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Enterprise strategic management framework based on stakeholder satisfaction and contribution

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***Abstract*—the modern enterprise social responsibility pattern states that the enterprise should bear pluralistic social responsibility to its direct or indirect stakeholders. Based on the stakeholder satisfaction and contribution, this paper starts with this pattern and constructs a strategic management framework which includes strategy setting, strategy planning and strategy implementation. This framework first analyses the stakeholder satisfaction and the enterprise's demand to the stakeholders, and then works out the strategy that will meet the stakeholder satisfaction and contribution. We use strategic map, balanced scorecard and budget to plan the strategy and guarantee the implementation of the strategy by optimizing the internal procedure and improving the organizational capability.**

Keywords- enterprise social responsibility; stakeholder satisfaction; stakeholder contribution; strategic management

I. INTRODUCTION

Stakeholder management has a close connection with the enterprise social responsibility studies. The traditional enterprise social responsibility pattern started from "father of modern economics", Adam Smith. He thinks that the social responsibility of enterprises is to provide society with product and service and thereby realize profit maximization, which is a typical social responsibility monism theory. While the modern enterprise social responsibility pattern maintains that enterprises are bearing pluralistic social responsibilities to its direct or indirect stakeholders, including shareholder, consumer, employee, supplier and creditor. So the connotation of enterprise bearing social responsibility just means the management of stakeholders. Just as Donaldson and Presotn point out: the long term value of enterprises is more and more dependent on its employees' knowledge, capability and the duty hold by them. And the faithful relationship between the enterprise and its investor, customer and other stakeholders already becomes the most important enterprise strategic resource, which is the most important factor that decides the vigor and success of enterprises.

Since the 1960's, the stakeholder idea has been widely accepted by the management literature and has been further developed. The leading exponent of the social responsibility school, Ansoff (1995) argues that: to work out the ideal enterprise objective we must comprehensively consider the mutually benefit conflicts between many stakeholders, which may include managerial personnel, worker, shareholder, supplier and customer.

Applying the stakeholder idea to the study of strategic management originated from Freeman. In 1984, in his classic book "Strategic Management: a stakeholder approach", Freeman emphasizes the function of stakeholder in strategy analysis, planning and implementation. He defines stakeholder from the influence of relevant interest party to the enterprise and emphasizes the stakeholder's participation in strategic management. After the 1990s, stakeholder theory has got a rapid development. It has been considered by the economists and managerial experts as the effective tool to "help us to know and understand real enterprises".

Home scholars started to study stakeholder theory from the 1990s. Yang Ruilong (1997) starts off from basic enterprise theory model and proposes the "shared governance" of stakeholders. Li Weian (2005) studies the necessity and participating route of stakeholders in participating corporate governance from the external governance mechanism angle. Jia Shenghua, Chen Honghui (2003) starts off with the management philosophy, point out that enterprises must abandon the operating idea "that everything serves for shareholder's benefit", pay more attention to cultivate and find the employee's human capital value and properly satisfy the demands of many enterprise stakeholders. But there are no further deep studies on the strategic management based on stakeholder theory at homeland.

II. STAKEHOLDER MANAGEMENT GENERAL FRAMEWORK

Andy. Neely（1998）, school of management, Kelanfierde university of Britain, invented the performance prism. Performance prism is a prism that has five sides. The up and down sides are stakeholder satisfaction and stakeholder contribution. The other three sides are strategy, process and capability. The performance prism draws together the five key themes, stakeholder satisfaction, stakeholder contribution, strategy, process and capability, to help the managers to consider the following questions: (1) Stakeholder satisfaction: who is the enterprise's main stakeholders? What are their desires and demands? (2) Stakeholder contribution: what does the enterprise want to

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gain from the stakeholders? (3) Strategy: what strategy should the enterprise adopt to satisfy both the stakeholders' needs and its own needs? (4) Process: what processes does the enterprise need to carry out the strategy? (5) Capability: what capabilities does the enterprise need to operate the corresponding processes?

Robert S. Kaplan, professor of Harvard business school, and David P. Norton, founder and president of the Risorgimento scheme consulting firm international, invented the balanced scorecard (1992), and constructed a management system that linked strategy to operation (2008). The balanced scorecard comprehensively reflects the enterprise's value driving factors such as shareholder satisfaction, customer satisfaction and employee learning and innovation, highlights the functions of financial aspect, customer, internal procedure and employee learning and growth, which are guided by the mission and strategy, in realizing the corporate objective. The management system that links strategy to operation includes six phases: strategy setting, strategy planning, coordinating the organization, operating planning, supervising and learning, checking and adjusting strategy. By the aid of strategic map and balanced scorecard, this management system solved the problem of integrating strategy setting and strategy implementation fairly good.

By referencing the performance prism of Andy Neely and the strategic management system of Kaplan and Norton, we construct an enterprise strategic management framework based on stakeholder satisfaction and stakeholder contribution. This framework is shown in figure1.

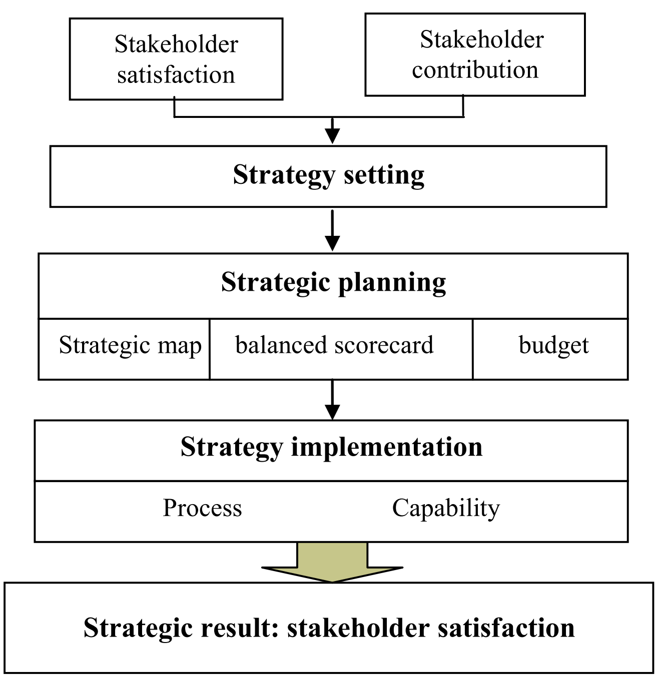

Figure1: Enterprise strategic management framework based on stakeholder satisfaction and contribution

III. STAKEHOLDER SATISFACTION AND CONTRIBUTION

The enterprise and its stakeholders have a mutually interacting relationship. To keep this relationship the enterprise needs to satisfy the stakeholders and at the same time ask them to make their contribution to the enterprise. The main stakeholders are:

A. Investor

Investor (shareholder) is a best well-known stakeholder. They are the provider of material capital, the benefit person of net income and also the bearer of operating risk. The satisfaction of investors mean: they can gain the risk-corresponding return; can get the true financial and non-financial information; enterprises can fulfill the promises made.

The contribution demands to investor are: fund support; when short of fund, the enterprise can get finance such as credit loan. The investor should bear the risk from the uncertainty in production and operation; the enterprise can get the investor's long term support which including both support in psychology and support in proposing some reasonable suggestions at the right time.

B. Credior

The satisfaction of creditor comes from the enterprise's ability to pay off its debts. On the one hand, creditors care the guarantee of its interest income. On the other hand, they also care about the security of their capital fund. Therefore, judging from creditor's position, the enterprise's ability to pay off the capital and interest in due time and the enterprise's credit are the two most important things that can bring satisfaction to creditors. The contribution demands to creditor are similar to those of demands to investor.

C. Customer

The satisfaction of customer comes from the convenient, cheap, high quality products and services provided by the enterprise. This requires the enterprise to consider thoroughly about the time consumed in delivering the product or service to customer, the price of the product or service and the quality of the product or service.

The enterprise hopes to gain loyalty from customer, and the loyalty of customer is closely related with the customer satisfaction. Only when the customer satisfaction can lead to the customer's loyalty will this satisfaction create real value to the enterprise. Besides, enterprises are more and more hoping that customers can become one link of the entire value creation chain. They hope that the target customers will participate at the very beginning of designing and developing products or services so that the information feedback from the customers can closely link the enterprise to the real market demand, which will greatly enhance the enterprise's competitiveness.

D. Supplier

The satisfaction of supplier comes from the enterprise's long-term stable demand of their products. And also comes from the enterprise's business behavioral principles such as being independent, equal, honest and kept promises.

The enterprise hopes the supplier to be a long-term cooperative partner which will guarantee a sustainable and stable supply of low-cost production inputs.

E. Employee

The employees are the value creator of enterprises, employee's satisfaction means: first, the enterprise can create enough growing space for its employees; second, the enterprise should try to create a fair, comfortable working environment; third, with ever increasing job competitive pressure, employees hope their technical ability can be constantly improved; last, employee's endeavor need to be recognized. The performance evaluation of the enterprise should be coordinated with the employee's reward program.

The employee's endeavor is the source of enterprise value. First, earnest and assiduous employee is the driving force of enterprise's development; second, employee's high spiritual morale can help enhance working productivity; third, listen to the employee's various suggestions in time can help improve the enterprise's performance.

F. Government

The government is the political environment that the enterprise relies on for existence. To a certain extent, the enterprise needs to meet the government's demands in order to get more concession terms and more broad developing space. As the authority executor, first, the government hopes the enterprise is able to observe the relevant code of conduct and the law; second, in order to keep social stability, the government hopes the enterprise can undertake the responsibility to its stakeholders.

While making contributions to the entire society, the enterprise also hopes the government can support the enterprise's development. On the one hand, they hope the government can provide some support in law and regulation, public opinion and various concession terms; on the other hand, the enterprise hopes there can be a fast communicating channel with the government. The enterprise even hopes that it can participate in the course of setting law and regulations so that the voices of enterprises can be transferred to the regulators.

IV. STRATEGY SETTING BASED ON STAKEHOLDERS

Through the stakeholder satisfaction and contribution analysis, the managerial person can identify who are the most influential stakeholders to the enterprise? What do they need? What does the enterprise want to obtain from the stakeholders? When these problems are clearly understood, the enterprise can begin to set corporate strategy. The key problem of setting strategy is how to guarantee the stake holder's interest and at the same time satisfy the enterprise's own demand.

Caron H. St. John and Jeffrey S. Harrison (2007) mix the prevalent strategy theoretical framework with the stakeholder approach together, works out a set of comprehensive strategic analysis method, which use the stakeholder approach as the basic framework and use the traditional approach as the strategic tool. For example, they distinguish the environment as "running environment " and "external environment ". In the running environment, they apply the resource-basis model to analyze the stakeholder relations such as managerial persons and employees; while in the external environment, they apply Porter's "five factors model" to analyze the stakeholders such as competitors and suppliers. At the same time, strategic management should not only stay at the analysis level, it should further consider the "priority order" of different stakeholders, this is a process of comprehensively consider both the stakeholder and the corporate strategic objective.

The stakeholder theory has provided a brand-new way of setting and implementing corporate strategy. It can lead to the transform of corporate strategy idea and the relocation of strategic objective. It will make the enterprise rethink the relationship between organization and environment, make the enterprise pay more attention to the compatibility of the interest of both internal and external stakeholders and the interest of shareholders, pay more attention to the long-term development and sustainable progress. Through the stakeholder analysis, we can discover the opportunities and threats from stakeholders and the resource advantages and disadvantages from stakeholders. The enterprise can convert the stakeholder advantages into its core resource and capability so as to enhance its own core competitiveness. It can also try every possible way to cope with the stake holder's threats or try to create some cooperative opportunities to form a strategic alliance.

V. STRATEGIC PLANNING

Strategic planning is to convert the strategy into detailed action plans. According to Kaplan and Norton, the main tools of strategic planning are strategic map, balanced scorecard and budget.

Kaplan and Norton point out that an organization's ability to create value depends on four perspectives: financial, customer, internal procedure, employee learning and growth. Strategic map is a visualized cause-and-effect relationship framework that builds around the four perspectives. This framework clearly reflects the enterprise's value creating process. The balanced scorecard converts the cause-and-effect relationship described in the strategic map into objective, indicator, target value and measure. A given strategy is first considered from the four perspectives: financial, customer, internal procedure, learning and growth, and then every perspective will be translated into objective, indicator, target and measure, by which the strategy is gradually converted into yearly operating performance indicators. The four perspectives are not independent of each other; they are a cause-and-effect chain which illustrates the relationship between performance and the performance drivers. The balanced scorecard applies the financial and non-financial indicator method to all managerial levels. It originates from the corporate strategy and forms a cause-and-effect chain top to bottom.

Combined with stakeholder satisfaction and stakeholder contribution, we can retell the strategic map as: the enterprise's strategic objective is to create long term value including financial performance; the realization of the objective originates from stakeholder satisfaction and stakeholder contribution; the important way of reaching stakeholder satisfaction and contribution is an excellent internal procedure; the learning and growth perspective will drive the performance enhancement of key procedure and bring value to the enterprise.

Through the above four aspects, the balanced scorecard converts the enterprise strategy into detailed measurable indicators and targets, which will make the enterprise reach a kind of balance between strategic objective and yearly measurable indicators, between external indicators (stakeholders) and important internal procedures, between innovation, learning and growth, between expected output and the output performance drivers and between financial indicators and non-financial indicators.

Budget guarantees the resources needed to implement the strategy. In the 1980s, one investigation to enterprise management consultants conducted in the US showed that only less than ten percent of the enterprise strategies can be effectively carried out. Some other studies demonstrate that the failure of many enterprise strategies is because there are no sufficient resources such as labor, capital fund and financial resources, that is, the strategic measures are not supported by budget. Kaplan and Norton divide budget into operating budget and strategic budget and list the necessary labor and financial resources in the strategic budget, which can guarantee the resources needed to implement the strategy.

VI. Strategy Implementation

The key of strategy implementation is to improve the process and enhance the organization's capability.

A. Process improving

Effective implementation of the strategy requires the enterprise to reconstruct and improve the corresponding business processes. Business process is a series of activities from the inputting of raw materials and customer demands to the outputting of the products or services valuable to customer. In the 1990s, since Michael Hammer proposed the idea of business process restructure, business process has been paid close attention widely.

The coordination of process improving with strategy starts from the core of strategy: strategy direction. If the strategy is to satisfy customer demand with low cost, we should focus on the processes which will reduce cost, enhance quality, shorten supply chain, producing, distributing and service delivery cycle. If the strategy is to provide an overall settlement scheme and to build customer relation, we should identify the target customers and focus on the processes which will strengthen the relationship with the target customers. For example, we need to analyze the customer demand, cross sell diversified products and services in order to provide an overall settlement plan. Those innovative enterprises will get maximal reward from process improving when they focus on the processes of enhancing innovative ability and product development. To fulfill the responsibility to employees, government and customers, the enterprise must obey the law and regulations in business operations and improve processes such as health, safety and environmental protection.

To reach stakeholder satisfaction, enterprises should especially focus on the processes of investor relationship management, customer relationship management, employee relationship management, supplier and coalition partner relationship management.

B. Organizational capability

The highly efficient running of processes needs the support of corresponding organizational capability. Organizational capability is a measurement of the enterprise's current and future ability to satisfy stakeholder demand and create top level processes. It mainly includes: human resources, which will enhance organizational performance by cheering up their initiative such as employee satisfaction, employee liquidity, training and technical ability developing; system construction, the information system should be able to provide accurate, reliable and continuous information about customers and business processes; organizational procedure, the enterprise should have some detailed indicators to tell what is success and combine these indicators with appropriate reward programs. To reflect organizational capability, Kaplan and Norton proposed corresponding preparation degree indicators.

For example, the human capital preparation degree indicator reflects the effectiveness of employee's technical ability, knowledge and private key know-how, which will be used to carry out the key internal procedures for the success of strategy. The combination of human resources, system construction and organizational procedure represents a unique operating style; it also represents the enterprise's capability to create value for stakeholders. It is the embodiment of the enterprise's competitive advantage.

VII. Conclusion

Based on the stakeholder theory, this paper explores the strategic management issue based on stakeholders. The main conclusion is that the enterprise and its stakeholders have an interactive relationship. In order to maintain this relationship, the enterprise should consider not only how to realize stakeholder satisfaction but also how to make the stakeholders make their contribution. Therefore, the enterprise must consider stakeholder satisfaction and contribution when working out the strategy. At the same time, for the effective implementation of the strategy, the three aspects strategy, processes and capability must be mutually linked and coordinated. Only by doing this can the enterprise truly realize stakeholder satisfaction and contribution. The means of achieving this objective is the strategic map and the balanced scorecard.

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