

A Study on the Current Status of Social Welfare Services Offered by Social Enterprises and Their Operational Structure

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A Study on the Current Status of Social
Welfare Services Offered by Social
Enterprises and Their Operational
Structure

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Chapter

01

Introduction



Chapter 1

Introduction

1. Background and Purpose

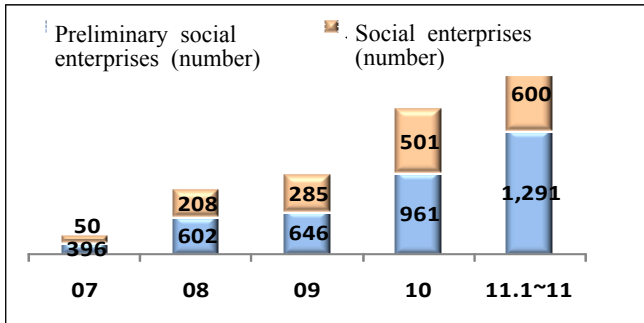
As the government has introduced new types of social service projects based on social investment policies since the mid-2000s, the realm of social service supply traditionally supported by social welfare is undergoing an extensive range of changes. The social welfare services previously provided by relevant foundations or organizations in the form of contracting out or funding suppliers are now seeing a surge in numbers amid growing diversification with the expansion of voucher business directly financing social welfare users as well as the introduction of 'Long Term Care Insurance' scheme. Additionally, the implementation in December 2007 of the 'Social Enterprise Promotion Act' (hereinafter referred to as the Act) has led to a new institutional framework for social services. The "purpose of the act is to boost currently undersupplied social services by supporting social enterprises (SEs) and creating new jobs, thereby contributing to social solidarity and quality of life." Thus, it is expected to serve as a catalyst to promote social service providers.

The management and operation of social enterprises is governed by the labor ministry, as the Act is under the control of the Ministry of Employment and Labor (MOEL). It is revealed, however, that a significant portion of the actual work appears

relevant to social welfare, care-giving, child care, etc. The Ministry defines a social enterprise as an "organization engaging in business activities producing and selling goods and services while pursuing the social purpose of enhancing the quality of life of local residents by means of providing social services and creating jobs for the disadvantaged," adding that "its main benefits include i) helping the vulnerable join the general job market by presenting them with job opportunities; ii) offering sustainable employment through profit generation; iii) identifying new service needs that the government has failed to recognize by responding sensitively to the demand of local society; iv) offering quality social services at a reasonable price by pooling social welfare resources such as donation, sponsorship, and voluntary work, thereby enhancing consumer satisfaction and reducing the government spending," (MOEL, 2011, Employment & Labor White Paper).

As of Nov. 2011, the number of social enterprises stands at 600, an impressive jump from 50 in 2007. Preliminary social enterprises are also gradually on the rise from 396 in 2007 to 1,291 as of Nov. 2011. The number of people working for social enterprises has increased drastically, too, totalling 15,416, of which 61.2% (9,429) accounts for the socially vulnerable. The MOEL states that it is imperative to "develop and promote social enterprises which mainly offer jobs for the underprivileged and generate social services while strengthening the functions of social enterprises by filling in, in an innovative way, social gaps such as blind spots in public service," (MOEL, New Year Work Report, Dec. 2011).

[Figure 1-1-1] Growth in the number of (preliminary) social enterprises



Source: MOEL, New Year Work Report, Dec. 2011

The number of social enterprises successfully certified from Oct. 2007 to Dec. 2010 (14 series in total) is 501 with 48.5% of approval ratio (Of 1,058 applications, 514 were passed and 13 were later cancelled or returned). The 501 certified enterprises can be broken down into job creation type (284), social service offering type (46), welfare mix (93), and local society contribution type (78) based on how their social purposes are being met. In terms of how they are organized, they can be classified into corporations under commercial law (204), legal entities under civil law (125), nonprofit NGOs (99), social welfare foundations/organizations (58), consumer cooperatives (12), and farming association corporations (3).

By activity, they are divided into the following 9 areas: Education, Health, Social Welfare, Environment, Culture/Art/Tourism/Sports, Child Care, Forest Preservation (Management), Caregiving/Domestic Help, and lastly Others. Specifically, 'Others' ranks top with 160 (31.9%), followed by 'Social Welfare' (90, 18.0%), 'Environment' (80, 16.0%), 'Culture'

(64, 12.8%), 'Caregiving/Domestic Help' (50, 10.0%), 'Education' (26, 5.2%), 'Child Care' (22, 4.4%), 'Health' (9, 1.8%), indicating that social welfare, nursing/domestic help, and child care take up one third of the total.

In this respect, social enterprises carry significance from the social welfare standpoint as they are facilitating job creation for the disadvantaged and at the same time likely emerge as a main actor for providing social welfare services. With that said, detailed analysis into their merits and growth potential as a social service provider is required.

Moreover, amid the growing interest in social enterprise by nonprofit NGOs which also carry out social welfare activities in a local society along with the existing social welfare services and institutions, and their increasing efforts to gain certification, it seems necessary to perform an in-depth analysis on the effectiveness of transition to a certified social enterprise and its drivers, differences against the existing social welfare services, and the strengths and growth potential thereof.

Against this backdrop, this study was put together and conducted based on the issues as listed below: Firstly, social enterprises aim at providing social services in a broader sense, but as business and service type become more diverse than ever, the requirements for their operation differ as well. It is even more true for social welfare services, given their inter-personal nature. The first question raised is whether it is correct to empower a social enterprise to stand on its own as a social welfare service provider based on such differing nature, and if so, how it could be achieved. Also, review is required to identify its merits as a social welfare

service provider before seeking actions to reinforce and better support it. Furthermore, it should be analyzed what implications such diverse promotion mechanisms as the subsidy for new hires, financial aid for social security, financial assistance for professional manpower, business consulting, and tax cuts have for social enterprises primarily involved in delivering social welfare services.

Moreover, it is vital to analyze the short-and long-term impact of relevant policies on the operation of social welfare services by looking into the span of time available for each support mechanism utilized and its degree of usefulness and effectiveness. In particular, special attention is paid to explore ways of improving and remedying institutional weaknesses for the better supply of social welfare services. On top of it, we have exerted efforts to define how the 'financial assistance for labor cost' embraced as an incentive by a lot of enterprises is affecting their operation to ensure sustainable delivery of welfare services and come up with more effective support mechanisms.

Secondly, it is deemed essential to identify the gap between the characteristics of social enterprise discussed and defined in institutional and academic terms and the reality as to how it is actually run. This is designed to verify its effectiveness on the premise that there should be discrepancies existing not only in terms of the overall operation of a certified social enterprise and its business performance but also due to the nature of social welfare providers.

For a social enterprise that offers social welfare services, the company history leading up to its certification comes in various

forms including self-support project, social welfare program, community movement, etc. It is considered meaningful to define various factors along such developmental path and draw a difference in the way it is perceived and operated depending on the nature of the actors (i.e. social welfare foundation, non-profit organization, community-based civic group) and prior experiences (i.e. self-reliance, community movement, social welfare).

We also believe that a thorough review is required to verify if the social enterprise in question is sticking to its philosophy in business operation and what implications it has for offering social welfare services, whether its expectations at the time of application for certification are being met in reality, and finally how it has managed to secure a competitive edge after certification. Besides, we need to look into how the two core objectives of social enterprise - the significance of human resources and stable job creation for better quality in social welfare service - are being fulfilled, before seeking ways to pursue HR development and enhance expertise in management.

The third issue questions about whether the operational structure of SE is sustainable as a social welfare service carrier, and if so (or if not), what improvements need to be taken. In other words, it is imperative to define a structure by which the current social welfare service provider is operated, thus seeking ways to promote stability in operation. A social enterprise usually suffers poor business and distribution structure. To cope with such a problem, preferential purchase of goods is proposed.

However, as the output of social welfare service mostly involves human services, a different approach should be considered. Also,

fostering an institutional environment is required to allow financial resources to be flexibly utilized with the support for social enterprise and the financial assistance for the current welfare services (both for users and suppliers) not being mutually exclusive or conflictory. As can be seen in the case of European welfare states, the third sector has been taking hold as a mainstream in most social service domains since the 1990s. In this respect, we should look into foreign policies governing social welfare service entries by a variety of suppliers while assessing innovative actions taken by the third sector to adapt to the changing environment involving service agreement and competition method as well as their implications.

Thus, we conducted the study under the following objectives:

- 1) Define the position and characteristics of social enterprise as a social service provider by examining, in detail, its status quo.
- 2) Identify differing aspects of the process and substance of social service supply.
- 3) Analyze the growth potential and development factors of SE as a main social service provider.
- 4) Verify what affects the structure of social service supply by SE (i.e. social service type, regional features, nature of human resources, support mechanisms) and seek efforts to facilitate social enterprises in the field of social welfare.

2. Main Content and Methodology

First, SE-related theories and local policies were reviewed. Also, SE definitions at home and abroad were examined with its features outlined. We were able to identify fundamental factors to be reviewed or assessed from a social welfare perspective after going through the preceding studies relating to SE analysis and evaluation.

Second, we examined SE support policies adopted by European nations. We specifically looked into their SE definition, category, type, and legal format while summing up SE main activity areas and the current status of social welfare services provided. We took a closer look to find out the historical or political context triggering the flourishing of SE in the European region as well as their support mechanisms for SE. Based on such observations, we intended to discuss SE status and potential as a social welfare service provider.

Third, we endeavored to determine how certified SEs, currently emerging as a new force in Korea's social welfare landscape, are evolving and surviving, while trying to identify their influence factors and institutional support criteria. The operation status of social enterprises mainly engaging in social welfare service was analyzed particularly in terms of public recognition (i.e. purpose of foundation, objectives, expectation levels), leadership by the head of organization (awareness as a social entrepreneur), provision of social welfare services and their performance, current status of social service workers utilized and their employment conditions (i.e. pay level, years of service, type of workers

available), SE operational structure (financial & administrative management, re-investment of the profits earned, decision-making structure), current resource utilization and network status of a local community, difficulties or obstacles encountered in the course of operating SE, feedbacks on SE support systems, strengths and weaknesses of SE and its outlook, differences in operation between pre-and post certification, etc.


Fourth, through the status analysis conducted as stated above, we tried to check if SE criteria and requirements set forth legally and discussed academically are being met and if SEs are being operated as originally planned, while examining whether the strengthening of SE self-reliance is appropriate and how it can be accomplished. In addition, our emphasis was placed on defining assistance needs and institutional improvements necessary to allow SE to secure a sustainable operational structure as a social welfare service supplier.



Chapter

02

Current Status of Social Enterprise(SE) Support Mechanisms



Chapter 2

Current Status of Social Enterprise(SE) Support Mechanisms

1. The Institutional Background for Social Enterprises

As the premise of welfare state characterized by full employment and universal welfare is being threatened among western European countries, the concept of social enterprise has begun to be embraced as a new means of employment strategy and welfare offering. Institutionalizing SE has however taken a different form based on each nation's social, economic, and political considerations.

The institutionalization of SE in Korea dates back to the late 1990s when, amid the deepening economic crisis, a slew of public projects were initiated and outsourced to the private sector in an attempt to tackle massive unemployment problems. Public projects designed to create short-term jobs and generate income for the unemployed were commissioned to civic groups in an effort to ensure more efficient project management on the back of expertise in the private sector. However, as civil groups continued to raise concerns that the limited nature of public project hindered the prospect for sustainable job creation from being realized, the ministry of labor finally turned public outsourcing projects into 'Job creation program for the socially

disadvantaged' in 2003. The ministry stipulated it as "a community-based policy tool for employment by which non-profit, non-government organizations create jobs for the vulnerable in areas considered socially useful yet in reality shunned by the government or private firms due to poor profit margins." The program could be viewed as an attempt to overcome the limitations of existing public outsourcing projects by clarifying its policy goal as creating socially useful jobs. Yet, given the tentative nature thereof, facing fundamental limitations was inevitable. In particular, the poor quality of jobs created by the program and the continued dependency on government subsidies were continuously criticized.

Under this circumstance, the ministry re-defined its policy goal around how the program could enable such job structure to sustain, thus laying a foundation for political considerations for social enterprises. In 2005, an expert team ('Social Jobs Planning team) to establish the 'Social Enterprise Promotion Act' allowing SE to be designed as a final output of the program.

Consequently, the ministry's social enterprise promotion policy has political considerations in place to tie the objective of job creation program for the underprivileged to the launch of SE, eventually leading to its institutionalization.

2. The Characteristics of SE Support Policies

The goals of SE promotion policy led by the Ministry of Labor include job creation and service delivery. Specifically, the policy driven by a strong aspiration for sustainable and

structured job creation is designed to trigger SE to emerge and stand on its own, enabling jobs for the disadvantaged to continue to be sustained. For starters, institutionalizing SE certification criteria has forced SEs to serve as a source of sustainable employment for the socially vulnerable, with the implementation of support policies focusing on self-reliance. As discussed in <Table 2 -1-1>, the SE certification criteria put forth by the Ministry require social enterprise to acquire legal personality for the employment of paid workers while specifying the objectives and activities thereof to enforce the hiring of, and social service delivery for, the disadvantaged.

<Table 2-2-1> SE certification criteria

Criteria	Details	Article
Organization type	<ul style="list-style-type: none"> • Juridical person or association under civil law, corporation or non-profit private organization according to commercial law • Nonprofit private organizations: <ol style="list-style-type: none"> 1) Public service corporations set up according to the " Act on the Creation and Operation of Public Service Corporation" 2) Non-profit private organizations based on the 'Nonprofit Private Organization Support Act' 3) Social welfare foundations/organizations according to the 'Social Welfare Service Act' 4) Consumer cooperatives in accordance with the 'Consumer Cooperatives Act' 5) Non-profit organizations established by other laws or regulations 	Article 8 (Act), Article 8 (Enforcement Decree)
Hiring of paid workers	<ul style="list-style-type: none"> • Ensure that paid workers are employed to conduct operating activities such as the production or selling of goods or services 	Article 8 (Act)
Fulfillment of social purposes	<ul style="list-style-type: none"> • Specific criteria by which the fulfillment of social purposes may be determined <ol style="list-style-type: none"> 1) Job creation: The socially vulnerable account for over 50% 	Article 8 (Act) Article 9 (Enforcement

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Criteria	Details	Article
	<p>of the entire workforce (Additional clause: 30% until 2008)</p> <p>2) Social service delivery: Of those who benefit from services delivered, the socially vulnerable take up over 50% (Additional clause: 30% until 2008)</p> <p>3) Welfare mix: The disadvantaged make up over 30% of the entire workers hired and service recipients respectively (Additional clause: 20% until 2008)</p> <p>4) Others: If making judgment is deemed difficult based on the criteria set forth above, it shall be discussed by the Promotion Committee and decided by the Labor Minister.</p>	Decree)
Stakeholders' participation in decision-making	<ul style="list-style-type: none"> A decision-making mechanism should be in place that ensures the involvement of stakeholders such as service recipients and workers. 	Article 8 (Act)
Profits earned from operating activities	<ul style="list-style-type: none"> Applicable if the total profits earned from operating activities over the preceding 6 months from the date of application for certification account for over 30% of the total labor cost spent over the same period 	Article 8 (Act) Article 10 (Enforcement Decree)
Articles of association or regulations available	<ul style="list-style-type: none"> Articles of association or company regulations should specify the purpose and content of service, stakeholders' participation in decision-making process, re-investment of two thirds of profits for social purposes, etc. 	Article 8 & 9 (Act) Article 11 (Enforcement Decree)
Profits re-invested to meet social purposes	<ul style="list-style-type: none"> In case of the occurrence of allocable profits for each fiscal year, over 2/3 should be used to fulfill social purposes. 	Article 8 (Act)

Source: 'Social Enterprise Promotion Act,' July 2007 reconstructed by the Ministry of Labor

SE support policies also place focus on increasing its ability to survive. They include the assistance for business management and training to strengthen an organization's competencies and finance facility cost, preferential purchase by the government agencies or state-run companies, tax cut and subsidy for social security, financial aid, tax credit for the allied companies, etc.¹⁾

〈Table 2-2-2〉 Detailed assistance for social enterprises and actual results for 2010

Support Type	Details	Actual results for 2010
Support for business management	<ul style="list-style-type: none"> • Offer business consulting and information concerning management, tax, labor, and accounting necessary for the establishment (certification) and operation of SE 	<ul style="list-style-type: none"> • Provided tailored biz consulting service through 219 consultancies officially registered with 6 government agencies, Offered specialized consultation through the KICPA and the Korea Certified Public Labor Attorneys Assn. (Accounting:179, Labor:188)
Financing for facility expenses, etc.	<ul style="list-style-type: none"> • Provide funding or loan to buy land or build facilities necessary to establish and operate SE. Grant permission for leasing public land 	<ul style="list-style-type: none"> • Extended long-term, low-interest loans for facility or working fund adding up to KRW 5 billion in 52 cases
Preferential purchase by public organizations	<ul style="list-style-type: none"> • Allow market protection for SEs by encouraging prior purchase of goods or services 	<ul style="list-style-type: none"> • The preferential purchases made by public organizations amounted to KRW 17.2 billion.
Tax credit	<ul style="list-style-type: none"> • Offer a tax cut to SEs for 4 years (i.e. corporate tax, income tax) • Treat donations to SEs (non-profit foundation/organization) by its allied companies as deductible expenses (within 10% of income) 	
Financial aid	<ul style="list-style-type: none"> • Provide financial assistance for labor cost, operating expenses, etc. through public contest or audit within the extent of budget 	<ul style="list-style-type: none"> • In case of SE involvement in job creation program, some of the labor costs (₩859,000 per month, 2010) and social insurance expenses (employer's contribution: 8.5%) were subsidized. • Partially financed the hiring of talented workers for SE management including strategy & planning, accounting, marketing, etc. (up to KRW 1.5 million; The remaining labor cost shall be paid by SE itself)
Support for building network & nurturing social	<ul style="list-style-type: none"> • Assist in building SE network at national, inter-team collaboration, and community level 	<ul style="list-style-type: none"> • Hanmadang event held as part of national network project, Field investigation to assess the level of collaboration among

1) Refer to and re-construct the homepage of the Korea Social Enterprise Promotion Agency (KSEPA): <http://www.socialenterprise.or.kr>

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Support Type	Details	Actual results for 2010
entrepreneurs	<ul style="list-style-type: none"> Assist in opening courses for the education of social entrepreneurs in colleges, etc. 	3 different government departments, Best practices contest targeted for 6 regions <ul style="list-style-type: none"> Opened a total of 18 courses completed by 545 students

(A) Assistance for business administration

The government provides 'business consultation' for (preliminary) SEs in order to foster business mind-set befitting a social entrepreneur and meet their consulting needs. Specifically, it offers a phased consulting service for three stages: inception, growth, and self-reliance.

〈Table 2-2-3〉 Detailed consulting information for each phase

Inception Phase	Growth Phase	Self-Reliance Phase
Basic consulting (Diagnostic)	Specialized consulting	
	Mentor-type	Project type
Accounting/labor management	Overall business (provide information for new sales channels and market entry, make diagnosis for problems, etc.)	Specific areas (marketing/PR/sales strategy, design, job analysis & performance evaluation, etc.)
Accounting firm -supported by region	Consulting firms or individual consultants registered with the KSEPA)	

Basic consulting relates to SE inception stage by helping lay a groundwork for business regarding basic accounting and labor management. The main targets are preliminary SEs or newly certified SEs. Specialized consulting breaks down into

mentor-type for growth stage and project-type for self-reliance stage; the former allows a professional mentor or social entrepreneur to assess the overall state of business and address any issues or problems, whereas the latter involves the offering of area-specific expertise to enhance competitiveness in goods or services. Both are mainly targeted for certified SEs. The consultation fee for a preliminary SE at inception stage is KRW 3 million or below with no contribution to be paid; KRW 3~10 million for SE at growth stage with 10% contribution; and KRW 3~20 million for SE at self-reliance stage with 20% contribution.

(B) Financial assistance

(1) Support for labor cost and professional workers

Local autonomous bodies provide, either free or below market price, to the disadvantaged social services involving welfare, environment, culture, community development, etc. that are deemed vital but under-supplied due to weak profits, while subsidizing labor cost to enable SEs to create new jobs for the socially vulnerable. The labor cost and employer's share of four mandatory insurance premiums are also assisted (W980,000 a month in 2011), with different payment ratios applied based on the number of years with the program; 90% for the 1st year, 80% for the 2nd year, and 70% for the 3rd year.

In addition, the support for professional workers is available to fuel sustainable business innovation through the strengthening of SE competencies. This is specified in Article 14, Paragraph

1 of the Social Enterprise Promotion Act ('Financial assistance for social enterprises providing social services'), eligible for social service-oriented SEs certified by the Minister of Employment and Labor. Professional workers here refer to those either working over 3 years in certain areas imperative to business administration including planning, personnel/labor, sales, training, finance/accounting and legal affairs, or with a certified qualification. Of the aged or semi-aged, those who either retired from companies listed on the Korea Stock Exchange (KSE), registered with the KOSDAQ, or with 300 or more full-time employees, or worked over 2 years as a researcher for state-run, public, and private research institutes prior to retirement may also be utilized (temporarily assisted for 2011). Labor cost is partially subsidized with a monthly ceiling of KRW 1.5 million for every 3 workers for each SE (two in cases where companies have below 50 paid workers); provided, however, that a certain portion of salary payable to professional workers should be shouldered by the SE itself. The ratio of payment contributed by SE is revised upward every year: 10% of wage paid for the 1st year, 30% for the 2nd year, and 50% for the 3rd year.

(2) Support for development expenses

Another financial assistance for SE is the subsidy for development expenses allocated to boost product quality and performance, spur promotion and marketing efforts for market entry and new sales channels, and facilitate R&D with regard to brand (logo), technological advancement, etc. This aims to

deliver the output of technological development, thus fulfilling economic and social purposes. Certified SEs are eligible for below 70 million won in subsidy, while preliminary SEs are entitled to below 30 million won. It can be used for business development, research, and training & education for relevant workers by filing an application with local government.²⁾

(3) Loan for facility or working fund

The assistance is made in the form of provision of funding or loans for land purchase or facility setup, or offering a lease for public land to establish or/and operate social enterprise. For additional expenses, they are supported through Micro Credit Foundation programs, government policy loans managed by Small Business Administration (SBA) such as startup fund and new growth-based fund, and so forth.

2) The scope of use is as follows:

- Biz development expenses: Expenses spent for new biz opportunities in strategic areas, model development, promotion & marketing for the expansion of market entry, development of additional services, new product development, customer relationship management, etc.
- Research expenses: Research outsourcing fees for service, sales related market research, brand development, business expansion, etc.
- Training expenses for workers: It is applicable only when the training programs for existing workers are not available for use according to employment insurance. Having it assigned to pay for the reserve for the retired, working fund, facility/equipment investment shall not be allowed.

(4) Tax credit

Article 85, Paragraph 6 of Tax Reduction and Exemption Control Act stipulates that the income tax for social enterprises shall be deducted by 50% over 4 years. Specifically, 50% of tax relief shall be granted for the income earned from the first taxable year and the profits accrued from the following 3 years in taxation, thereby allowing SE to successfully take root.

Additionally, donations by regular firms or individuals to non-profit social enterprises are considered designated contribution. The inclusion of 10% and 30% of income in expenses is allowed for corporations and individuals respectively.

(5) Social insurance (four mandatory insurance schemes)

In an effort to reinforce the fostering and backing of social enterprises, the government is partially covering social insurance fees for SEs since 2010. According to Article 13, Paragraph 2 of the Act, a social enterprise is qualified to apply for such benefit starting from the succeeding month after earning certification. Eligibility is limited to those employed by SEs under the Employment Standard Act. In the case of organization, the SEs not supported by local governments yet still subscribing to four public insurances and paying a minimum or above wage are qualified. Also, such benefit is extended to those with no financial backing for labor cost or social insurance even if they are working for SEs participating in job creation programs. Employers' contribution is partially supported, while a minimum

premium rate is applied for up to four years in principle.

(C) Other supports

(1) Pro bono³⁾

Pro bono mechanism is in place to provide successful business support by identifying the needs of troubled SEs and linking them to relevant professional volunteers. It is carried out in the form of business consulting/mentoring, training/workshop, seminar, online counselling, dispatch service, etc. Particularly, business consulting and mentoring concerns giving free business advice in diverse areas including business strategy, marketing, finance, design, and IT, and it plays an active role in addressing problems by tapping into an established network rather than merely offering some tips.

(2) Social contribution job program

This program presents retired workers or women who wish to rejoin the workforce after a long break with a great opportunity to make a contribution to the society by leveraging their expertise and experience accumulated, while assisting in ensuring job stability and specialty by making use of retirees previously involved in SEs or nonprofit organizations to boost competencies.

3) Pro bono publico, usually shortened to pro bono, means 'for the public good'. It is a Latin phrase for professional voluntary work undertaken voluntarily and without payment as a public (social) service.

In other words, it aims to encourage continuous social engagement by local citizens to help enhance capabilities of private organizations, ultimately leading to community development. The program is intended for (preliminary) social enterprises, nonprofit private organizations, social welfare foundations, etc. and is open to retirees with over 3 years of work experience or expertise, women with a career break, and skilled young people. Those participating in social contribution activities are provided with small expenses and reward points.

(3) Preferential purchase by government agencies or state-run organizations

The government calls for the preferential treatment of goods or services produced by SEs in accordance with the Article 12 of the Act. The purpose of such efforts is to broaden horizons for public service and help SEs increase their capacity to find new markets that consume more of their goods and services, thereby paving the way for the emergence of an ethical consumer market.

(D) Partner organizations

The main supporters or partners of SE include employment centers, local autonomous bodies, and region-based help centers. Employment center gets involved in selecting and assessing organizations that execute financial assistance programs and performing monitoring and inspection on such organizations,

while arranging jobs for the disadvantaged. Local governments, meanwhile, take the responsibilities of fostering social enterprises with the features of community well reflected, forming and running a committee for SE promotion, and offering assistance for SE management, selection, and coordination with the community concerned. Regional support centers create a business model that works for each different city/province while providing tips or advice for those actually working in the field by holding seminars and workshops at the regional level. Also, They provide consulting for SE certification as well as business advice or consultation specific to general business administration, labor, marketing, etc. Education or training is additionally being offered for resource linkage and network building; and also for employers and employees.

The labor ministry has moved toward fostering a more comprehensive institutional environment for social enterprises through the introduction of 'SE Facilitation Initiative' in 2011 while working hard to increase access to resources through the development of more diversified funding channels. Also, ways are being considered of extending the public market and formulating effective educational programs. Moreover, concerted efforts are under way to push forward the periodic monitoring of corporate disclosure or certification requirements in a bid to heighten transparency and accountability in SEs. Furthermore, the ministry has strived to facilitate the launch of national initiatives, department-based support and nurturing for SEs, and active involvement by local autonomous agencies.

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〈Table 2-2-4〉 Latest SE facilitation initiatives

Action Agenda	Schedule	Conducted by
I. Enhanced sustainability in SEs		
1. Secure funding channels		
Expand loan size (i.e. micro-credit, policy loan controlled by the SBA)	2Q in 2011	Financial Services Commission (FSC) SBA
Allow SEs to become eligible for 'Hope & Dream Loan'	2Q in 2011	Ministry of Public Administration & Security (MOPAS), SBA
Combine government budget with private capital to invest in SEs	2Q in 2011	Ministry of Employment & Labor (MOEL)
Offer a special guarantee for SEs on an ongoing basis	4Q in 2011	SBA
Support financing for nonprofit SEs	4Q in 2011	SBA
2. Expand entries to public market		
Foster a market for SEs through financially-backed job creation programs	4Q in 2011	each department
Assist SEs to enter voucher market	1Q in 2011	Ministry of Health & Welfare MOEL
Assign extra points to SEs during screening test on the making and purchasing of goods by local agencies	2Q in 2011	MOPAS
Demonstrate the effectiveness of preferential purchase	4Q in 2011	MOEL
Propagate best practices for preferential purchase	3Q in 2011	each department
3. Reinforce support for business opening and management		
Modify the act on the restriction of local tax reduction & exemption	4Q in 2011	MOPAS
Spur private sector's support for SEs	3Q in 2011	Fair Trade Commission
Build justification for the transfer of disused public items to SEs	4Q in 2011	Ministry of Strategy & Finance MOPAS
Develop and distribute an accounting/business support program exclusively designed for SEs	3Q in 2011	MOEL
Develop and provide different training courses based on target, area and business type	3Q in 2011	MOEL
Offer assistance for youth venture companies to nurture social entrepreneurs	3Q in 2011	MOEL
4. Strengthen transparency and accountability		
Reduce the frequency of business report submittal	4Q in 2011	MOEL
Voluntarily implement corporate disclosure system	4Q in 2011	MOEL
Conduct a fact-finding survey for SEs	2012	MOEL
Build justification to perform a periodic review on whether or not certification criteria are met	4Q in 2011	MOEL
II. SE proliferation		
1. Build consensus at national level		
Organize 'Social Enterprise Day' or weekly events	3Q in 2011	MOEL
Push forward 'One Company, One Social Enterprise' movement	3Q in 2011	each department

2. Assist in spreading SEs at both central and local level		
Allow each department to designate a preliminary SE and make a recommendation for SE certification	3Q in 2011	each department
Assist in transforming community development projects into social enterprises	3Q in 2011	MOPAS Ministry for Food, Agriculture, Forestry, & Fisheries (MIFAFF) MOEL
Fuel SE proliferation at central level (large NGOs, big firms, religious groups, etc.)	2Q in 2011	each department
Provide assistance to have in place a system to spur SE proliferation at local level	4Q in 2011	each department
Evaluate local agencies' efforts to disseminate SEs, and offer incentives accordingly	4Q in 2011	MOEL

Source: Social Enterprise Facilitation Initiative (2011. 6), Ministry of Labor,

To sum up the overall characteristics of SE support policies, their goals lie in job creation and service delivery for the socially marginalized. Also, resources are concentrated into the SE inception stage to cope with initial obstacles. In addition, a support mechanism is being pursued to strengthen organizational capabilities and remedy any weaknesses for a better chance for survival. Though the government intends to move toward building a more inclusive institutional framework through the adoption of SE facilitation initiative, its policies remain overly focused on creating jobs and overcoming weaknesses.

C. Current status for certified social enterprises

1) Certification status

The number of applications for SE certification from 2007 when the Act was first introduced until Dec. 2010 totalled 1,062 (166 in 2007; 285 in 2008; 204 in 2009; 407 in 2010). After

adjusting for cancellations made during registration or review period, it narrowed down to 999 in total. The MOEL had them subject to field investigation and then preliminary review conducted by the Certification Review Sub-committee, before referring them to discussion by the SE Promotion Committee. Subsequently, 514 were finally approved (51.5% of approval ratio). However, 13 certifications were terminated, revoked, or returned since then, bringing the actual number of active SEs in Korea down to 501. (See 'Social Enterprise Summary 501')

2) Type of social enterprises

Social enterprises are mainly divided into four categories based on their type: The first is Job Creation. Companies hiring the socially disadvantaged for over 30% of their workforce belong to this group (193 companies as of 2010). They usually engage in environment, social welfare, child care, care-giving/domestic help, etc. in terms of business type. The case in point is 'A World Working Together,' a green cleaning business offering jobs to the disadvantaged. Other equally remarkable examples include 'Mezzanine I-Pack' aiding in the self-support and self-living of North Korean defectors and 'Hanvit Performing Art Company' helping the blind stand on their own by putting on music performances.

The second category is Social Service Delivery, represented by companies in which the disadvantaged benefitting social services account for over 30% of total service recipients (45 companies as of 2010). By business type, social welfare came

in first with 36% (16 companies), followed by care/domestic help (29%), education (9%), and others (9%). Notably, there are some outstanding examples such as 'Chungnam Educational Institute,' which offers an educational program suitable for rural areas with the assignment of competent teachers, and 'Human Care,' which provides care services within a community.

The third is Welfare Mix type. It is applied to companies that allow the socially vulnerable to form over 20% of their entire workforce while offering social services to over 20% of the disadvantaged. As of 2010, there were 116 companies in this group. By type, social welfare was placed at top position with 27% (32), followed by care/domestic help (26%), others (24%), child care (9%), and environment (5%). Some best examples are: 'Organization Yori,' which is designed to help disadvantaged women, 'Happy Lunchbox,' which delivers free lunch boxes to the poor living in the neighborhood while offering jobs to the underprivileged, and the Korea Long Term Care Institute, which provides welfare services for the elderly with job offering available to the disadvantaged.

The fourth type, 'Others,' is relevant in cases when determining the ratio of employing and carrying social services to the under-privileged as a measure to gauge the fulfillment of social purposes is deemed difficult. As of 2010, there are 147 companies categorized as such. Culture/art/tourism/sports topped the list with 37% (55), trailed by environment (27%), others(18%), and education (9%). Examples that are noteworthy are 'Reuse & Sharing,' 'Beautiful Store' with the aim of fair trade, 'Noridan,' which stages performances with waste materials, 'Travelers' Map,'

a fair trade travel agency, etc.

Aside from the above, there is 'Community Contribution' type introduced in 2011, but no companies are currently eligible. According to the definition, those with the disadvantaged residing in the same community constituting over 20% of their entire workers or social service recipients shall be qualified.

〈Table 2-2-5〉 Social Enterprise Status by Type (2010)

(Unit: count, %)

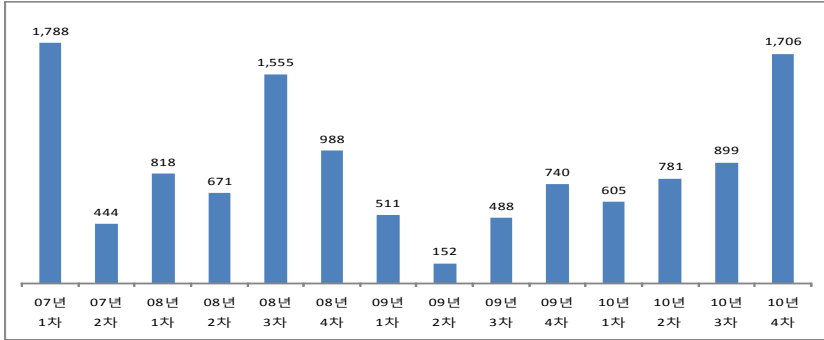
Type	Job Creation	Social Service Delivery	Welfare Mix	Others	Total
Number of enterprises	193 (38)	45 (9)	116 (23)	147 (30)	501 (100)

Source: Social Enterprise Summary 501.

3) Number of workers

The number of paid workers employed by certified SEs in the period between 2007 and 2010 (based on the time of certification) stands at 12,146 in total, with every 24.2 workers per SE on average. Upon assessing employment based on the time of certification earned, it is revealed that a majority of big SEs won their certification at the 1st round in 2007 (of 9 employers with 101 workers or more, 5 were approved in 2007; MOEL, 2010).

[Figure 2-2-1] Total number of paid workers according to the time of certification earned




Source: Extracted from Social Enterprise Summary 501



Chapter

03

Findings from the Analysis of Social Welfare Service-based SEs, and their Implications



Chapter 3

Findings from the Analysis of Social Welfare Service-based SEs, and their Implications

1. Current Status for Social Welfare Services Delivered by SEs

First of all, we examined the present state of social enterprises offering social welfare services through Understanding Social Enterprise, which was published in collaboration between the MOEL and the Research Institute for Social Enterprises (RISE). The rationale behind this was to complement the shortcomings from taking a qualitative approach underpinned by case studies as seen in this study, and bring in more general insight to size up the situation.

the number of certified SEs actively under operation reaches 501. According to the 9 business types defined by the MOEL, care/domestic help (59), social welfare (48), and child care (28) add up to 135, accounting for 27%. In this section, we've reviewed the details of all SEs discussed in the summary and re-selected SEs primarily involved in welfare services ranging from care services such as child care, care for patients/the elderly and long-term care to rehabilitation, counseling, education, hiring assistance, etc. that are designed to improve the quality of life for the disabled, senior citizens, children, and multi-cultural

families. We've also tried to conduct an analysis on the information available to identify the current status and characteristics of these companies.

By organizational type, incorporated associations ranked 1st with 25.2%, followed by non-profit private organizations (18.9%), corporations (17.1%), social welfare foundations (13.5%), and cooperative associations (9.0%). Of the total SEs, the companies governed by commercial code such as corporations accounted for the largest proportion with 41.7%, with cooperative associations taking up a mere 3.6%. Such a big difference is inevitable for SEs mainly handling social welfare services.

〈Table 3-1-1〉 Social welfare-focused SEs distribution in terms of organization type

(Unit: Count, %)

	Ratio (%)
Incorporate associations	28 (25.2)
Nonprofit private organizations	21 (18.9)
Corporations	19 (17.1)
Social welfare foundations	15 (13.5)
Cooperative associations	10 (9.0)
Nonprofit corporations	5 (4.5)
Incorporated foundations	4 (3.6)
Public service corporations	3 (2.7)
Others	6 (5.4)
Total	111(100.0)

Source: MOEL/Social Enterprise Promotion Agency (2010); [Social Enterprise Summary] outlined and analyzed

A closer look at the regional distribution of SEs mainly dealing with social welfare services revealed that Seoul(capital) marked 14.4%; other metropolitan cities 30.6%; and provinces 55%, which

appears somewhat different from what was observed with a total of 501 SEs (22.6% for Seoul, 24.8% for other metropolitan cities). This indicates that as far as social welfare-based SEs are concerned, Seoul has relatively fewer establishments, as small cities or counties lacking in supply in terms of social welfare service have more need and leeway to get SEs installed than Seoul with sufficient social welfare infrastructure available.

That said, it was found that counties still have less exposure. The social welfare-based SEs displayed 43.2%, 45.9%, and 10.8% of distribution ratio for local autonomous areas, cities, and counties each. As SEs located at provincial level are far less concentrated in counties than in cities, the delivery of social welfare services to farming and fishing areas via SEs is still considered insufficient, pointing to a big variance in regions with regard to SE installation.

〈Table 3-1-2〉 Social welfare-focused SEs distribution in terms of region

(Unit: count, %)

	Ratio(%)		Ratio(%)
Seoul (Capital)	16 (14.4)	Local Autonomous	48 (43.2)
Other metropolises	34 (30.6)	City	51 (45.9)
Province	61 (55.0)	County	12 (10.8)
Total	111(100.0)	Total	111 (100.0)

Source: MOEL/Social Enterprise Promotion Agency (2010); [Social Enterprise Summary] outlined and analyzed

Next, we looked into the year of foundation for SEs, and it was discovered that 55.3% of SEs were established after 2007, with 44.7% set up before that.

〈Table 3-1-3〉 Social welfare-focused SEs distribution in terms of the year of foundation

(Unit: Count, %)

	Ratio (%)
~ 2007	46 (44.7)
2007 ~	53 (55.3)
Total	103(100.0)

Note: 1) This outcome was arrived at by analyzing only 103 SEs with the relevant information available.

Source: MOEL/Social Enterprise Promotion Agency (2010); [Social Enterprise Summary] outlined and analyzed.

〈Table 3-1-4〉 Years of operation prior to the certification for social welfare-based SEs

(Unit: Count, %)

	Ratio (%)	
Years of operation prior to acquiring certification	1 year	16 (15.5)
	2 years	19 (18.4)
	3 years	13 (12.6)
	4-5 years	11 (10.7)
	6-10 years	9 (8.7)
	11-20 years	6 (7.8)
	21 or more years	3 (2.0)
Identical to certification period	25 (24.3)	
Total	103 (100.0)	

Note: 1) This outcome was arrived at by analyzing 103 SEs with the relevant information available.

Source: MOEL/Social Enterprise Promotion Agency (2010); [Social Enterprise Summary] outlined and analyzed.

Meanwhile, the years of operation were compared against post certification period to check if gaining certification triggered the opening of SE. As stated in <Table 3-1-4>, it is discovered that 24.3% of SEs were founded at the same year as the certification

was granted, with 15.5% staying in business for less than 1 year before earning certification. Overall, about 40% of total SEs were found to win their certification upon or around the creation thereof.

We then examined specifically what type of business SEs previously engaged in prior to certification as specified in <Table 3-1-5>. After conducting analysis for the 73 SEs with their pre-certification service information available in the [Social Enterprise Summary], it is concluded that 47.2% of SEs had prior experience in job creation program managed by the labor ministry, 12.5% in self-reliance program, 16.7% in social welfare organization, and finally 11.7% in community or voluntary work.

<Table 3-1-5> Service type involved prior to gaining certification as a social welfare service provider

(Unit: Count, %)

	Ratio (%)
Social job creation program led by the Ministry of Labor	34 (47.2)
Self-reliance program	9 (12.5)
Social welfare organization/work	12 (16.7)
Community/voluntary work	13 (11.7)
Others	4 (5.6)
Total	72(100.0)

Note: 1) This outcome was arrived at by analyzing 73 SEs whose pre-certification service type information became available

Source: MOEL/Social Enterprise Promotion Agency (2010); [Social Enterprise Summary] outlined and analyzed.

<Table 3-1-6> below shows what relationship SEs are maintaining with their parents, juridical person or organization, currently. 59.3% appear being independently run, while 32.4% are found being operated as part of parent entity or organization.

〈Table 3-1-6〉 Operational independence in terms of social welfare service provision

(Unit: Count, %)

	Ratio (%)
Independently run	70 (64.9)
Operated as a component of parent	35 (32.4)
Others	3 (2.8)
Total	108(100.0)

Note: 1) This outcome was arrived at by analyzing 108 SEs except for 3 SEs failing to offer relevant information.

Source: MOEL/Social Enterprise Promotion Agency (2010); [Social Enterprise Summary] outlined and analyzed.

All services offered by 111 SEs categorized as a social welfare service provider were outlined and discussed here. Services associated with long-term care insurance turned out to be the most popular, carried out by 39 companies. Fee-based care service came in second with 36 companies, followed by maternal & infant care with 33, after-school tutoring and related center operation with 29, Bath aid service for the elderly and disabled and a comprehensive package of services caring for the senior with 27 companies each, domestic help with 23, and lastly job arrangement for the disadvantaged with 22.

〈Table 3-1-7〉 Service provided by social welfare-focused SEs

(Unit: Count, %)

		Ratio (%)
For the elderly	Free care service for the sick	16(4.2)
	Fee-based care service for the sick	36(9.4)
	Long term care insurance related care service	39(10.1)
	Short-term shelter service	6(1.6)
	Shelter for day & night	12(3.1)

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	Ratio (%)	
	Bathing via moving bathing facility or by visit	27(7.0)
	Care service with regard to a comprehensive service package for the elderly	27(7.0)
	Visit doctor service	6(1.6)
	Welfare service for the elderly residing in rural areas	4(1.0)
	Selling or loaning of silver items	2(0.5)
	Service allowing the elderly to enjoy cultural, healthy life	5(1.3)
	Long term care insurer related consultation service	2(0.5)
	Funeral arrangement for the elderly living alone	1(0.3)
For women & children	Helper for maternal & infant care	33(8.6)
	Domestic help	23(6.0)
	After-school tutoring and related center operation	29(7.5)
	Selling or loaning of post-natal items	2(0.5)
For the disabled	Rehabilitation for handicapped kids	5(1.3)
	Support for job search by the disabled	2(0.5)
	Travel related service for the disabled	1 (0.3)
	Comforts for the disabled	1 (0.3)
	Movement aids for the disabled	11 (2.9)
For multi-cultural families	Child care or housework support for foreign women living in Korea	1 (0.3)
	Counselling or other related services for foreign workers	1 (0.3)
Health care	Selling or leasing of medical equipment	1 (0.3)
	Medical service (i.e. checkup, counseling, prescription, etc.)	9 (2.3)
	Public health & prevention for community	8 (2.1)
Job support	Finding jobs for the disadvantaged (excluding the disabled)	22 (5.7)
	Training for nurturing professional caregivers	12 (3.1)
Others	General tourism related service	1 (0.3)
	Cleaning & outsourcing service	6 (1.6)
	Surveillance & quarantine	1 (0.3)
	Raise awareness for care service and improve working conditions	1 (0.3)
	Integrated case studies management	3 (0.8)
	Food Bank related service	4 (1.0)
	Lifelong education related service	1 (0.3)
	Offering of lunch boxes or food for the low-income families	5 (1.3)
	Food business such as catering	1 (0.3)
	Growing or producing of various agricultural products	13 (3.4)
Research and promotion for SEs	5 (1.3)	
Total	385 (100.0)	

Note: The analysis was conducted based on duplicate responses on the service offerings surveyed

2. SE Case Study Results and Their Implications

This section elaborates on the outcome of case studies targeted for social enterprises mainly engaging in social welfare services.⁴⁾ Social enterprise policies adopted up to date tend to overemphasize 'job creation.' The SE standards proposed by EMES study and shared commonly by the European nations include: contribution to the profit of local community, leadership by civil societies, decision-making not driven by capital ownership, democratic participation by various stakeholders, limited distribution of profits, sustainable production, and sale of goods & services, high autonomy, meaningful level of economic risk, a minimum amount of paid work, etc. (Defourny, 2001). It is obviously not easy to gauge how much our social enterprises have managed to accommodate the philosophy and mission of SEs as set forth above. In this study, we will try to assess the growth potential and strengths that SEs may possess as a main component of social welfare service delivery. Then, we will look at the realities facing SEs that were identified by this study, before devising a detailed policy agenda required for the evolution of SE as a healthy social welfare service carrier.

4) SEs subject to analysis are 21. By organizational type, there are 9 incorporated associations, 3 social welfare organizations, 3 corporations, 2 nonprofit private organizations, 1 public service corporation, 1 nonprofit corporation, and 2 others. In terms of SE type, 8 are classified as job creation type; 4 for social service delivery type; 7 for welfare mix type; and 1 for others.

A. Distinctive features and strengths of social enterprises: recognition and identity

Strengths of social enterprises

The merits of SEs as a social welfare service provider lie in the fact that standards are being emphasized to meet their principles. Ethical principles compel SEs to run their business relatively in compliance with the law, while motivating them to raise their competitiveness through improvement in service quality.

For instance, most SEs agree that they should act by strict ethical norms by staying away from expedient marketing practices or unlawful exemption of deductions that are openly carried out by others, stressing that they can not compete in the same way as others do.

The lack of recognition for SEs remains prevalent in not only their customers but also local communities and competent authorities. Yet, there are cases in which they gain trust just because they are a social enterprise. We believe this is derived from the faith putting in for the government's certification. On the other hand, it was discovered that there is some concern that hiring a large number of the disadvantaged may undermine service quality.

In addition, guaranteeing autonomy in service operation is considered a strong point as opposed to the existing social welfare organizations, as it enables the delivery of diverse and differentiated services that existing peers have failed to offer.

Since the offering of social welfare services can not be handled neither by the market alone given their strong nature as public goods nor by the public domain alone, social enterprises backed by autonomy and publicness are at an advantage.

In some cases, companies with democratic decision-making structure in place have begun to perceive the reflection of opinions as a driving force for their business operation.

Hiring local residents as a community-based company and having its vision shared are also regarded as one of SE's merits. Social enterprise enables a consensus to be formed among employees, and this is why it is seen as a strength. SE workers believe that they "work hard because it is worthy and rewarding doing so for a social enterprise."

That there is a foundation for people to work with pride is regarded as one of its advantages. The sharing of corporate objectives and values, a sense of belonging, and support for self-development have added to reinforce such foundation. The pride derived from the belief that "'my company' is a 'good' company and I am not working just for money" seems to motivate them to spread the purposes of SE to other people around.

B. Difficulties and limitations in terms of the operation of SEs

Social perception toward SEs

It is observed that due to the lack of general understanding and recognition of SEs, they are encountering many obstacles in the overall process of social welfare service provision, such

as ones associated with resource mobilization and networking. Unless there is a change in the current perception formed mostly around their profit-making aspects with no consideration of their social contribution, it would be extremely hard for them to take root in local communities. This is attributable to the fact that they are widely viewed as a 'for-profit' company relative to other nonprofit organizations involved in social welfare services. As such, securing funding through public offering looks difficult, while gaining financial support from the Community Chest of Korea is deemed impossible. Even if they manage to get sponsorship, resolving tax issues would be a challenge. In the same context, efforts to promote themselves as a social enterprise and expand their user base have not paid off well, either.

Insufficient recognition by public organizations is also perceived as an obstacle. Though the preferential purchase system is available for use, the awareness for it is lacking, the products that can be sold to the public sector are limited, and the sale of SE goods via e-commerce (i.e. Nara Marketplace) is restricted.

Yet, the relationship with the government and the recognition by local autonomous seem to make progress. They still appear to remain in the process of building a mutual understanding rather than rendering actual support. However, amid the growing change in the government's approach as seen in the launch of Social Enterprise team by local government, it was found in the study that SEs were in anticipation of receiving support.

Tax burden

As 'Local (income) tax' was found to weigh on small SEs, a series of tax relief measures such as exemption or reduction in local taxes for micro firms were proposed to increase the hiring of the under-privileged.

As one of the limitations being faced by a corporation, the issue of 'value added tax (VAT)' was raised. Though social welfare facilities or nonprofit organizations are entitled to tax exemption, social enterprises however do not stand to benefit even if they offer equal services. Some consulting agencies even advised SEs to switch to a form of fee-based job agency instead of 'employing' workers. Whereas, it was discovered that they did not accept the advice citing such considerations as 4 public insurances subscription and job stability.

Constraints as a company carrying out social welfare services

The study revealed that as SEs are moving toward building a self-reliant operational structure through profit generation for their survival in the market upon certification, the low income class-oriented services or 'pro bono' services are on the decline, resulting in a conflict in terms of their corporate identity as a social welfare service provider.

The issue was raised that SEs either originated from social welfare organizations or currently affiliated with relevant foundations are suffering an identity crisis as there has been little change in the overall principle of their operation as well

as the view and perception of workers compared to the existing ones. SE workers seeing themselves only as a social worker was criticized as a constraint, because the change of their perception as being part of management and staff should be accompanied. In reality, this has been a source of constant conflict in the course of actual business operation.

In most cases, care-/service-based SEs are facing difficulty due to the lack of marketing skills, as the majority of staff are filled with social workers, etc. with poor understanding of business administration.

C. Evaluation on SE support mechanisms and tasks for improvement

- Support for labor cost for the newly-hired

When it comes to the subsidy for labor cost for SEs, there are people in favor of continuous assistance and people against it citing the inefficiency of such subsidy. Opponents argued that simple financial handouts only undermine their chance of self-survival, adding that the support for business expenses or working fund is more appropriate, whereas proponents stressed the importance of sustainable assistance as the suspension of subsidy could drastically worsen their employment and business retention. That said, the current uniform support approach should be overhauled. Different assistance specific to each business type and nature should be in place while breaking away from the uniform wage support system that fails to take into

consideration the detailed growth stage of a company as well as the expenditure structure for labor cost suitable for the social welfare service type.

Support for social insurance premiums

Over 50% of SEs surveyed responded that continuous assistance for social insurance is required. The demand for such benefit is higher than for the subsidy for labor cost. Given that social welfare-focused companies are spending a large amount of money for direct & indirect labor cost, sustainable assistance until when they are able to stand on their own seems necessary. Also, a comprehensive consideration should be made for an increase in premium subsidy currently tied to a minimum wage level, actual contribution payable based on the size of employment, etc.

Corporate tax reduction/exemption

A majority of respondents said that they have seen little or no benefit from corporate tax relief due to the minimum tax regulation. Since the size of operating income is small for most SEs, the minimum tax either requires them to pay in full or have below 50% deducted, which is less than suggested by such tax benefit.

Loan for facility fund, etc.

For the sake of improving the financial health of a company,

low interest loans for business development, facility investment, etc. are found helpful and effective. Yet, it is concluded that, given the limited loan term, relevant policies need to be overhauled to allow such loan to be flexibly availed.

Support for professional workers

As more than 50% of SEs surveyed said that they have had good experiences with utilizing professional workers, it is believed the support for this area should be reinforced through some improvements. Two issues were identified, and some corrective actions were suggested. For starters, the eligibility criteria and scope for this support program should be adjusted appropriate to social welfare or care service domain, or upgraded to enable flexible operation. A strong need for leveraging social workers, nurses, etc. was detected, and there were even cases where some local government agencies recognized them as professionals. The other issue was that the current standards (i.e. job experience, certificate, degree, etc.) for professional workers are set too high relative to the subsidy assigned. On top of it all, the need for more sustainable support was mentioned, too.

Business consulting

Of assistance programs required in the course of SE certification and operation, the rationalization of 'business consultation' was considered very meaningful. Over a third of firms surveyed rated it as 'not helpful' citing the paper-based, perfunctory

consulting practices and the absence of consultants specializing in social enterprise.

Some negative experiences were reported involving consultation agencies or consultants deemed not grasping social welfare or care services and even lacking in understanding the philosophy and objectives of social enterprises, indicating that their advices have only consumed SEs, derailing their operation. Also, it was often mentioned that labor attorneys, accountants, and business consultants with no sufficient knowledge and understanding of SEs being designated for SE consultation amounts to an issue by itself. It can be said that business consulting is presently carried out in a standardized manner without proper consideration of differentiated objectives and situations of SEs, while failing to factor in SE-specific features in terms of business type and experience.

Although it is less satisfactory, the demand is maintained high. With that said, embracing a new consultation methodology is required to move away from one-off, short-term consulting to work together for SE growth over the longer term. Additionally considered necessary are a tailored consultation service to meet specific needs and different experience levels of SEs, and the support for nurturing experts segmented by business and job type to enable consultation offerings for various SEs. With regard to the time and frequency of consulting service provided, it was complained that consultation occurred mainly at year-end or as a one-time service, suggesting that the provision of information on consultation outcome and follow-up management should be conducted to ensure more substance in consulting

service.

A segmented consulting plan with the service type and level of SE taken into account is deemed essential. There were cases where some companies shunned consultation as it was known to emphasize more on generic or sales-focused areas than care service. Some frustrating incidents were even reported that SEs with no prior experience in business administration were provided with the consulting advice targeted for mid-sized firms.

Nurturing consultants through the alliance of relevant institutions or companies in equal service area was actively proposed. Specifically discussed were such measures as delegating consultation services to the parties directly involved (rather than engaging unrelated consultancies), facilitating the Korea Central Council of Social Enterprises to enable a cross-company consultation services for equal business types, items, etc. Efforts were also witnessed that some firms voluntarily signed up for a program for certified management consultants in an attempt to make contribution to other SEs of same business type.

The degree of usefulness of fee-based consulting at choice was graded much higher than the government-backed basic consulting. We believe such difference was caused not by the burden of cost but by the content and subject of consultation. A majority of SEs responded that basic consulting was not helpful as it was a cursory consultation relying on paper covering accounting, finance, personnel, labor, etc, in generic terms. However, when it dealt with self-reliance plan or business model, it turned out to be useful. The fee-based consultation was rated high if it involved assisting a workable accounting program or

operating cost, providing a blueprint for business, or offering advice on organizational shakeup. Meanwhile, consultants' expertise and prior experience in social welfare service appear to have an impact. Even in the case of fee-based consulting, the evaluations varied according to the level of expertise of the consultant. In terms of the degree of usefulness of basic consulting such as accounting and labor, there existed a huge discrepancy based on the level of experience of business administration by the manager of each social enterprise.

Support for human resources development

The most significant element in SE operation is to skill up 'people' responsible for providing services. Proper education for the disadvantaged that take up a majority of the workforce should take precedence in order to ensure high quality of service. Given their low-esteem and the lack of skills and experience, offering various educational programs appropriate for specific conditions of each company is imperative.

It appears that it is necessary to expand the scope of education through the utilization of 'job-ability upgrading card for the employed' issued by the labor ministry as well as enhance flexibility in operation. Notably, the need for providing a self-development opportunity for the workers not subsidized by the government was stressed. Meanwhile, the issue was raised to have the level of training and consulting re-aligned with the current status of most SEs that have no experience in business management while lacking in the fundamental understanding

about marketing and accounting.

- Support for promotional programs for better awareness about SEs

Continuous promotional efforts initiated by the government is required to ensure accurate recognition for SEs. It is believed that the promotion toward general public on the significance and service areas of social enterprise is a pre-condition to genuinely establishing it as 'a company working with a local community.'

- Support for building a regional network

The importance of building a network that enables SEs of a business type to share information and know-how was emphasized in terms of SE management. SE related events organized by local autonomous governments are useful with a chance for networking, but actual inter-agency network was found to be weak.

- Considerations for SE certification type and legal status

Our interviews with SE managers revealed that they tended to choose 'job creation type' without much consideration as it was known that gaining certification for that area is easier than 'social service delivery type.'

For those struggling to meet the legal criteria required to earn SE certification, a lot of them ended up choosing 'corporation under commercial law' as its procedures regarding establishment

and certification were deemed easier than other legal entity types.

Different support by SE growth stage/Sustainable support

We believe that current support mechanisms need to be reinforced, especially by offering education that enables SEs to understand their social purposes from their preparation stage, ensuring sustainability and visions, nurturing social entrepreneurs, arranging mentoring from relevant companies, etc. Most SEs put huge significance on the need to run business with identity differentiation and the fulfillment of social values under the spirit of social enterprise. We think this is reflective of the harsh reality facing SEs which are tormented between profit generation and realization of social values because of the lack of consensus on SE identity and visions in the course of business operation. That said, careful consideration for legal, accounting and administrative support vital to the management of SE as well as systematic public assistance including the allocation of dedicated staff and the creation of business guidelines is required; provided, however, that such support should be differentiated based on the characteristics of each individual company such as business type, location (i.e. city or rural areas), etc.

It should be also noted that a longer-term, phased assistance is essential as the government support for SEs intensifies during the early stage. Also, our attention was brought to the need for support during 'inception' and 'self-reliance' stage, as many answered they had difficulties before certification and after the closure of government assistance with no backing available.

For the development of SE going forward, a phased support with various corporate conditions taken into account should be pushed forward with a role model for SE made available.

- Support differentiated by business nature and conditions

Convincingly, the skeptical views of the current across-the-board support system based on the years of service only without the type of business and service, and the characteristics of employees taken into consideration are gaining ground.

- Support system suitable for care service

Care service-based SEs are mostly cash-strapped self-support centers or nonprofit organizations. So, support system catering to care service needs to be in place by temporarily subsidizing working fund until such time that a stable operation is enabled, expanding the definition and scope of 'professional workers,' relaxing tax standards, and allowing cross-application for social jobs. As mentioned earlier, several SEs also touched upon the need to extend the scope of professionals to include competent care-givers, social workers, etc.

With regards to the support for labor cost, suggestions were made to extend an incentive-based assistance for a handful of companies deemed to maintain employment over the long term rather than just assisting any number of SEs with no clear

guidelines.

As a fundamental solution for care service providers, the need for a hike in service rate was stressed more than the support for labor cost. An increase in service fees enables job stability, allowing companies to make profits and operate without the government subsidy.

Additionally, the training for marketing skills required for care service is crucial. Since regular SE programs are not specialized for social welfare service business, it should be seek ways to engage the agencies or companies of equal business type in educational programs.

Much emphasis was placed on the government's active role in setting policies to foster companies offering social welfare services of public nature. For example, some measures were proposed including the offering of care to those living on welfare and the prior delivery of service to the elderly who are excluded from the long term care insurance benefit yet still remain in a blind spot. They should be reviewed from the viewpoint of adding more publicness to social service area.



Chapter

04

Improvements for Social Enterprise Support Policies



Chapter 4

Improvements for Social Enterprise Support Policies

1. The prospect for SE as a social welfare service supplier

A. The characteristics of social welfare services

First of all, when discussing the outlook for social welfare-focused SEs, it is very important to grasp the characteristics of social welfare services, as such understanding is pivotal to determining the adequacy of SE as a healthy service provider. Social welfare service is delivered through face to face.

In other words, this means that the direct quality of service is significantly affected by the state of a service provider, ultimately linking job quality to service quality.

Second, productivity gains leading to excess profits does not work in social welfare service due to the labor-intensive nature thereof. A considerable amount of money for service delivery is spent for labor cost amid low profit margin.

Third, standardizing social welfare service as other goods manufactured is challenging due to the various preferences of service users and the absence of standardization in service providers. Some have attempted to create a manual for service standardization and delivery in order to ensure a minimum level

of consistency in service quality, but service standardization is still deemed unattainable as the quality of service cannot be assessed before it is empirically used. With that said, as far as social welfare service is concerned, asymmetrical nature of information between service user and supplier always acts as a source of tension between the two contracting parties.

Fourth, the universal access to service has been raised as an issue, as the target users of social welfare service usually are the people in need who are required social care. With its public nature often emphasized, we have been constantly dealing with the issue specifically as to how to factor the poor with no ability to pay into the target and method of social welfare service regime.

Consequently, such characteristics listed above should be primarily considered in exploring the possibilities of social enterprise as a social welfare service provider.

B. The Role of social enterprise under welfare mix regime

When considering SE as a healthy social welfare service carrier, it is critical to not only understand the features of social welfare service but also make out how the social service system of a society is formed. The latest prevailing trend is to establish a welfare mix regime in which private involvement is ensured by placing social welfare providers on equal footing as the government. Examining what kind of role a social enterprise is playing in each nation with such regime in place becomes a critical element in assessing the outlook for SE as a social welfare service provider. Below, we will look at each nation's

social service system particularly around welfare mix in the area of 'care for the elderly.'

Let us start with Sweden, which takes the lead in social democracy welfare system. The social service system of Sweden mainly revolves around public sector with the remaining area covered by nonprofit and for-profit sector. The scope of publicness applied is quite extensive, as a significant amount of public budget is allocated to service distribution structure. As such, the role of SEs is nothing but limited. It is true that they engage in various activities to develop a new welfare service product or bring service to those left unattended, but their role still remain limited in terms of social service distribution.

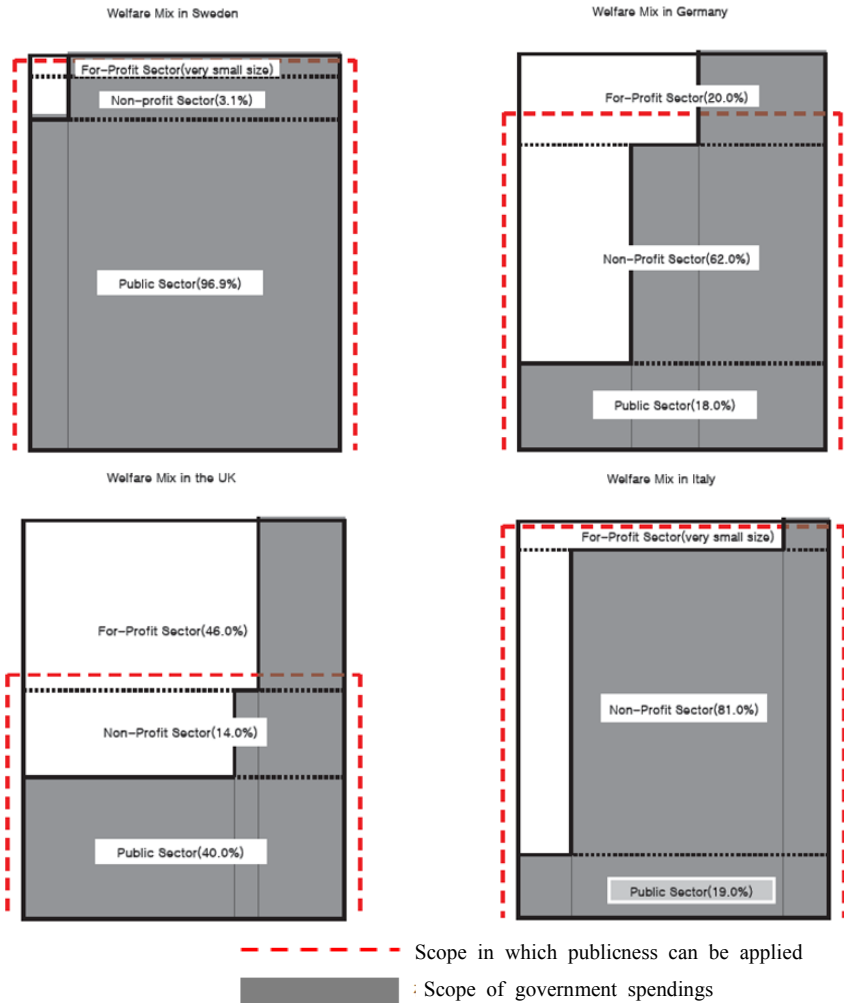
Next is Germany, a well-known welfare state of corporatism. Under its welfare mix regime, the largest portion is grabbed by the non-profit sector, while public and for-profit sector have similar exposure. With the supplier-oriented service system in place, public budget is mainly injected through the execution of public contract with service providers. The most crucial role in terms of Germany's social service delivery is served by 6 non-profit alliances. They tend to play a leading role in service supply given the nature of corporatist welfare regime. Amid the growing criticism about their monopolistic supplier position, however, the introduction of a new form of non-profit organizations such as social enterprise is gaining momentum.

As for the United Kingdom (UK), represented by a liberal welfare regime, the for-profit sector accounts for the largest proportion of its social service system. As the allocation of public budget to both for-profit and non-profit sector is limited, the

application of publicness appears modest compared to the other two countries. Not surprisingly, the UK's privatization of social service has triggered many SEs to emerge as a new service provider. These SEs are endeavoring to come up with their own market strategies while competing with the for-profit sector. In particular, the launch of a co-op format has enabled the quality of labor to be controlled, contributing to boosting satisfaction among service users.

Finally, Italy, whose social service policies traditionally centered around cash transfer, currently has its social service mostly supplied by the non-profit sector while forcing the public and for-profit sector to play a limited role. By organization type, social cooperatives are usually a major force in the nonprofit sector, offering service through contract with local government. Given that a significant amount of public budget flows into the nonprofit sector, you may be misled that the scope of publicness can be extensively applied but it is found that they still prefer a family-oriented service supply system. Also, the size of social service offering remains considerably limited due to the deep-rooted traditions formed around cash transfer-focused welfare regime. The B-type social co-op primarily designed for the supply of social services in Italy has a social ownership structure in place to enable service providers, users, and volunteers to participate in its operation such that various stakeholders can be part of service planning and delivery process, eventually achieving service quality management.

[Figure 4-1-1] Welfare mix regimes adopted by 4 European nations
(mainly in the field of elderly care)



Source: Chang, Won-Bong (2009) Jae, In-Yong

C. Characteristics of SE as a social welfare service provider

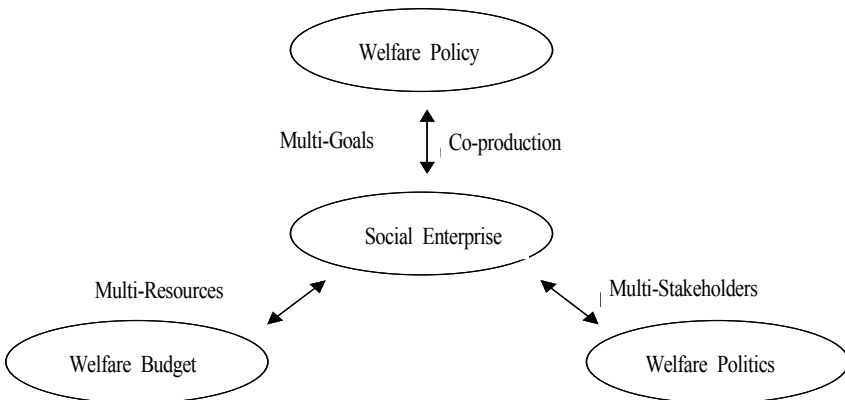
Social enterprises aim for redistribution in welfare regime from 3 standpoints: welfare policy, welfare politics, and welfare budget. It has distinctive features different from the public sector emphasizing public responsibility and the for-profit sector pushing forward profit generation through market exchange (Chang, Won-Bong, 2010, 2011). The purpose of SE is to respond sensitively to the demand of social welfare service of a community while ensuring new service development and effective service delivery. In that respect, it transcends the tension built up between public and private accountability, resulting in the establishment of 'co-production' paradigm for a local society underlying social responsibility. On the premise that effective execution of public policies can not be accomplished without civic participation, the co-production by way of SE in the area of welfare allows policies to be formed and carried out in a more effective way.

Meanwhile, for the increasing participation of various stakeholders, internal controls should be put in place to reconcile different interests between service suppliers and users. The creation of such a participatory decision-making structure paves the way for practical welfare politics that help expedite the proposal of community agenda and its resolution by engaging major stakeholders in order to achieve public good in the planning and delivery of social welfare service. The best example for SE-focused welfare politics is Italy's social co-op. Social cooperatives originated from voluntary work acknowledge various participation from volunteers, service providers, users, civic

groups, local governments, etc., thus virtually serving as a public forum for welfare politics.

Finally, a social enterprise secures resources necessary to conduct its activities through government subsidy and public contract, diverse support policies, selling of goods and services, donations, labor from voluntary workers, etc. The potential of welfare politics propelled by the goals of an organization to meet the actual welfare needs of a community and the involvement of relevant stakeholders enables efficient resource distribution for welfare budget designed for the effective delivery of social welfare services. Effective execution of welfare budget should be ensured that deals with not only the profits earned by SE from operation but also various social capital obtained in cooperation with the local society such as donation, voluntary work, etc.

[Figure 4-1-2] Tripolar Structure of Social Enterprise and Welfare Regime



Source: Chang, Won-Bong (2009), Jae, In-Yong

2. Tasks for Social Enterprise Support Policies

A major consideration in terms of support policies for social welfare-based SEs is the absence of institutionalization. The systemization of SE is presently limited to the agenda of employment for the disadvantaged by the MOEL. Thus, it is essential to set our SE policies around institutionalizing SEs with social welfare service offering.

To that end, the following should be achieved: 1) Clarify policy goals; 2) Allow each entity to obtain legal personality in order to fulfill policy goals set forth; 3) Foster an institutional environment to help SEs meet their policy goals effectively.

A. Set policy goals for social welfare-focused SEs

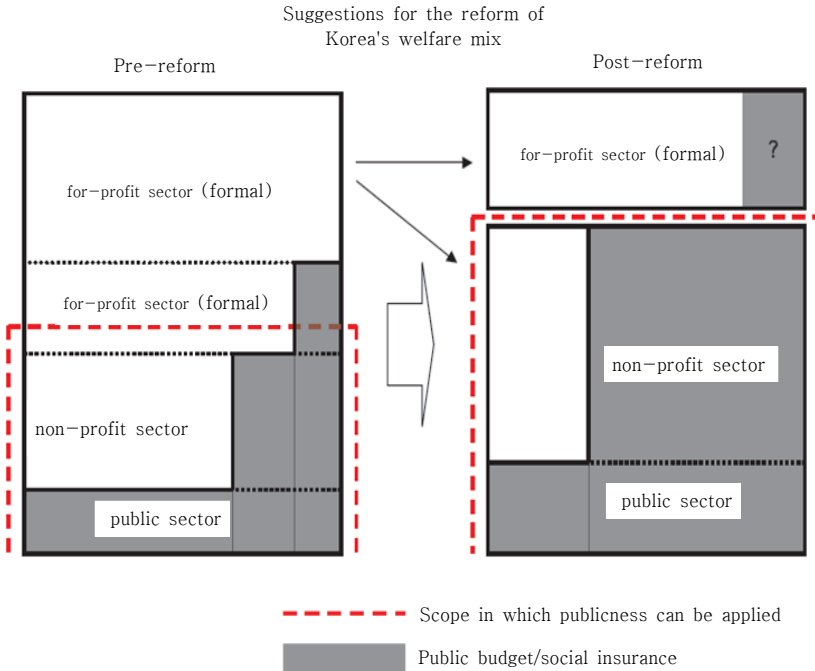
The latest government policy to promote social welfare service underlies in adding support for demand and broadening suppliers. Unlike the conventional social welfare supply structure, this focuses on creating a social service market. Given that making excess profits is limited due to the labor-intensive nature of such business type, fostering social welfare service through a market approach is deemed unlikely. Additionally, as it is at the infant stage of systemization, active government support and budget allocation are a must. The lack of awareness about social welfare service-based purchase and the restriction in government support amid the insufficient 'effective demand' hamper the emergence of viable, healthy service providers. If we continue to rely on the role of the public sector with gradually less focus on social

service policies, feeble support from the non-profit sector, and limited public contracts, it seems highly unlikely that we can accomplish our goals and expectations in the short term.

In that regard, determining in what direction Korea's social service regime should be headed is considered very critical when examining policies for social welfare-based SEs. Under the current circumstances characterized by the limited government spendings inevitably resulting in a smaller role by the public sector as well as the reliance on profit-making activities by the for-profit and non-profit sector, nurturing SE as a healthy supplier for social welfare service would be challenging.

Having said that, it is essential to clarify policy goals as to how SE should be fostered as a social welfare service carrier in terms of establishing Korea's social service framework. For the flourishing of social welfare market, our priority is required to be placed on expanding public sector through active government spendings and formalizing labor by the for-profit and non-profit sector to reinforce publicness in social welfare service. Social enterprise may be able to act as a major force in formalizing the activities of both for-profit and non-profit sector. Policy objectives should be clearly defined to ensure the nurturing of SEs as sound service providers for communities as they serve as a main actor in co-production working toward expanding the role of public sector and securing publicness in social welfare services.

[Figure 4-2-1] Outlook for change in Korea's social welfare system



Source: Chang, Won-Bong (2009), Jae, In-Yong

B. Recognition of appropriate legal status for social welfare-based SE

Currently, the 'Social Enterprise Promotion Act' requires SEs to have in place such an organization type as juridical person or association under civil law and corporation or non-profit private organization under commercial law. The Act doesn't grant legal personality to the government-certified SE itself but defines its organization type and assigns legal status as such. In other words, there is no separate juridical personality assigned as a social

enterprise. The transformation of various types of organizations into SE contributes to expanding its base, yet causing confusion with existing regulations relevant to each organization type. For instance, some assistance remains limited to nonprofit groups in the field of social welfare while at the same time the type of corporation is being preferred in the process of contract, throwing many SEs into chaos. Amid the recent efforts of the labor ministry to turn more SEs into corporation type, nonprofit organizations involved in social welfare feel compelled to make the switch with no such intention whatsoever. Corporation by nature requires the establishment of a governance structure driven by stakeholders, which often runs counter to the operation principle of nonprofit organizations. In particular, a cooperative-oriented organization is bound to encounter some legal huddles as it employs a 'one-person-one-vote' principle as its decision-making mechanism.

It is desirable to grant suitable legal personality in order to nurture healthy social welfare service suppliers by way of SEs and achieve policy goals to boost publicness in the social welfare service field. Much emphasis should be put on the hiring conditions of workers, engagement of service users to meet their needs, and granting of rights when determining the legal type of social enterprises.

Lately, the launch of the Cooperative Act is actively being discussed between the government and main co-ops. Nothing is more important that the acquisition of legal personality to establish autonomous community-based economy in various areas. The act currently under discussion contains the provision relating

to social cooperatives recognized as having nonprofit organization status. The major stakeholder here is healthcare cooperatives primarily engaging in public health and medical service. It is very encouraging to have social cooperatives legally recognized in this area where the participation of service laborers and users is more critical than in any other fields. Also, the provision specifying the granting of legal personality as nonprofit organization carries big significance to realize publicness in social welfare services.

C. Foster an institutional environment to support social welfare-based SEs

Social enterprise support policies introduced by the labor ministry mainly divide into direct and indirect assistance. Specifically, direct support is provided around financial aids such as the subsidy for labor and facility cost for social jobs and professional workers, tax relief, deductions for social insurance premiums, etc. Indirect support, on the other hand, includes business support, preferential purchase by the public organizations, tax credit for allied companies, and support for SE training. According to the survey conducted for the entire SEs, the level of satisfaction on the subsidy for labor cost was rated high among SE support policies (Kwak, Seon-Hwa and others; 2010) whereas the support for business administration or training offered to enhance competitiveness in SE displayed low satisfaction level. Moreover, the prior purchase of goods did not work well in reality, either.

Most of all, these policies failed to reflect the characteristics of social welfare-centered SEs. In that regard, it is imperative to build an institutional environment suitable for such SEs to grow into a healthy service provider. To that end, first, the preferential purchase by the public agencies needs to take hold in practice to reinforce publicness in social welfare service. If applying such advantage exclusively to SE is difficult in the face of resistance from for-profit organizations already operating in the market, we probably consider altering the terms of public purchase. The UK has switched from the lowest bidding to the best value system in terms of awarding a public contract. The intent was to boost competitiveness in SE activities with various social benefits such as the increased quality of job and service take into consideration. For-profit organizations were also forced to make a healthy service transition through the adoption of the best value system.

Second, given the business nature of social welfare service that hardly delivers any profit gains, it is extremely challenging for social enterprises to operate their business in sustainable manner and at the same time manage good service quality through publicness. The biggest pressure facing SEs comes from labor cost, which exceeds two thirds of their total business expenses. So, we believe that the way labor cost is currently subsidized should be overhauled, especially with regard to sunset review. Above all, the labor cost for service related professional workers needs to be supported in a sustainable way. The poor financial health of social welfare-based SEs requiring a variety of skilled workers concerning health, case study, business administration,

accounting, and training restricts them to hire professionals at low wage. With that said, continuous assistance to pay for the labor cost of professional workers is essential.

Third, political considerations ensuring the basic rights of social welfare service workers should be made. Presently, most caregivers are not qualified for the Employment Standard Act, being exposed to a blind spot from the coverage of social insurance against industrial incident or unemployment. SEs currently assume the role of facilitating the formalization of workers in the non-public sector by having them mostly insured, but the subsidy for such premium has expiration dates. Paying for social insurance for their employees is a huge financial burden for social welfare-based SEs as they need to hire many people given the labor-intensive nature of their business. In that respect, the continued assistance for social insurance is imperative for such SEs. Lastly, a set of policies should be in place for social enterprises to accelerate their efforts to achieve better quality in service management as it is regarded as one of the hottest issues in social welfare service area. These are political considerations that prompt the profit-seeking, competition-driven SE relationship to be re-defined toward collaborative alliance in order to expand publicness in service and build an effective service delivery system for a community. European social enterprises, for instance, are endeavoring to achieve good service quality control and effective distribution system by forming a regional community to build service networks and ensure the involvement of service users. We believe that there exists the need to politically support various networking activities by

building service alliance among SEs within a local community, thus ensuring publicness and effective management in service quality. Assistances to be considered with regard to such regional networking include the subsidy for labor cost for those working in a regional service office that coordinates the type and amount of service among local companies for more effective distribution while facilitating participation by service users.

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