

Analysis of Current Conditions Facing Social Enterprises in Korea: Policy Issues Regarding Their Sustainable Development¹

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ABSTRACT

This paper aims to describe the systems of social enterprise currently operating in Korea to provide job opportunities for the poor and socially disadvantaged; to examine the problems and difficulties underlying the operation and implementation of these systems; and to suggest some means of addressing these problems, given the understanding that they are likely to manifest themselves both now and in the near future. To this end, we examine the existing system of social enterprise in Korea using interviews and content analysis, and then put forward some policy suggestions whereby policymakers and practitioners in Korea may be able to bring about improvements.

1. Introduction

Nowadays in particular, the unemployment rate in Korea is not reducing, and income disparity between the rich and the poor is growing. In particular, a high percentage of young university graduates are without jobs (the employment rate is approximately 58% as of December 2013) (KoSEA homepage), with the consequence that the demands of ordinary people for employment and for more social welfare are becoming stronger and more serious. Against this background, the Korean Government has been making efforts to create new jobs, in particular for the elderly and other disadvantaged people. Social enterprises have emerged as a useful alternative that can realize a sustainable economy, creating employment and providing social services in the local community (OECD, 2009: 35). In 2007, in Korea the Social Enterprises Promotion Act was passed, and to date many support schemes have been introduced and have been being implemented. However, even though many support services have been provided for social enterprises in Korea, the usefulness of these enterprises is still far from being accepted by experts.

2. Concept of, and Background to, Social Enterprise in Korea

In recent years, the term 'social enterprise' has become familiar to academic and policy audiences as well as to the general public (OECD, 1999: 67). A common understanding of the term is nevertheless far from being achieved, partly because its meaning depends on different cultural contexts (Noya, 2009: 14). In the USA, social enterprise usually refers to nonprofit organizations which develop 'earned income strategies' to generate revenue to finance their social mission, while in Europe it is seen as representing a different way of doing business and is usually located in the third sector (OECD, 2003: 134). In any case, social enterprises are generally understood in terms of a business model which meets both social and economic objectives, contributing to labor market integration and social cohesion (Kerlin, 2006: 22). Despite that many countries have adopted social enterprise models in their countries, a number of problems still exist. Schorr emphasizes that the primary problem is that the vast majority of these businesses are small, often generating as little as \$200,000 in annual revenue (Schorr, 2006: 12). He added that because they are small, they cannot create a meaningful number of job opportunities and cover the incremental training, management, and other cost associated with employing an unskilled and disadvantaged workforce. Other scholars (Barraket and Yousefpour, 2013: 447-448; Cochrane and Weppen, 2012: 498; Rangan, Leonard, McDonald, 2008: 2; Choi, 2011: 52) also indicate that social enterprise must make efforts to find new solutions to sustainability, to generate sufficient net income on their own, and to develop stable, ongoing funding sources to subsidize the shortfall.

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In Korea, the term 'social enterprise' is still not one with which the general public is familiar (Choi, 2013: 22). The term was only introduced 15–20 years ago, and the phenomenon is not yet clearly defined in academia and industry. It is generally accepted that social enterprises in Korea began as a means of solving the problem of unemployment among vulnerable social groups and expanding the supply of social services (Kim, 2008: 13). In 1997 when Korea experienced a foreign exchange crisis, a great number of people lost their jobs. Many of these became homeless and the Government began to implement public programs to rescue them. In 2000, a self-supporting program for the neglected low-income group was institutionalized in the form of the National Basic Living Security Act aimed at strengthening the social safety net, and this formed a very important basis for the later creation of social enterprise. The Social Employment Project was introduced in 2003 by the Ministry of Labor to help socially and economically disadvantaged people. This project also provided a very important foundation for the development of social enterprises. Meanwhile, in accordance with the Government's policy of expanding social services and creating employment for low-income earners, the Social Enterprise Promotion Act was passed. According to Article 2 of the Act, a social enterprise is:

- A company which carries out the business activities of producing and selling products and services, while pursuing social purposes such as providing vulnerable social groups with social services or jobs to improve the quality of life of local residents.
- A company which reinvests profits in the business or in the local community, giving priority to the pursuit of social purposes rather than to maximizing profits for the shareholders or owner(s) of the company.

In other words, there are two key requirements for any enterprise to become a certified social enterprise in Korea. First, its primary business motivation must be the common good. Second, the primary business activity must be to manufacture a product and sell a service. Social enterprises in Korea should sell goods or provide services in the market for the purpose of generating income just like other enterprises, but their business motivation is to realize a social purpose rather than to maximize profits to shareholders. Therefore, social enterprises are expected to provide vocational training opportunities and jobs for vulnerable members of society, protect and improve the environment, educate young people, and expand social services for low-income and disadvantaged persons.

3. Characteristics of, and Support Systems for, Social Enterprises in Korea

3.1 Characteristics

As of 31 December 2013, 950 social enterprises were operating in Korea (Table 1). They differ in three ways from comparable services in other countries (KoSEA homepage).

Table 1 Number of social enterprises by type (as of 31 December 2013)

	Job creation type	Social service provision type	Local community contribution type	Mixed type	Other type	Total
Number	616	59	9	144	122	950
%	64.8	6.2	0.1	15.2	12.8	100

Source: KoSEA homepage.

The first distinctive characteristic of these enterprises is that they are subject to an official certification system. Once an organization is certified as a social enterprise, it is eligible to receive a range of financial and administrative support from central and local government. For an organization to be certified as a social enterprise, it must meet six requirements. These are discussed in turn.

The *first requirement* concerns organizational type. An organization wishing to become a social enterprise must be of a specific type. There are six permissible organizational types: (1) corporations or cooperatives operating according to civil law; (2) public corporations; (3) nonprofit civic organizations; (4) social welfare corporations; (5) living cooperatives; (6) nonprofit organizations of other kinds.

The *second requirement* relates to activities. To be eligible for certification as a social enterprise, an organization must execute business activities including the production and sale of goods and services

carried out by one or more paid workers. 'Paid workers' here includes not only regular workers, but also non-regular workers, day workers and part-time workers.

The *third requirement* relates to social purpose. To be certified as a social enterprise in Korea, an organization must belong to one of the following five categories in respect of the realization of its social purpose and the beneficiaries of its services:

1. *Job creation type*. The main purpose of these is to offer jobs to vulnerable social groups.
2. *Social service provision type*. The main purpose is to provide vulnerable social groups with social services.
3. *Mixed type*. A combination of the job creation type and the social service provision type.
4. *Local community contribution type*. An enterprise that contributes to the improvement of the quality of life of people in a local community.
5. *Other types*. This category comprises social enterprises whose realization of social purposes is difficult to adjudge on the basis of their employment practices or their provision of social services.

The *fourth requirement* concerns decision-making by the organization's stakeholders. To be certified as a social enterprise the organization must, at its important meetings, operate a decision-making structure which involves not just the organization's directors or executives but also various other stakeholders, including: workers' representatives; representatives of the organization's beneficiaries; representatives of its guardians; sponsors; senior management in related companies or local government; and respected persons in the local community.

The *fifth requirement* relates to income generated through business activities. For an organization to be certified as a social enterprise the total income it has generated via its business activities over the six months prior to its application for certification must exceed 30 per cent of its total labor costs. When applying for certification, the organization must submit documents providing evidence of its total income and total labor costs.

Finally, the *sixth requirement* concerns the reinvestment of profits for social purposes. To be certified as a social enterprise, a company must, according to commercial law, include the following phrase relating to the reinvestment of profits within its Articles of Association or regulations: 'If distributable profits are made during a fiscal year, more than two thirds of the profits shall be reinvested for social purposes.'

The procedure for the certification of social enterprises is as follows:

- Prior consultation on the satisfaction of formal requirement by social enterprise support organization in each region →
- Application to, and acceptance by, KoSEA →
- On-site inspection of the applicant organization by KoSEA and social enterprise support organizations in each region →
- Recommendation by central government departments and local authorities →
- Prior review by the Certification Sub-committee of the Ministry of Employment →
- Acceptance by the Professional Committee for the Promotion of Social Enterprises →
- Certification by the Minister for Employment

The second characteristic underlying social enterprises in Korea concerns entrepreneurship. The Korean Government intends to foster this quality among young people by providing them with copious incentives, in the hope that this may contribute to reducing youth unemployment. Its intention is to support the creation of social enterprises by publicly encouraging business ideas in areas congenial to young people, tapping into the rising generation's instinct for challenge and desire for self-realization. The sort of person (or team) that the Government wishes to encourage is one that has a business idea, possesses entrepreneurial talent, and is preparing to establish a social enterprise and has the determination to operate it over a continuous period. In the case of a team, the majority of the members should be aged between 19 and 39. Government support for young people includes provision of space for business venues, financial support (e.g. for activity costs such as for acquiring market information, purchasing literature, meetings, travel expenses, public utility charges, etc.), educational support and help with consultancy fees, help with the costs of PR activities, and financial help with the creation of test products.

The third distinctive characteristic is the possibility of an organization becoming a 'preliminary social enterprise'. Designation of these is in the remit of officials in second-tier local government (area-wide or metropolitan level). Where an organization fulfilling the minimum legal conditions necessary for it to be certified as a social enterprise (including the fulfillment of social purposes and profit creation through business activities) satisfies some but not all of the necessary requirements, it may be designated a preliminary social enterprise, to be certified in the near future once it meets all the necessary requirements. This designation lasts for one year after the issuance of the designation certificate, but may be extended for up to two more years via reexamination. Support for preliminary social enterprises consists of business administration consultations, subsidy of the costs of business development, payment of labor costs associated with job-creation projects, and recommendations to public institutions to purchase the organization's products on a preferential basis.

3.2 Support Systems

In Korea, there are also alternative kinds of support systems for social enterprises (KoSEA homepage). The first of these is a *business administration consultancy service*. When an organization is certified as a social enterprise, it should receive support relating to the establishment of a company, including help with personnel matters, labor, and accounting, via business management coaching.

The second kind of support is *preferential purchase by public institutions*. The main aim here is to help social enterprises to sell their products easily and to save on marketing costs. Preferential purchase can also help them strengthen their sustainability. Via purchases of the products of social enterprises, a virtuous cycle can be created in which social enterprises can grow to solve social problems and use the profit they have made to reinvest so as to create new jobs, which will stimulate the local economy and help to bring about social integration.

The third kind of support is the provision of a *pro bono service*. 'Pro bono' is an abbreviation of the Latin term '*pro bono publico*', which means 'for the public good'. This is a free service provided by experts on a voluntary basis. The services involved include free management consultancy and mentoring, the offering of expert knowledge and experience in the form of tutorials, workshops and seminars, online consultancy, and dispatched service.

The fourth kind of support is *financial support*. This includes subsidy of labor costs if a social enterprise joins the program for creating social jobs; it consists of the minimum wage plus the premium of four major insurances. More specifically, it involves differential rates of pay support for the years following establishment. For a preliminary social enterprise, 100 per cent of pay for the first year and 90 per cent for the second year is provided, and for a social enterprise 90 per cent of pay for the first year, 80 per cent for the second and 70 per cent for the third. This includes exemption from corporation tax, policy loans, support with R&D, etc. A further kind of financial support is the *loans system*. There are in fact two loan systems, the Smile Microcredit bank program and the Small and Medium Business Administration (SMBA) policy loan program. The former is a microcredit program which gives unsecured loans to financially alienated people who cannot use financial institutions for establishing a business or operating a self-support fund. The maximum amount it offers is 200 million won (around 0.2 million \$ US). The latter is a program for promoting stimulation of the economy by ordinary local people via a fund for small enterprises within a community that is intent on self-support. It offers enterprises up to 400 million won (around 0.4 million \$ US).

The fifth kind of support is *taxation support*. According to the Special Tax Treatment Control Act, certified social enterprises are expected to be exempt from corporate tax for some time. In addition, a recognition system operates whereby if an ordinary corporation or individual makes a donation to a nonprofit social enterprise, it is recognized as a designated donation and is exempt from tax.

4. Examples of Social Enterprises Operating in Korea

As mentioned above, as of 31 December 2013 there were 950 social enterprises operating in Korea. This section presents a number of these social enterprises by type, describing how they are organized and run (KoSEA homepage).

4.1. Job creation type

MEZZANINE I-PACK: A WORKPLACE OF HOPE FOR NORTH KOREAN DEFECTORS

The majority of Mezzanine I-Pack workers are North Korean defectors. Mezzanine I-Pack was established as a social enterprise by the social welfare foundation Fruit Sharing, in association with SK Energy, in order to prevent North Korean defectors from falling into impoverished social groups. Its major business is the manufacture of boxes. Currently, the company has more than 50 customer companies and is contributing strongly to the self-support and rehabilitation of North Korean defectors.

HANBIT ART COMPANY

The Art Company develops performance art by handicapped people and discovers and fosters artistic talent among the handicapped by promoting professional performances by blind artists. Its major activities consist of creating professional jobs for the handicapped in music and the arts, developing cultural content, etc. Also, via the various performances of its Blind Concert Party, the company improves non-handicapped people's awareness of the handicapped, and contributes toward enhancing the quality of life of people from vulnerable social groups by continuously providing them with jobs and social services. By participating actively in cooperative activities with local residents it aims to promote their economic stability and self-reliance, thereby helping Korea to grow into a culturally advanced nation.

4.2. Social Service Provision Type

CHUNGNAM EDUCATIONAL RESEARCH INSTITUTE

The Institute allocates educational manpower to places where rural teachers, residents, communities, and schools need it, and constructs a system that connects manpower with appropriate types of educational programs. In addition, it is working on the establishment of a network of various expert educational groups to enhance the quality of education. Its major activity is cultural youth schooling. In other words, it is searching for rural education development by promoting communication between schools and the local community.

HUMAN CARE

This enterprise plays a coordinating role in providing honest, good-quality social services, so as to improve the working conditions of its employees while understanding the needs of the aged and handicapped. As a recovery institute, Human Care runs a welfare supply business and supports handicapped people's activities, etc.

4.3. Mixed Type

ORGANIZATION DISH

This company is a community enterprise which grows together with all those who have hopes of a better future, including young people, female immigrants by marriage, and women with severed careers. Adopting the mottos 'Learning while teaching', 'Working while learning', and 'Making a healthy workplace for women', the company is striving to create a woman-friendly working environment. On such a basis, it aims to reinforce professionalism and continue its growth as a competitive company in the food service industry. It is also endeavoring to foster talented youth cooks for the next generation. Its major activities are connected with catering, restaurants and cafés, educational programs, etc.

HAPPY LUNCH BOX

The Happy Lunch Box program delivers free lunches to poorly-fed neighbors and provides jobs for vulnerable social groups by making them participate in the process of cooking and delivery of meals. Its major activities include distributing free meals to poorly-fed neighbors, running a lunch box program, sharing kimchi, etc.

4.4. Local Community Contribution Type

HONGSEONG PULMU NANUMI FARMING COOPERATIVE

Numerous facilities and people-run bases have accumulated in the Hongdong region as a result of the Pulmu School and its eco-friendly agricultural products. At these bases, eco-friendly agricultural products are packed and exchange programs between urban and rural areas are implemented to raise the quality of eco-friendly agricultural products and improve customer satisfaction. By encouraging the female labor force in the rural area to participate in its productive processing activities, the cooperative simultaneously creates jobs and activates the domestic economy. A community of producers and consumers has been created through exchanges between urban and rural areas.

4.5. Other Types

BEAUTIFUL SHOP

This civic organization pursues eco-friendly change by recycling and recirculating items, providing neighborly help and assistance, and supporting the activities of other organizations. In addition to being a site for the buying and selling of items, the Beautiful Shop plays a role at the center of the local community, where items are circulated by means of donations from local residents. Its major activities are related to recycling, public campaigning, charity work and sharing, fair trade, and fundraising for international aid.

5. Problems and Policy Issues Relating to Social Enterprises in Korea

The Korean Government has developed its social enterprise policy as a means of creating job opportunities for socially disadvantaged people. As part of this effort, in 2006 it enacted the Social Enterprise Promotion Act. The range of social enterprises operating in Korea is rather limited compared to that of other European countries. For example, according to the Office of the Third Sector (OTS) statistics, the number of social enterprises in England in 2010 was approximately 60,000, whereas in Korea it was 950 as of 31 December 2013. In England, social enterprises are all regarded as belonging to the inclusive type of 'social-value-oriented enterprise in the third sector', but those in Korea (including those referred to in this paper) are defined as government-designated enterprises. The Korean Government has designated a number of enterprises 'social enterprises' following a process of evaluation and certification. It is expected that it will have designated 3,000 social enterprises by 2016, and will continue to promote social enterprise in the country. Despite this progress on the government side, however, academic efforts to investigate social enterprise in Korea have not been successful. In particular, scholars in Korea have not been successful in systematically identifying problems relating to social enterprise. It is important to examine current conditions facing the Korean Government in terms of social enterprise policy, because the extension of government support for designated social enterprises is closely related to its addressing of current problems and issues relating to social enterprises. It is in this context that this paper attempts to identify current conditions regarding social enterprise types and support systems in Korea and to put forward policy suggestions. Although the Korean Government employs many different types of support systems to foster social enterprises, there remain many problems and policy issues which need to be addressed. These are discussed below.

5.1. Sustainability

The first problem relates to whether a social enterprise will be sustainable after government support to it ceases following a period of time stipulated in the Act. As mentioned above, social enterprises in Korea currently enjoy many different kinds of support programs provided at both central and local levels. At present, we cannot be confident that they can survive financially without problems when they no longer receive a grant or other subsidies from central or local government. This is partly because most of their employees are elderly or disadvantaged, rendering them less competitive than conventional companies and making it difficult for them to make a profit, and partly because they tend to be more dependent on government grants/support instead of trying to be self-reliant. Hence, what would benefit them particularly would be the introduction of a support system whereby their employees could motivate themselves to work hard and so escape from a situation where they rely entirely on support from government.

5.2. Legal and Institutional Issues

The second problem concerns the lack of a long-term plan supporting social enterprises. At present, there is no comprehensive plan for the fostering of social enterprises. In particular, a resource allocation system for social enterprises is needed so that stable and sustainable support (consisting of a certain percentage of GDP or annual budget) can be given to social enterprises. With such a system in place, social enterprises could, regardless of changes in government, obtain earmarked resources on a more predictable and stable basis.

5.3. Jurisdictional Issues

At present, the Ministry of Employment is responsible for social enterprise policy. It is suggested that it might be more effective if a body such as the Presidential Commission made and implemented social enterprise policy, so that this might take priority over other policies, meaning that decisions regarding resource allocation or other administrative matters could be made more smoothly.

5.4. Other Issues

The certification system should be more market-friendly and less government-driven. In addition, more active, supportive and professional business consultation should be provided to social enterprises.

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