

Empirical Analysis of Socio-Economic Performance of Social Enterprises: Focusing on social enterprise in Seoul

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사회적기업의 사회적·경제적 성과 실증분석 - 서울지역 사회적기업을 중심으로 -

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Abstract The purpose of this present study is to empirically analyze the variables affecting socio-economic performance of social enterprises. For this purpose of 107 enterprises, located in Seoul, was performed under the hypothesis that the authentication properties (authentication type, authentication year) of social enterprises will affect the socio-economic performance. The analysis showed that first; authentication type among the characteristics of social enterprises showed significant effects on the social performance. Second, authentication year among the characteristics of social enterprises showed significant effects on the economic performances. In addition, since the job-creating type showed higher social performance, it would be desirable to raise the certification rate of this type in the future. The analysis implied that longer the years of accreditation, the greater positive effects on the socio-economic performance of social enterprises was shown. Therefore, the present study suggest the need to diversify support policies according to the number of authentication years in order to secure sustainability by maximizing the socio-economic performance of social enterprise because the monolithic support is not very effective for continued growth and self-reliance of social enterprises

Key Words : Social Enterprises, Social Enterprises Performance Analysis, Social Performance, Economic Performance

요약 본 연구의 목적은 사회적기업의 사회적·경제적 성과에 영향을 미치는 변수를 실증적으로 분석하고자 하는 것이다. 이를 위하여 사회적기업 중 서울소재 사회적기업 107개사를 대상으로 인증특성(인증유형, 인증연도)이 사회적기업의 사회적·경제적 성과에 미치는 영향을 미칠 것이라는 가설을 세우고 실증분석 하였다. 분석결과 첫째, 사회적기업의 인증특성 중 인증유형이 사회적 성과에 유의한 영향을 미치는 것으로 나타났다. 둘째, 사회적기업의 인증특성 중 인증연도가 경제적 성과에 유의한 영향을 미치는 것으로 나타났다. 인증특성 중 인증 받은 연차가 높을수록 사회적기업의 사회적·경제적 성과에 긍정적인 영향을 미치는 것으로 이해할 수 있다. 또한 일자리제공형의 사회적 성과가 높은 것으로 나타났으므로, 앞으로 이러한 유형의 인증비율을 높이는 것이 바람직할 것이다. 따라서 획일적인 지원정책만으로는 사회적기업의 지속적인 성장과 자립에 미흡하므로, 인증연차별로 지원정책을 다양화 하여 사회적기업의 사회적·경제적 성과를 극대화화 함으로써 지속가능성 확보가 가능한 것으로 나타났다.

주제어 : 사회적기업, 사회적기업 성과분석, 사회적 성과, 경제적 성과

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1. Introduction

In 2007, Korea implemented the 「Social Enterprises Promotion Act」 for social enterprises and certification of social enterprises and by May 2013, with the introduction of the 828 certified social enterprises, approximately 1,430 preliminary social enterprises (regional¹⁾, departmental²⁾) have been specified. These visible performances owing to policy efforts are very qualitative in that the concept of social economy as well as of social enterprises have been greatly the spread, and in that the social enterprise owners have gained self-awareness that they are part of the new economic area called the social economy, and that new non-commercial economy area except for social enterprises has expanded [7]. However, in some aspects, quantitative growths have been focused by the expansion of government support and there are cases of faltering social enterprises in accordance with the suspension of government support [7].

As a result, this study intend to survey the status of Korea's social enterprises for the empirical analysis of socio-economic performance of social enterprises, and to review the previous studies home and abroad regarding performance measurement of social enterprises. Moreover, a research model was designed on these previous studies to investigate the relationship between the social enterprises and the authentication

- 1) Definition of residential preliminary social enterprises: Enterprises that meet minimum legal requirements, such as realizing social objectives and creating revenue by business, for the authentication of social enterprises, but do not partly fulfill the requirements such as revenue structure, so they are designated preliminary by the head of local governments for future full authentication if all the requirements are met. 1,263 companies are reserved as of 2012.
- 2) Definition of Departmental preliminary social enterprises: Enterprises that meet minimum legal requirements, such as realizing social objectives and creating revenue by business, for the authentication of social enterprises, but do not partly fulfill the requirements such as revenue structure, so they are designated preliminary by the minister of central government agencies for future full authentication if all the requirements are met. 167 companies are reserved as of 2012.

properties, which are institutional characteristics, based on the management performance reports of the social enterprises in Seoul.

2. Previous research

2.1 Social enterprises of Korea

The definition of social enterprises varies by country and by region, but in Korea, "social enterprises" are defined as those engaged in business activities such as manufacturing and sales of products or services pursuing a social purpose including improving the quality of life of local residents, by contributing to the community or by providing jobs or social services to vulnerable groups (Article 2, Social Enterprises Promotion Act). 「Social Enterprises Promotion Act」 was enacted in 2007 in Korea to provide the base for promotion of social enterprises; requiring a certification of the Minister of Employment and Labor in accordance with the Act to operate a social enterprise in institutions and to receive various policy support from the government(Article 7, Social Enterprises Promotion). Owing to these policy supports, the number of certified social enterprises has increased from 55 in 2007 to the current 828 in May 2013, which demonstrates a huge quantitative 15-fold growth since the enforcement of the 「Social Enterprises Promotion Act」 6 years ago [8]. On the other hand, the revenue structure of social enterprises is rather poor [9].

Social Enterprises Promotion Act specifies the following 7 requirements for the certified companies to obtain government support in Korea. A limited time supports such as management support, financial support, sales support and financial support are provided for 3 years to the social enterprises that are entitled of certification requirements as shown in <Table 1> for their early and stable settlement and sustainability (Article 10-16, Social Enterprises Promotion Act).

<Table 1> Social enterprises certification requirements

Div	Content
Dept	Ministry of Employment and Labor
Requirement	① Forms of organization
	② Perform sales activities by hiring paid workers
	③ Income from operating activities: sales of 30% more than labor cost
	④ Realizing social objectives
	⑤ Should have Articles of Incorporation and Code.
	⑥ Stakeholders participating decision-making structures
	⑦ More than 2/3 of profit should be reinvested for social purpose
Application	Ongoing application
Support	3 years max

Source: Article 8, Social Enterprises Promotion Act

The types of social enterprises listed in <Table 2> such as job-creating type, social services type, mixed type, community contribution type and other type are classified by the classification of major realizing social objectives for the government-certified social enterprises. According to this legal basis, there are 516 (62.3%) job-creating types, 55 (6.6%) social services types, 134 (16.2%) mixed types, 8 (1%) community contribution types and 115 (13.9%) other type, among which the community contribution type is a newly defined type (Article 9 of Decree of Social Enterprises Promotion Act).

<Table 2> Social enterprises authentication type

Div	Type	Main purpose of organization*	EA(%)**
①	job-creating type	provide jobs to vulnerable class	516 (62.3)
②	social services type	provide social services to vulnerable group	55 (6.6)
③	mixed type	provide jobs and social services to vulnerable group	134 (16.2)
④	community contribution type	contribute to the community (newly defined in 2011)	8 (1.0)
-	other type	difficult to determine the type by the of ratio jobs and social services	115 (13.9)
Total			828 (100)

Source: *Article 9 of Decree of Social Enterprises Promotion Act,

**KoSEA, Status of social enterprises(May 2013)

2.2 Performance analysis of social

It may be ideal to measure the effectiveness of the operating procedures for the development of social enterprises, but measuring the performance poses a hard challenge for social enterprises with the three sector organizations, due to their management system not being systematic enough to take the management performance of the smaller social enterprises as the evaluation indicators [2]. Moreover, the start of social enterprises is an operation to provide social services, so it is very difficult to measure the benefits of community service such as enhancing the quality of life of the community or providing social services to these vulnerable people [5].

Moshe & Lerner (2006) presented the performance of the social enterprises in 3 dimensions: the degree of achievement of the set goals, the resource associated power to secure the sustainability of the social enterprises, and possessed resources usable for the growth of the social enterprises. Bagnoli & Megali (2011) developed a measurement system of the performance of social enterprises in three aspects of economic-financial performance, social effectiveness and institutional legitimacy. Bull (2007) developed SFP Dashboard (Social Firm Performance Dashboard) assessment tool to measure the socio-economic performance of the social enterprise in terms of return, learning organization, stakeholder environment, internal activities and visioning. These methods were developed by the researches based on a limited number of or specific social enterprises, so they have limitations to be generalized to various types of social enterprises.

On the other hand, Seon-Hwa Gwak (2010), in a national research, measured the performance of social enterprises in 5 dimensions; employment of paid workers; provision of social service; stakeholders involved decision-making structure; income from operating activities; and reinvestment of profits into social purpose.

Hong-Geun Choi & Yen-Yoo You (2012) modified

the performance measurement model of Seon-Hwa Gwak (2011) and In-Su Choi et al. (2011) to try to measure the 16 social enterprises in Namdong-gu, Incheon by 3 sectors of growth, profitability and stability. Their study is meaningful in a microscopic point of view that they measured the performance of a particular region, but was limited in that their analysis was biased to the social benefits according to the employment of vulnerable groups without considering the intangible benefits.

3. Design and analysis of research

3.1 Research model

After reviewing previous researches, the research model was designed as in <Figure 1> in order to validate the relationship of the authentication attributes of social enterprises and their social and economic performances.

3.2 Research design and hypothesis testing methods

The following research hypotheses were set in order to verify the relationship of the authentication

properties, characteristics of the mother company, and socio-economic performance of social enterprises.

[Hypothesis 1] The authentication properties of social enterprises will have significant effects on the social performance.

-Hypothesis 1-1: The authentication type of social enterprises will have significant effects on the number of vulnerable beneficiaries.

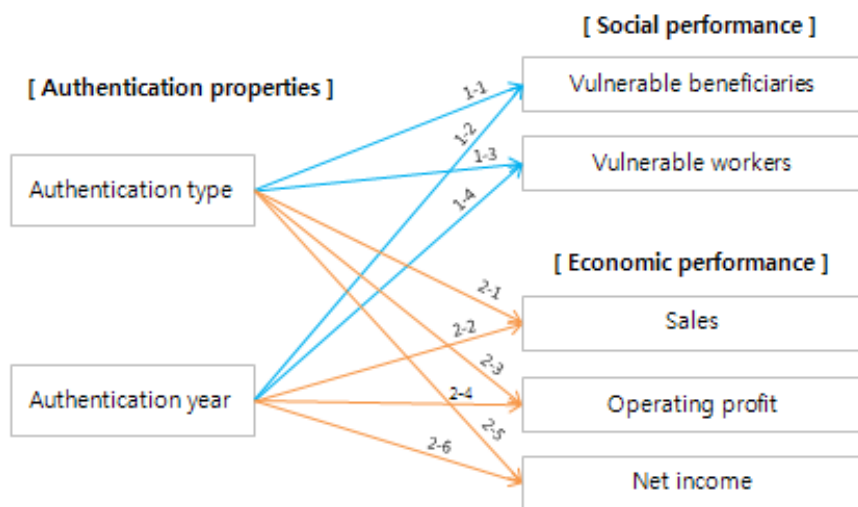
-Hypothesis 1-2: The authentication year of social enterprises will have significant effects on the number of vulnerable beneficiaries.

-Hypothesis 1-3: The authentication type of social enterprises will have significant effects on the number of vulnerable workers.

-Hypothesis 1-4: The authentication year of social enterprises will have significant effects on the number of vulnerable workers.

[Hypothesis 2] The authentication properties of social enterprises will have significant effects on the economic performance.

-Hypothesis 2-1: The authentication type of social



[Figure 1] Research Model

enterprises will have significant effects on the sales.

-Hypothesis 2-2: The authentication year of social enterprises will have significant effects on the sales.

-Hypothesis 2-3: The authentication type of social enterprises will have significant effects on the operating profit.

-Hypothesis 2-4: The authentication year of social enterprises will have significant effects on the operating profit.

-Hypothesis 2-5: The authentication type of social enterprises will have significant effects on the net profit.

-Hypothesis 2-6: The authentication year of social enterprises will have significant effects on the net profit.

The data for this study was obtained from the 2010 Business Report of the 107 social enterprises in Seoul, Korea, certified during 2007-2010. Independent variables of the study variables were reconstructed from the study variables of Seon-Hwa Gwak (2011) and the authentication properties (authentication type and authentication year) of Social Enterprises Promotion Act.

The analysis of data was performed using SPSS WIN 19.0 in the specific method as follows. Research

parameters were derived and research model was set based on literature studies. Two-way ANOVA was used for the hypothesis test.

4. Empirical analysis results

4.1 Verification and analysis of Hypothesis 1

As shown in <Table 4-1>, regarding the number of vulnerable beneficiaries depending on the authentication properties, the authentication type has significant effects (F = 3.460, p <.05), and the authentication year shows statistically significant difference (F = 6.587, p <.05). In addition, there was also an interaction effect between the authentication type and authentication year (F = 2.228, p <.05). Thus, Hypothesis 1-1: authentication type will affect the number of vulnerable beneficiaries, was adopted, and Hypothesis 1-2: authentication year will affect the number of vulnerable beneficiaries, was also adopted.

Regarding the number of vulnerable workers depending on the authentication properties, the authentication type has significant effects (F = 5.718, p <.05), and the authentication year shows statistically significant difference (F = 8.041, p <.05). In addition, there was also an interaction effect between the authentication type and authentication year (F = 5.718, p <.05).

Thus, Hypothesis 1-3 and 1-4: authentication type

<Table 4-1> Two-way ANOVA between authentication characteristics and social performance

Div		SS	df	MS	F	P
number of vulnerable beneficiaries	authentication type	10.624	3	3.541	3.460	.020
	authentication year	20.225	3	6.742	6.587	.000
	authentication type*authentication year	20.522	9	2.280	2.228	.027
	Error	93.141	91	1.024		
	Total	761.000	107			
number of vulnerable workers	authentication type	113.680	3	37.893	5.595	.001
	authentication year	163.382	3	54.461	8.041	.000
	authentication type*authentication year	348.569	9	38.730	5.718	.000
	Error	616.357	91	6.773		
	Total	2241.000	107			

**p<.01

and year will affect the number of vulnerable workers, were adopted.

Thus, the analysis result of variance verified Hypothesis1: authentication properties of social enterprises will have significant effects on the social performance, that both the authentication type and year showed significant effects. In other words, out of the authentication properties, job-creating type certified companies and longer the authentication years showed more positive influence on the social performance of social enterprises.

4.2 Verification and analysis of Hypothesis 2

As shown in <Table 4-2>, regarding the sales according to the authentication properties, the authentication type does not show significant difference between groups (F=.503, p>.05), while the authentication year shows statistically significant difference (F = 2.975, p<.05), and it was verified that there was an interaction between these two variables (F = 2.055, p <.05). Thus, Hypothesis 1-5: the authentication type will have significant effects on sales, was rejected, but Hypothesis 1-6: authentication year will have significant effects on the sales, was

adopted.

In addition, the authentication type does not show significant effect on the operating profit (F=.266, p>.05), while the authentication year shows statistically significant effects (F = 3.018, p<.05). In addition, there was also an interaction effect between these two variables (F = 2.331, p <.05). Thus, Hypothesis 1-7: the authentication type will have significant effects on operating profit, was rejected, while Hypothesis 1-8: authentication year will have significant effects on the operating profit, was adopted.

The authentication type does not show significant effect on the net profit (F=.361, p>.05), and the authentication year does not show statistically significant effects (F = 2.367, p>.05). These two variables, however, shows interaction (F=2.010, p<.05). Thus, both Hypothesis 1-9 and Hypothesis 1-10: the authentication type and year will have significant effects on net profit, were dismissed.

Thus, the analysis results of variance verified Hypothesis2: the authentication properties of social enterprises will have significant effects on the economic performance that only the authentication year showed partly significant effects. In other words, the

<Table 4-2> Two-way ANOVA between authentication characteristics and economic performance

Div		SS	df	MS	F	P
sales	authentication type	2.753	3	.918	.503	.681
	authentication year	16.274	3	5.425	2.975	.036
	authentication type*authentication year	33.725	9	3.747	2.055	.042
	Error	165.917	91	1.823		
	Total	1271.000	107			
operating profit	authentication type	1.390	3	.463	.266	.850
	authentication year	15.791	3	5.264	3.018	.034
	authentication type*authentication year	36.598	9	4.066	2.331	.021
	Error	158.722	91	1.744		
	Total	1080.000	107			
net profit	authentication type	1.851	3	.617	.361	.781
	authentication year	12.132	3	4.044	2.367	.076
	authentication type*authentication year	30.894	9	3.433	2.010	.047
	Error	155.436	91	1.708		
	Total	1153.000	107			

**p<.01

authentication year, among authentication properties, only has significant effects on sales and operating profit of social enterprises.

5. Conclusion

It is a challenging task for social enterprises to achieve both the social and economic objectives at the same time, in the corporate environment where even ordinary corporations with commercial purposes face difficulty to survive. It is especially difficult for the social enterprises, with poor labor environment and low productivity, to provide jobs to disadvantaged class in the regular labor market. In this respect, the study on the socio-economic performance of the social enterprises to find an alternative to minimize the social cost of the government is significant.

For the empirical analysis of this study, socio-economic performance factors of the social enterprises were reconstructed based on the study of Seon-Hwa Gwak (2011) and the authentication properties in Social Enterprises Promotion Act of Korea, which adopts a certification system of social enterprises. In particular, an empirical analysis was carried out for the relationship of authentication properties of social enterprises and their socio-economic performance, based on the 2010 Business Report of social enterprises in Seoul, Korea. The findings are as follows:

First, among the authentication properties of the social enterprises, the authentication year showed significant effects on the social performance. In other words, the longer the social enterprises have been accredited, the higher were their social performances.

Second, among the authentication properties of the social enterprises, the authentication type showed significant effects on the social performance.

Third, among the authentication properties of the social enterprises, the authentication year showed

positive effects on the economic performance in sales and operating profit.

It can be understood that longer the social enterprises have been accredited, the more their social performances are positively affected. In addition, since the job-creating type showed higher social performance, it would be desirable to raise the certification rate of this type in the future.

Therefore, it implies a need for securing sustainability by maximizing the socio-economic performance of social enterprises by diversifying support policies according to their authentication years, in that the monolithic support has not been very effective for continued growth and self-reliance of social enterprises [9].

The limitation of this study was that the social enterprises were examined with the same standards despite their different business environments including the types, industries and business history. Future studies could develop performance measurement tools considering these diverse characteristics of the social enterprises to be more meaningful.

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