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Article

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Article

Social Enterprises, Job Creation, and Social Open Innovation

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Abstract: How can social problems be solved? The complicated and rapidly changing problems of modern society require all the actors of the economy to create social values to solve problems. Social enterprises create social value in the field of business and solve many social problems through employment. The increasing number of diverse social problems has stimulated interest in social enterprises. This study identifies employment in social enterprises in terms of its quantity and quality. The human resources required for social enterprises must be unique and valuable, but many social enterprises fail to utilize human resources by maintaining contractual and short-term employment relationships even though long-term and continuing employment relationships are valuable. Therefore, this study identifies the economic value created by social enterprises as a basis for the creation of high-quality jobs and confirms the role that government grants and return on assets play in that relationship. As a result of panel analysis of social enterprises, the direct effect of net income on the quantity of employment and its indirect effect on the quality of employment were confirmed. Additionally, in companies receiving significant government grants, the relationship between net income and the quantity of employment is found to be strong, and the return on assets found to strengthen the indirect effects of net income on the quality of employment. This study has academic and practical implications for social enterprises through its review of theory and empirical analysis.

Keywords: social enterprise; employment; net income; pay level; governmental grant

1. Introduction

Various social problems, such as economic inequality, unemployment, and an aging population, are a great threat to the countries and enterprises of modern society [1]. Accordingly, each stakeholder is actively trying to maintain a sustainable community by solving their social problems [2]. The social value created by each stakeholder contributes to the solution of social problems [3]. A social enterprise is an intermediate form between a for-profit and a non-profit enterprise and can be defined as an organization that conducts business activities while primarily pursuing social goals. The OECD defines a social enterprise as a company that operates for the public good and aims at achieving a specific socioeconomic goal, rather than one that simply aims to maximize profits. Although definitions vary slightly from field to field, all definitions stipulate that social enterprises operate companies with the main purpose of solving social problems. The role of social enterprises can be divided into three categories. First, social enterprises provide sustainable and decent jobs for socially vulnerable classes. Second, social enterprises invest in local communities and provide services to improve the quality of life of local residents. Third, social enterprises play a role in distributing government funds to the needy. Therefore, social enterprises create profits, contribute to the economy, and promote their survival and growth as a corporate organization. At the same time, they help solve social problems and

contribute to the community by promoting social values. Therefore, the survival of social enterprises is important both economically and nationally.

The role of social enterprises in solving social problems is increasing, but the qualitative growth of social enterprises is insufficient [4]. Why do social enterprises not promote quality growth? There are three aspects to this. First, social enterprises are often unsophisticated manufacturing enterprises that provide basic jobs rather than businesses with distinctive functions that only social enterprises can perform [5]. They fail to secure competitiveness through employment and thus do not survive in competitive markets. Second, social enterprises fail to create long-term economic value. This is mainly because they offer only short-term employment. By hiring workers for short periods, social enterprises find it difficult to develop their human resources, making it difficult to improve the quality of their products. Accordingly, purchases of goods or services offered by social enterprises are bound to rely on consumer compassion. However, consumers make one-off purchases and social enterprises fail to develop long-term, sustainable relationships with them. Third, based on the organizational life cycle theory [6], the small size of social enterprises prevents them from establishing a proper human resource management system that will lead their innovation. They fail to utilize human resource architecture [7].

In any enterprise, human resource management is the key to competitiveness. First, macroscopically, the development and growth of human resources is a source of long-term competitive advantage for companies. For a company to survive in a rapidly changing environment, it must increase its viability. Human resources help companies create distinctive values using their knowledge and creativity. This is the main source of corporate competitiveness. Second, as organizational members' needs and values gradually diversify, organizational goals and individual goals can diverge. For companies to achieve a proper balance between organizational and individual goals, it is essential to manage human resources that match their interests to avoid agent problems [8]. Social enterprises have small-scale production systems that rely on human resources rather than mass production systems using large-scale capital equipment. The quality of their human resources, therefore, has a sizable impact on the value of their end product, so they must have high-quality human resources. If a social enterprise can establish long-term employment relationships through proper management of human resources, it is more likely that the workers and enterprises will share common goals. Additionally, the longer the employees' tenure, the greater the possibility of human resource development through a professional training system. Therefore, the employment conditions of social enterprises play a key role in their survival and social value creation. Creating decent jobs is also one of the goals of social enterprises.

Do social enterprises with good management performance create decent jobs? If so, what steps can be taken to improve the quantity and quality of jobs? What is the government's impact on this relationship? This study was conducted for the following purposes. First, it analyzes the employment of social enterprises with a focus on human resource architecture and confirms the reason why the survival of social enterprises is threatened by weak human resource management. Second, it explores the process of linking the economic value of social enterprises to the creation of decent jobs using resource-based theory [9], transaction cost theory [10], slack resource theory [11], and institutional isomorphism [12]. Third, this study examines the impact of government grants on job creation in social enterprises. The study provides valuable information about social enterprises and makes suggestions for solving social problems.

2. Theoretical Framework and Hypothesis Development

2.1. Social Enterprise Employment and Human Resource Architecture

From a strategic perspective, human resource management is not the adoption of a homogeneous optimal, but rather a selection process in service of a strategy. This implies that there can be various types of human resource management systems within a single company, depending on their circumstances [7].

The human resource architecture theory suggests that companies can change the way human resources are employed and utilized according to their strategy and the business environment. The uniqueness and value of human resources can be represented on two axes and expressed in quadrants according to the high and low degrees of the two concepts. The uniqueness of human resources depends on how different they are from those of other companies. According to transaction cost theory, the higher the value of unique human resources, the greater is the cost for companies to internalize them. Thus, companies expand employment only when the value that new employees create is greater than the cost of internalizing them. Companies also develop human resources that they already own to ensure uniqueness. According to resource-based theory, this uniqueness provides a competitive advantage to companies that other companies cannot imitate [9].

In social enterprises, human resources are the main source of the product- and service-creation as well as the source of social value creation. Social enterprises create social value by employing vulnerable groups. Such groups have different characteristics from those of ordinary human resources. Consumers of social enterprises are interested in how social enterprises produce their products and services. According to good management theory [13], consumers want to show their goodwill and gain moral profit by making socially valuable consumption choices. By its distinctive employment practices, a social enterprise becomes more competitive. Social enterprises operate on a smaller scale than ordinary enterprises. Rather than operating international businesses or being connected to national production and consumption systems, they generally provide employment at the local level and are chosen by local consumers [14]. They cannot compete quantitatively with mass production companies. They cannot cut costs by using mass production systems, so they cannot have a price advantage. They must therefore have a value advantage and attract consumers by creating social value. Human resources that can create social value are essential. This social proximity is the basis of social innovation that the social enterprise can survive [15]. Friendship and kinship between social enterprise and local community create mutual trust. Thus, social proximity enhances the frequency and intensity of interactions between them and promotes social innovation that solves local problems by activating the exchange of information. Social enterprises can be chosen by local consumers by solving local problems. Therefore, long-term relationships through employment between social enterprises and local communities are important [16].

Currently, many social enterprises have short-term contractual and transactional human resource arrangements. The third quadrant in the human resource architecture should be used when both the strategic value of human resources and the uniqueness are low [7]. While the human resources needed for social enterprises are unique and valuable, the actual human resources employed are not. Human resource management of social enterprise concentrates on the third quadrant, not the first quadrant of architecture. This is why social enterprises cannot form long-term trading relationships with customers. As a result, the vicious cycle of having low quality and quantity of jobs provided by social enterprises is perpetuated [14]. For sustainable growth of social enterprises and long-term survival, proper human resource development and management, which are key to creating social values, are essential. Uniqueness and value along with the quality and quantity of human resources of social enterprises should be improved.

2.2. Economic Performance and Employment of Social Enterprises

Good jobs and decent jobs are different. According to the OECD framework for assessing job quality [17], job quality is determined by the earnings quality, labor market security, and quality of working environment. Only with these three things can it be called a decent job. Additionally, according to the OECD report, the quality and quantity of jobs are not trade-off relationships, but rather have potential synergies [17]. Good economic performance of social enterprises improves the quantity and quality of their employment. [9]'s resource-based view defined an organization's assets, capabilities, processes, characteristics, information, and knowledge as resources. Companies with valuable, rare, and irreproducible resources can secure competitiveness and perform well [11]. Developing this

perspective and applying it dynamically (the dynamic resource-based view, [18]), it becomes clear that the ability to manipulate a company's resources in response to rapid economic changes is a source of continuous competitive advantage. Social enterprises take on employees for the economic benefits they can create. Slack resources can help an organization protect its core processes, by buffering against unexpected changes in the external environment and providing the resources necessary to innovate and adapt to a new environment [11].

Especially in social enterprises, the link between economic value and employee performance is strong. This linkage can be explained by transaction cost theory [10] and institutional isomorphism [12]. According to transaction cost theory, when repetitive transactions such as employment contracts are made, it is advantageous to establish a continuous transactional relationship by internalizing the transaction rather than paying the costs, and bearing the risks, entailed by searching for labor outside the organization. In other words, if human resources are the core of corporate operations—as they are with social enterprises—it is advantageous to operate a business by internalizing its core resources and establishing a stable transactional relationship rather than keeping them outside the business. Additionally, the theory of institutional isomorphism suggests that the creation of social values through employment is essential to secure the legitimacy of social enterprises. In other words, the social enterprise's consumers and other stakeholders, such as the government, understand the legitimacy of social enterprises as the creation of jobs through the profits they have acquired [19]. When a social enterprise creates economic value, it can increase its underused resources. As described above, for a social enterprise to achieve its goal, it must secure human resources that create social value. If the necessary human resources exist outside the enterprise, transaction costs are incurred continuously, so the company will be motivated to reduce these costs by internalizing valuable and unique human resources. In so doing, the organization will increase its profits, its employee numbers, and its spare capacity.

Social enterprises have various stakeholders, including consumers seeking social values, and governments that provide grants. According to new institutionalism, the social pressures exerted by these stakeholders have an impact on corporate decision making. Social enterprises' stakeholders expect to link their profits to employment. Such normative institutionalism informs social enterprises' decisions about employment. The profits of social enterprises promote employment of their hitherto underused resources, and as a result, secure the enterprises' legitimacy.

Hypothesis 1. *The net income of social enterprises increases their employment.*

Governments try to use national resources to solve various social problems. However, resource delivery is hindered by bureaucratic problems and agency costs [20]. Social enterprises function as distribution channels for government resources by pursuing efficiency in the private sector while also pursuing social values. The government supplies resources to social enterprises in the form of grants and social enterprises distribute these resources to where they are needed, on behalf of the government. This is an efficient resource allocation method for both stakeholders.

Reference [21]'s typology is shown in Table 1. Government and social enterprise can be complementary depending on how state capacity is distributed. Therefore, government grants to social enterprises are not a form of protectionism: rather governments and social enterprises can be seen as being in a mutually beneficial relationship. In the case of Greece, innovative social enterprises can contribute to the development of local community [22]. From a resilience perspective [23], not only direct government involvement in market failures is important, but bottom-up development derived from the cooperative relationship between local communities and social enterprises is also important [22]. Ordinary companies maintain control and cover their own costs while seeking profit through the creation of economic value. However, small-scale social enterprises often fail to generate sufficient economic value and lack the means to internalize economic value that are available to ordinary companies. Because the social values that social enterprises create do not appear in financial statements,

they are of little interest to capital markets. Therefore, for social enterprises, government grants are the main sources of additional resources. Social enterprises that receive significant government grants are relatively rich in organizational resources. They are required to create employment outcomes in exchange for support from the government.

Table 1. The functions of government in social entrepreneurship [21].

	Higher State Capacity	Lower State Capacity
Top-down social entrepreneurship	Government function: originator and implementer	Government function: bungler
Bottom-up social entrepreneurship	Government function: adapter and promoter	Government function: imitator and adopter

Hypothesis 2. *In social enterprises, the relationship between net income and employment performance is moderated by government grants. In other words, the positive relationship between net income and employment is strong in social enterprises that receive large government grants.*

2.3. Employment and Salary Level of Social Enterprises

For social enterprises to strategically possess unique and valuable human resources, quantitative employment performance must be transformed into qualitatively decent jobs. In other words, salary levels must be raised. Social enterprises that link economic values to employment performance face demands for higher pay levels. First, if employment performance increases and the quantitative size of the organization increases, the company reaches the formalization stage of the organizational life cycle model [6]. During the formalization stage, companies increasingly follow formal rules and procedures and implement internal control systems. The establishment of a human resource management system increases workers' bargaining power. Workers use their bargaining power to improve their salary levels [24]. Additionally, the strategy of the first quadrant in the human resource architecture creates a strong and long-term relationship between the company and the worker. As the employment performance of social enterprises increases, so does the need for strategic human resource management, and social enterprises seek to secure a competitive advantage by preventing the turnover of their unique and valuable human resources. In such cases, if the organization's spare resources, gained through economic success, are used to improve salaries, they can stimulate and strengthen employees' effort and motivation. Since social enterprises create economic value through the competitiveness of human resources, a virtuous cycle of economic values and human resources will be achieved by raising salaries.

Hypothesis 3. *The employment and salary levels of social enterprises have a positive relationship. In other words, the employment performance of social enterprises improves their pay level.*

Hypothesis 4. *The relationship in which the net income of a social enterprise improves the pay level is mediated by employment performance.*

Among the measures representing the economic value creation of a company is the return on assets (ROA), which is the value of the company's net income divided by the total value of its assets. It indicates how efficiently the company's resources are managed. Social enterprises with high ROA are companies that operate their resources efficiently. They have relatively high levels of marginal resources and can use them for human resources, which form the core of corporate value creation. Therefore, the relationship between employment performance and salary level will be stronger in companies with high ROA. Additionally, a high ROA gives workers leverage when they want to increase their salary levels through collective bargaining power [25].

Hypothesis 5. *In social enterprises, the relationship between employment performance and salary level is moderated by ROA. In other words, the positive relationship between employment performance and salary level is strong in social enterprises with a high ROA.*

3. Methods

Data Collection and Statistical Analysis Method

This study used four-year panel data from 2015 to 2018 for social enterprises in South Korea. This empirical research is based on data from the Social Progress Credit (SPC) DB, which the Center for Social Value Enhancement Studies assembled. The number of companies sampled in each analysis is presented in the results table. From 47 to 227 companies were sampled for analysis, with employment performance, salary level, net income, government grants, and ROA being analyzed using the financial statements reported by each company. As of 2018, the average number of employees was 34.2, and the average organization age was 6.35 years.

Panel analysis was performed to test hypotheses 1, 2, 3, and 5. In the case of panel data that has been repeatedly measured in one company, as in the research model of this study, the problem of the first-order autocorrelation occurs when the basic general linear model is used. Before panel analysis, a Hausman test was performed on each analytical model to adopt a random effect model. STATA version 16 was used for statistical analysis. In the case of structural equation model analysis for the verification of the mediation hypothesis, it was analyzed using R 4.3.2, with the lavaan package.

4. Results

4.1. Inter-Correlations of the Study Variables

Table 2 displays the means, standard deviations, and correlations for all variables. As predicted by the hypothesis, employment performance and salary level were very closely related with a correlation of 0.61, while the correlation between ROA and net income was 0.47.

Table 2. Means, standard deviations, and correlations among study variables.

	Variable	Mean	s.d.	1	2	3	4	5	6
1	Organization type	0.24	0.43	-					
2	Organization age	6.35	4.76	0.09 **	-				
3	Net income	17.06	1.55	−0.04	0.06	-			
4	Government grant	17.18	1.45	−0.01	−0.19 *	0.21 *	-		
5	Employment performance	18.14	1.60	0.10	0.32 **	0.28 **	0.09	-	
6	ROA	0.03	34.63	0.05	0.02	0.47 **	0.09	0.12	-
7	Salary level	19.18	1.24	0.15 **	0.34 **	0.28 **	0.01	0.61 **	0.02

Note. * $p < 0.05$, ** $p < 0.01$.

4.2. Hypothesis Testing

To verify Hypotheses 1 and 2, a random effect panel analysis was performed. Table 3 shows the results. To control for the influence of the characteristics of each company, the organization age, and organization types were used as control variables. In the case of types, dummy variables were used: 0 for the stock corporate type and 1 for the other types. As a result of the analysis, net income showed statistically significant positive results on employment performance. Hypothesis 1 was supported.

Table 3. Panel analysis: employment performance, net income and government grants.

Variable	Employment Performance					
	Model 1		Model 2		Model 3	
	b	s.e.	b	s.e.	b	s.e.
Constant	17.02 **	0.28	15.28 **	0.88	72.38 **	21.94
Organization type	−0.03	0.34	0.22	0.34	−0.04	0.69
Organization age	0.10 **	0.03	0.10 **	0.03	0.14 **	0.05
Net income (A)			0.11 *	0.05	−3.36 **	1.26
Government grant (B)					−3.52 **	1.26
Interaction term (A*B)					0.21 **	1.28
Overall R ²	0.10		0.15		0.25	
Wald χ^2	16.92		21.32		22.40	
N	234		175		47	

Note. * $p < 0.05$, ** $p < 0.01$.

The interaction term between net income and government grants also had a statistically significant coefficient for employment performance. This was also confirmed graphically. This is shown in Figure 1. As a result of the graph analysis, the degree of employment creation according to the increase in net income was higher in the group of social enterprises receiving more government grants than the group receiving less. Therefore, Hypothesis 2 was supported. Hypotheses 3 and 5 were also tested, and the results of the analysis are presented in Table 4.

As a result of the analysis, employment performance showed a statistically significant coefficient for salary level. Hypothesis 3 was supported. The interaction terms between employment performance and ROA also had statistically significant coefficients for salary levels. This is confirmed graphically, as shown in Figure 2.

Graph analysis shows that in the social enterprise group with high ROA, the degree of increase in salary level accompanying the increase in employment performance was large, compared to the group with low ROA. Therefore, Hypothesis 5 was supported. To verify Hypothesis 4, bootstrapping was performed using a structural equation model. Each path coefficient is shown in Figure 3.

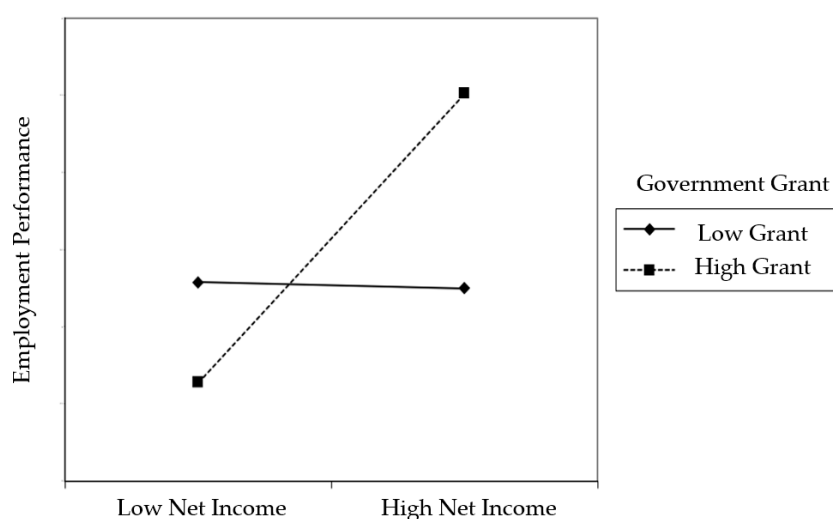
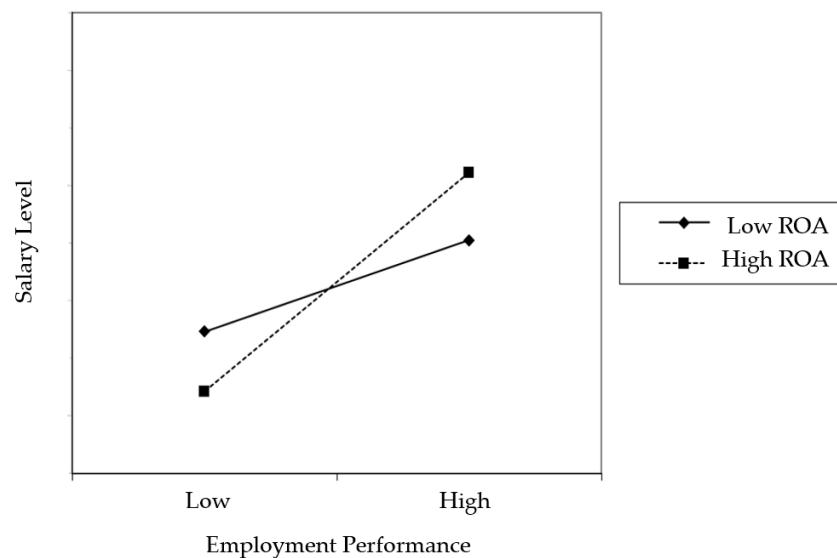
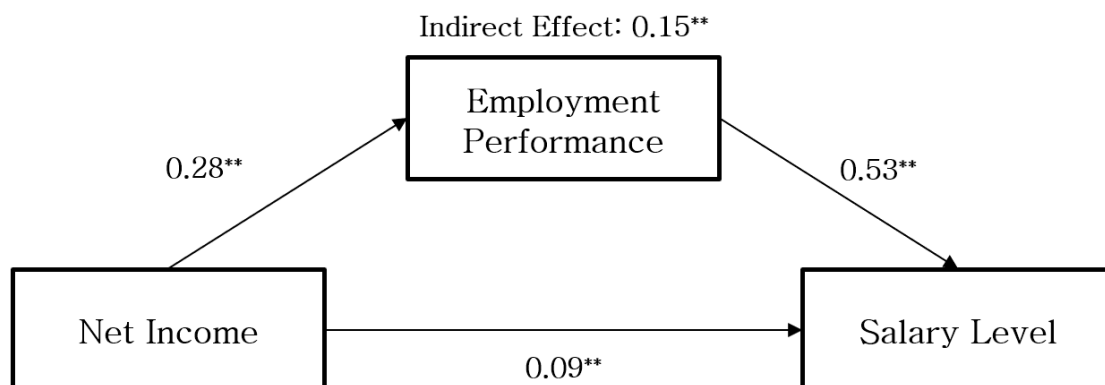
**Figure 1.** Moderation effect of government grants.

Table 4. Panel analysis: salary level, employment performance and return on assets (ROA).

Variable	Salary Level					
	Model 4		Model 5		Model 6	
	b	s.e.	b	s.e.	b	s.e.
Constant	18.22 **	0.14	11.82 **	0.82	11.86 **	0.80
Organization type	0.30	0.21	0.38	0.20	0.32	0.20
Organization age	0.12 **	0.01	−0.01	0.02	0.01	0.02
Employment performance (A)			0.43 **	0.05	0.42 **	0.05
ROA (B)					−0.09 **	0.03
Interaction term (A*B)					0.01 **	0.00
Overall R ²	0.12		0.39		0.42	
Wald χ^2	75.59		93.89		115.71	
N	549		227		227	

Note. ** $p < 0.01$.**Figure 2.** Moderation effect of return on assets.**Figure 3.** Mediation effect of employment performance.

As a result of the analysis, the magnitude of the indirect effect of net income on the salary level through employment performance was shown to be 0.15, where the standard error was 0.04, the lower

limit of the 95% confidence level was 0.07, and the upper limit was 0.23. Therefore, Hypothesis 4 was supported.

5. Discussion

This study was conducted to analyze the relationship between the financial performance, employment performance, and salary level in social enterprises, and analyzing whether a social enterprise that is financially sound creates decent jobs. Financial performance is a resource for decent jobs. A high level of salary directly affects the earnings quality, and the employment performance can increase labor market security. Abundant resources can improve the quality of the working environment. Thus, a financially sound social enterprise creates decent jobs. Additionally, government grants and ROA were analyzed as environmental factors. As a result of the analysis, all hypotheses were supported. In a social enterprise, net income improves employment performance and thereby improves the salary level. In other words, it improves both the quantity and quality of employment, providing quality jobs. In this process, government grants and ROA play a key role. Social enterprises with higher government grants and a higher ROA can provide decent jobs.

Compared to the existing literature, this study has several implications. First, there have been many studies on the quantity of employment in social enterprises, but research on the quality of employment has been relatively lacking. This study contributed to employment-related research and social enterprise research and, while looking at the quantity and quality of employment, revealed their causal relationship. Even if the quantity of employment increases, it is limited to short-term, non-regular employment, and it does not provide sufficient support to vulnerable workers as well as the survival of the social enterprise itself. This study contributes to employment research by analyzing the quantity and quality of employment of social enterprises, according to the human resource architecture theory. Second, it contributed to the performance research field of social enterprises by directly studying net income, government grants, and ROA. Social enterprises are not obliged to disclose financial statements, and significant portions of the social value generated by social enterprises are not shown in financial statements, making it difficult to study financial performance. Many existing studies are limited in that they are theoretical or conceptual in nature, and did not undertake the empirical analysis. In contrast, this study contributes to the examination of the financial performance of social enterprises.

6. Conclusions

This study has the following practical contribution. First, it shows the entrepreneurs of social enterprises that it is necessary to create decent jobs to promote the sustainable development of social enterprises. Many social enterprises limit their potential by adhering to the short-term and contractual employment patterns that characterize the third quadrant. As described above, in a company where human resources are a core resource, such as a social enterprise, the value and uniqueness of human resources must be increased to create a high-performance work system [26]. The economic performance generated by social enterprises makes this possible. Second, this study confirms that it is possible to efficiently utilize government resources through the medium of social enterprises, and suggests that grants to social enterprises profit both government and the enterprises, and are not simply a way of protecting them from the competition. Government grants should be given to those social enterprises that can provide high-quality jobs by raising the performance level of their employees, rather than to those enterprises that are simply suffering from financial problems. This study provides policy implications by revealing the moderating effect of government grants.

Although this study has academic and practical implications, it needs to be supplemented by future research because it has the following limitations. First, the number of social enterprises sampled was limited. The question of sample selection has been raised repeatedly in the study of corporate social value creation [27]. Although all social enterprises have common characteristics in that they pursue social values, this empirical analysis is limited to South Korean enterprises. Cross-examination with

other cultures is needed. Second, more variables should be included. Although this study examined the employment performance and salary level of social enterprises in terms of the quantity and quality of employment, there are various other criteria for determining the quantity and quality of employment that were not included, such as benefits, human resource management systems, and organizational leadership. Future studies should examine the influence of these variables. Third, a more thorough comparison of social enterprises with general enterprises is needed. Social enterprises occupy different business niches from general enterprises because they are primarily aimed at creating social values. At the same time, however, both types of enterprises are similar because they seek to grow and survive through economic value creation. In the future, comparisons between general and social enterprises should consider more of the differences and similarities between the two types of enterprise.

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