

The Korean model of social enterprises?
A comparison with European Experiences

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Abstract

Social enterprises have emerged as a crucial organizational and institutional innovation in welfare provision across the OECD countries. Social enterprises are significant not only as a social policy but also theoretically since countries vary in the nature of their social enterprises due to socio-economic characteristics and pre-existing welfare institutions. In the present paper, I examined the state-centered process of social enterprise development in Korea in which the state's approval committee select applicant organizations to be social enterprises.

Based on an institutional perspective in organizational and social policy studies, I examined how the nature of pre-existing welfare programs has shaped the top-down process of social enterprise development and the features of the Korean social enterprises as a new organizational form in social welfare through institutionalizing key stakeholders and shaping agenda of different state organizations (e.g., the Ministry of Labor and the Ministry for Health, Welfare, and Family Affairs). I also analyzed the characteristics of the 154 Korean social enterprises, which indicates a focus on a short-term job creation. I argued that previous weak social service provision and failing unemployment policies of the state turned its attention to social enterprises as a job creation program rather than service provision. I claimed that, despite the state's emphasis on sustainability of social enterprises, its approval procedure based on job creation would paradoxically work against a long-term sustainable

development of social enterprises. The emergence of the Korean social enterprises demonstrates how institutional innovation in welfare policies is embedded in a pre-existing welfare state regime. In conclusion, I argued that the Korean social enterprises reaffirm the recent description of the Korean welfare state as a welfare developmental state.

Keywords: social enterprise; Korea; institutional legacy; job creation; state-centered

Social Enterprises as a New Alternative beyond Market and State

In 2007, the Korean state enacted the social enterprise promotion act, which made social enterprises as its key social program for unemployment and welfare services. The economic crisis in late 1980s has created an unprecedented massive unemployment. After the state enacted the social enterprise legislation, it has approved 154 social enterprises out of 347 applicant organizations by the second half of year 2008 and announced a plan to increase the number of social enterprises annually to 1000 by year 2010 (the Ministry of Labor, 2008). In 2007 alone, the budget of 1.3 trillion Korean *Won* was set to support social enterprises. It has been argued that social enterprises would be a major social policy development of the Korean state as an alternative to traditional social policies for unemployment and social services.

During the last 20 years, we have witnessed the emergence of social enterprises in Western societies as a response to the problems of welfare states and markets. Facing a low fertility and rapidly aging population with declining capacities of welfare states, social enterprises were developed to provide services and work opportunities for the socially and economically disadvantaged. OECD defines social enterprises as “any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity for bringing innovative solutions to the problems of social exclusion and

unemployment (OECD, 1998:10).” Lagging problems of welfare states to provide jobs and social services have pushed major OECD countries to develop social enterprises as an alternative (Borzaga and Defourny, 2001).

Social enterprises provide an important example of organizational and institutional innovation in social welfare since they provide a new organizational form that crosses a traditional boundary between state, civil society, and market to offer jobs and social services. They are also an innovation in organizational forms in which non-profit and voluntary organizations are mixed with profit-seeking activities of commercial organizations. Thus, social enterprises are a new organizational form that blurs a traditional boundary between different sectors of a society that have been separated or sometimes opposed to one another.

Although social enterprise in different societies share a task of providing an alternative to traditional welfare state programs, however, they show societal variation in terms of their key characteristics (Borzaga and Defourny, 2001; Kerlin, 2006). How can we explain such variation? Based on an institutional approach in welfare and organizational studies, I argue that the variations in social enterprises across societies reflect the nature of institutional legacy of welfare state regimes and organizational environments in each society. In other words, pre-existing welfare state programs produce unique welfare issues and shape a power balance between key actors. Also, socio-political and legal environments of different types of organizations influence the portfolio of available organizational forms that key actors rely on

to make social enterprises as a new organizational form. In the domain of non-profit and voluntary organizations, the process of social enterprise development illuminates how key stakeholders in each society mix different types of organizations, thus expanding and transforming boundaries between voluntary and non-profit organizations with for-profit or state organizations.

In this paper, I examined the emergence and unique characteristics of the social enterprises in Korea. Why is it important to understand the Korean social enterprises? First, as in the case of social welfare policies, most studies on social enterprises analyzed the Western cases (Borzaga and Defourny, 2001; Lindsay and Hem, 2004; Kerlin, 2006). A comparative study of the American and European social enterprises demonstrates two different models of social enterprises (Kerlin, 2006). However, as the Asian countries experience their own welfare problems, such countries as Korea and Taiwan started to develop their own social enterprises (Park, 2007b; Kuan, 2006). Thus, the Korean case offers a new comparative case to observe how different institutional contexts and key stakeholders produce an alternative combination of state, market, and civil society. A research of the Korean social enterprises would expand a current framework on the factors of social enterprise development that is bounded by the Western examples. As more Asian countries look at social enterprises as a new organizational solution for social policy issues, we need a framework to understand the trajectories of social enterprise development in the institutional contexts of these countries.

Second, the East Asian welfare model (Holliday, 2000; Kwon, 2001; Kwon and Holliday, 2006; Shin, 2000; Park, 2007a) shows that these countries, including Korea, experienced a state-centered or top-down process of welfare state development. In economic development, a developmental state model for these countries also refers to a strong state's control over firms and economic institutions. The very idea of social enterprises, however, represents a direction in which a state steps back away from welfare provision. Then, how would a strong state model affect social enterprise development? The Korean case will offer a new institutional dynamic of top-down social enterprise development in contrast to the Western trajectories.

Finally, unlike its Western counterparts, non-profit organizations or co-operatives are only a minor presence in organizational landscape of Korea. When either European or American social enterprises revolve around the institutionalization of those organizations, how did the social enterprises in Korea come about? Also, how would such conditions affect the characteristics of the Korean social enterprises? The Korean case will offer alternative institutional contexts of social enterprise development without prior extensive development of voluntary organizations.

Despite an increasing number of social enterprises in Korea, neither a conceptualization nor an analysis of the characteristics of social enterprises has been proposed. A majority of studies on the Korean social enterprises are still in a preliminary stage by offering case

studies or an overview of the general characteristics (Kim and Ban, 2006; Um, 2005; Kim, 2007; Kim, 2006; the Korea Foundation for Working Together, 2006; Jung, 2005, 2006; Im, 2007).

In the following, I will review key factors on social enterprise development based on institutional approaches in organizational and social welfare studies. Then, I will examine how pre-existing welfare programs and strategic positions of key organizational actors have shaped the Korean social enterprises through the institutionalization of interest groups and the competing agenda of different state organizations (e.g., the Ministry of Labor and the Ministry for Health, Welfare, and Family Affairs). I will also examine the characteristics of the Korean social enterprises, based on the 154 officially approved social enterprises, which reflects the institutional conditions previous welfare programs and state agenda. The emergence of the Korean social enterprises demonstrates how an innovation in organizational forms for voluntary and non-profit domains is strongly shaped by the nature of a pre-existing welfare state regime.

The Institutional Embeddedness of Social Enterprises

Where did a new organizational form, such as social enterprises, come from? The key argument in this paper is that, as any other innovation, social enterprises are not created from

the scratch, but key stakeholders selectively choose different aspects of pre-existing organizational forms in institutional contexts. To explain the unique characteristics of social enterprises in Korea, organizational and social policy studies show that we need to examine pre-existing institutional contexts. In the following, I will summarize the key arguments in both fields.

Organizational Studies

Stinchcombe (1965) raised an issue of the link between social environment and organizational forms by his concept of institutional imprinting. He argued that all the new organizational forms collect their building materials from existing organizational environments. Thus, organizational forms contain the characteristics of their environments at the time of their emergence after its initial emergence. His argument influenced both ecological and institutional perspectives. The ecological perspective (Hannan and Freeman, 1989) claims that diverse organizational forms emerge from inter-organizational competition for key resources from their environments. The institutional perspective (DiMaggio and Powell, 1983; Meyer and Rowan, 1977), on the other hand, emphasizes that new organizational forms can exist when they obtain institutional legitimacy from the key actors in their institutional environments.

Recent studies in organizational studies seek to combine the insights from both ecological and institutional perspectives. Stark (1996) in his study of the transition of East European countries towards a capitalist economic system demonstrates that the institutional entrepreneurs of these societies relied on the organizational logic and legitimacy of the communist periods to create a new type of private property and a type of business firm. Consequently, the organizational structure and a governance system of those new corporations reflect unique characteristics, which reflect the institutional legacy of the previous period. The studies of new organizational forms in a health care sector and a welfare sector respectively also demonstrated that new organizational forms reflect the efforts of successful institutional entrepreneurs in selecting and combining diverse pre-existing organizational forms and institutional logics (Ruef, 2000; Mohr and Guerra-Pearson, forthcoming).

Social Welfare Studies

Esping-Andersen (1999) argues that, in his analysis of variations in welfare policies for post-industrial risks, that pre-existing welfare state regime shaped the nature of subsequent policies and constrained their potential effectiveness. Thus, the countries with social

democratic welfare regimes would pose policy response that are different from those of conservative welfare regime countries.

How can we explain the effects of an institutional legacy of pre-existing social policies on the subsequent policy development? Skocpol and Amenta (1986) explained such policy feedbacks may occur in three channels. First, previous social policies provide political learning about what are possible policies for specific problems and specific strength and weakness of previous policies (Hecl, 1974). Second, previous policies, once institutionalized, create interest groups with their own agenda in future social policies. Such interest groups can exist not only in civil society but also within state organizations. Finally, previous policies shaped electoral coalitions by affecting the interests of various social groups (Esping-Andersen, 1985). Depending on the nature of social groups as stake holders in social policies, previous policies influence the type of electoral coalition among political parties that seek support from dominant social groups.

In short, both organizational and social policy studies point out that new organizational forms are not created from institutional vacuum, but rely on pre-existing organizational forms and institutional logics. Pre-existing institutions are particularly important for social enterprise development since the idea of social enterprises is to provide social services and job opportunities through entrepreneurial activities on markets, thus combining traditionally

separate and, often, conflicting domains and logics of market versus state versus civil society as in the following figure.

<Figure 1 about here>

In mixing different logics, pre-existing organizational forms and social policies offer not only resources and legitimacy but shape the list of key stakeholders and their agenda. The contrast between the European and the U.S. model of social enterprises indicate that, facing a challenge of unemployment and social service provision, the institutional entrepreneurs (whether civic organizations or governmental organizations or academics) relied on available organizational forms and institutional logics to produce social enterprises as a new organizational form that lies somewhere between state, market and civil society.

Social enterprises in Europe and the United States have emerged to create jobs and provide social services to the part of their population under a high risk in times of welfare state retrenchment and privatizing services. However, the European and American models reveal divergences as well as similarities, reflecting the effects of pre-existing organizational and welfare institutions to combine conflicting logics of state, market, and civil society (Paton, 2003; Borzaga and Defourny, 2001).

A key contrast between the two models can be summarized as follows. The social enterprises in Europe emphasize job creation and social services for high risk groups such as the aged or the persons with disabilities by co-operatives or associations, whereas the American ones provide jobs and services to the socially vulnerable by non-profit organizations and, at the same time, seek to generate revenues for those organizations under reduced federal supports (Kerlin, 2006). The European ones provide extensive participation to their stake holders in running social enterprises, but they are limited in the type of activities. The American social enterprises are diverse in their activities, but limited in the type of actors involved in organizational decision-making process. The following table summarizes the two models.

<Table 1 about here>

The European and American models of social enterprises have provided prototypes in the development of social enterprises among state officials, academics, and NGOs in Korea. How did these two models influence the process of social enterprise development in Korea and what are the unique characteristics of such process? In the following, I will examine the process and the characteristics of the Korean social enterprises.

The Emergence of Social Enterprises in Korea

The development of social enterprises in Korea was part of the state's efforts to cope with unemployment and social service provision. Previous studies on the Korean welfare programs contend that their key features are the following: the dominance of social insurance programs for workers with weak development of social welfare services; passive involvement of the state in welfare financing and provision; and, finally, heavy reliance on families and business firms on welfare financing and provision (Holliday, 2000).

How would such characteristics of welfare state programs affect the development of social enterprises in Korea? The key issue that linked social enterprises and social welfare programs were unemployment and social services. The state implemented unemployment insurance since 1995. However, it did not anticipate such a rapid and massive scale of unemployment after the economic crisis in 1997 and, consequently, it implemented a series of programs such as public works program or social workplace program. Also, public discussion of low fertility and aging problems since 1990s pressured the state to propose social policies to provide women and senior citizens social services. It was the lack of successful job creation and social service programs that provided a key institutional context for the state-led development of social enterprises by the social enterprise promotion act in 2007. In the following, I will

examine the social enterprise development by previous policies and their effects on non-state and state actors.

Previous Social Policies as Institutional Conditions for Social Enterprises

The state responded to increasing unemployment since 1997 by implementing a public works program under the Ministry of Labor in early 1998 (Ko, 2007). The program was to provide short-term and temporary job opportunities for the unemployed. Since the program offered only a limited duration of participation, however, it did not produce visible effects on job creation.

A critical turn in the direction of unemployment programs was the enactment of the National Basic Social Security Act in 1999. It sought to link welfare benefits and work opportunities for the unemployed and low income families. It also reinforced the state's strategy to rely more on private and voluntary organizations in local communities for social welfare. Before the 1999 Act, the state had minimized its involvement in financing and provision of welfare services. What was new in the 1999 Act was that the state sought to combine job creation and service provision by delegating responsibilities on local community organizations and non-profit organizations.

The new direction of the state's policies coincided with the emergence of active involvement of NGOs and civic organizations in unemployment crisis. In 1998, NGOs, religious organizations, labor, and the press created 'the Committee of the National Movement for Overcoming Unemployment.' The committee launched a public campaign, which raised a public fund to help the unemployed and their families. The committee changed its name to 'the Korea Foundation for Working Together' in 2003, and it has been an important participant in social welfare policies, in particular, in the enactment of the social enterprise promotion act.

In 2003, unemployment rose again after its short decline. At this time, not only increasing unemployment but lack of social welfare services became critical policy issues due to rapid aging with decreasing fertility and increasing female labor participation. Thus, the state's dilemma was to deal with long-term unemployment and social welfare service provision simultaneously. In 2003, the state created the 'social workplace program' as a way to deal with the dual problem of unemployment and social service provision for the socially vulnerable such as senior citizens or persons with disabilities. Social workplaces refer to "jobs created by local and central governments, communities, and non-profit organizations for child care, health, education (2007, Ko: 135)." The program emphasized self-support sponsoring organizations as a central type of organizations for providing social services to the socially vulnerable.

The social workplace program directly influenced the direction of social enterprise development in Korea. Its self-support sponsoring organization was a proto-type of social enterprises. The program established 209 organizations, which paid wages by selling products and services. Both Ministry of Health and Welfare and the Ministry of Labor were involved. Initially, the Ministry of Health and Welfare was central, but the Ministry of Labor became more central in managing the program in 2003 after launching the pilot programs. Such a shift from the Ministry of Health and Welfare to the Ministry of Labor signified the state's agenda to prioritize job creation rather than social service provision.

Based on the participation of multiple governmental ministries, the program did created a number of jobs in short-term (Table 2), but those jobs often did not last in long-term.

< Table 2 about here >

In the absence of a strong tradition of independent community or the third sector organizations, the self-support sponsoring organizations depended heavily on the government subsidies. Such dependence of these organizations on the state promoted short-term job creation as their key strategy to ensure additional supports from the state. It is precisely the failure of long-term job creation with increasing public subsidies that led the Korean state to push the development of social enterprises as a next alternative.

The Social Enterprise Promotion Act

After the introduction of two legislative proposals to the National Assembly in 2005 and 2006, it was the state, in particular, the Ministry of Labor, integrated two bills and reintroduced the final bill, the Social Enterprise Promotion Act. It was enacted in 2007. The act defined social enterprises as “enterprises that seek social goals by offering social services or jobs to the socially disadvantaged and that carry out entrepreneurial activities by producing and selling goods or services” (the Social Enterprise Promotion Act, 2007). According to the legislation, the state set up a special committee, which approved applicant organizations as social enterprises annually. Upon approval, the state offer financial subsidies for initial capital and various tax benefits. Only those social enterprises that the state approves can use the title of social enterprises.

Organizational Legacy of Previous Social Programs

When the social workplace program did not produce stable job opportunities and welfare service provision sufficiently, the state officials, academics, NGOs and welfare-related organizations in the field formed the “Task Force on Social Workplaces” in 2005, which led to the legislation for social enterprises. Among the organizations in the taskforce, the Association for Self-Support Sponsoring Organizations played a key role. The self-support sponsoring organizations were created by the social workplace program as a new way to provide the unemployed jobs in social service sector. The association was not only central in the taskforce, but played a coordinating role in the NGO Coalition for Social Enterprise Development in 2006, reacting to the legislative initiative of the Grand National Party and the Uri Party. The coalition includes the Support Center for Social Enterprises, the Korean Association for Senior Citizens, the Coalition of Women’s Organizations, YMCA, and YWCA, the Committee of the National Movement for Overcoming Unemployment, the Medical Care Co-operatives, and the Institute for the Rights of the Persons with Disabilities. Among these organizations, the Association for Self-support Sponsoring Organizations and the Committee of the National Movement for Overcoming Unemployment, both the organizations based on previous social policies for unemployment, played a major role in legislative process and the administrative process of social enterprises. The internal memo of the Association for Self-Support Sponsoring Organizations indicates that the association representative met the key National Assembly members of both parties, who subsequently

introduced two similar bills to the National Assembly, six times in 2006 alone right before and after the introduction of the bills.

During the legislative process of the bills, five experts testified at the legislative hearing of the social enterprise legislation at the Environment and Labor Committee of the National Assembly in 2006. They represented the Korea Labor Institute (a governmental research institute), the Giveguide (a NGO for charities and donation), the Organization for Promoting Korean Social Enterprises, the Association for Self-Support Sponsoring Organizations, and the Committee of the National Movement for Overcoming Unemployment.

The consultation from the Association for Self-Support Sponsoring Organizations centered on the role of its organizations in a future social enterprise program. During the hearings in 2006, the representative of the association stated that about 642 organizations existed with about 18,000 as their participants. The assembly member asked about the future impact of social enterprises on its membership organizations. The representative answered that the proposed legislation was ambiguous about the role and legal status of the organizations, and he claimed that the legislations should make it very clear.

The State Actor

What was the key issue of the state for social enterprises? The debates within the task force on social workplaces indicate that the state officials repeatedly mentioned the failure of

previous social programs to create sustainable jobs (the Task Force, internal document, 2005). They concluded that a new program should seek more “market-oriented” and “sustainable profit-oriented” organizations. During the consultation between the representatives of the NGO Coalition for Social enterprises and the National Assembly member who sponsored the bill in 2007, it was reported that “enterprises” will be emphasized more than their “social” aspects in the future development of social enterprises (the NGO Coalition for Social Enterprises, internal memo, 2007). Thus, as the institutional perspective from both organizational and social welfare studies contend, the Korean state’s interest in social enterprises was shaped by its institutional legacy of previous programs in job creation and social services. The state’s emphasis on social enterprises for job creation more than for social service provision, however, was also clear during the legislative process. The Ministry of Labor, during the National Assembly’s regular inspection of the administration in 2007, replied to the issue of potential state’s mismanagement of enormous funds with its job creation programs by arguing that the new social enterprises would achieve substantial job creation by the participation of firms and NGOs.

The state officials also emphasized the participation of business firms since they would be able to make social workplaces more market-friendly in terms of their product or service provision and organizational skills. However, few corporations were willing to participate in social enterprise programs under the state’s direction for a possibility of state intervention

(interviews, 2007). A part of the task force members also discussed a necessity to incorporate existing self-support sponsoring organizations as social enterprises. Thus, from the beginning, the social enterprises were devised to satisfy a dual goal of making sustainable jobs and incorporating the organizations from the previous programs.

The task force's internal memo of the meetings in 2005 shows, however, that it switched its focus to a long-term job creation rather than social service provision for the socially disadvantaged (the Task Force, internal memo, 2005). In other words, the state, in particular, the Ministry of Labor, regarded social enterprises as an alternative to its previous public works program and social workplace program for job creation. Consequently, between the European model and the American model, it was argued that "market-friendly American model is better than the European one" and that "job creation should be viewed as social contribution of business firms (the Task Force, internal memo of the first meeting, 2005)."

The discussion includes the cases of the major corporations with social enterprise programs as a way to make social enterprises more market-oriented. Finally, a shift from the Ministry of Health and Welfare to the Ministry of Labor within the legislative process of social enterprises signifies a change of focus to job creation and a choice of the entrepreneurial American model over the European model based on social co-operatives in the legislative process.

Although the Korean social enterprises seem to follow the American model, it is the approval procedure of the legislation that sets the Korean case apart from the U.S. or any other western models. As in the concept of political learning (Hecló, 1974), the state chose its direct control over which organization can become social enterprises, repeating the developmental state's control over business firms during 1970s. Thus, despite the fact that the very source of social enterprises as an innovation lies in its reliance on firms and civic organizations, the Korean state went back to its familiar position of micro-managing its programs. Given weak organizational resources of a majority of NGOs in the social welfare field, those organizations that seek to become social enterprises had to satisfy the state's specification to be officially approved. In short, the Korean social enterprises looks the American, but spells the state intervention as an alternative to direct welfare service provision and a higher level of the state's involvement in welfare financing.

The Approval Procedures of the Social Enterprises

The approval procedures and their outcomes confirm the state's focus on job creation in social enterprise development. Based on the Social Enterprise Promotion Act in 2007, the "Social Enterprise Promotion Committee" was created, which consisted of state officials, academics, and the members of NGOs in social welfare fields. The key responsibility of the

committee was to evaluate the applicant organizations to become social enterprises by the following conditions according to the act.

<Table 3 about here>

These approval criteria are critical since they shape the future development of social enterprises. A weak tradition of independent social co-operatives or non-profit organizations and the fact that the only state-approved organizations can use the title of social enterprises strengthened the state's control over the development of social enterprises, which was similar to the influence of the developmental state on the Korean business firms in preceding years.

The contents of the approval criteria not only specify job creation and social service provision for the socially disadvantaged as the key goals of social enterprises but the proportion of income from business activities. Such specific emphasis on the income source from profit or entrepreneurial activities again supports the idea that the state sought self-sustainable business-like organizations for job creation. The emphasis on entrepreneurial aspects of social enterprises was clear in the result of the first round of the approval. In 2007, the committee reviewed 113 applicant organizations in the first round of approval process, and it approved only 36 organizations as social enterprises (Cho, 2007). The following table shows the reasons for rejecting approval.

<Table 4 about here>

Based on the above table, one of the major reasons for rejection was a failure to satisfy the amount of income from business activities. This shows that the committee members sought to push the development of social enterprises towards a goal of self-sustainable entrepreneurial organizations to reduce the state's burden in maintaining social enterprises. The committee's internal memo argued for adopting the American model of social enterprises. However, they failed to mention that the American social enterprises were based on autonomous development of non-profit and voluntary organizations without the state's direct control over the title and their management. The state expected social enterprises to be independent business enterprises to create jobs and provide social services after a short period of initial governmental supports.

After the first round of the process, the committee had five rounds of approval in 2007 and 2008. What were the characteristics of social enterprises from those periods? The following shows the characteristics of the Korean social enterprises.

The Characteristics of the Social Enterprises in 2007-2008

In the following, I examined the social enterprises that were approved in each of the five rounds since 2007. Since the approval committee started its process in 2007, it had three rounds of approval annually. To demonstrate overall characteristics of the social enterprises and the changes across each round of approval, I analyzed the social enterprises by each round. Among the key characteristics of social enterprises, I examined their organizational types, key goals, employee size, and target groups. These aspects are important to understand the nature of the Korean social enterprises since these are the information that the applicant organizations for the approval process should specify. Also, each aspect refers to the strategic goal of social enterprises (such as key goals and target groups) and organizational characteristics (such as organizational types and employee size).

First, one of the key organizational characteristics of social enterprises is their organizational types. According to the approval procedures, the applicant organizations should choose a type among associations, co-operatives, corporations, foundations, incorporated associations, non-profit organizations, private companies, and welfare foundations. The following figure shows that the composition of organizational type vary across the rounds.

<Figure 2 about here>

At the early rounds, corporations and incorporated associations outnumbered other types, whereas private companies and welfare foundations increased their share at the fifth round. The final round indicates that, as time passes, more diverse types of social enterprises have emerged, reflecting social enterprises as an institutional innovation attracted diverse organizational actors for various social needs. At the same time, however, a strong presence of corporations throughout the rounds and the rise of private companies at the final round reflect the approval committee's emphasis on self-sustainability of social enterprises through market activities.

The social enterprises should specify their key social goal between job creation and social provision. The following graph offers the type of key social goals across the approval rounds.

<Figure 3 about here>

More social enterprises selected job creation over service provision until the fifth round. Thus, the Korean social enterprises focused on job creation initially and only subsequently paid attention to service provision. This suggests that the approved committee initially viewed social enterprises as a social policy mainly for job creation, which succeeded the state's previous public works or social workplace program.

Thus, the discussion of social service provision through social enterprises as an alternative to public social services was not implemented strongly in the first stage of social enterprise development.

If a majority of the social enterprises chose job creation as their key goal, to what extent did those social enterprises create jobs? The following figure shows the distribution of employee size along each round of approval.

<Figure 4 about here>

Although a number of the social enterprises did not present their employee size, the graph indicates that a majority of the social enterprises hired somewhere between 20 and 49 workers. It shows that the typical social enterprises are small to medium size organizations with relatively weak impact on job creation. It also shows that the average size became smaller in 2008. Such distribution of employee size questions the efficacy of the Korean social enterprises as a social policy for job creation or unemployment. The Ministry of Labor (2008) reports that the average employee size is 35.8, and a total number of employees of the social enterprises is 5,512. In terms of average wage, the Ministry of Labor states that it is 989,000 *Won* (about 1,000 US dollars according to the early 2008 currency exchange rate).

Considering that the official minimum wage was about 852,000 *Won*, the average wage level of the social enterprises is low

Finally, which group was the target group of the social enterprises? The following shows the distribution of the target group the social enterprises indicated.

<Figure 5 about here>

The graph shows that, at initial rounds, the social enterprises targeted mainly the disabled and a general population and later included senior citizens. However, if there is a single group these social enterprises chose, it is a general population. and later senior citizens. Those social enterprises serving a general population sell products or services. This is linked with the fact that a large number of the social enterprises chose corporations or private companies as their organizational types. Thus, the Korean social enterprises in their emergence focused more on enterprises than on their social characteristics. A potential problem with this line of development is its conflicts with a number of commercial companies that already selling similar products or services on the market. The fact that the social enterprises receive the state's supports would create a strong opposition from commercial companies as an unfair policy or state intervention as the number of the social enterprises increases.

Among socially and economically vulnerable groups, persons with disabilities shows strong presence. Why did the social enterprises choose this group? Prior to the legislation of social enterprises, the state implemented the social workplace program and the self-support sponsoring organizations as a way to provide jobs for the socially vulnerable. Among the key type of social groups, persons with disabilities were a majority. However, when the social workplace program and its organizations failed and could not receive the state's support, they found social enterprises as a way to maintain their organizations. Thus, a large number of these organizations applied for the approval process of the social enterprises. Thus, the institutional legacy of the previous social programs affected the nature of the social enterprises.

To summarize, not only official approval criteria but also approval outcomes support the idea that the Korean state and its committee shifted their focus on social enterprises as business-like organizations for job creation rather than service provision. The influence of the state was based on the fact that only those organizations approved by the special committee could use the title of social enterprises and those organizations in social welfare fields have depended on governmental supports for their existence. Although the Korean social enterprises seem to follow the American model, they would repeat the state-led development within the institutional environment of weak third sector and lack of public social services in the future.

Discussion

Social enterprises as an alternative to public welfare contain an internal tension between hiring the socially disadvantaged and social service provision. Due to either a low productivity of such workers or a low income of clients, social enterprises are likely to face a challenge of sustainable development. Every social enterprise across societies would experience such challenge, but it would affect the Korean social enterprises more seriously for a number of reasons.

First, the institutional legacy of welfare state programs weakened an organizational environment for social enterprises. The state's strategy to focus on social insurance for male workers at the expense of social services for the socially disadvantaged resulted in lack of public social services. The weak public social services puts more pressure on social enterprises by making them deal with too much social demands for such services.

Second, the idea of social enterprises providing social services came from the European societies with a strong tradition of the third sector or social co-operatives. However, Korea did not have strong social co-operatives that were rooted in civil society. There has been a development of co-operatives in agricultural and fishing industries, but they have been

strongly controlled by the state. Although a large number of non-profit organizations and NGOs were created around the time of democratization since late 1980s, they have also depended on the governmental subsidies for basic operation. Thus, the Korean NGOs or non-profit organizations did not have organizational and institutional infrastructure to develop more independent organizations from the state control.

Finally, a recent surge of interest in corporate social responsibility prompted a number of major corporations to be interested in social enterprises. Compared with the American business firms, however, the Korean firms were very reluctant to participate directly in social programs that share control with outside organizations, governmental or non-governmental. During the interviews with the key personnel of the leading corporations in social enterprises, it was clear that the corporations wanted to separate the operation of social enterprises from their main business. The most successful American cases such as Pioneer Human Services, Juma Ventures, and Per Scholars share one thing: major corporations integrated the business of affiliated social enterprises within their business operation as a supplier or part of franchise operation (Park, 2007b). In the process, they provided diverse consulting and training in addition to business opportunities. It is precisely such a deep level of involvement that the Korean firms have sought to avoid. Consequently, despite the state's discussion of the American model, the weak involvement of the Korean corporations with social enterprises make such model less viable in Korea.

In sum, the Korean social enterprises face a challenge of achieving both job creation and social service provision without strong development of welfare service programs, independent social co-operatives or non-profit organizations, and a deep level of inter-firm involvement of major corporations. In such institutional environment, the social enterprises that have been approved so far reveal their strategy to create short-term jobs, since the official approval committee select new social enterprises and evaluate the approved organizations based on their plan or performance on job creation. Thus, without a long-term support of the state, the social enterprises in Korea would experience a substantial obstacle to maintain long-term sustainability.

Theoretically, the development of the Korean social enterprises supports the institutional perspectives from both organizational studies and social welfare studies in their emphasis on how pre-existing organizational forms and institutional environments influence the contents of the new organizational form by creating institutional demands, key interest groups, political learning of the state, and a political coalition. The weak social service provision of the Korean welfare state regime increases a pressure on the social enterprises to satisfy a dual goal of job creation and service provision. The previous programs such as social workplace program or the National Basic Security Act made self-support sponsoring organizations the key interest group in the legislative process of the social enterprises. Self-support sponsoring organizations also provided an important organizational form that provided a guideline for

social enterprises. The failure of previous job creation programs and the strong pressure of the interest groups from such programs facilitated a consensus between two major political parties and the administration to enact the social enterprise legislation. Finally, despite the active role of civil society and market as the key part of social enterprises as an innovation in social welfare, the state followed its familiar strategy of direct control over market and civil society by forcing official approval procedures for social enterprises, thus continuing state-centered or top-down model of social development from the days of the development state since 1970s.

To conclude, without strong welfare service provision, however, the Korean social enterprises are under a dual pressure of creating long-term jobs and providing services to the socially disadvantaged. When the state also pushes them to be self-sustainable by competing with business firms on the market, the social enterprises would either have substantial difficulties to survive or stay away from the socially disadvantaged as their key employees or clients, which would nullify their original goal. Thus, the development of social enterprises in Korea demonstrate that the innovation in voluntary and non-profit organizations was embedded in terms of its basic direction and its effectiveness within pre-existing institutional conditions of pre-existing social policies and the development of the third sector organizations.

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Table 1. A Comparison of Social Enterprises in the United States and Europe (revised from a table in Kerlin, 2006:259)

Characteristics	United States	Europe
Emphasis	Revenue Generation	Social Benefit
Common Organizational Type	Nonprofit	Association/Cooperative
Focus	All Nonprofit Activities	Human Services
Types of Social Enterprise	Many	Few
Recipient Involvement	Limited	Extensive
Key Organization	Foundations	Government/EU
Context	Market Economy	Social Economy
Legal Framework	Lacking	Underdeveloped but Improving

Table 2. The Annual Growth of the Social Workplace Program (source: Ko, 2007:154)

Year	2003	2004	2005	2006
Governmental Organizations	The Ministry of Labor	The Ministry of Labor and 5 other organizations	The Ministry of Labor and 6 other organizations	The Ministry of Labor and 7 other organizations
Total Budget (unit: hundred million Korean Won)	73	949	1,691	3,039
Total Number of Employees	2,000	47,491	69,314	133,509

Table 3. The Criteria for Approval for Social Enterprises (Moon, 2008).

Criteria	Contents
Organizational Type	<ul style="list-style-type: none"> - non-profit organizations - co-operatives - social welfare foundation - association
Paid Employees	<ul style="list-style-type: none"> - Paid employees other than volunteers or unpaid members necessary
Income from business activities	<ul style="list-style-type: none"> - Income from business activities for 6 months prior to an approval application should exceed 30% of wages.
Social Goals	<ul style="list-style-type: none"> - Job creation type should hire the socially disadvantaged as more than 50% of the employees. - Social service type should provide more than 60% of total services to the socially disadvantaged. - Mixed type should have more than 30% for hiring and social provision for the socially disadvantaged. - The socially disadvantaged are the households with their income lower than 60% of the national average household income, senior citizens, persons with disabilities,

	victims of sex trade, and the long-term unemployed.
Governance	- Employees or service clients should participate in decision-making process.
Profit Distribution	- Corporations or for-profit foundations should use more than two thirds of their profits on social goals.
Statute	- The Statute should specify its social goals, business contents, governance, profit distribution and reinvestment principles, investment and financing, employee composition, dissolution and liquidation, and donating more than two thirds of remaining assets to other social enterprises or public funds in case of liquidation.

Table 4. The Reasons for Rejecting Approval in the First Round of the Process in 2007

Failed to Satisfy	Total Number of Rejected Applicants	%
Organizational type	30	39.5
Paid Employees	1	1.3
Social Goals	5	6.6
Governance or Decision-making Procedures	2	2.6
Income from Business Activities	13	17.1
Statute and Rules	14	18.4
Profit Distribution	5	6.6
Others	6	7.9
Total	76	100

Figure 1. The Concept of Social Enterprises

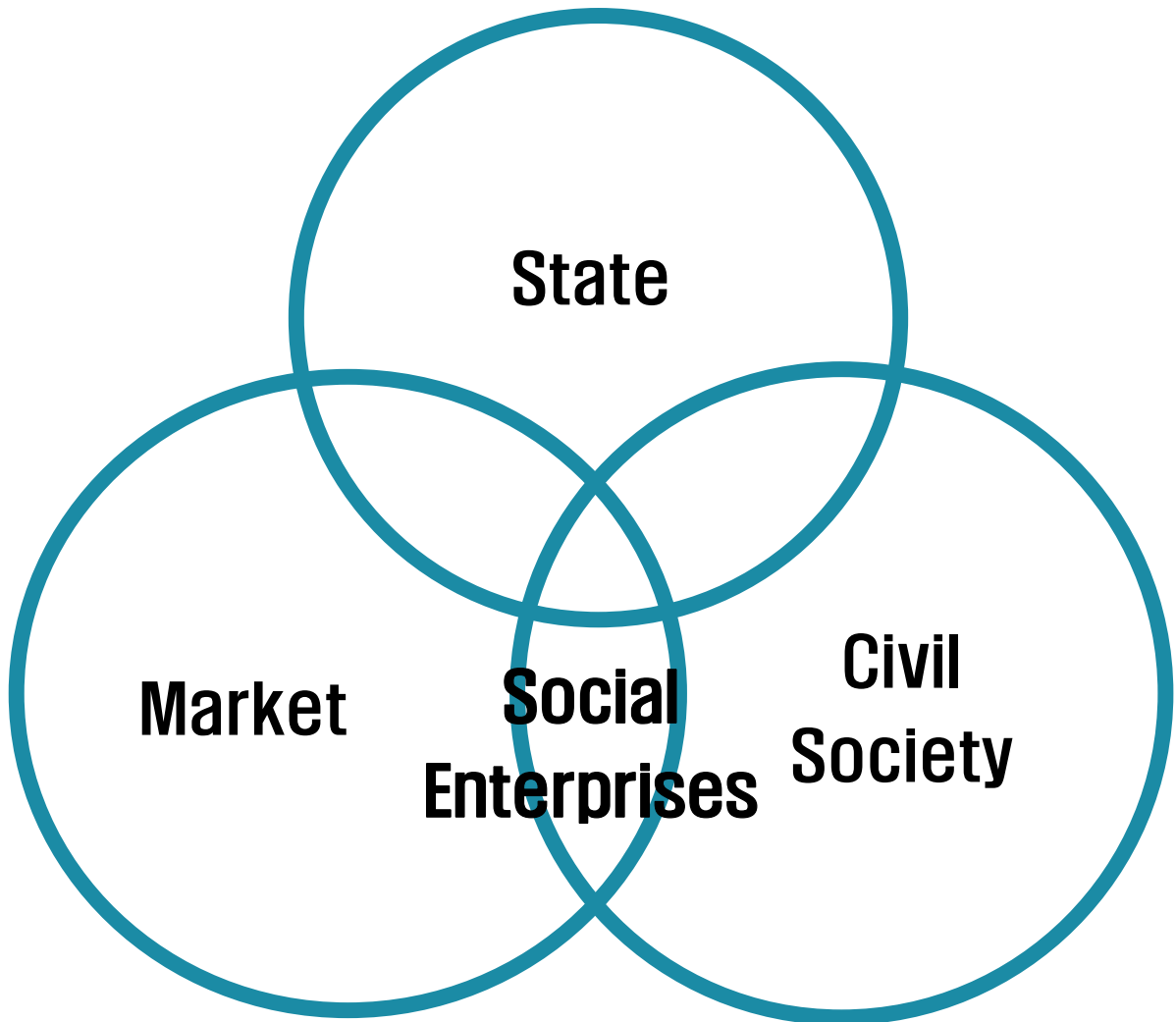


Figure 2. Organizational Types

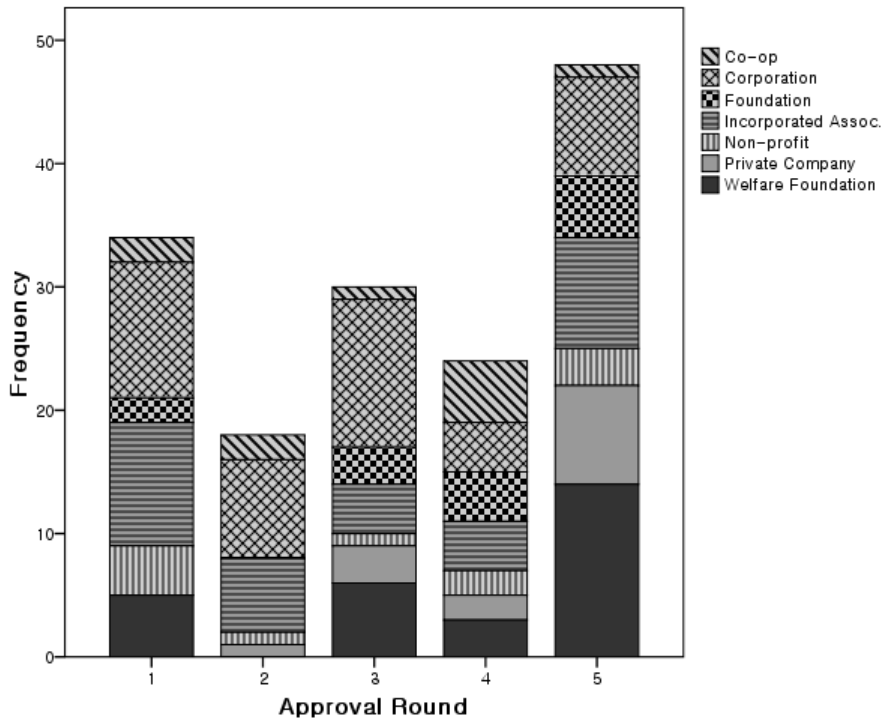


Figure 3. Type of Social Goals

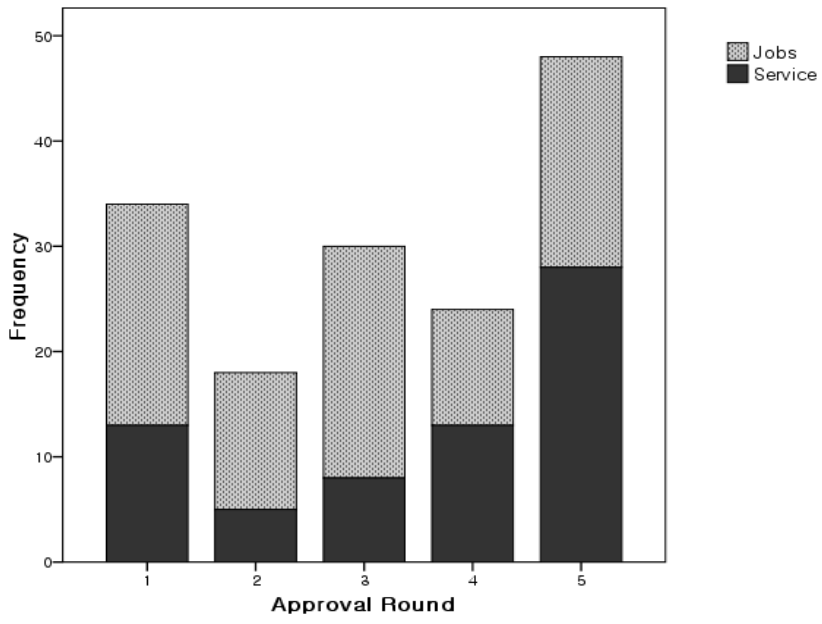


Figure 4. The Size of Employees

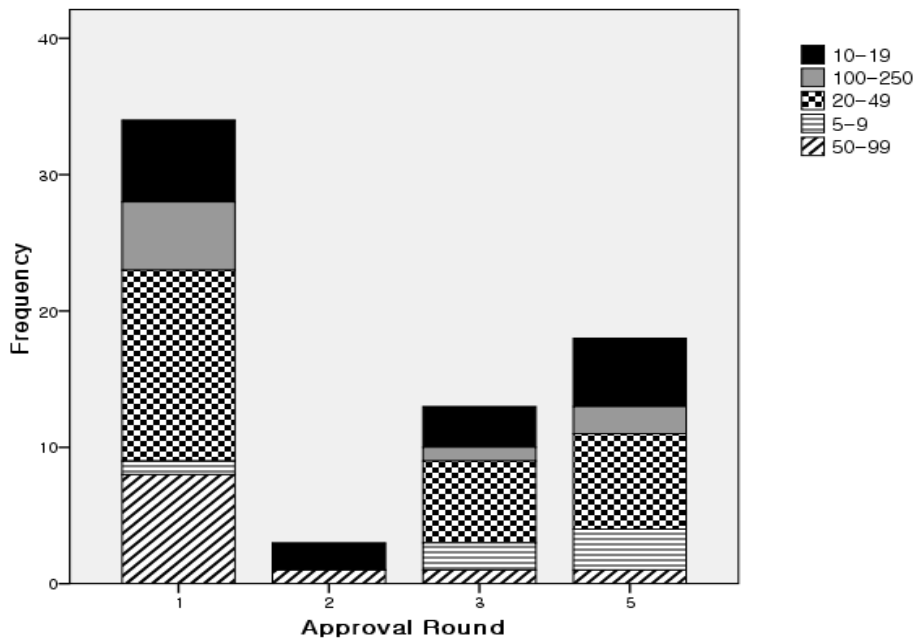


Figure 5. Type of Target Group.

