International Journal of Engineering Inventions
e-ISSN: 2278-7461, p-ISSN: 2319-6491
Volume 13, Issue 6 [June. 2024] PP: 189-191

What Should Social Enterprises Do To Cope Well With The Diversity Of Stakeholders And Financial Requirements?

Đinh Nguyen Khanh Phuong, Bui Tran Huan
The University of Danang - Vietnam-Korea University of Information and Communication Technology

Abstract
The article answers two questions: First, stakeholders of social enterprises such as donors, and beneficiaries – especially beneficiaries – are the reason for the birth of social enterprises. What actions do social enterprises need to take to match the importance of this audience? In other words, how do businesses need to show awareness of the importance of this audience? Secondly, with the core operational goal of solving environmental and social problems, what does social enterprise do with financial concepts? Because social enterprises still have to compete with traditional enterprises, monetary value is an undeniable criterion for measuring operational efficiency. This article introduces two new approaches to measuring the effectiveness of social enterprise operations. This is also the answer to the above two questions. It means that social enterprises should integrate the measurement of achieving the desires of their stakeholders into the measurement of operational efficiency and assign monetary value to the environmental and social outcomes they generate.
Keywords: *social enterprise, stakeholder, performance measurement, financial result, non-financial result*

Date of Submission: 12-06-2024 Date of acceptance: 25-06-2024

I. Introduction

The role of social enterprises is undeniable in that the economy has not yet escaped the impact of the COVID-19 pandemic, especially in developing countries. While the impacts made by social enterprises can be difficult to measure in some aspects, it is this immeasurability, in a way, that shows that these effects are invaluable to the beneficiaries—the marginalized in society. Because of the financial and non-financial results brought to these subjects, it is necessary to improve the legal system and operational standards towards the ultimate goal of the existence and development of social enterprises and their positive impacts on the environment and society. There have been proposed business and management models for social enterprises; In this paper, the authors introduce more performance measurement models with a more comprehensive perspective that can be applied to social enterprises to provide social enterprise managers with more tools to improve operational efficiency.

The first approach includes the Performance prism model of Andy Neely and Chris Adams, the Stakeholder system performance management model integrated by Simmons Mitchell et al. and the Three-factor model of Arena and associates. The first model considered was the Performance prism model built by Andy Neely and Chris Adams in 2001. The model is used to measure and manage performance, designed to address the limitations of traditional models such as the Balanced Scorecard. The model places particular emphasis on understanding and responding to the needs of all stakeholders, from customers, employees, suppliers to investors and the community, and aligning the organization's strategies accordingly. The model consists of five aspects that are interrelated:

Stakeholder satisfaction
This aspect focuses on identifying who the stakeholders are and what they want and need from the business. Stakeholders may include customers, employees, investors, suppliers, regulators, and the community. The organization must understand and prioritize these needs to ensure stakeholder satisfaction.
Stakeholder contributions
Here, the model looks at what the organization needs from its stakeholders to achieve its goals and how the business can encourage these contributions. This reciprocal relationship highlights the importance of creating shared value.
Strategy
Businesses need to answer the question of what strategies are needed to meet the needs and desires of stakeholders and receive their contributions. This alignment is critical to achieving sustainable success.

Process

This aspect focuses on the internal processes that a business must have in place to implement its strategies effectively. These processes must be effective and aligned with strategic objectives to deliver value to stakeholders.

Capability

The final aspect considers the capabilities, resources, and competencies that the organization needs to maintain and develop to support its processes. This includes human, information, organizational, and material assets [1].

These five aspects provide an integrated and comprehensive framework for management, and by addressing all aspects simultaneously, businesses can obtain a structured business performance measurement and management model.

The second model is the Stakeholder system performance management model integrated by Simmons Mitchell et al. [2] into performance management [3]. According to Mitchell, stakeholder theory has been a common conjecture method for describing the management environment for many years, but it has not yet reached full theoretical status. Mitchell proposes an emphasis on stakeholder identification and prominence based on stakeholders possessing one or more of the three relationship attributes: power, legitimacy, and urgency. By combining these attributes, Mitchell creates a type of stakeholder, proposals related to their importance to company managers as well as research and management implications. He uses stakeholder analysis to determine relevance in the views of different stakeholders and to establish a ranking of aspects that are considered important to be measured [2]. Simmons uses Mitchell's stakeholder analysis to look at issues of operational effectiveness, accountability, and organizational equity; and to identify the implications for more socially responsible HR practices. Simons emphasized that effective governance can be reconciled with social responsibility and that incorporating stakeholder perspectives in the HR system will enhance the performance and commitment of the organization. Simons emphasized the need for a robust performance measurement system that aligns with the organization's social responsibility goals. He suggested that organizations should implement metrics not only to measure financial performance but also social and environmental impact.

This model ensures that accountability goes beyond traditional financial measures to include broader social responsibilities. Although the model was introduced by Simons as a means to develop an HR system [3], it can be seen that social enterprise managers can use it as a guide to develop criteria for measuring social enterprise performance because it is in line with the characteristics of a variety of related objects and these related objects are considered as the core of social enterprises.

The third model considered is Three-factor model of Arena and associates which includes resource value, product value and result value. Arena et al. based on the contingency model developed by Ebrahim and Rangan [4] and adapted it to the specifics of social enterprise [5]. Based on the results of Bagnoli and Megali's research [6], Arena and colleagues differentiated between management and social effectiveness. Management effectiveness relates to the extent to which a social enterprise achieves the management objectives defined in its strategic plan [7]. Social effectiveness relates to the relationship between social enterprise and stakeholders and measures an organization's ability to meet the needs of its target community through the production of goods and services [6]. Due to the special characteristics of social enterprises and the relevance of social efficiency in relation to their objectives, therefore, "impact" is an important aspect for social enterprises, since it refers to the benefits or changes that occur in the community brought about by social enterprises. From the above bases, Arena and colleagues identified three factors to measure the effectiveness of social enterprise operations, including: Resource value – resources used to produce goods or services must be consistent with the mission of social enterprises; the value of products - production output must be consistent with the social value expected from social enterprises; Result value - the final impact of the product or service produced must meet the desired needs of the social enterprise for its operation. In addition, social enterprises must compete in the market, just like for-profit organizations, so they must pay special attention to their ability to ensure their financial sustainability, leading to the introduction of the final aspect of performance [8].

This model helps to understand the overall performance of the business rather than just individual aspects by considering many factors and their interaction in the business environment. The model also responds to the dynamic nature of the business environment, acknowledging that the factors that drive performance and results are constantly evolving. The model ensures that the needs and expectations of all important stakeholders are considered. And finally, by showing the correlation between different performance metrics, the model helps to understand the cause-and-effect relationship in the organization. However, this is a model that requires comprehensive and accurate data collection, which entails requirements for resources, general management methods, and especially data management.

The second approach is expressed through the SROI tool - Return on Social Investment. It is a tool developed by the Roberts Business Development Fund and tested by the New Economy Fund (NEF). SROI focuses on the following areas:

Stakeholder involvement: Identifying and engaging stakeholders is crucial in the SROI process. Stakeholders are people who experience change or impact due to the organization's operations. And stakeholder goals are identified as the focus of the SROI process. It is important that the analysis focuses on the areas identified by the stakeholders.

Outcome mapping: Identify the chain of cause and effect from input to output and impact; develop a roadmap to understand how the organization implements change, thereby achieving its mission.

Outcome Pricing: Assigning a monetary value to an outcome is a distinctive feature of SROI. This can be done by using financial representatives to estimate the economic value of social and environmental outcomes. The aim is to quantify the value of the results in monetary terms to compare them with the costs incurred.

SROI Calculation: The SROI ratio is calculated by dividing the total resulting value by the total investment. A ratio greater than 1:1 indicates that the organization creates more social value than the investment cost. SROI often relies on public spending figures to show the positive external impacts of the operation of social enterprises in monetary terms.

Reporting and use of results: The final step involves reporting the results to stakeholders and using insights to improve organizational operations and decision-making. Transparency in reporting helps build credibility and support among stakeholders [9].

Not all impacts created by social enterprises can be quantified and converted into financial value, so the use of SROI can lead to an underestimation of the impacts created by social enterprises as cognitive or psychological impacts [10].

II. Conclusion

The two approaches introduced in the article are based on the view that (1) performance should be measured not only through the criteria of management objectives, but also the ability of the business to meet the needs of the target community, which includes employees – who are also likely beneficiaries, sponsors and other beneficiaries... because the peculiarity of social enterprises is that they are born and exist for the benefit of society. And (2) the combination of both quantitative and qualitative methods through the conversion of social and environmental outcomes into monetary values helps to quantify the financial benefits of social benefits. Although the above models answer two specific questions that are important for social enterprises, each model itself has advantages and disadvantages.

The authors do not give an assessment of which model is the most optimal because the most optimal depends on the specific context and activities of each social enterprise. The introduction of these models is based on the idea of the diverse characteristics of social enterprises and tries to quantify as many measurement indicators as possible so that measurement, management, and improvement can be more effective. In-depth research in the future can be tested to find a suitable model for social enterprises operating in different groups, years of operation, or fields of operation.

REFERENCES

[1]. Neely, A., Adams, C., & Kennerley, M. (2002). The performance prism: The scorecard for measuring and managing business success. London: Financial Times Prentice-Hall.

[2]. Mitchell, R. K., Agle, B. R., & Wood, D. J. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. The Academy of Management Review, 22(4), 853–886.

[3]. Simmons, J. (2003). Balancing performance, accountability and equity in stakeholder relationships: Towards more socially responsible HR practice. Corporate Social Responsibility and Environmental Management, 10, 129–140.).

[4]. Ebrahim, A., & Rangan, K. (2010). The limits of nonprofit impact: A contingency framework for measuring social performance. Harvard Business School Working Paper, May 2010.

[5]. Arena, M., Azzone, G., & Bengo, I. (2015). Performance measurement for social enterprises. VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations, 26, 649-672.

[6]. Bagnoli, L., & Megali, C. (2011). Measuring performance in social enterprises. Nonprofit and Voluntary Sector Quarterly, 40(1), 149–165.

[7]. Richard, O., & Johnson, C. (2001). Strategic human resource management effectiveness and firm performance. International Journal of Human Resource Management, 12, 299–310.

[8]. Arena, M., Ciceri, N. D., Terzi, S., Bengo, I., Azzone, G., & Garetti, M. (2009). A state-of-the-art of industrial sustainability: Definitions, tools and metrics. International Journal of Product Lifecycle Management, 4, 207–251.

[9]. New Economics Foundation (NEF) (2007). Measuring real value: A DIY guide to social return on investment. London: New Economics Foundation. Retrieved from http://www.neweconomics.org/.

[10]. Ebrahim, A., & Rangan, K. (2010). The limits of nonprofit impact: A contingency framework for measuring social performance. Harvard Business School Working Paper, May 2010.