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**Conference Paper**

## Creating Jobs by Social Enterprises in Korea: Lessons and Experiences

52nd Congress of the European Regional Science Association: "Regions in Motion - Breaking the Path", 21-25 August 2012, Bratislava, Slovakia

**Provided in Cooperation with:**

European Regional Science Association (ERSA)

*Suggested Citation:* Choi, Young-Chool; Lee, Sang-Yeup; Ju, Sang-Hyeon (2012) : Creating Jobs by Social Enterprises in Korea: Lessons and Experiences, 52nd Congress of the European Regional Science Association: "Regions in Motion - Breaking the Path", 21-25 August 2012, Bratislava, Slovakia, European Regional Science Association (ERSA), Louvain-la-Neuve

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European Regional Science Association International Conference  
21-24 August 2012  
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Creating Jobs by Social Enterprises in Korea:  
Lessons and Experiences

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# Creating Jobs by Social Enterprises in Korea: with a special reference to evaluation indicators

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## *Abstract*

This paper attempts to construct indicators to evaluate the activities and performance of social enterprises in Korea. In doing so, it employs the Analytical Hierarchy Process (AHP) method of analysis to prioritize the indicators of social enterprise performance in terms of weight. The analysis shows that the indicator *social employment* has the highest weight score, followed by *employment rate of disadvantaged people* and *social service provision by the social enterprise*, implying that the ‘social orientation’ involved in the activities of social enterprises is regarded as more important than the ‘profit orientation’.

Key words: social enterprise, AHP, performance evaluation

## I Introduction

The Korean Government has developed social enterprise policy to as a means of creating job opportunities for socially disadvantaged people. As part of this effort, it enacted the Social Enterprise Promotion Law in 2006. The range of social enterprise in Korea is rather limited, compared to that in other European countries. For example, according to the Office of the Third Sector (OTS) statistics, the number of social enterprises in England in 2010 is approximately 60,000, whereas in Korea it was 319 as of 26 May 2010. In England social enterprises are all referred to as the inclusive type of social-value-oriented enterprise in the third sector, but those in Korea (and in this paper) are defined as government-designated enterprises. The Korean Government has selectively designated some enterprises as ‘social enterprises’ after a process of evaluation. It is expected that the Government will designate 1,000 social enterprises by 2012 and will continue to promote social enterprise business in the country.

Despite the progress on the government side, however, academic efforts to investigate social enterprise in Korea have not been successful. In particular, scholars in Korea have not been successful in constructing proper indicators for the performance evaluation of social enterprise. It is important to create proper criteria for the performance evaluation of social enterprise, because the extension of government support for designated social enterprises could depend on the proper evaluation of individual enterprise performance. It is in this context that this paper attempts to construct indicators for social enterprise performance in Korea. The author will employ the Analytical Hierarchy Process (AHP) method of analysis to prioritize the indicators.

## II Literature Review and Outline of the Research

### 1. Literature review

The most important academic studies of social enterprise are mostly written by European authors (Alter, 2002; Borzage, 2004; Cambell, 1999; Dees, et al., 2001; Mattew, 2004; OECD, 1999; Pearce, 2003). They are not directly relevant to this paper, since they do not concern constructing indicators for the performance evaluation of

social enterprise. In addition, most of the Korean literature has not focused on the problem of social enterprise evaluation. One noticeable exception, however, is the work of the Korean scholar Sun-yang Kim (2008). Kim's study deals directly with the evaluation of social enterprise performance. She proposes to adopt the indicators shown in Table 1.

<Table 1> Criteria and indicators for the evaluation of social enterprise

<i>Evaluation target</i>	<i>Evaluation criteria</i>	<i>Evaluation indicator</i>
Social value commitment	level of disadvantaged people's employment	ratio of disadvantaged people to total employees
	quality of employment (stability of employment)	ratio of full-time employee, employed period
	social service provision	proportion of social service relative to the whole service
Profit distribution	reinvestment proportion	ratio of reinvestment to total profit per year (infra investment and R&D investment)
	distributed proportion for employee	ratio of wage to total profit, bonus, dividend ratio for employees

Ownership	shareholder structure	specificity of shareholder distribution
	CEO	method of CEO recruitment
	board of directors	profiles of directors
Community value commitment	economic contribution	community member employment ratio, local tax payment record
	contribution to regional development	annual investment ratio for community, level of sponsorship contribution to community event
	environmental contribution	number of violation record for environmental protection
Autonomy of management	intervention of external body	number of external bodies involved (participation in decision-making)
	separation between ownership and management	method of management board members recruitment
	outside director	outside directors' profile
Transparency of decision-making	institutionalization of decision-making	Decision-making structure
	delegation of power	level of delegation
	participation of shareholders	level of shareholders' participation in directors' board

Treatment of Employees	wage	wage levels
	promotion system	proper promotion rule and procedures
	education and training	Schedule of education programme
	working conditions and welfare	number of accidents
	employee satisfaction	frequency of absence in the office and factory
Marketing and customer service	marketing efficiency	market network, customer proportion
	customer satisfaction	level of satisfaction
Financial robustness	financial stability	debt ratio
	income	business income, ordinary income
	growth	amount of sale, asset growth rate
	liquidity	current ratio, stock turnover rate

Source: Kim 2008, p. 52.

This table suggests criteria and indicators for the evaluation of social enterprise performance, but it appears to incorporate some shortcomings. First, it does not consider two essential aspects of social enterprises: ‘social orientation’, and ‘profit orientation’. Social enterprise has never been absolutely firmly defined: it varies regionally and nationally. Nevertheless, all the definitions of it have something in common. Two aspects are considered to be essential: ‘social orientation’ (social purpose) and ‘profit orientation’ (business activity). According to the Social Enterprise Promotion Law, enacted in Korea in 2006, a social enterprise is defined as a ‘business organization

pursuing [the] “social purpose” of providing socially disadvantaged people with job opportunities, engaging in “business activity” for surplus value at the same time’. Thus, it is unfortunate that Kim’s table neglects the relationship and the mutual interaction between ‘social orientation’ and ‘profit orientation’. Second, the table does not consider the fact that all the different variables have a different impact on the performance result of social enterprises. The table neglects variation in impact power, and consequently this discourages us from investigating how many evaluation targets and criteria are correlated in the course of social enterprise operation. Every social enterprise is different in terms of how it emphasizes the relationship between social orientation and profit orientation. A proper method of evaluating social enterprise ought to touch this problem. For this reason, this paper proposes the criteria for social enterprise evaluation shown in Table 2.

<Table 2> Evaluation criteria (index) for social enterprise performance

	<i>Evaluation Target</i>	<i>Evaluation Criteria (Index)</i>	<i>Measurement Method</i>
Social orientation	Commitment to social purpose	employment ratio of disadvantaged people	ratio of disadvantaged people to total employees
		level of social service provision	ratio of social service to whole service provision
		level of social employment	tnumber of employed in relation to total sales
	Social value in profit distribution	ratio of business reinvestment	ratio of reinvestment to annual profit



		ratio of distribution for employee	wage size of employees in relation to the annual profit
		level of social value in employees' wages	ratio of average wage size to minimum wage
	Commitment to community interests	ratio of community resident employment	number of community resident employments to whole employees
		investment size for community	investment size for community <i>vis-à-vis</i> total sales
		level of community compatibility	ratio of intra-community supply of raw material
	Profit orientation	Financial stability and growth	ratio of net capital
size of net profit			size of net profit
growth rate			annual asset growth rate
Job opportunity creation		sustainable capacity for job creation	ratio of job applicants to labour shortage

		size of job seekers	number of job seekers in analogous business fields
		growth rate of employed people	annual employment growth rate
	Customer satisfaction	customer satisfaction level	point in the customer survey
		number of customer complaints	ratio of customer complaints to those in analogous business fields
		a/s management level	a/s level in management code

## 2. Research plan

### 1) Research question

Basing itself on the methodology presented in Table 2, this study attempts to provide answers to the following questions: (1) which aspect of social enterprise (social orientation or profit orientation) is preferred in evaluating social enterprise performance? – in other words, which one is regarded as more and which less important in evaluating social enterprise performance?; (2) which of the six evaluation targets in the table is preferred in evaluating social enterprise performance?; (3) which evaluation criterion (index) is preferred in evaluating social enterprise performance?

## 2) Survey target

The survey questions were sent to two groups, of 40 people in total: a group of 20 researchers studying social enterprises, and a group of 20 managers working for social enterprises. The survey was conducted from 3 to 10 April. Thirty-eight people (95%) responded to the survey questions.

## 3) Method of measure

Since this study concerns weights of evaluation index (criteria), it adopts the Analytical Hierarchy Process (AHP) as its method of measurement. This technique was invented by Saaty in the early 1970s. It has turned out to be very useful in analysing survey respondents' knowledge, experience and intuition. What is important here is to maintain the consistency ratio (CR) in terms of accepting completed questionnaires. A level of 10 percent (CR = 0.1) was employed in this study as the consistency ratio. That is to say, completed questionnaires with a consistency ratio of higher than 10 per cent were not included in this study:

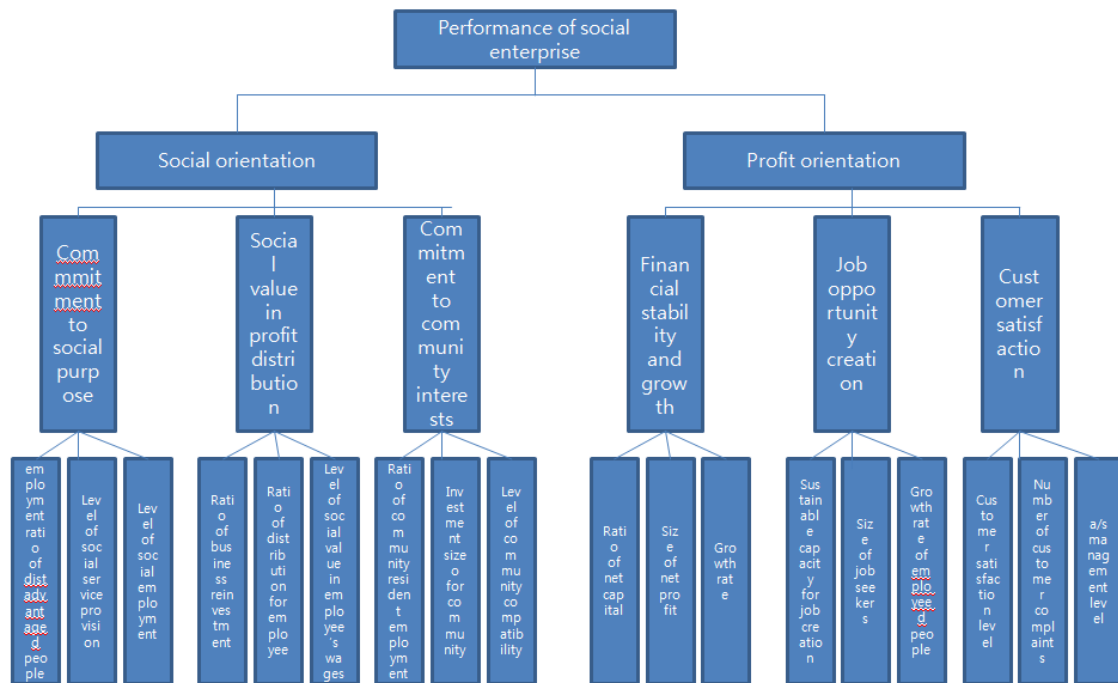
$$CR = (CI/RI) * 100$$

$$CI = \frac{\max \lambda - n}{(n-1)}$$

## 4) AHP survey format

The AHP survey format is shown in Figure 1.

<Figure 1> The format of social enterprise evaluation index



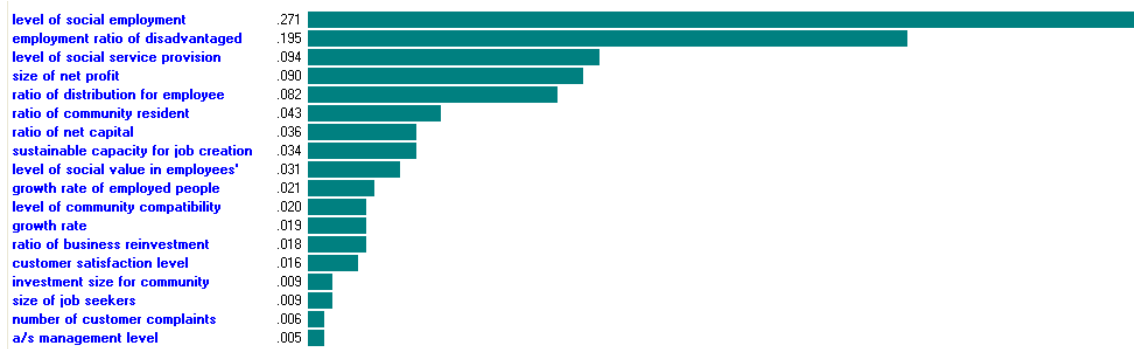
As Figure 1 shows, the format of social enterprise evaluation index is made up of three levels. The highest level concerns ‘social orientation’ and ‘profit orientation’. This is followed by the second and third levels.

### III Analysing the Weights of Evaluation Index for Social Enterprise Performance

#### 1. Overall analysis of the weights of evaluation index

According to Figure 2, the weight of ‘social employment’ records the highest point (0.271), and is followed by of ‘employment ratio of disadvantaged people’ (0.195) and ‘social service provision’ (0.094). Next comes ‘size of net profit’ and ‘distribution for employee’.

<Figure 2> Weights of evaluation index



The results of the analysis are shown in Table 3.

<Table 3> Weights of evaluation index

rank	Evaluation index	Weight point
1	Social employment	0.271
2	Employment ratio of disadvantaged people	0.195
3	Social service provision	0.094
4	Size of net profit	0.090
5	Distribution for employee	0.082
6	Community resident employment	0.043
7	Net capital	0.036
8	Sustainable capacity for job creation	0.034
9	Social value in employees' wages	0.031
10	Growth rate of employed people	0.021
11	Community compatibility	0.020
12	Growth	0.019
13	Business reinvestment	0.018
14	Customer satisfaction	0.016
15	Investment size for community	0.009
16	Size of job seekers	0.009
17	Customer complaints	0.006

18	A/s management level	0.005
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Table 3 shows that 6 indices out of 9 in the ‘social orientation’ category occupy a high position in the Weight rank. All of them are placed higher than tenth in rank. This indicates that social orientation is regarded as more important than profit orientation in evaluating social enterprise performance.

## 2. Analysis of global weights according to levels

Figure 3 shows global weights according to different levels. Looking at the first level, we find that ‘social orientation’ scored 0.750, compared to 0.250 for ‘profit orientation’, which indicates that the former is regarded as three times more important than the latter. Looking at the second level, we see that ‘commitment to social purpose’ scored the highest (0.514), followed by ‘financial stability and growth’ (0.161), ‘social value in profit distribution’ (0.155), ‘commitment to community interests’ (0.081), ‘job opportunity creation’ (0.061) and ‘customer satisfaction’ (0.029).

<Figure 3> Global weight

\* ‘G’ means ‘global’



### 3. Analysis of local weights according to levels

Figure 4 shows local weights according to different levels. Looking at the three indices making up the ‘social orientation’ category, we find that ‘commitment to social purpose’ scored the highest (0.685), followed by ‘social value in profit distribution’ (0.206) and ‘commitment to community interests’ (0.109). And looking at the lower level making up the category ‘commitment to social purpose’, we see that ‘social employment’ ranked the highest (0.484), followed by ‘employment ratio of disadvantaged people’ (0.349) and ‘social service provision’ (0.168).

<Figure 4> Local weight

\* 'L' means 'local'



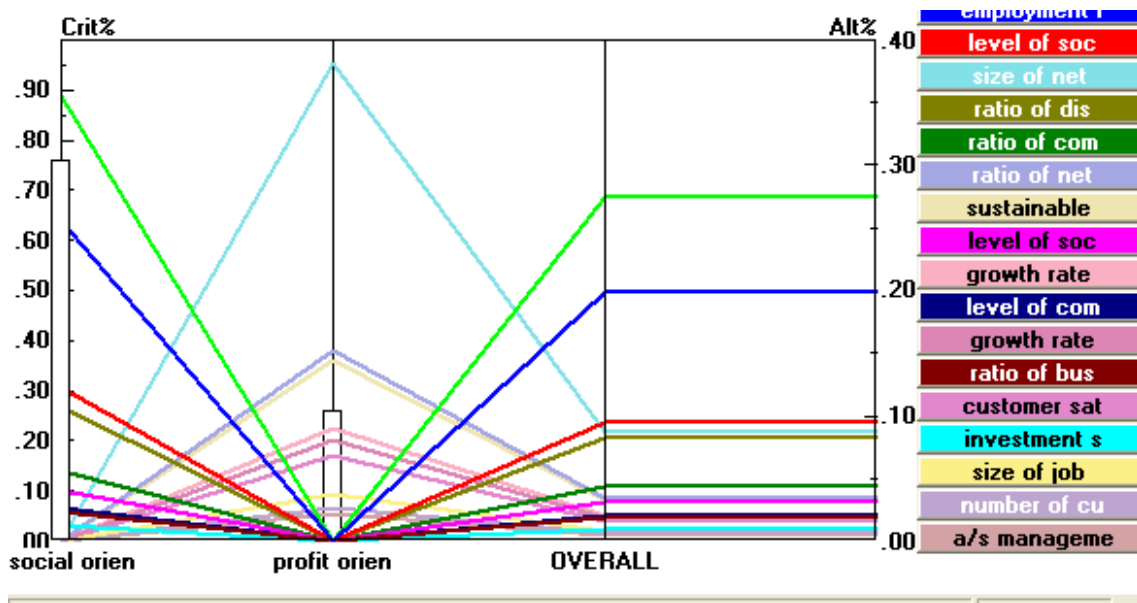
#### 4. Sensitivity analysis

One of merits of adopting the AHP technique is that it helps researchers catch the sensitivity which changes according to the information flow in decision-making. This means that priority changes according to the change in the weight of evaluation index. Figure 5 shows the results of sensitivity analysis. It turns out that the 20 per cent



decrease in the evaluation index of ‘social orientation’ (from 0.75 to 0.6) did not affect the ranking in the list. Despite the decrease, ‘social orientation’ remains regarded as more important than the other indicators.

<Figure 5> Sensitivity analysis



#### IV Conclusion

The purpose of this paper has been to construct indicators to evaluate the activities and performance of social enterprises in Korea. To achieve this, the paper adopted the Analytical Hierarchy Process (AHP) method of analysis. The results show that the indicator *social employment* has the highest weight score, followed by *employment rate of disadvantaged people* and *social service provision by the social enterprise*. This demonstrates that people regard the ‘social orientation’ involved in the activities of social enterprises as more important than ‘profit orientation’.

The Korean Government has developed social enterprise policy in order to create job opportunities for socially disadvantaged people. The Government enacted the Social Enterprise Promotion Law in 2006. It is scheduled to designate 1,000 social enterprises by 2012, and is expected to continue to promote social enterprise business throughout the country. It is essential, therefore, to construct indicators to evaluate the performance of social enterprises in Korea. Only after proper evaluation has taken place could the support of the Korean Government be a productive mechanism to help the development

of social enterprise policy.

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