

The Roles and Tasks of Government for Nurturing Social Entrepreneurs

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1. Introduction

At the end of 2009, 289 certified social enterprises took a very small part of the entire Korean economic activities: 0.03percent of the entire employment and 0.01% of the entire revenues of GDP. Nevertheless, it is surprising that both ruling and opposition party candidates in Government's meeting to establish unemployment countermeasures or in coming local government election are having heated discussions about the future of social enterprise. They both suggest social enterprise as a solution for expansion of local employment. Korea's major newspapers are also introducing domestic and international cases of successful social enterprises in order to emphasize the necessity of social entrepreneur spirit to further develop Korean society. In addition, the competent Ministry of Labor adopted new law in 2007 to encourage social enterprises to develop, which was the first attempt in Asia. Since then, it has been putting their heads together with diverse departments within the government and other Corporate Social Responsibility groups to create more social-enterprise-friendly environment.

Since the concept of social enterprise was introduced to Korea for the first time, what has happened here during the last decade? What kind of political, economic, and social background was there to spread the notion of social enterprise within such a short span of time and how major stakeholders in each sector have reacted towards it? What kind of roles and legal support measures did the government fulfill to nurture social enterprises? How are the efforts as of today? What are the government's future tasks to pave the way for the next generation of social enterprise? What should social community and government sector do to further advance the standing of social enterprise?

2. Current Status of Korean Social Enterprises and Their Management Accomplishment

330 social enterprises were certified by social enterprise Promotion Act, and 319 of them are still running. Since then about 714 new social enterprise companies applied

for certification, and the rate of certification has been 44.7% on average. In its early days government experienced low (33%) certification rate due to strict rules for the qualification and the lack of field experiences. That led government to manage support organization by region on consignment to private for social enterprises.

Looking at regional distribution, we know that the capital concentration problem has been alleviated from 58.2% (2007) to 46.7% (May 2010).

By industry, care services such as health& welfare/childcare comprise 41.4%, forests & environments 17.6%, cultural education culture & education 10.4%, and others 30.6%. In early days of certification, dispatched care services of disadvantaged class old women took a big part; yet, due to various problems such as low added value, repetition of salary inequality between two genders, the government readjusted the policy to extend social enterprise business into different sectors such as environment, forest, revitalization of country sides, and culture.

By social finality/purpose type, many of common workplace of disabled people was replacing their business into social enterprise form. The biggest sector was to provide jobs to unprivileged class, which was 46% of the total, and centers that provide jobs and social services jointly comprised 27%.

Not-for-profit form accounts for 57.4%, taking major part among legal organization forms. This is doesn't mean their little interests in profit business; rather non-profit organization form is preferred in the context of social services market, which is major businesses of social enterprises, especially with the relationship with local government. Recently the forms such as limited-company which can be established with least capital but with strength of co-responsibilities of internal members or cooperatives, traditional forms of social enterprises, are growing continuously.

The government receives financial report every February to analyze the growth of social enterprises in Korea. According to the report for 2008, social enterprises' the number of paid laborers combined with the 6000 of low income unemployed and disabled was 11,177. Most of social enterprises in Korea tend to be small-sized firms with about 30 employees and often relate with the feature of combining disadvantaged class workforce.

The average salary of social enterprise workers was about 1,068,000 KRW, and those who work in the environment or cultural tourism sector had a relatively higher average, which was about 1,600,000 KRW per month. Currently an average monthly salary for small to mid size firms in Korea is about 1,900,000 KRW, which is bigger than those at the social enterprise. Yet, interestingly, if we compare the salaries between those at the social enterprise with those who work at profit corporations in

similar businesses such as cleaning agency, recycling, nursing, the former's monthly salary is about 10% larger than the latter. We can interpret this as a result of features of social enterprises which redistribute wealth and reinvest their profits aiming for combining workforce of disadvantaged class and improvement of their lives. In addition, Korean enterprises are taking social roles for disadvantaged class by providing higher standard of work environment as well as developing proper business/business models and requiring competitiveness to their employees.

Furthermore, we need to look into gender disperse in social enterprise; despite the fact that the female workers at social enterprise take up about 69%, gender ratio between male and female CEO is 65:35. There is salary for men which are also about twice larger than that for women. From this date, we can conclude that social enterprise in Korea is still affected by the gender inequality culture in normal labor market and that their knowledge and action on gender-recognition is still immature.

From a survey conducted amongst workers at social enterprises, we get high level of satisfaction from community-based organizational culture and their contribution to the public good; yet, the survey shows that they are less satisfied with the instability of employment and the poor social welfare benefits. This may be due to the fact that 45% of employees at social enterprises receive their income from the government's support on social employment, but their contracts last only for a year.

On the other hand, the total revenue of social enterprises in total is 2.8 times bigger than the government's total financial support. Customers of social enterprise social services were measured as approximately 197,000, and the percentage of disadvantaged class who cannot afford among them was as high as 67%. The issue may be partly solved by support system such as "social services voucher" which third party pays cost. However, it is not easy to realize the system. These support measures do create neglected area, or "blind spot" classes, and not easily connect with newly created services. Due to lack of cooperation among different departments, issues such as excluding social enterprises within the whole social services communications sometimes come into place. Social enterprises are facing these issues thus providing services for disadvantaged classes by their own costs such as reinvestments of the profits. In the end, social enterprises' own profitability and independency are at stake achieving twice as high as public interests standard for certification. Therefore, only 69.5% of social enterprises are able to secure total amount needed to pay their paid labor from its revenue income. This situation is calling faster than ever thus to provide favorable market circumstances and expand government agency businesses, and improve support system and measures for disadvantaged class consumers.

Certified social enterprises are trivial so far but we can see diversity of main group in pre-social enterprises as well as their sizes; 200,000 annually are applying for government funding support for social employment, 830,000(2006, Hye-Won KIM et al.,) are employed in the third sector except for numbers in cooperatives, fast growth of youth social ventures by group of college students, and growing participation of early retired and baby boom-generation-retired.

3. The Context and Phases of Social Enterprises' development in Korea

In Korea, the legal definition of social enterprise is as the following: "organization which is engaged in business activities of producing/ selling goods and services while pursuing a social purpose of enhancing the quality of local residents' life by means of providing social services and creating jobs for the disadvantaged; various parties of stakeholders should participate in the decision making process; and any profits should be reinvested for the firm." However, following the definition is not enough to be certified as social enterprise. The firm also should meet the list of qualification, set by the government. On the other hand, there have been debates over the government law and certification process for social enterprises since civic community asserts to incorporate a wider range of groups into social enterprise: cooperatives, social venture, community business, and social economy. This context allows social enterprises in Korea to be labeled as 'Government-driven model', which explains legal definition on social enterprise, control of the name, sole authority on nominating social enterprise support committee member, concentrated support for certified social enterprises and short-term growth by quantity of social enterprises' establishment. This resulted in burden for government and repulse and dependency for the third sector.

On the other hand, it is needed to understand distinct characteristics of Korean context where roles of government have been growing inevitably. In other words, Korea was in its early steps of welfare nation as well as early phase of social services development. Society required more responsibility on government rather than citing its or market's failure. In complicated modern history citizen sector had full focus on resistance and critical check towards nation and/or capital but lacked integrated views or proper model on ethical/social responsibility of consumers. Hence there were no backgrounds such as citizen-based ethical production and consumption which led growth of social enterprises in western society. Historically village economy existed in

Korean traditional farms based on voluntarism and solidarity has been cut. And no pivot was made due to discrepancy between visions and realities of the third sector organizations; philosophically pursuing lives centered by solidarity yet realistically competing over short resources and leadership in the sectors. Under influences of these historical/social elements, social enterprises in Korea ended up with government-driven model where fostering social enterprises and taking responsibilities of that seem to be on governments' hands.

Despite the debate over leadership during the last decade, the Korean government and civic society have well promoted people's understanding of the need for a socially integrated employment related welfare model and created high bond of sympathy on the necessity of enhancing policy related to social enterprises. Especially in the beginning of 2008, when in the middle of transition between the two governments, or almighty market believers' derogation on social enterprise was fast spreading out, private and government sector jointly put great efforts in publicizing successful models of social enterprise and advancing the public understanding of social enterprises.

Then, what was the background of Korea that enabled the cooperation between the government and the citizen sector?

In February this year, the unemployment rate was officially published as 5% (1.21million), much below the actual rate 15% (4.61million), which was indeed the worst in the world. Even foundations of self-employment, the usual option for those who lose their job, suffered from domestic recession continuing closures. Consequently, the bi-polarization of the Korean economy worsened as GDP increased while household income decreased. "The increase of GDP without any new employment" resulted in decreasing rate of income (-6.4%) of the bottom 20% and that (-3.2%) of the top 20%.

Throughout critical moments such as Asian Financial Crisis in 1997, Korean Presidential Election in 2007, and the global financial crisis in 2008, all of the first, second, and third sector in Korea focused on integrating disadvantaged classes and producing job opportunities to boost the local economy.

In this manner, social crisis and needs for innovation, which includes low-growth phase of economic development before and after financial crisis, dramatic decrease in number of new employment creation by existing industries such as manufacturing, internalized 'growth without employment', highlighted on economy of ordinary class, deepened bi-polarization, low fertility, aging society and increase of women

economic activities, etc., ultimately paved the way for development of social enterprises in Korea as well as for cooperation between private-public.

Since there is a limit in what government can do with its budget to deal with employment, social welfare, social service, the government has been seeking the solution as European cases which succeeded in funding leveraging regional resources through partnership among various citizen groups. Out of the processes, they selected social enterprise as the most productive and market-friendly social welfare model. As a result, Social Enterprise Promotion Act could have been modified in 2007, and the government policy and status remained the same throughout the government transition.

As for the citizen sector with changed characteristics of grassroots daily life democracy organization in 1990s from those of political movements, it chose alternative community movements such as social enterprises in order to sustainably create more employments and solve the daily life issues by citizens themselves. Having cooperatives for unprivileged workers, day care and study room in poor class areas, and living cooperatives associations as examples on one hand, they tried to make work community related to self-support policy of Ministry of Welfare for extreme poor class to eradicate poverty on the other hand.

Yet, these activities couldn't happen under the name of social enterprises until the Global Symposium in 2001. The first time the term was officially mentioned for the government policy was when the 2003 Ministry of Labor cited policy to create social employment. The policy which funds labor costs when the employer organization in providing regional public/social services of the third sector who hires disadvantaged class was founded shows the greatest contribution promoting social enterprises. Since 2003 private-mediation agency “Saheo Yeondai Bank” (social solidarity bank) and “Silup keugbog Jaedan”(Work Together Foundation) started their activities.

Finally the taskforce team on ‘enactment for social enterprises’ under Ministry of Labor established the ‘Social Enterprise Promotion Act’ in 2007. Since the enactment certification and supports by governments for social enterprises began and we’re now looking at higher level of citizens’ understanding on the issues and diversity of leaders, i.e., youth social venture, farming and fishing village community businesses.

4. Korean government’s support system for promoting social entrepreneurs

Social Enterprise Promotion Act introduced certification/certification system benchmarking Community Interest Companies (CIC) Act in England. Requirements are seven; six months of performance period since registration as profit or non-profit corporate body, more than one paid labor as well as taking out social insurance policies along with Labor Standard Act, realization of social purposes(which mean often hiring disadvantaged classes or providing social services more than 30% of total in actual costs), profit from business activities more than 30% than total labor costs, democratic management structure based on diverse stakeholders, reinvestments of more than two third of profit to regional society, and having articles of association.

Actually it was already discussed that certification system could invade autonomy and creativity of the third sector. However, role models where the third sector successfully drove didn't exist then, nor understanding of society accepting this hybrid-notion of social enterprise organization, and more importantly, no common ground to support financially only social enterprise breaking rules of capitalistic competition. Under this context 'social enterprises which meet strict criteria get support' was the notion why the certification system came into place.

Once certified as social enterprise, one receives supports and benefits as below. Recently government is considering support social enterprises also by system for Mid-to-small size firms. Supports and benefits that government has implemented as below.

Firstly, as management support for social enterprises government support professional consulting costs such as accounting, labor, marketing and PR in order to improve capability of market competitiveness and independence. For certified social enterprises, the amount of supported management consulting is 10 million KRW maximum per year and 20 million KRW maximum per three years total. For pre-Social enterprises it is 3 million KRW and 5 million KRW per three years total. Also admission fee for accounting program as well as one year fee is supported, and it connects to corporate social responsibility for Pro bono works as well. These allow connections between mainstream economy professionals and social entrepreneurs but lack of understanding of the former debates over effectiveness of such consulting have been around.

Secondly, until social enterprise settles smooth in the market there is temporary financial support to promote more employment in social enterprises. Financial

support happens as separate contests each year within the budget. It is evaluated as inevitable to promote employment that government supports labor costs with the context where there was only less than 50% of employment insurance rate for disadvantaged class, major target for social enterprises, and there were no dole/allowances for unemployed. Nevertheless, as issues such as dependency over government due to labor costs support system pointed out, government is considering different strategy, i.e., big decrease in labor costs except for those needed at initial establishment phase but expending marketing supports or tax benefits.

Labor costs support for (Pre)Social enterprises' newly hired	- In case of providing social services such as Welfare/ Environment/ Culture/ Etc., to disadvantaged class for free or for actual costs, and/or hiring new people in order to provide workplace to disadvantaged class - Minimum salary as well as social insurance costs for unprivileged class participation - Growing size from Two thousand ppl. (7.3 billion KRW) in 2003 to 140 thousand ppl. (1.5 trillion KRW) in 2010 - For pre-social enterprises maximum length of support is two years; first year of 100% of labor costs, 2nd year of 90%. For social enterprises, maximum 3 years; first year of 90%, 2nd year of 80%, then 3rd year of 70% - Seoul city government started selection of Seoul-type social enterprises so that it supports labor costs and social insurance costs separately (but not overlapping with support from pre-social enterprise by Ministry of Labor)
Professional Labor costs support for social enterprises	- In case where certified social enterprise hire marketing, accounting experts, within maximum three monthly 1.5 million KRW for maximum length of three years. However, portion paid by social enterprise own grows as 10% in the first year, 30% in the second year, and 50% in the third year.
Social insurance fee support for social enterprise	- Newly founded in 2010; assists social insurance costs which are supposed to be paid by employer. Only for social enterprise not participating to job/employment creation related businesses - Assists when the social enterprise follows the Labor Standard Act, possible assistance to the whole employees
Supports on Business development costs	- Newly founded in 2010; form of matching-fund between Ministry of Labor and local government for R&D costs, PR-marketing costs, market survey costs, products-services development costs, BS/AS, etc., related to customer management costs - In case of pre-social enterprises the amount is within maximum 30 million KRW, certified social enterprise within 70 million KRW

Thirdly, government organized law, ordinance, regulating system as well as built their support system to foster favorable circumstances towards social enterprises. Modification on Social Enterprise Promotion Act as well as offering standard ordinance to thirty five mega polis and base local

governments for them to organize their ordinances to support social enterprises. Recommending rent of national/public land or idle buildings for social enterprises, as well as promoting public organizations to buy products and services of social enterprises resulted in revenue income of 54.1 billion KRW in 2009. In addition, government induced to select 13 regional assisting organizations to support certification consulting, connecting resources. This year based on MOU expansion including Ministry of Environment, and that of Agriculture, etc., support systems by industry are reinforced.

In addition, government supports creation of financial markets as accounting for social enterprises' low capability of funding due to low credit scores in ordinary financial organizations. Land costs needed to establish and operation of social enterprises, facility costs, operation costs within 400 million KRW, were supported as credit loan with yearly interest costs ranging 2 to 5%. In early days the form was through delegated private agency organizing capital, then 'Miso' microcredit organization driven by government took the role from this year. However in this process the characteristics of Patient Capital that private-driven mediation agencies with social enterprises showed significantly have been weakened and this microcredit organization monopolized donation resources that private mediation agencies have leveraged. These features led critics that this change weakened support infra for social enterprises. In addition Ministry of Labor is preparing Parents Fund towards expected increase of capital needs from social enterprises. It is still questionable if this fund uses for pain sharing such as risk management of social enterprises. Furthermore it requires prudent review if developing and leveraging ethical funds from corporate/ citizens for such government-driven fund are feasible and/or appropriate.

Then, government supports social venture idea competitions for fostering professional manager who understand core values of social enterprises and discovery of innovative social entrepreneurs. Such developments and fostering began with projects by private-driven mediation agencies since 2003 then transformed and enlarged to nationwide business since revision of the Act. Basic curriculum is to understand values of social enterprises, case presentation and exchange, lecturing management theories. There have been critics that majority of Korean social entrepreneurs are weak at management

theories and cases as coming from not-for-profit organizations, however, satisfaction level is not yet high since it is still in initial phase where lack of management theories focused on social enterprises as well as development of good teachers.

Social Entrepreneur Academy	- Assists program management on promoting social entrepreneurs hosted by (under)graduate schools, not-for-profit organizations backing social enterprises, and certified social enterprises - Benchmarked private-owned program which started in 2003; now is implemented by government-driven management - In 2009 8 courses for general social enterprises and management, and 12 specialized industries and subjects were newly founded; 630 persons completed the courses
Open classes with credit acceptance with (under)graduate courses	- Support research fund assuming to establish Liaison-major, Bachelor, Degree courses - 6 Universities Selected in 2009.
Short-term education course support	- Government started supporting on operation costs pre-social entrepreneurs courses which were implemented by private since 2004
Grant supports for (pre) social entrepreneurs	- Supports admission fees for current employees in social enterprises as well who are in the process of (under)graduate courses on social entrepreneur \ - 54 persons benefited total in 2009
Managing Social venture competition	- Competition for Creative university students or managers in initial phase of social enterprises, in order to hunt talents and innovative social enterprises model - Enlarged size of competition from 2009, the origin was private-driven competition since 2006 - 218 teams were competed in 2009 from all over the country

Lastly, tax benefits; tax reductions for social enterprises by corporate tax law, special tax limitation law and regional tax law. Recently costs that connected corporate pay social enterprises are included in designated contribution, which allows total inclusion within 5% of the income of a corporation. And for social enterprises, there are 50% tax benefits on corporate tax and income taxes for the first four years after certification.

All these measures by government are pushed ahead according to Social Enterprise Promotion Act. If we analyze order of introduction of the measures, budget sizes, plans for re-sizing, etc., we could get ideas on how

government understand managerial tasks of social enterprises as well as its own role for them. Government sees lack of management capability and technology as the most vulnerable in the third sector or in social enterprises and that was why managerial consulting came into place at the very first. Also it leveraged support on labor costs as primary measure to foster social enterprise in policy context of social enterprises as solution for the disadvantaged in terms of living stabilization and employment. On the other hand, facing growing burden of financial support of government and continuing debates over effectiveness, government is trying to create favorable transactions through participation of local government and major companies in order to foster circumstances where social enterprises make themselves independent as well as to reduce direct financing support from government. Recently it is proven by actual cases under same circumstances if social enterprise succeeds or fails is up to social entrepreneurs themselves. This led strengthen supports related to discovering, educating social entrepreneurs and their networks.

These changes also are reflected in Basic Plan for Social Enterprise support (2008 to 2012) that government publishes every five year as a duty. Government focus more and more on focused initiatives so that it can reduce direct financial support but extend indirect support by creating favorable market circumstances for social enterprises by inter-sector cooperation, raising creative social entrepreneurs, and implementing tax benefits. This is in account that through actual support experiences government acknowledged that synthesized support throughout all phases from idea hunting to closure is needed but it is not realizable by government's support. Therefore along with support from central government, it is trying to discover superior social entrepreneurs and providing incentives, and cooperation with local government and private sector in order to improve capability of social enterprises and their sustainable base.

5. Governments' tasks on policy for vitalization of social enterprises

Let's look at the news articles on social enterprises in various media this year. 90% of them are related to announcement of new support policy of central and local government. It seems certain that government is the most visible sector as well as the most active sector with guaranteed (which means

financial) measures to promote social entrepreneurs. Even some government officials worry about decreased autonomy in private sector.

However, would social enterprise be the only field in Korea which was driven by government? Since 1960s Korea developed industrialization and urbanization with leadership of government and achieved early introduction of social insurances by competing over ideology with North Korea. With ideal image of Confucian welfare-centered country by country's responsibility as other Asian countries, after Asian financial crisis Korean government boosted up IT-venture movements in order to solve economic crisis and youth unemployment and experienced the failure. Like such, role of government in Korea is ambivalent; one hand it drives social development and the other hand it neglects other sectors if too much.

In order for social enterprises to experience such historical side effects or to end as just a trend,

Firstly, we need to re-ask what the vision of government to promote social enterprises is and which principles support the vision. In other words, it is important that, within policy basis, more than anything government needs to make philosophy on recentralization based on empowerment of citizen sector and growth of economic democracy based on autonomy, then to experience the effectiveness of governance between central and local government, between private and public, and between private and private sectors.

Secondly, it is needed to organize support system which recognizes and assists extended social roles of social entrepreneurs. Since current roles that government expects to social entrepreneurs mainly concern with short-term job creation, from now on it should focus and support more on the quality of jobs created as well as social roles they are taking in terms of innovation. Through these, governments' support which has been concentrated on establishment and initial phase before and after the certification could be evolved as tailored support for each phase and evaluate social and economic values widely.

Thirdly, government and citizen sector should discuss together how to leverage activeness and capabilities on policy, two which are considered as core driver of social enterprises' development. Same for how to construct

citizen base which is weak point as of now. Especially letting the third sector to build more roles such as capital investments including ethical behaviors and mutual benefits, sponsor, volunteer, purchase, public relations, etc., so that autonomy and reciprocal citizenship can grow together and governments limit themselves as catalyst.

In addition, recently treatments of medical cooperatives for non-members in disadvantaged class were legalized thanks to modification of Consumers' Cooperatives Law. Also from MOU between Ministry of Labor-Ministry of Environment they discovered common ground not only promoting green development type of social enterprises but also fair employment opportunities transforming kicked-out from existing industry into workers in green development social enterprises. As we can see promoting social entrepreneurs doesn't complete the task under single law system but is under influence of various related laws and policies upon with industry/organizational structure/development phase of each social enterprise. Therefore when inter-department cooperation happens, it is required to create actual as well as foreseeable policy environments by analyzing policy environments and co-efforts for improvement.

Lastly, when would be the timing when current social enterprise certification system turns into registration system by citizens' autonomy?

It may be when brand management becomes feasible thanks to self-purification by large social entrepreneur networks. It may be when citizens' awareness gets so mature that "social entrepreneurs are very attractive, innovative and creditworthy leaders of next generation" becomes common belief through publishing social responsibility reports of social enterprises, spreading best practices through media or conducting public campaigns. As a result young generations challenge themselves with new life values and way of living then become social entrepreneurs; experiencing success and failure in society which allows them continuously re-challenge themselves. The best role of government would be making such environments of social enterprises which can develop themselves.