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Social enterprises as an alternative model to outsourcing in Universities: A theoretical premise

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ABSTRACT

The past three decades have been characterised by massive restructuring of public universities within Southern Africa. In line with the neo-liberal policy framework adopted in many countries, service provision in most public universities has become privatised and highly commercialised. As a result, outsourcing of support service functions to private service providers has become a widely entrenched feature of public universities in Southern Africa, reflective of the global trends. This has largely resulted in poor welfare for workers and escalating costs of service provision. Given the profit motive which is the primary driver for companies bidding for contracts to provide services in universities, the compromised welfare of workers and students will remain an 'achilles heel' of outsourcing. In this paper, I argue that the social enterprise model of operation can be adopted as a cheaper and effective alternative economic model which can replace the practice of outsourcing in Universities.

1. Introduction

The past few decades have seen many countries adopting neo-liberal policy prescriptions that have had far reaching implications for many institutions. Following the adoption of economic structural adjustments programmes in countries such as Zimbabwe, South Africa, Zambia among others, many public universities underwent restructuring. This restructuring was largely characterised by the outsourcing of support service functions. In essence, many public universities became commercialised in their approach and many key service sectors of the universities were privatised and outsourced. According to [Belcourt \(2006\)](#) outsourcing happens when organizations contract other external organisations to render services on their behalf, services that would have been previously provided within the organisation. Similarly, [Ellram & Billington, \(2001\)](#) note that the practice of outsourcing involves the transfer of functions to another organisation which may result in employees of the outsourcing organisation being moved to the new organisation that would have been contracted. Outsourcing was and is still largely viewed as a cost cutting measure that results in efficiency and

effectiveness in service provision within organisations ([Arnold, 2000](#)); [Fan, 2000](#); [Vining & Gliberman 1999](#)). The practice is also seen as necessary to ensure the streamlining of service provision in a way that allows universities to focus on their core functions of teaching and knowledge production through research ([van der Walt, Bolsmann, Johnson, & Martin, 2002](#)).

Several scholars note that outsourcing has had mixed results in achieving its main goals of curtailing costs while enhancing efficiency and organisational effectiveness (see, [van der Walt, et al; Adler, Bezuidenhout & Omar, 2000](#)). However, this has come at a cost. According to [Adler et al \(2000\)](#) outsourcing has had many unintended consequences such as poor welfare for workers, increased cost of services for students and in some instances reduced quality of service provision. At the close of the year 2015, many universities in South Africa were faced with massive protests popularly termed "fees must fall". When students got their desired goal of a zero percentage increase of fees many campuses still resembled 'war zones' this time, students were standing in solidarity with outsourced workers fighting to end the 'exploitative practice' of outso-

urced workers fighting to end the 'exploitative practice' of outsourcing. According to [van der Walt, Bolsmann, Johnson, & Martin \(2002, p. 12\)](#) whenever the practice of outsourcing is adopted,

'manual and menial workers tend to experience declining wages, worsening working conditions and access to benefits, growing job insecurity, and declining or increasingly ineffective trade union representation.'

Several other scholars also note that, outsourcing has many other negative consequences. These include among others, inefficiency, hidden costs, reduced productivity and the erosion of tacit knowledge (see [van der Walt, et al., 2002](#); [Adler, et al., 2000](#)). In 2016, several universities in South Africa committed in principle to abolish the practice of outsourcing and several Vice Chancellors did concur with the students and workers' view that indeed outsourcing was an exploitative labour practice that had resulted in dire consequences for many people. Despite increased government funding for public universities regionally, there is a realisation that it may be difficult for universities to absorb the costs of abandoning outsourcing. Against this backdrop, this paper argues that the social enterprise model of operation can be adopted as a viable alternative to outsourcing in public universities within the Southern Africa region and beyond. The author advances several arguments that provide a basis for justification of the theoretical proposition advanced in the paper.

1.1. What are social enterprises?

The term social enterprise is used to refer to organisations that use business principles in pursuit of social goals or any other purposes that are not primarily profit driven ([Young, 2007](#); [Jones 2007](#)). From country to country, these organisations take upon a different character. As such, there is no universally accepted definition for social enterprise ([Jones, 2007](#)). According to the Social Enterprise Alliance an institution based in the United States of America that specialises in social enterprise development, a social enterprise is an organisation or venture that advances its social mission through entrepreneurial, earned income strategies' ([Jones, 2007, p. 2](#)). [Jones \(2007\)](#) observes that social enterprises embody a hybrid commercial model of an organization that pursues both economic and social goals. To this end, he notes that a social enterprise has two main characteristics. Firstly, unlike conventional for-profit business, social enterprises do not base their success on profit alone. Secondly, social enterprises pursue social and environmental goals rather than profit seeking alone. Profit seeking is pursued as a means to an end rather

than being an end in and of itself. Similarly, [Talbot, Tregilgas, & Harrison \(2002, p. 2\)](#) posit that,

'social enterprise is a means by which people come together and use market-based ventures to achieve agreed social ends. It is characterised by creativity, entrepreneurship, and focus on community rather than individual profit. It is a creative endeavour that results in social, financial, service, educational, employment, or other community benefits'.

[Dees & Economy \(2001\)](#) note that the creation of social enterprise ventures is largely driven by social entrepreneurs who are interested in reforming and revolutionising unjust systems and practices within both the social and private sector. A majority of such people largely account for the advancement of thinking that has led to paradigm shifts in the way certain things are done.

1.2. Differences between traditional for-profit ventures and social enterprises

There are several characteristics that distinguish social enterprises from for-profit ventures. Firstly, in all for-profit ventures the core aim of these organisations is to make as much profit as they can and this in many cases is the sole interest of people who own or invest in the venture. However, in social enterprises profit making is not the core aim of the venture. Whilst profit making is important it is not taken as the end in itself but rather as a means to an end. A social enterprise venture is mainly seen as a way of diversifying the revenue base of the organisation while the mission of the organisation is seen as the core objective. Whatever revenue is generated from the social enterprise, it is regarded useful in as far as it helps in the advancement of the organisation's main mission. ([Skloot, 1987](#)).

Secondly, the success of a for-profit venture is measured in terms the amount of profit which is made. On the contrary, while profit obtained from a social venture is considered as critical; it is not the only indicator of organisational success. If a for-profit venture does not make profit, it is considered as failing but a social enterprise venture may not break even and yet still be regarded as a success in as far as it would have aided the accomplishment of the intended social mission ([Skloot, 1987](#); [Yunus, 2006](#)). [Yunus \(2006\)](#) notes that, people can operate social enterprises at four different levels. The first level is **no cost recovery** where social entrepreneurs (people who run social enterprises) do not manage to get any financial return on investment yet the venture may still remain valuable if it aids the accomplishment of the core objectives of the organisation. The second level is some **cost recovery**; social enterprise that operate at

this level can recover part of the expenses incurred in the initial investment. The third level of operating is **full cost recovery**, where one gets to recover all the costs incurred on the initial investment. The fourth level of operation is, **more than full cost recovery** where a social enterprise becomes self-sustainable. Ideally, it is expected that all social enterprises must operate at more than full cost recovery. The core focus of this paper is social enterprises that operate at the level of more than full cost recovery.

Another distinguishing feature between a for-profit enterprise and a social enterprise relates to how the earned income is distributed. In a for-profit venture, profit is shared among investors or shareholders of the company. In contrast to for-profit ventures, people who operate a social enterprise venture using a not-for-profit model are by law forbidden to distribute profit to their members, employees and board members. Compensation of employees or board members is only limited to the activities that they do for the organisation at market related or below market value. This means that all net income accrued from commercial activities must be ploughed back into the organisation for the furtherance of its core mission (Skloot, 1987; Young, 2007).

Finally, for-profit ventures are by law required to pay a certain amount of tax on their net income while many non-profit commercial ventures are exempted from paying taxes. This however, will differ from country to country and tax exemption status is also determined by the registration status of the social enterprise. In some countries social entrepreneurial organisations pay no tax at all while in some countries such organisations would be by law required to pay tax on a small percentage of their net earned income (Dees, 1999).

2. Materials and Methods

This paper is an attempt at advancing a theoretical proposition that argues for the adoption of the social enterprise model of operation as an alternative to outsourcing in universities. The premises of the theoretical propositions advanced are based on conclusions reached after reading primary data and secondary data on social enterprise operations across the globe. Using the insights gleaned from the various literature available on social enterprise, the author makes some postulations and demonstrates how the social enterprise model can be operationalized within the university context. Several arguments based on factual secondary data are advanced to justify why adopting a social enterprise way of operating will be a better alternative to the often exploitative practice of outsourcing. To this end, the paper should be understood from the stand point of theory building.

3. How the model can be operationalized.

The main argument of this paper is that the social enterprise model of operation can be adopted as a form of insourcing that can replace outsourcing of university business activities to external stakeholders. Such a modus operandi would allow universities to drive a lot of advantages that go beyond mere service provision. At present, most universities outsource services such as transport, cleaning, catering, security, building maintenance and grounds maintenance services (van der Walt, et al., 2002). The use of the social enterprise model would mean that, in each of the areas that the university seeks to outsource or has outsourced; they can form social enterprise ventures to run such services instead of contracting private service providers whose sole aim is to generate profit. These social enterprises would be registered and structured as Non-Profit Organisations (NPOs). There are several advantages of running such a model of operation as it brings with it several advantages that cannot be derived from contracting private service providers. These merits are discussed below.

3.1 Cost savings on management structure

Outsourcing is largely cost driven. Most Universities note that private service providers are able to render certain services in a much more efficient and effective way owing largely to specialisation. Scholars such as, Kremic, Tukul & Rom (2006); Harler (2000); Bers, (1992) among others, note that the rationale for cost driven outsourcing decisions is usually taken into consideration when the costing by private contractors is lower even after factoring overhead, profit and other transaction costs. It would therefore appear sensible to outsource such a service. My argument is that what a private company can deliver at a low cost, a social enterprise venture can deliver a similar or better service at an even lower cost without compromising workers' welfare and quality of services. Several reasons account for this. Firstly, the nature in which non-profit distributing social enterprises are configured is such that they are run by a board of directors who are not salaried personnel. Many social enterprises have highly skilled people who sit on their boards and give strategic direction to these organisations. These skills are given on a pro bono basis. On the other hand, when companies cost their services as private contractors, salaries and benefits of the management team account for some of the major costs. Consequently, a social enterprise model would allow for better cost savings than a private sector company.

3.2 Cost savings on profits

Private companies are run by people who seek to make profit on their investment or service rendering. This is usually the sole purpose why private companies exist. Any other activity or endeavor is done as a means to an end, the end which is profit maximisation. On the other hand, a social enterprise seeks to make profit, but not just profit for its sake. Rather, profit making is a means to an end, and end which is usually to save a particular social purpose in society. As such, when using a social enterprise model; it is possible for the venture to charge less on contracting fees and still make an acceptable return on investment. For example, where a private company seeks to make a 40% profit margin as return on investment, a social enterprise can make a 30% or 15% or even 5% profit margin and its operation will be regarded as highly successful given that profit making is secondary. The core mission of the social enterprise will be to ensure that the university can attain cost savings in a viable and sustainable way that is sensitive to workers' and students' welfare.

3.3 Cost savings via volunteerism

Social enterprises that are registered as NPOs are also able to attract many people who can volunteer their services on a pro bono basis. For example, if a cleaning company that is registered as a social enterprise does spring cleaning of offices once a year, it would be possible to attract hundreds of students and community members who would be willing to lend their support to the initiative. A private company cannot attract such volunteers given that they exist for profit. On the other hand, many people would be more receptive to giving a few hours of service in a day, week or month to an organization whose core mission is not to make profit but rather exists to ensure that the university can run on a viable cost serving model that benefits students, staff and the wider community. To this end, it would be possible to operate a social enterprise model that creatively deploys the use of volunteerism as a cost cutting measure. Such an initiative would inculcate and foster of a spirit of citizenship in students and many other people whose services are enlisted for such initiatives.

Infrastructural development accounts for one of the major costs that drain a significant portion of the budgets in most universities. Private building contractors make millions in profits yearly at universities. Most of this cost burden can be drastically reduced if universities operate using the social enterprise model. The cost of building is substantially high. In most instances, labour costs account for the huge chunk of the costing in building projects. However, when using a social enterprise model, a lot of money can be saved. A social enterprise would be

able to creatively cut costs while still delivering the same quality of product. For example, if company A is a private sector venture and its costs for labour in a building project amount to \$5,000,000, a social enterprise venture within a university setting would mostly likely be able to lower costs to around \$2,000,000 for similar nature of labour costs. How does this happen? Firstly, a social enterprise is operated by a board comprised of people with specialized skills who would be able to offer their services on a pro bono basis. On the other hand, universities are able to use their own personnel at less cost to provide skills such as, engineering, quantity surveying, architecture and accounting and finance among other skills sets. Most universities have students at master and Doctorate levels and senior academics who have the requisite industrial experience to spearhead and deliver on complex infrastructural projects. Most such people would be more than willing to provide their services at minimal or no cost to a social enterprise whose aim is not to make profit but to rather serve a social purpose which is to benefit the university community. On the contrary, very few people would be willing to give their services for free or at less cost to a for-profit company. Another, key cost saving on labour would be to enlist the service of students (within guided and acceptable parameters) to provide manual labour in some of the building projects. Hundreds of students would be more willing to volunteer their services for such a noble cause which benefits not only them but generations to come. More so, universities operating a social enterprise model would also be in a position to negotiate with suppliers of building materials and machinery to lower the cost of purchasing. This again serves to lower the costs of doing business. The monies saved via such initiatives would then be reinvested to grow the institution as well as to benefit students and workers within the university. To this end, the social enterprise model mirrors a sound and viable alternative to outsourcing in universities.

3.4 Fundraising

The adoption of the social enterprise model will also allow for the ventures to raise funds via donations. The NPO sector is a multi-billion dollar industry in Southern Africa. Most of the funds available to the sector are sourced from private individuals, corporates and overseas donors. The adoption of a social enterprise model of operation would allow for the entities to fundraise for additional income that would enable them to charge even less contracting fees to the university. Many universities especially in South Africa are increasingly putting emphasis on and looking into ways of raising the so called 'third stream income'. Deploying the social enterprise structure as an

alternative to outsourcing would no doubt enhance the ability of universities to benefit from third stream income given that more costs will be saved as universities pay less contracting fees.

3.5 Student welfare (catering services and groceries)

Most of the money spend by students each year goes to catering and buying of groceries. In many universities, such services are rendered by private companies that make millions of dollars out of their ventures. In most cases, their products are overpriced compared to the prices that are charged by similar business serving the general populace. For example, a can of fruit juice costs around R12 (Rand) or less at most retail outlets at University A, 100 meters away at a major supermarket, a similar can costs R8. A sandwich at an outlet at University A costs between R22 to R35 while at a nearer Pick N Pay a similar product would cost R15. Why such a big difference? One would expect that services and products offered at universities, most of which enroll students from poor backgrounds would be more affordable. Yet sensitivity in this area has largely been ignored. The social enterprise model of operation can best be deployed to eradicate such anomalies. It is possible to set up various social enterprises that would provide catering to students and staff in universities at cheaper rates. Where a private company runs a supermarket at a university and charges 15 percent mark-up on their products, a social enterprise is able to run a similar supermarket and charge 6 percent mark-up which allows it to operate in a viable and sustainable way. This is possible because the use of social enterprise eliminates the profit motive as the core mission unlike in a private company where profit trumps all other considerations. By adopting a social enterprise model of operation, universities will be able to run cheaper catering services that would immensely benefit students' welfare and the welfare of the broader university community. Innovation is one of the core strengths of people who largely operate within the social enterprise arena. As such, it is possible for social entrepreneurs (those who initiate social enterprises) to craft and deliver services in an inventive way at a fraction of what it would cost when using a private sector company.

3.6 Rotating money in the university system

One of the key advantages of using the social enterprise model is that it keeps money growing and rotating in the university system. The use of private sector companies means that the universities are draining money out. However, when using the social enterprise model, no dividend or surplus is given to individuals. To this end, all the social enterprise

ventures initiated to provide services would remit any excess profits back to the university system. Such resources are then redeployed for other purposes such as scholarships, infrastructural development and improvement of student welfare among other things. This ensures that a bigger chunk of the monies invested within a university that uses a social enterprise model would keep growing and rotating within the university system, instead of enriching the coffers of private individuals.

4. Implications

Universities play a critical role both locally at country level and in the global sphere. They are or rather should be centres of knowledge production and cutting age initiatives that will give birth to a just and equitable society. The practice of outsourcing goes against this mandate. By embracing outsourcing, universities have given in to the currency of marketisation and have become active participants in embracing structural reforms that have a costly effect on vulnerable segments of the university population- workers and students. Most scholars and leadership of universities are usually at the forefront of criticising governments for adopting policy prescriptions and practices that harm the interests of the poor, yet their own 'houses' are not in order in this regard. It is therefore imperative that universities should lead the way in crafting creative mechanisms that allow for the restructuring of service provision in a way that protects the interests of low income workers and students from vulnerable backgrounds. In this paper, I have demonstrated that non-profit distributing social enterprise ventures can be adopted as a sustainable and viable alternative to outsourcing. Several reasons have been highlighted which include among others, the non-profit distribution constrain, being mission rather than profit driven, ability to innovate and ability to enlist volunteerism. This model of operation will no doubt if adopted lead to better outcomes for workers in form of improved wages and working conditions, the larger university community would benefit from reduced pricing of critical services such as catering and the university itself would be able to earn surplus income which can be reinvested into growing and strengthening the institution. This model will keep money rotating within the university system. This in turn benefits a large majority of people rather than using the outsourcing model which benefits a few individuals at the expense of workers' and students' welfare. Needless to say, outsourcing unnecessarily drains finances out of the university system. On the contrary, the use of the social enterprise model would keep money circulating within the university system. To this end, the social enterprise model mirrors a viable alternative to private sector driven outsourcing

currently dominating the university spaces in Southern Africa and beyond.

5. Conclusion

In this paper, I have argued that the social enterprise model of operation can be adopted as a cheaper and effective alternative economic model which can replace the practice of outsourcing in Universities. At

present, outsourcing is not only leading to expensive goods and services; but it has also in many cases resulted in poor welfare for workers and escalating costs of service provision at universities. The social enterprise model of operation represents a viable, workable and progressive alternative to outsourcing. This would be true not only in a university context, but in many public institutions which contract external service providers for goods and services.

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