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Bulletin 4 2015 | An sbp occasional paper | www.sbp.org.za

SME social investment in South Africa – the silent benefactors

South Africa's grant spending currently amounts to 3% of GDP compared to the global norm of 1% to 2%. While the government's social wage package has had a direct impact on helping to ease the poverty in the country, and is a cornerstone of government's efforts to improve the lives of the poor, government does not have the resources to deal comprehensively with South Africa's social problems of rising unemployment, poverty and inequality. Whatever its intentions, the fiscal envelope is limited.

This is hardly a new realisation. Government regularly calls on business to join it in resolving social problems. Contrary to the assertions of its critics, business is not indifferent to these. According to Trialogue research, corporate expenditure on social development in South Africa was estimated at R8.2 billion in 2014. This sum exceeds the budget of several government departments.

But this is an incomplete picture. The latest round of SBP's annual SME Growth Index in 2015 asked its small and medium sized (SME) panellists about their social investment activities. These results, together with findings from earlier rounds of the survey, paint a picture of an extensive and unrecognised social development network being run by South Africa's SMEs.

A large majority of the survey's panellists, around 70%, are involved in social investment, ploughing goods or services into charitable and social developmental work in their local communities. South African SMEs are actually more engaged in social investment than their counterparts elsewhere. By contrast, a study of eight Latin American countries found that between 10% and 20%of SMEs were involved in the external social investment that our panellists are undertaking.

This is remarkable in view of the tough economic climate. Just over one in five firms of the panel reported a decline in turnover between 2014 and 2015 and a further 20% reported no growth in turnover in the same period. Year on year changes in the sub-indices of the SME Growth Index are showing worrying downward trends and a vast majority of the panel report that the business climate is becoming increasingly hostile to their firm growth – yet SMEs continue to be involved in social investment activities.

Social responsibility is widespread and part of the SME culture. South Africa's SMEs do it for essentially ethical reasons. The owner of a Cape Town communications firm says: "We take our social responsibilities very seriously and do so willingly - every company needs to be doing its bit to transform South Africa into a more equitable society".

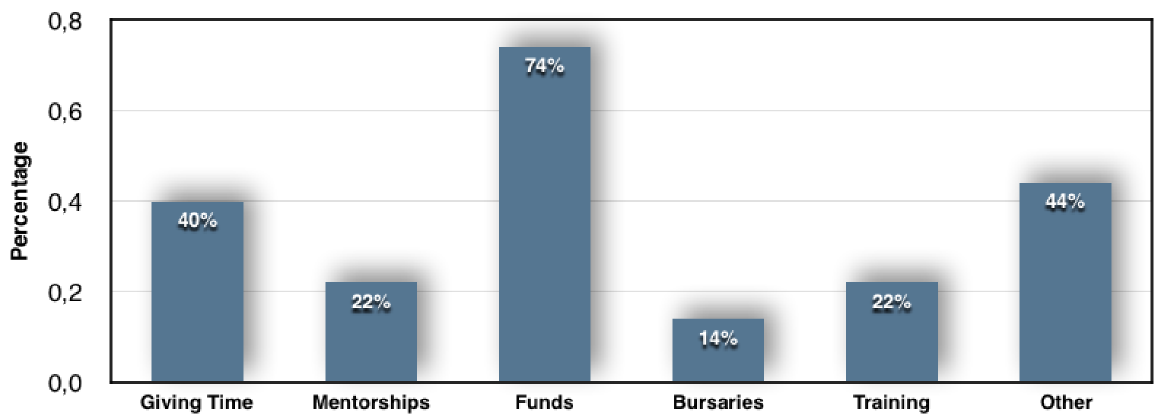
Our research shows that marketing benefits and BEE points are weak motivators. Unlike their larger counterparts, SMEs are too small, and can individually offer too little, for their social investments to be viable branding and marketing tools. And in practice it can be difficult for smaller firms to get BEE points for their social development efforts. Almost 70% of the firms that were asked whether BEE was a motivator for their social expenditure reported that they contribute to social upliftment for reasons other than BEE. That SMEs choose to continue their social investment in the absence of commercial advantage underlines their moral motivations.

How widespread is SME social investment?

SME social contributions penetrate hidden social niches and they are doing so in a variety of ways. SMEs worldwide are intimately linked to the communities in which they operate, and direct their efforts at local causes. Far more than a corporate, they are accessible to local communities and able to respond quickly to ad hoc needs. In the case of donations to local organisations and NGOs, local SMEs are invariably approached for support.

The SME Growth Index shows that SMEs conduct a wide range of social development activities across South Africa (Figure 1):

Figure 1: Social development activities, total sample



Source: SME Growth Index

Giving funds is the most common – just on three quarters of SMEs involved in social investment are doing this. It is a simple and direct way to for the small firms to make a social contribution.

Around 40% of the SMEs offer their time, typically their professional services. Technology firms often provide IT support to schools, while some marketing and consulting firms offer their expertise to non-profit organisations to assist in strengthening their operations. A Johannesburg communications firm explains its support to an NGO working with child-headed households: "We support them through sustainable infrastructure development. We trained beneficiaries of their programme and volunteers, particularly in administrative and accounting skills, which are skills that companies have but NGOs do not." Several IT technology firms provide IT support to schools in poor and rural areas.

A third prominent group is the miscellaneous "other" and underlines the variety of ways in which SMEs contribute to social upliftment. Many manufacturing firms donate their products to charities, hospices and animal welfare.

SMEs are also deeply involved in human capital development. Assistance to schools is a common theme throughout the panellists' responses. It is also seen in the robust levels of training, bursaries and mentorship offered.

Probing deeper into the data gathered from the SME Growth Index, the findings show that the larger and older SMEs on the panel are generally more likely to be involved in social development activities than their younger and smaller counterparts. Less than two thirds of firms with turnovers below R10-million contribute to social development activities, compared to over 80% of those with turnovers of between R10 million and R50 million.

Likewise, around three firms in five employing fewer than 20 people are contributing towards these activities; this rises to an average of four in five for those employing more than 20 people. Just over half of firms aged five years or younger are making contributions; around 70% for those older than five years are doing so.

The clear message is that social investment follows as firms grow and establish themselves. Greater resources would mean more social investment. One hotelier, describing an outreach initiative to poor children, remarked: "We would do more if we had the budget."

Each of these activities undertaken by SMEs represents an investment in South Africa's social welfare. It is no exaggeration to say that they represent a substantial subsidy or tax credit to government. Our findings show that on average firms employing less than 50 people on our panel spend 0.7% of turnover on their social contributions, or on average R92 000 per annum.

Government often comments that a balance has to be struck between alleviating South Africa's social ills and encouraging economic growth. This is not entirely true. Given the motivations behind SMEs' social investments, there is every reason to believe that the growth of their social contributions would come in tandem with their commercial success. As our research shows, SMEs play an important role in the health and wellbeing of the country's economy and its people. A growing community of SMEs and an enabling environment that encourages SME growth would not only mean more direct wealth and job opportunities, but greater social spending for society's needy.

Amid the poverty so many of our country's citizens endure, every contribution from the silent benefactors in our SMEs diverts a potential demand from government. They often step in where government cannot. Their efforts, and their future potential to do more, deserve to be recognised more widely.

An extensive annual study established in 2011, SBP's SME Growth Index is based on a survey of a random sample of 500 established small firms employing less than 50 people and operating in three sectors: manufacturing, business services and tourism and across three major metropolitan areas. The SME Growth Index is the largest, most comprehensive study of the SME community undertaken in South Africa, and one of a few longitudinal studies of its kind worldwide. The data assembled over the years since its establishment in 2011 provides unparalleled insights into the lived dynamics of South African SMEs.

The 2015 SME Growth Index is supported by SBP with additional funding from the Friedrich Naumann Foundation for Liberty and the National Treasury of the Government of the Republic of South Africa.

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SBP is a not for profit company specialising in improving the environment for doing business. We have worked in Africa and internationally since 1998 providing innovative solutions for policy formulation, better regulation and development in emerging markets. We have a special interest in small business as vehicles for growth and job creation.

79 Oxford Road, Saxonwold, Johannesburg, South Africa
PO Box 1051, Houghton 2041, Johannesburg, South Africa
T +27 11 486 0797, F +27 11 486 0810
www.sbp.org.za
info@sbp.org.za
www.smegrowthindex.co.za

SBP acknowledges the financial contribution of the Friedrich Naumann Foundation for Liberty.