

Social Enterprise and Good Governance

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Abstract

A social enterprise is an organizational frontier which applies capitalistic strategies to achieve philanthropic goals. Social enterprises can be structured as a for-profit or non-profit business edge. The idea of social enterprise has a long history around the world; they work under different names and with different tendencies. The need for Good Governance is being increasingly felt in every sector of social and economic activity across the world. This good governance is now widely regarded as one of the key ingredients for poverty alleviation and sustainable development which NGOs and voluntary as well as non-profit organizations must not lose sight. Social business earns revenue to pursue initiative for well being of the society and to improve their operational efficacy. In Bangladesh BRAC, Grameen Bank, ASA, TMSS, Buro Bangladesh and department of social services of the government try to maintain good governance virtues, which are a must to earn public confidence. However, organizations should not to be judged only by their transparency, accountability and financial maintainability but also how well they mobilize and manage resources and delivery services.

Introduction

A social enterprise is an organizational frontier which applies capitalistic strategies to achieve philanthropic goals. Social enterprises can be structured as a for-profit or non-profit.

Many commercial enterprises would consider themselves to have social objectives, but commitment to these objectives is fundamentally motivated by the perception that such commitment will ultimately make the enterprise more financially valuable. Social enterprises do not have aim to offer any benefit to their investors, except where they believe that doing so will ultimately further their capacity to realize their philanthropic goals.

The idea of social enterprise has a long history around the world, they work under different names and with different tendencies. Many social enterprises today accept finance and other forms of support from the state, they are essentially private sector operations with philanthropic goal.

Social enterprises are often but not exclusively a type of non-profit organization. There are many non-profit organizations that are meant to be self-serving. Only where a non-profit enterprise has goals widely considered being philanthropic, can it safely be considered as social enterprise. But philanthropic goal is, of course, subjective.

The need for Good Governance is being increasingly felt in every sector of social and economic activity across the world. While the corporate sector has attempted, and to some extent, succeeded, in institutionalizing better governance practices, the voluntary sector has unfortunately lagged behind. However, the need for good governance is also being felt in the

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voluntary sector. Over the past several years, there has been an exponential growth in the number of voluntary organizations (VOs) operating across the entire spectrum of development activity in the country. Despite the increase in the numbers of VOs playing a crucial role in wide ranging functional areas, there is a conspicuous absence of any plausible framework to ensure the accountability of these organizations.

This good governance is now widely regarded as one of the key ingredients for poverty alleviation and sustainable development which NGOs must not lose sight of. There is a vital leakage between good governance and sustainable developments. Since most NGOs are aimed at becoming sustainable good governance becomes a vital aspect of NGOs existence. Participatory approach or management is essential to the achievement of sustainable development because it helps to ensure good accountability and effectiveness. This is an observation that NGOs in developing countries often lack institutional capacities and resources. Funds from donors are poorly managed. To ensure effective and proper management of resources, good governance become an important aspect of every GOs and NGO. NGOs and GOs need to be accountable for their actions and performance. Without such accountability, NGOs face no pressure to meet reasonable standards of governance and to ensure that an acceptable standard of human, financial and material management is maintained. Thus for good governance of social entities the following governance should be actualized for maintaining operational efficacy;

- Transparency in decision-making;
- Accountability which follows from transparency because responsibilities should be fixed for actions taken or not taken, and accountability is for safeguarding the interests of the society and the beneficiaries in the organization.
- Considerable range of technical expertise, skills and commitment of resources should be embedded.

Objectives

Objectives of this article is to articulate the goals of social enterprises, rational of profit making, factors affecting operation of business, need for good governance, efficacy of governing statutes, etc. Thus good governance will contribute to the following areas:

- ◆ Institutionalize better governance practices;
- ◆ Transparency in decision-making;
- ◆ Accountability which follows from transparency because responsibilities could be fixed easily for actions taken or not taken, and;
- ◆ Accountability for safeguarding the interests of the society and the beneficiaries in the organization; understanding their role; ensuring delivery of organizational purpose; working effectively both as individuals and as a team; exercising effective control and behaving with integrity.

Methodology

The approach and methodology followed in this article have been conceptualized keeping the relevance of issues in mind. The article has strong attachment to the appropriateness and effectiveness. For this, the author has meticulously reviewed documents like- NGO documents, govt. documents and other research papers. The researchers also collected data from Directory of BBS, BRAC, Grameen Bank and other institutions. They have studied the articles in the national journals to conceptualize current scene of social enterprises and articulated the attributes in this paper.

Literature Review: Efficacy of Social Enterprise

Low (2006)ⁱ Argues although Social enterprise are a sub set of non profit organizations they are more likely to adopt the stewardship model of governance because of the pressure to remain financially solvent and self sufficient. Further, researchers have highlighted the challenges of developing social accountability indicators that are appropriate for social enterprises given that no 'standard' parameters currently operate (Darby and Jenkins, 2006)ⁱⁱ. Social enterprise meets social demand through their products and services or through creation of employment for the disadvantaged people. This distinguishes them from "socially responsible businesses (Baum,B.,Califford,M., and Lawyer,K.1977ⁱⁱⁱ) which create positive social change indirectly through the practice of corporate social responsibility (e.g., creating and implementing a philanthropic foundation; paying equitable wages to their employees; using environmentally friendly raw material; providing volunteers to help with community projects (Brich,D.L.2006^{iv}); Poor people in developing countries could make excellent suppliers, employees and customers but are often ignored by major business. This omission leads to increased risk, higher cost and lower sales. Meanwhile, businesses are asked by governments and poverty activities to do more for economic development, but their exhortations are rarely based on a proper business case. It bridges the gap by constructing a rigorous profit making agreement for social enterprise to do more business with the poor (Wilson and Wilson, 2006)^v.

Current literature review exhibit the following efficacy attributes

1. Social business use earned revenue to pursue a double or triple bottom line, either alone (as a social sector business, in either the private or the nonprofit sector) or as a significant part of a nonprofit's mixed revenue stream that also includes charitable contributions and public sector subsidies. This distinguishes them from traditional nonprofits, which rely primarily on philanthropic and government support.
2. Social businesses are created and managed voluntarily by groups of citizens and are managed by them, and not directly or indirectly by public authorities or private companies, even if they may benefit from grants and donations. Their shareholders have the right to participate ('voice') and to leave the organization ('exit').
3. Serve the community or a specific group of people. To the same end, they also promote a sense of social responsibilities.

4. Social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a certain need or aim. They must maintain this dimension in one form or another.
5. The users of social enterprises services are represented and participate in their structures. In many cases one of the objectives is to strengthen democracy at local level through economic activity.
6. Social enterprises include organizations that totally prohibit profit distribution as well as organizations such as co-operatives, which may distribute their profit only to limited degree, thus avoiding profit maximizing behavior. Thus social business also embed the following ethics and values.
 - ◆ Integration of disadvantaged people through work (work integration social enterprises or WISEs);
 - ◆ Provision of social, community and environmental services;
 - ◆ Ethical trading such as fair trade;
 - ◆ Regulatory framework for NGO Governance;

The influence of NGOs in Bangladesh has been growing since the nation gained its Independence in 1971 and has been playing a vital role in the allocation of resources and providing advocacy for the poor and oppressed. In particular, NGOs involved in areas of micro-credit, empowerment of minority groups including women and the poor, health, and education have enjoyed strong growth. As a result, the relation with the government is one of caution and restraint. Specific laws governing registration and incorporation are varied and complex and in most cases outdated. These include the Trust Act of 1882, and the Way of Ordinance of 1962 which concerns the transfer of land among the Muslim population. In response to accusations of corruption and ineffectiveness in NGOs, a cabinet committee was put in place to draft guidelines for operation. This resulted in the implementation of new laws.

Government has defined the area in which NGO are allowed to work while monitoring their flow of funds and thus monitoring transaction with international organizations. This improves utilization and operational efficacy of funds from donor agencies. This heavy handed approach is possible as the government has the power to incorporate NGOs into legal status under its jurisdiction. NGOs have made attempts to improve internal governance through institutional network

ADAB (Association of Development Agencies of Bangladesh) is the institutional network of the NGOs that provide technical and advocacy support. These institutional frameworks have a code of ethics to maintain high standards of governance, self-regulation, efficiency, transparency, accountability, as well as encouraging stronger collaboration between the government and donors. The problem is that they have very little means to guarantee compliance of the code.

Social business is accountable to the wider public through processes of registration and regulation. They are also accountable to founders through agreed reporting arrangements. NGOs working with marginalized and disadvantaged people see themselves as representing the interests of such people. Those SE which are more involved in a particular aspect of disadvantages or with an issue of affecting the well being of society as a whole see themselves as representing a cause of some kind rather than a specified group of people. In both cases the

representation will be stronger where the SEs have a participatory rather than a private structure. But the issues of the accountability and representatives of SEs are more complex than the above might suggest.

There are a number of ways in which NGOs can improve the quality of their governance and operations. Many NGOs have already recognized the need for such improvements.

Findings

Efficacy Improvement of Governance of Social Enterprise: Strategic Proponents

GOs and NGOs like BRAC, Grameen Bank, ASA, TMSS, Buro Bangladesh doing social business are improving both their governance and operations. In governance and operations they try to maintain the following virtues:

- Stating their mission, values and objectives clearly and ensuring that their strategies and operations are at all times within them;
- Maintain better management process as well as financial management, accounting and budgeting, systems;
- Have efforts for better human resource development and training within the organization of managers, administrators, project staff, board members, beneficiaries, members and volunteers.
- Follow better procedures to ensure that men and women have equal opportunities to participate effectively at all levels of the organizations, from members to leaders;
- Maintain better means by which both the organization, and its projects, service and activities are monitored, evaluated and reviewed.
- Take consistent efforts towards capacity building and evaluation of human resources.
- Ensure absolute independence of auditors.
- Ensure stratified participation from the grass root.
- Evaluation is done in terms of the objectives achieved rather than amount of funds utilized.
- Implementing systems which are essential though not legally mandatory.
- Maintain better information system.
- Build Better networking and alliance building among the GOs and NGOs.

Principles

Principle-1

Board leadership

NGOs like *BRAC*, Grameen Bank, ASA, TMSS, Buro Bangladesh are led and controlled by an effective Board of trustees which collectively ensures delivery of its objects sets its strategic direction and upholds its values. The supporting principles are:

The Role of the Board

Trustees have and must accept ultimate responsibility for directing the affairs of their organization, ensuring that it is independent, well-run, and delivering the outcomes for which it has been set up.

Strategic direction

Trustees focus on the strategic direction of their organization, and avoid involvement in day to day operational decisions and matters (except in the case of small organizations with few or no staff). Where trustees need to be involved in operational matters, they should separate their strategic and operational roles.

Principle 2

- The Trustees as a Board are collectively be responsible and accountable for ensuring and monitoring that the organization is performing well, is solvent, and complies with all its obligations.
- The Board have clear responsibilities and functions, and should compose and organize itself to discharge them effectively.

Principle 3

- The Board ensures that the organization complies with its own governing document, relevant laws, and the requirements of any regulatory bodies.
- The Board maintains and regularly reviews the organization's system of internal controls, performance reporting, policies and procedures.
- The Board act prudently to protect the assets and property of the organization, and ensure that they are used to deliver the organization's objectives.
- The Board regularly reviews the risks to which the organization is subject, and takes action to mitigate risks identified.
- The Board ensures that it upholds and applies the principles of equality and diversity, and that the organization is fair and open to all sections of the community in all of its activities.

Trustee duties and responsibilities

- Trustees of BRAC, Grameen Bank, ASA, TMSS, Buro Bangladesh understand their duties and responsibilities;
- The Board organise its work to ensure that it makes the most effective use of the time, skills and knowledge of trustees;
- Trustees ensure that they receive the advice and information they need in order to make good decisions;
- The trustees have the diverse range of skills, experience and knowledge needed to run the organization effectively.

- Trustees have the necessary induction, training and ongoing support needed to discharge their duties.
- The Board makes proper arrangements for the supervision, support, appraisal and remuneration of its chief executive. The Board periodically reviews its own and the organization's effectiveness and take any necessary steps to ensure that both continue to work well.

Principle 4

Board reviews and renewals Performance appraisal

- The Board regularly reviews and assess its own performance, that of individual trustees and of sub-committees, standing groups and other bodies;
- The Board has a strategy for its own renewal. Recruitment of new trustees is open and focused on creating a diverse and effective Board;
- The Board periodically carries out strategic reviews of all aspects of the organization's work and use the results to inform positive change and innovation.
- The Board sets out the functions of subcommittees, officers, the chief executive, other staff and agents in clear delegated authorities, and should monitor their performance;

Principle 5

- The Board has defined roles and responsibilities of the chair and other honorary officers in writing;
- The Board ensures that staff, volunteers and agents have sufficient delegated authority to discharge their duties. All delegated authorities have clear limits relating to budgetary and other matters.
- The Board has set clear terms of reference for subcommittees, standing groups, advisory panels, etc.
- All delegated authorities is subject to regular monitoring by the Board.
- The Board and individual trustees act according to high ethical standards and ensure that conflicts of interest are properly dealt with.

Principle 6

Ethical virtues

- Board and trustee integrity;
- No personal benefit;
- Trustees must not benefit from their position beyond what is allowed by the law and is in the interests of the organization.
- Trustees identify and promptly declare any actual or potential conflicts of interest affecting them.

- BRAC, Grameen Bank, ASA, TMSS, Buro Bangladesh have clear guidelines for receipt of gifts or hospitality by trustees. The Board is open, responsive and accountable to its users, beneficiaries, members, partners and others with an interest in its work.

Information

The quality and extent of information made available by or about GOs and NGOs varies from country to country. Legal requirements commonly mean that GOs and NGOs must produce and make available certain information about their work, such requirements is frequently minimal. Indeed sometimes GOs and NGOs are required by law to supply financial information to the relevant regulatory authorities. As the provision of information requires resources, which many GOs and NGOs do not have, this causes dearth of information about GOs and NGOs and their work. In turn this can lead to:

- NGOs being accused of consciously being secretive about their work;
- NGOs unconsciously not providing or recognizing the value of publishing information about their work. Neither is healthy and many NGOs are recognizing this. But, as with other aspects of improving NGO operations this is an area where NGOs need the support and understanding of others: as noted, information requires resources. In turn this needs recognition on the part of founders that information, like training, monitoring and evaluating, is a necessity and not a luxury.
- Like other aspects of GOs and NGO improvement is discussed here, additional resources expended will in the long run increase the cost-effectiveness of what is done. It is a mistake to see them as simply additional, unnecessary expenditure, which brings no return.
- Shortage of resources, as noted, is one reason why information about NGOs, whether individually or in directories, tends on the whole to be scarce. But another impediment is the lack of an agreed basis on which to present information, including that required for regulatory purposes. It is hoped that the definition and typologies contained in this report might form such a basis.

Networking

Through networking and alliance-building, GOs and NGOs identify common interests and concerns, share information, provide support to each other and maximize the use of available resources to achieve common goals. They are in other words manifestations of co-operative strategies to improve the impact of GOs and NGO operations. Many NGO networks flow exist at local, regional, national and international levels. In the national arena networks, we have examples such as Voluntary Action Network India (VANI) in India, Coordination Slit) in France, the Community Business Movement in Britain, and the Canadian Environmental Network. There are also networks actives, both nationally and internationally, in such fields as health, education,

and people with disabilities. At all levels of their operation, the revolution in international telecommunications and information sharing, through the internet and information super-highway, is presently enormously increasing the extent and impact of NGO networks. Poor performance or behavior is tolerated, treated with understanding and forgiveness.

- Annual performance reviews are rare or non-existent especially at the board level.
- Successful staff and volunteers are not affirmed.
- Weak staff and volunteers are not supported or redirected.
- When forgiveness fails to produce change in unacceptable performance and behavior, judgment and unfair dismissal may follow with accountability and redirection.

Conclusion

Accountability, competency and responsibility - these are the key requirements for managing social enterprise. An NGO is doing social business perhaps more complicated, more demanding than running a publicly listed corporation, as the public's expectations are higher and their demands for transparency are likely to increase in the future. Good governance is a must if GOs and NGOs are to earn public confidence. People are not going to support an organization where they don't know whether money is directed to the right and proper cause. In other words, public support follows only when good governance and management policies are evident, and the primary responsibility for that lies with a GO's and NGO's board. Therefore, voluntary organizations must be accountable to public scrutiny and be prepared to answer any kind of question or criticism. GOs and NGOs managing enterprises are going to be judged not only by their transparency, accountability and financial sustainability but also on how well they mobilize and manage resources and deliver services.

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Endnote

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