

## **-Social enterprises: can it be a solution to social problems?**

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I would like to thank the organizers, namely KDI and Columbia Business School as well as the Yonsei University and KAIST for having me in this meaningful conference. I would like to pay tribute to Professor Raymond Horton for his presentation. It certainly helps our understanding of social enterprises. According to him, social enterprises are, in simpler terms, firms applying business skills to the solution of social problems. He prefers it to “creating social values”. And for developing social enterprises programs at business schools, he also broadly defines social enterprises programs covering corporations, NGOs, social entrepreneurship and government agencies.

I am used to narrower definition of social enterprises and social entrepreneurs but I can also agree with the need of broader sense of definition of social enterprises to develop curriculums at business schools to groom future business leaders with fine belief in social cause in doing business and making the world better place.

What are social enterprises and who are social entrepreneurs? Would they be a solution to social problems? My immediate answer to this last question is “Yes, they can be part of finding solution to our social problems and we need to further encourage emergence of social enterprises, even more at this critical juncture of world crisis and in Korea of today.”

In modern world economy, virtue of enterprises was to seek economic profits and through it, creates employment, pay taxes and reinvest in production. Caring for social cause was not the direct priority objectives for them. It was rather the task of government to take care of peoples. However, the globalization and rise of economic power of MNEs make it imperative for business to assume a more promotional role in securing social justice regarding such issues as environment, poverty, health and anti-corruption etc.

Hence there is growing need of emphasizing social responsibility of business and socially responsible investment (SRI). To safeguard such purpose at international level, the United Nations created the UN Global Compact in 2000 and has developed the mechanism to promote UN’s values on fundamental social values such as environment, human rights, labor and anti-corruption as well as development. Today, it has 6200 corporate firms and institutions as

members who implement these social values in their business operations. It created such initiatives as Caring for Climate, Water mandate and Principle for Responsible Investment (PRI). CSR or SR have become slowly but surely one of the fundamental values of modern corporations. Even though the world suffers from acute financial crisis, we do believe the cause of UN Global Compact, namely the 10 principles concerning human rights, environment, labor and anti-corruption will add further momentum as a means to complement the weak links of modern capitalism. The UN Global Compact has developed with major academic institutions new initiatives of PRME (Principle for Responsible Business Management Education) to adopt CSR as regular curriculum of many business schools around the world. By introducing such curriculum, business schools can groom talented business leaders who may be demanded by corporations, NGOs, government agencies and social enterprises.

Now, I wish to address social enterprises and social entrepreneurs in narrower terms. These social entrepreneurs see the world with different angle. They have rather direct attachment to social issues such as fight against poverty and environment protection. They find potential of doing business better by doing good. They are individual and group of peoples who believe that they can perform better by tapping into underused territory. As they are new starter and seek to find direct solutions, they tend to be innovative and try to find remedies without consuming too much resource.

They demonstrate new approaches to heal social illness and new business model or create new social well-being. As Professor Horton pointed it out, social entrepreneurs have often difficulties of scale, a sustainable scale. Here lies the responsibility of state government or banks or big corporations. If there is a good project, a socially good and business-wise viable project, there should be adequate funding on sustainable basis. A collective action would be good to produce beneficial results for all. We have such a success model in different countries of the world.

Lastly, I wish to refer to the potential for development of social enterprises in Korea. The Korean society has arrived at a level of maturity and with fast growing civil society, it is right time to expect further emergence of social enterprises. Korea is full of young generation people well educated and sometime well motivated for social cause. There are quite many young aspirants to devote their lives to CSR or SR related fields. At the same time, the current economic crisis of the world gave negative impacts to Korean economy and to employment market. This crisis will permit a fertile ground to a new social start-up in Korea.

Which is the fertile ground for further development of social enterprises in Korea? I think the agricultural sector in Korea can be a good starting point. As many were deserting country side to live in big cities, our rural area has been deserted and except fewer old parents, there is no remaining young generation people. However, there is potential to develop rural based social enterprises by combining IT and green technology. As the Korean Government focus on green growth, there is certainly further room for developing social enterprises along green growth and green technology. Likewise, the service sector much dragged in Korea as yet could also be a fertile ground to develop social enterprises. Another field of action will be development related business, as Korea allocates more resources to official development assistance (ODA) and it becomes a fully operational donor country.

If there are creative and innovative entrepreneurs, they should be supported technologically by corporate firms and universities. The Government (SME administration) and the municipalities can also provide substantial help in building social business model on the basis of related law. Korea is known to be one of the countries that possess the IT and Green technology backbone. If creative and innovative entrepreneurship is there, we will see emergence of many social start ups in Korea. Business schools have important task of awakening such talented but untapped talents into action.

## The Meaning and Promise of “Social Enterprise” – Comments & opinions

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### Meaning of social enterprise

The term “social enterprise” or “social entrepreneurship” has received increasing attention and popularity over the past decades around the world. Its definition nevertheless has been vague and somewhat confusing. However, as Professor Ray Horton points out, a commonly accepted definition of social enterprise is beginning to emerge.

OECD tried to identify a common denominator on the basis of available data from EU countries and defined social enterprises as “organizations which take different legal forms in different countries, which are organized in an entrepreneurial spirit and which pursue social and economic goals.”<sup>1</sup> Professor J. Greg Dees of Duke University says that social entrepreneur “combines the passion of a social mission with an image of business-like discipline, innovation, and determination commonly associated with, for instance, the high-tech pioneers of Silicon Valley.”<sup>2</sup> Unlike businesses, social enterprises have “the double bottom line”, social mission and profit.

Given these commonly accepted definitions, it appears that a rigorous and a less rigorous definitions of social enterprise are competing each other for boundary of social enterprise. The proponents of a rigorous definition argue that social entrepreneurs must recognize their social mission first and then try to find business opportunities to fulfill that mission. “To them, the financial bottom line is certainly important, but it should not be treated with equal importance to social impact.”<sup>3</sup> In other words, “their business programs do not need to be profitable to be worthwhile. They can instead improve the efficiency and effectiveness of organizations by reducing the need for donated funds.”<sup>4</sup> They say that this is the only form of social enterprise, [e.g., Grameen Bank, BRAC, Ten Thousand Villages, Mercado Global, Sundance Institute, Beautiful Stores, Happy Meals] On the other hand, the proponents of a less rigorous definition of social enterprise stress that nonprofits and businesses are converging to each other, and there is a need for having a wider boundary of social enterprise. J. Austin, R. Gutierrez, E. Ogliastri, and E. Reficco show that organizations that fit this definition take many different organizational structures.<sup>5</sup>

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<sup>1</sup> Social Enterprises, OECD 1999.

<sup>2</sup> J. Gregory Dees, “The Meaning of “Social Entrepreneurship””, Oct. 31, 1998

<sup>3</sup> J. Gregory Dees, “Social Entrepreneurship is About Innovation and Impact, Not Income,” CASE Corner (on the website of the Fuqua School of Business, Duke University).

<sup>4</sup> J. Gregory Dees, “Enterprising Nonprofits,” Harvard Business Review, 1999.

<sup>5</sup> J. Austin, R. Gutierrez, E. Ogliastri, and E. Reficco, “Capitalizing on Convergence,” Stanford Social

According to them, some nonprofits have created for-profit subsidiaries [e.g., Banco Solidario], while for-profits have formed nonprofit subsidiaries [e.g., Monitor Group, Bain Consulting, McKinsey & Company, Google]. Some major global businesses are owned by non-profit foundations [e.g., Ikea, TaTa Enterprises, Grupo Nueva]. And some other companies make strategic alliance (joint ventures) with nonprofits [e.g., Home Depot with KaBoom!]. The proponents of the less rigorous definition argue that the convergence call for a new mind-set which "embraces new organizational forms and views organizational boundaries as elastic and permeable. It takes advantage of the migration of talent across sectors and deepens its relationships with the full range of its stakeholders."<sup>6</sup>

### **Emergence of social enterprises in Korea**

In Korea, the enactment of the Social Enterprise Promotion Act (SEPA) is critically important for the development of social enterprises. Since it became implemented on 07/01/2007, the number of social enterprises in Korea has reached 218 at the end of 2008. SEPA's definition of social enterprise is not much different from the common definitions outlined above. It is a business that a) has social mission of promoting local community's quality of life by providing social services<sup>7</sup> or jobs to the socially fragile, and b) produces and sells goods and services (in open markets), and c) is certified by the Department and Labor.<sup>8</sup>

The following is the status of social enterprises in Korea as of end of October, 2008.

- Social mission: job creation(42.4%), social service provision(14.3%), mixed(27.9%), local community contribution(15.6%)
- Organizational forms: nonprofits(63%), companies(37%)
- Social services areas: social welfare(19.5%), environment(17.5%), domestic care(16.9%), education(5.2%), culture(3.9%), child care(3.9%), health care(2.6%), others(30.5%)
- Number of paid employees: <50(77.3%), >100(5.2%)
- Governance: collectively owned and characterized by democratic governance models

The social enterprises in Korea can be characterized as: 1) their predominant social mission is job creation, and 2) nonprofits are a dominant organizational form, and 3) most of the social

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Innovation Review, Winter 2007.

<sup>6</sup> Ibid.

<sup>7</sup> Here, social services are further specified to include education, health care, social welfare, environment, culture, child care, arts/tourism/sports, forestry maintenance, and nursing/home care. The socially fragile are defined as 1) households with monthly income of less than 60% of the national average, 2) the aged(55 years and older), and 3) the sexually injured.

<sup>8</sup> Other qualifications include democratic governance system, reinvestment of more than 2/3 of profits, operating profits exceeding 30% of labor expenses, etc.

enterprises are very small with 95% of them employing less than 100 employees. Nevertheless, the development of social enterprise in Korea in less than two years has been remarkable, and the general awareness of social enterprise is increasing rapidly.

### **Social enterprise: new opportunities and new developments?**

Do social enterprises present new opportunities for social problem solving? Are they really new developments? The answer is 'yes and no'. Let's take the 'no' side first. When you think carefully, social enterprises have existed for long time. To take Korea as an example, when industrialization was progressing rapidly in the 1960s and 1970s, many companies were established under the government leadership by Korean entrepreneurs. And it is difficult not to think that those pioneering businessmen were investing their resources for construction of their home country. In today's society of materialism, many people go into businesses just to make fortunes. However, when our ancestors started their businesses out of poverty, would they have thought that their goal was simply making money? Would they not have thought that their hard work was enduring, because they are doing it for their society? Were their businesses not really social ventures? In this way, the recent reemergence of social enterprises is an awakening call to reminding us that social mission is indeed the most important goal for businesses.

The answer to the above questions can be 'yes'. This is a new era with different business environment and different social problems. We can start anew. In the U. S., the Enron scandal brought Americans renewed awareness of importance of social mission. We can create new social ventures by applying different business principles to different social problems. That is why we should welcome social enterprises as new opportunities.

### **Policy framework<sup>9</sup>**

Then, the next question is how to develop social enterprise? It helps to pay attention to the initiatives of the UK and North America in social enterprise development. In the UK, the Social Enterprise Unit, established under the Cabinet Office, developed a policy framework for social enterprise. The UK policy framework has three goals: 1) creating an enabling environment, 2) making social enterprises better businesses, and 3) establishing value of social enterprises.

To create enabling environment, the role of government is important. Government must recognize the social benefits and risks taken by social enterprises and be ready to provide direct support such as loan guarantees. Government also needs to examine whether or not current tax

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<sup>9</sup> This part relies heavily on Roger Spear, "Developments in the social enterprise sector in Western Europe" and Margie Mendell, "Social enterprises: a North American perspective," presented at OECD's conference on "Social Enterprises in an Evolving Economy", June 2007.

laws can accommodate social enterprises or whether more specific new laws need to be created. The current enabling policies in the US includes new market tax credit which provides up to \$15bill worth of tax credits for community investment. The US policy permits tax-exempt organizations to enter into joint ventures with for-profit corporations without losing their tax exemptions status. (Revenue ruling 2004-51) Government needs to have clear policy to use its own procurement practice to benefit social enterprises that can provide goods and services.

To make social enterprises better businesses, government of Canada identified needs by stakeholders such as technical assistance to develop and support enterprise feasibility studies and training. (Korean government has this, too.) Finance and funding is very important. Government of Canada provides long-term capital to stabilize organizations. It is also very important to make benefits available to SMEs also available to social enterprises. Training environments must also be developed by business schools providing curricula and programs on social enterprise.

To establish the value of social enterprise, it is important to establish the knowledge base (research) with development of comprehensive data. It is crucially relevant to conduct international comparisons and come up with world-wide best practices of social enterprise. It is also important to create trust within society. For that purpose, customized measurements, evaluation and social accounting tools need to be further developed. It is also important for social enterprise development to recognize achievement of social enterprises and disseminate the information.

There is an important issue related to how social enterprises can go about spreading the impact. After all, good impacts need to be spread in a large scale. It appears that there are two ways of doing the spreading. One is branching out the successful operation across country. This will require central control. The other is networking. The successful enterprise can help other similar organizations develop independently and build a network of cooperation..

## **Training and education**

Given its recent widespread development, social enterprise is a new field of academic inquiry. Notable business schools in the US are offering social enterprise programs. They are Columbia School of Business (Social Enterprise Program), Harvard Business School (Initiative on Social Enterprise), Fuqua School of Business of Duke University (Center for the Advancement of Social Entrepreneurship), Stanford Graduate School of Business (Stanford Social Innovation Review, a journal), University of California, Berkeley, NYU's Stern School of Business and Yale School of Management. Canadian universities include Concordia, Toronto, Montreal, McGill, and Alberta, etc.

If these initiatives by major business schools are any indication of the future of social enterprise as an academic field, it is a matter of time that universities in Korea begin to open a course or two in the field and bring it to scale as the field matures. However, it appears that there is a demand for management education for people working at non-profit organizations in Korea. Initiatives of the Korean government in this area have been minimal and need to be enhanced.

## **My personal experiences**

Nine families including mine established a social welfare foundation called "the Down (Syndrome) Society" in 1994. (The Chinese meaning of 'Da-Un' is 'lots of luck') For 6-7 years before that, mothers had been getting together to help new mothers who must have been experiencing traumatic time after a Down Syndrome baby was born. For some time, there was a vision sharing period during which we all agreed to establish a formal organization to bring our work to a larger scale. Our vision was to spread out social awareness of Down Syndrome and other mental illnesses. At that time, there was no enabling environment for such an organization in Korea. We realized that funding was critical. The nine families chipped in to come up with seed money needed for establishing the foundation. As time went on, the Down Society began to offer many seminars on Down Syndrome to educate parents and opened a sheltered workshop for teen agers who could not attend regular schools. It also worked to form a nationwide network of Down Syndrome parents. In 2001, we decided to seek government funding to bring our impacts to a even larger scale. After several meetings with city officials and finally with the mayor of City of Seoul, it was decided that the Down Society buys a piece of land and the City builds a four-storied building on the land. Right now, thanks to many donors and local government support, the Down Society has 36 employees and provides various services to about 200 mentally-handicapped people on a daily basis ranging from a few months to 50 years of age.

In year 2002, two families left the Down Society. They were concerned about the future of their own children with little concern for society. The first lesson we learned: those with no strong social mission will eventually leave a social organization. With good hardware in place, the next thing for us to do was to improve software. However, we had to encounter several obstacles while doing that. First of all, there was an agency problem. Over time, we hired many licensed social welfare specialists as a chief operator and employees. However, most of them were so concerned about their own career building that often times what they were doing was not consistent with the mission that the Down Society had originally put forth. Moreover, most of the employees had little organizational skills with no management training, which made it difficult for us to push for organizational building. The second lesson we learned: when you hire employees, make sure they share the same social mission with you. Right now, we are planning to give our employees a sabbatical leave so that they can have their time for recharging themselves. Our current chief operator is doing an excellent job, because he is so dedicated to the mission of helping mentally handicapped people. (He and his wife decided not to have their own baby.)

The next step for the Down Society is to spread our experiences and know-how to others with similar social mission. The approach we take is to build a strong network among parents and teachers. Perhaps, we do not want to have our branches in other parts of country. At this time, we are asked by Mongolian parents to build an organization like the Down Society in Mongolia. We would like to help them, but we hope they build their organization with their own initiatives

The background image shows the interior of a grand, domed building, likely a historical institution. A large, circular skylight at the top of the dome allows bright light to enter, illuminating the space. The dome's interior is decorated with a circular inscription in Latin: "FOR THE CITIZENS OF LONDON AND THE BANK MADE THIS WAY THROUGH". Below the dome, several tall, fluted classical columns support the structure. The overall atmosphere is one of grandeur and historical significance.

# Weconomy-driven Social Enterprise

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# ***Greek Etymology of ECONOMY***

- 2 Ancient Greek Words for Economy;  
Oikonomia vs. Chrematistike
- Oikonomia = Oikos + Nomos  
Oikos=Household, Nomos=Management
- Oikonomia meant Community-benefitted (like a household) Economy
- Chrematistike meant Chrematistics
- Greek etymology of Economy is Oikonomia

# ***Evolution of Capitalism***

- Classical Capitalism: Adam Smith  
Classical liberalism constrained  
by the Moral Sentiments: Natural Harmony with  
Invisible Hand, Impartial Spectator, Sympathy
- Modified Capitalism : J. M. Keynes  
Compassionate Capitalism  
New Deal Policy  
Great Depression vs. Great Compression

# ***Evolution of Capitalism***

- Neo-liberalistic Capitalism: Reaganomics  
Oil-Shock, Hyperinflation  
Inefficiency in Public Sectors  
Financial Deregulation, May Day Revolution, IB
- What's Next: Weconomy, Creative Capitalism,  
Community-benefitted Economy, U.N. MDG,  
Spreading of Social Enterprise

# ***Social Enterprise***

- Social enterprises are social mission-driven organizations which trade in goods or services for a social purpose.
- Aiming Targets: Social, Environmental, Financial (triple bottom line)
- Social enterprises are profit-making businesses set up to tackle a social or environmental need as the Central business purpose.

# ***Economic Criteria for SE***

- Continuous activity of the production and/or sale of goods and services (rather than predominantly advisory or grant-giving functions).
- A high level of autonomy: social enterprises are created voluntarily by groups of citizens and are managed by them, and not directly or indirectly by public authorities or private companies, even if they may benefit from grants and donations. Their shareholders have the right to participate ('voice') and to leave the organization ('exit').
- A significant economic risk: the financial viability of social enterprises depends on the efforts of their members, who have the responsibility of ensuring adequate financial resources, unlike most public institutions.
- Social enterprises' activities require a minimum number of paid workers, although, like traditional non-profit organizations, social enterprises may combine financial and non-financial resources, voluntary and paid work.

# ***Social Criteria for SE***

- An explicit aim of community benefit: one of the principal aims of social enterprises is to serve the community or a specific group of people.
- Citizen initiative: social enterprises are the result of collective dynamics involving people belonging to a community or to a group that shares a certain need or aim.
- Decision making not based on capital ownership: this generally means the principle of 'one member, one vote', or at least a voting power not based on capital shares. Although capital owners in social enterprises play an important role, decision-making rights are shared with other shareholders.
- Participatory character, involving those affected by the activity: the users of social enterprises' services are represented and participate in their structures. In many cases one of the objectives is to strengthen democracy at local level through economic activity.
- Limited distribution of profit: social enterprises include organizations that totally prohibit profit distribution as well as organizations such as co-operatives, which may distribute their profit only to a limited degree, thus avoiding profit maximizing behavior.

# ***Social Contribution of SE***

- To bridge the boundaries between the private and voluntary sectors (e.g. trading charities and mutual societies).
- To bridge the boundaries between the private and government sectors (e.g. housing associations and partnerships in the Health Sector).
- To bridge the boundaries between government and voluntary sectors (e.g. enterprise / employment support services provided under contract).
- To internalize a social orientation, democratic governance and entrepreneurial trading (e.g. co-operatives / employee-owned / co-owned businesses).

# ***Success Factor for SE***

- The Critical Success factor for SE is the Leadership of the Social Entrepreneur and the Creative Ideas.
- Professional Voluntary Services and Microfinance
- Talented Business Skills with the Devotional Heart
- Integration with the Financial Markets: Risk-sharing with the Professional Supports (CPPP: Charity, Public, Private Partnerships)

# ***Creative Capitalism and SE***

- The ideology calls for a new form of capitalism that works both to generate profits and solve the world's inequities, using market forces to better address the needs of the poor.
- Bill Gates' idea of creative capitalism combines the “two great focuses of human nature, self-interest and caring for others”
- By keeping business acumen in mind, the world's corporations can discover new, innovative ways to solve major problems for one billion of the world's poorest people, who don't get enough food or don't have drinking water or reliable access to medication, which the rest of us take for granted.

# ***Criticism against Creative Capitalism***

- Richard Posner, Criticism against Bill Gate's Corporate Philanthropy
  - corporate managers or investors?
  - If there are good business opportunities in poor countries, it does not require Gates's urging for businesses to seek to exploit them.
  - A curious omission in Gates's speech is a theory of why so many people are desperately poor; for reasons political and cultural rather than financial.
  - Few customers will pay more, and few skilled workers will accept lower wages, to benefit poor people in distant lands.
  - If creative capitalism does succeed in lifting billions of people out of poverty, the problem of global warming will become even graver than it is because the world demand for fossil fuels will soar.

# ***Successful Example of SE***

- I. Collaborative Intelligence Model: Innocentive, Utube, Connexions, Mnsoft, Wikipedia, Godtube, MySociety
  
- II. Risk-sharing Social Venture Model: Acumen Fund-Sehat Clinic, New Philanthropy Capital
  
- III. Micro-Finance/MIV Model: Grameen Bank, BancoSol, AfriCap, Unitus, Accion International, Cemex, Profund, FONDI, IMI-AG, Andromeda, Omidyar-Tufs MF fund



# Discussion – “**Social Enterprise (SE): Meaning, Scope, Potential (R. Horton)**”

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International Social Enterprise Conference  
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**Discussant: Yoon-Suk Baik (KAIST)**



# About the Meaning of SE

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- **“SE – Application of business skills to the solution of social problems including environment issues”**
  - Pragmatically well crafted
  - Hard to avoid conflicting values (interests) and rationales
- **The conflicting (independent) natures embedded**
  - “Social Problems” – Public interests; Externalities
  - “Business Skills” – Private interests; Managing transactions
- **SE: transforming the value independence into the value interdependence**



# About the Meaning of SE

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- An interdependence perspective of SE: Achieving both Private and Public interests
  - Weights on the private interests (or economic values)
  - Responsible firms > NPOs/NGOs > Governments
- By eliminating “externalities” & creating “spillovers”
  - Governments/NPOs/NGOs: eliminating externalities, while emphasizing additional spillovers into the public considerably
  - Responsible corporations: focusing on internalizing “residual” externalities that governments and social institutions cannot internalize, while generating additional spillovers as well



# About the Scope of SE

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- **“Broadly defined SE”** – well taken
  - SE geared toward business leaders, managers at NPOs, social entrepreneurs, and government officials
- The endogenous nature of the scope of SE
  - Independence v. Interdependence between public and private interests => Endogenously defined SE scope
  - Fragmented/narrow scope (independence perspective) v. Allied/broad scope (interdependence perspective)
  - Criticality of further elaboration on the interdependence perspective by research & education at B-schools



# About the Potential of SE

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- **“... the same potential exists in Korea, ... somewhat different approaches”**
  - Well pointed
- A structural approach and idiosyncrasy in Korea
- Top-down SE in Korea (v. Bottom-up SE in the U.S.)
  - Relatively low interests of B-students in SE;
  - Fragmented (hence narrow) scope of SE
- Concentrated (political/economic) power and SE in Korea
  - Criticality of Korean government & major business groups
- Globalized structure of Korean economy & SE
  - Requirement of more sensitivity to SE in other countries



# Conclusion

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- The definition, scope, and potential of SE are well defined, appropriately scoped, and constructively elaborated, respectively.
- An interdependence approach of SE can be more helpful in defining the concept and scope of SCE.
- A structural approach to SE (e.g., top-down process, pivotal roles of Korean government and major business groups, and more sensitivity to other countries' SE) can also be critical to consider the potential of SE in the Korean context.