Chengetai.Huni@students.wits.ac.za](mailto:Chengetai.Huni@students.wits.ac.za) or cell number: 0767991510

You can also contact my supervisor Victor Chikadzi on Phone number: 0117174474 or on email: [Victor.Chikadzi@wits.ac.za](mailto:Victor.Chikadzi@wits.ac.za)

Should you wish to receive a summary of the results of the study; an abstract will be made available.

Thank you for taking time to consider participating in the study.

Yours sincerely

Chengetai Victor Huni.

## Participant Consent Form

I hereby consent to participate in the research that Chengetai Victor Huni is undertaking.

I understand:

- What participation in this research means
  - That my participation is voluntary
  - That I have the right not to answer any questions that I do not feel comfortable with
  - I have the right to withdraw my participation in the research, at any time I so choose
  - That any information I share will be held in strictest confidence by the researcher and that only the researcher supervisor may have access to it.
- 

### Consent Form for Audio-recording

I do/do not agree to the interview being tape recorded. I understand that my confidentiality will be maintained at all times and that the tapes will be destroyed two years after any publication arising from the study or six years after completion of the study if there are no publications.

Signed by ..... on.....at.....

Signature.....

## Appendix 4: Interview schedule for employees

### Interview schedule for Employees

**Objective 1:** Factors that influence the transition from philanthropy to social enterprise by organisations in the South African non-profit sector

1. What does your role in this organisation entail?
2. Can you briefly describe what you understand by the term social enterprise?
3. Are you aware of the reasons why your organisation adopted the social enterprise mode of management?
4. What do you think influenced your organisation to adopt the social enterprise mode of management?

**Objective 2:** Factors that influence the choice model when NGOs adopt the social enterprise mode of operation

1. Are you aware of the social enterprise model implemented in this organisation?
2. If Yes. What do you think were the factors that influence the choice of model in this organisation?
3. Would you say this model is the most suitable for this organisation?

**Objective 3:** Employees and management perceptions about the vital considerations needed when managing the change management process from philanthropy to social enterprise.

1. Can you please share with us your experience during the transition process?
2. How did you adapt to the new needs and structure of the organisation?
3. Who managed the transition and where you satisfied with the way he/she managed it?
4. What do you think were the implications for the NGO and its employees when it adopted social enterprise?
5. What things would you point out as important factors that need to be considered for NGOs intending to adopt social enterprise?
6. What would you recommend or suggest in terms of how NGOs can best to adopt

social enterprise as a framework for management?

**Objective 4:** Challenges experienced in transitioning from philanthropy to social enterprise by organisations in the South Africa non-profit sector.

1. What lessons have you learned as an employee about adopting social enterprise?
2. What were some of the challenges you experienced as you transitioned to the social enterprise model?
3. If any, what are some of the disadvantages of adopting social enterprise?

## Appendix 5: Interview schedule for top management and board of directors

### Interview schedule for top management and board of directors

**Objective 1:** Factors that influence the transition from philanthropy to social enterprise by organisations in the South African non-profit sector

1. Please can you tell me about the history of this organisation?
2. What does your role in this organisation entail?
3. Can you briefly describe what you understand by the term social enterprise?
4. What factors influenced the need to adopt social enterprise in this NGO?
5. At what point did you realise that you needed to adopt social enterprise as an approach to managing your organisation? And who was involved in the decision making process?
6. What motivated you to embark on the transition process?

**Objective 2:** Factors that influence the choice model when NGOs adopt the social enterprise mode of operation.

1. There are different models in SE. Please tell me a bit more about the model you adopted.
2. What factors influenced the choice of this model?
3. What would you say are the benefits of this model you adopted?
4. How did you determine that this model was suitable for your organisation?

**Objective 3:** Employees and management perceptions about the vital considerations needed when managing the change management process from philanthropy to social enterprise.

1. How did you manage the transition process when you adopted social enterprise as a framework for management?
2. What was your role as part of the top management in this process?
3. Who managed the transition and on what basis was he selected?
4. How did you deal with the demands of managing the change process?
5. What things would you point out as important factors that need to be considered for

NGOs intending to adopt social enterprise?

6. What do you think were the implications for the NGO and its employees when it adopted social enterprise?
7. What would you recommend or suggest in terms of how NGOs can best adopt social enterprise as a framework for management?

**Objective 4:** Challenges experienced in transitioning from philanthropy to social enterprise by organisations in the South Africa non-profit sector.

1. What lessons have you learned as top management and board of directors about adopting social enterprise?
2. What were some of the challenges you experienced as you transitioned to the social enterprise model?
3. If any, what are some of the disadvantages of adopting social enterprise?