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# **A Niche or Social Enterprises: How the inefficacy of government and unresponsiveness of corporations led to the rise of social enterprises in South Korea**

## **Abstract**

In academic literature, there is little dialogue on the development and current statuses of corporate responsibility in South Korea. This article aims to provide insight in these issues, particularly looking at the shortcomings of CSR in South Korea that created an opportunity for social enterprise entities to fill that void. This refers to the fact that South Korean CSR relies heavily on cash or product donation; this method of CSR failed to properly address concerns posed by society and the government. Not only did the Korean brand of CSR fail to remediate the unemployment problems the government struggled with, but its initiatives also did not reflect the preferences of the public. The inefficacy of government policies in the early 2000s also contributed to growing frustrations, and finally in 2007, the government passed legislation that codified social enterprises. Social enterprises are mandated to hire or serve marginalized populations while in return receive benefits such as subsidies and/or tax breaks. Statistics of social enterprises reveal that while social enterprises are highly dependent on the government, they are also more responsive to the social needs preferences of the public.

## **Keywords**

South Korea, corporate social responsibility, social enterprises

## **Disciplines**

Business

**A Niche for Social Enterprises:  
How the inefficacy of government and unresponsiveness of  
corporations led to the rise of social enterprises in South Korea**

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**The Wharton School, University of Pennsylvania**

**Advisor: Professor Peter Frumkin**

## **Abstract**

In academic literature, there is little dialogue on the development and current statuses of corporate responsibility in South Korea. This article aims to provide insight in these issues, particularly looking at the shortcomings of CSR in South Korea that created an opportunity for social enterprise entities to fill that void. This refers to the fact that South Korean CSR relies heavily on cash or product donation; this method of CSR failed to properly address concerns posed by society and the government. Not only did the Korean brand of CSR fail to remediate the unemployment problems the government struggled with, but its initiatives also did not reflect the preferences of the public. The inefficacy of government policies in the early 2000s also contributed to growing frustrations, and finally in 2007, the government passed legislation that codified social enterprises. Social enterprises are mandated to hire or serve marginalized populations while in return receive benefits such as subsidies and/or tax breaks. Statistics of social enterprises reveal that while social enterprises are highly dependent on the government, they are also more responsive to the social needs preferences of the public.

## I. Background

Corporate social responsibility, in the modern sense, is agreed upon by scholars to have started with the publication of *Social Responsibilities of Business* by Bowen in 1953<sup>1</sup>. While there are evolving definitions of CSR with very little consensus, Eells and Wal notes that corporate social responsibility is “a concern for a broader social system<sup>2</sup>.” How this concept came to be shaped by Korea’s economic and political history evolved is to be further examined in the body of the paper.

A prominent opponent of corporate social responsibility, however, was Milton Friedman, who in an article in the New York Times wrote, “Only people have responsibilities... A corporation is an artificial person and in this sense may have artificial responsibilities, but ‘business’ as a whole cannot be said to have responsibilities, even in this vague sense.<sup>3</sup>” As seen in the following discussion, this argument was widely used in South Korea to justify legal and ethical violations made in the name of economic growth. It was only in the aftermath of the Asia financial crisis in 1997 that corporate social responsibility came to be popularized.

South Korea’s “brand” of corporate social responsibility, however, did not adhere closely with either the American or European models. The American model of CSR arose

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<sup>1</sup> Caroll, A. (1979). A Three-Dimensional Conceptual Model of Corporate Performance. *The Academy of Management Review*, 4(4), 497-505.

<sup>2</sup> Same as 1

<sup>3</sup> Friedman, M. (1970, September 13). The Social Responsibility of Business is to Increase its Profits. *The New York Times Magazine*. Retrieved January 2, 2015, from <http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html>

in the 1800s as a form of industry paternalism and philanthropy<sup>4</sup>. Industry tycoons (some called them robber barons) such as Rockefeller donated large portions of his earnings to charity. As the concept became further defined, the laissez faire attitude of the government toward social services shaped CSR in a way that was more largely defined than in other states. Legislations in the form of tax incentives further encouraged US companies to offer services that the government did not such as healthcare for employees and retirement benefits. In Europe, on the other hand, had strong and hands-on governments that often put into legislation what would be considered in the US, “CSR initiatives.” This led to a very different manifestation of responsibility of corporations in Europe; rather than active philanthropy, European corporates are utilized by their respective governments to have greater reach in their social welfare – notably, corporations practice labor inclusion as part of their CSR practices<sup>5</sup>.

European countries also employ social enterprises as a way to distribute aid in communities. In the US, social enterprises were formed as “new and better means to tackle social problems or to satisfy social needs.”<sup>6</sup> The differing definitions of social entrepreneurship in the region speak to the need for cultural and state specific study of social impact.

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<sup>4</sup> Gond, J., & Moon, J. (2011). Corporate Social Responsibility in Retrospect and Prospect: Exploring the Life-Cycle of an Essentially Contested Concept. ICCSR Research Paper Series, No. 59. Retrieved January 2, 2015, from <http://www.nottingham.ac.uk/business/ICCSR/research.php?action=single&id=78>

<sup>5</sup> Nyssens, M., & Kerlin, J. (2005). Social enterprise in Europe. OECD [Organization for Economic Cooperation and Development] (1998). Social enterprises in OECD countries. Paris: OECD.

<sup>6</sup> Bacq, S., & Janssen, F. (2011). The multiple faces of social entrepreneurship: A review of definitional issues based on geographical and thematic criteria. *Entrepreneurship & Regional Development*, 23, 373-403.

Then, the article will now look at how corporate social responsibility and social entrepreneurship was shaped in the context of South Korea; specifically, the author will focus on the interplay between corporate social responsibility and social enterprises.

## **II. Thesis**

Corporate social responsibility is developed by economic, political, and social factors. The characteristics formed by Korea's specific environment has shaped it so that corporations rely heavily on cash and product donations for their corporate social responsibility efforts, rather than operating their own programs. The lack of feedback loop disconnected corporates with the philanthropy funds from the true needs of the community. Ultimately, there were sustained social problems and CSR programs that did not reflect public preferences to persist. This created space, however, for social enterprises to arise and become formally codified in 2007. Since being written into legislation, social enterprises have shown to better reflect preferences of the general public.

## **III. Methodology**

The thesis presents a unique approach to the discussion of corporate social responsibility and social entrepreneurship because it attempts to isolate facets of South Korea's political and economic history that have affected the country's social impact initiatives. Specifically, this article first attempts to understand how CSR arose in South Korea. It then addresses its status quo and limitations. The article goes on to assess how shortcomings of CSR initiatives in Korea have made the rise and eventually legislative

definition of social entrepreneurship possible. Lastly, there will be a discussion on the limitations of social entrepreneurship in South Korea.

The academic literature surrounding the issue, however, is few, and those attempting to better understand the link between CSR and social entrepreneurship in the South Korean context is fewer. To explore the issue in light of these challenges, the author has employed a combination of literature review and qualitative interviews to provide evidence in support of the thesis.

In examining the academic literature, the author has drawn on both Korean and North American sources for a more holistic understanding of the topic. The academic literature traces the history on corporate social responsibility and social enterprises. Interviews were conducted as a way to balance the lack of formal academic literature on the issue in South Korea. One series of interviews were conducted with employees at various levels at D3, a social impact venture capital firm situated in Gangnam in South Korea, to analyze the field of social enterprises from the perspective of an incubator and angel investor. Another series of interviews were conducted with Director of Corporate Social Responsibility of CJ Cheil Jedang, one of the largest conglomerates in Korea and the largest food firm in South Korea. These interviews were conducted in a way to hear first hand the recent trends in social entrepreneurship and CSR that have not yet been captured by academic literature. These have been included to help readers better understand the ever-changing nature of the social impact field in Korea and provide fertile ground for future research processes.



## IV. Results and Discussion

### Development of Corporate Social Responsibility in South Korea

As aforementioned, before the financial crisis of 1997, forty percent of the national GDP was comprised of multinational corporations (from here on, MNCs), run by 30 or so *jaebols*. *Jaebols*, according to the Doosan Encyclopedia<sup>7</sup>, is defined as families with large amounts of capital across various industries. While there were many families that gained prominence in the 1950s during the Japanese occupation for their wealth, many died away due to economic problems such as inflation that ran rampant during this time. Then, it wasn't until the 1970s that *jaebols*, who account for much of the Korean economy even to today, started to scale their businesses. A dictatorial government under Park Chung-Hee, who used policy to encourage expansion of the private sector, ran the state during this period. The MNCs had every reason to follow government initiatives as doing so meant tax breaks and protection from foreign competition (often, resulting in monopolies). Moreover, as a nation receiving foreign aid at the time, the only social responsibility of MNCs was, then, to help grow the Korean economy<sup>8</sup>.

Circumstances dramatically changed when on November 21<sup>st</sup>, 1997, the South Korean Minister of Finance announced that the South Korean government was officially seeking an IMF rescue package<sup>9</sup>. This set into motion the Asian Economic Crisis of 1997

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<sup>7</sup> Korean *Jaebols*. (n.d.). In Doosan Encyclopedia. Seoul: Doosan.

<sup>8</sup> Nam, Y., & Jun, H. (2011). The Shaping of Corporate Social Responsibility in Korea's Economic Development. *Global Journal of Business, Management and Accounting*, Vol 1, 10-20. Retrieved December 1, 2014

<sup>9</sup> Young, B. C. (1999). On the causes of financial crisis in Korea. *Multinational Business Review*, 7(2), 45-54. Retrieved from <http://search.proquest.com/docview/194173393?accountid=14707>

in South Korea. It wouldn't be until April of 1998 and after cash inflow from loans by the International Monetary Fund and the World Bank, summing USD 30.1 billion that the economy would stabilize. The jaebols were largely blamed for this economic crisis; the government and public pointed to corruption scandals and absurd debt to equity ratios that had spiraled out of control. The crisis marked a turning point in the history of corporate social responsibility in South Korea as political change and anti-corporate popular mood forced conglomerates to see social responsibilities as an integral part of business.

In particular, the conservative party that had promoted such rabid expansion of the jaebols were ousted by the reformative party, who began to crack down on corruption and unrelated diversifications of corporations that had run rampant in the years since the war<sup>10</sup>. In the restructuring process of jaebols, there was a call by government and the public at large for jaebols to run businesses with higher ethical standards. In response, Korean conglomerates built codes of ethics to prevent corruption within firms and started “social contribution practices such as donation and voluntary activities.”<sup>11</sup> The change in political climate gave rise to what Nam and Jun call “corporate philanthropy,” which focused on contributions over adherence to internationally recognized reporting frameworks such as the GRI. Philanthropic contributions occur in the form of cash or product donations, comprising 79% of total CSR budget in South Korea. Mallin argues increased attention towards CSR issues by corporations has been “to restore damaged

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<sup>10</sup> Mallin, C. (2009). *Corporate social responsibility: A case study approach*. Cheltenham: Edward Elgar.

<sup>11</sup> Nam, Y., & Jun, H. (2011). *The Shaping of Corporate Social Responsibility in Korea's Economic Development*. *Global Journal of Business, Management and Accounting*, Vol 1, 10-20.

reputation<sup>12</sup>, and that large cash donations draw more positive attention from media. The budget for corporate social responsibility in South Korea has steadily increased since its inception and in 2011, national budget for CSR reached KRW 312 million, a 44% increase even from 2008 (Figure 1).



Figure 1: Retrieved from Limeglobe.com (in hundreds of millions of KRW)

### Limitations of CSR in South Korea

But despite the jump in awareness and budget, corporate social responsibility efforts have been heavily criticized. Many have noted the lack of follow up activities following donations and Mallin notes that the focus and possible preference for cash contributions has “limited development of other CSR activities in South Korea<sup>13</sup>.” The

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<sup>12</sup> Mallin, C. (2009). Corporate social responsibility: A case study approach. Cheltenham: Edward Elgar.

stunted growth is reflected in the public opinion survey by Lime Globe<sup>14</sup>, a corporate social responsibility consultancy, which states that only 2.2% of the population believes that the budget for CSR is high or very high in Korea.

Furthermore, the Korean brand of CSR, which heavily relied on sporadic financial contributions over consistent structural help, did not fill the role that CSR has often filled in more developed regions such as North America and Western Europe. Traditionally, in the US, corporations provided social security services (such as healthcare for its employees) as part of its corporate social responsibility initiatives. In Europe, on the other hand, the government leveraged corporations to provide social security in ways it could not (such as employment for minorities). But Korean CSR failed to remediate the widespread unemployment and poverty that diseased the nation's economy since the economic crisis in 1997. In other words, the heavily cash-based corporate responsibility system created no structural or sustainable program for development of its community. As seen in Figure 2<sup>15</sup>, the trend has worsened in recent years as companies donating directly to charity have risen from 53% in 2008 to 68.8% in 2011.

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<sup>14</sup> Lee, Inchan. (2013). Trends in Societal Givings. [PDF Document]. Retrieved from *limeglobe.com*

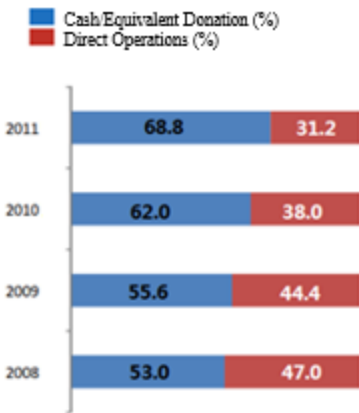


Figure 2: Retrieved from Limeglobe.com

This made the huge disparity between what the public believed to be needs of the society and the type of organizations the MNCs were donating to, inevitable. Figure 3<sup>16</sup> highlights these gaps by breaking down the categories of social impact and then comparing the percentage of corporate social responsibility efforts geared toward these categories and the percentage of the public that believed that the said category should be focused.

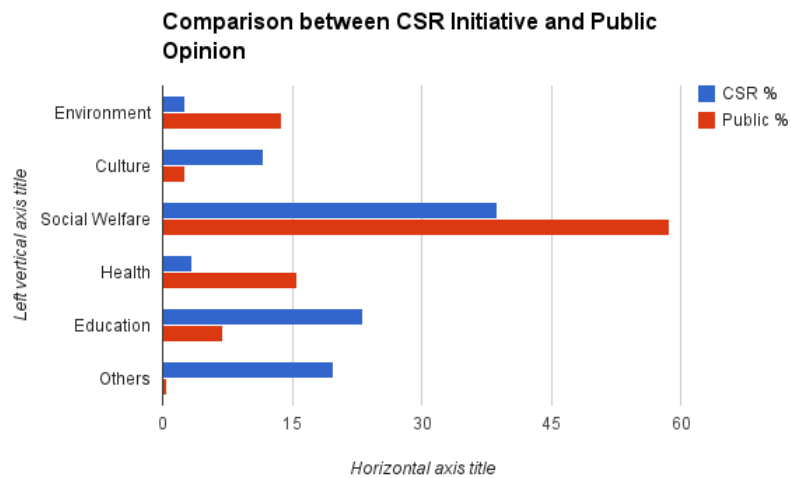


Figure 3: Retrieved from Limeglobe.com

<sup>16</sup> Same as 15

In particular, in the area of environment, social welfare, and health, the percentage of CSR operations in the field fell short of public expectation.

### Rise and Status Quo of Social Enterprises in South Korea

It was in the backdrop of both high unemployment and failure of corporate social responsibility to remediate social problems structurally that social enterprises became formally recognized in South Korea. The government continued to struggle with unemployment rates and while spending increased on the social sector, there was little improvement from the status quo. Furthermore, corporations did little to help provide relief. The public also remained frustrated as CSR initiatives, which focused mainly on cash donations, remained unresponsive to public opinions. Even in 2013, Lime Globe, a leading consultancy for corporate social responsibility, noted in their study of the market that there was a greater need for corporations to reflect the preferences of its nationals<sup>17</sup>.

Then, in 2003, the Ministry of Labor took the first step forward to remediate the circumstances by putting into legislation the concept of “social employment.” This refers to the employment of low-income individuals in services such as re-use of food waste as civil servants. To expand this project, Korean congress reviewed codification of social enterprises in 2005 and finally in July of 2007, the Promotion of Social Enterprises Act was implemented. This law recognized and provided benefits for an enterprise that fell under the following categories: providing social services, employing marginalized populations, or a combination of both. Moreover, as leaner organizations with little brand

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<sup>17</sup> Lee, Inchan. (2013). Trends in Societal Givings. [PDF Document]. Retrieved from [limeglobe.com](http://limeglobe.com)

recognition, social enterprises were forced to be more responsive to public opinion. This is reflected in the following graph in an analysis of the 950 registered social enterprises in 2013<sup>18</sup>. In three areas (environment, health, education) the percentage of social enterprises in a sector more closely aligns with percentage of public.

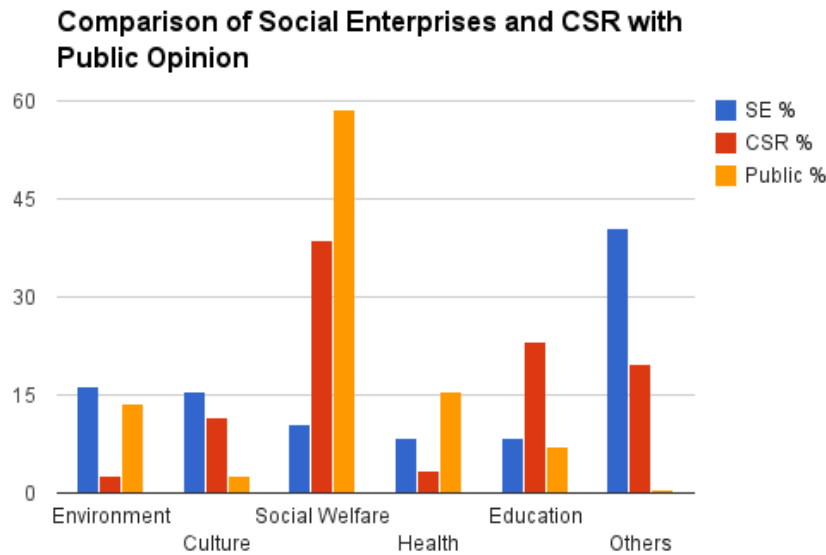


Figure 4: Retrieved from Korea Social Enterprise Promotions Agency

## V. Recommendation for Future Study

While the discussion may imply that social enterprises have solved the social problems that MNCs have failed to address, interviews with representatives with D3, a social impact venture capital firm, and CJ, one of Korea's largest conglomerates, have revealed very recent trends that have yet to be captured by literature. These provide fertile room for growth in the literatures of social impact in South Korea and should be noted for future studies in the field.

<sup>18</sup> Korea Social Enterprise Promotion Agency. (2013) Social Enterprise Directory. [PDF Document]. Retrieved from <http://www.socialenterprise.or.kr/index.do>

In a qualitative interview with representative from D3, there were several challenges facing social enterprises in South Korea. D3 representative notes high reliance on government subsidies, little operational support, and lack of tech and design talent with interest in social impact. The former poses a sustainability challenge for the social enterprises to operate independently, calling into question their long-term prospects. The later two concerns, according to D3 representative, may reflect a lack of engagement with the public in the past that has resulted in a skewing of talent towards those with prior interest in social impact, rather than involvement of untapped talent. The biggest challenge facing the field, D3 representative argues, however, is the lack of data and research in the growing field. Despite the establishment of research agencies dedicated to the study of social enterprises, there has been little formalized study into the inner workings of the enterprises and even fewer execution of true social impact of social enterprises. This furthers the urgency of closer studies in the topic.

The second recommendation for further study is founded in the development of corporate social responsibility initiatives in South Korea. While many companies still focus on cash donations, there have been a few select companies that have made headway into what some scholars call “CSR 2.0.” This is the concept of “creating shared value” proposed by Michael Porter, in which “firms should look at decisions and opportunities through the lens of shared value.<sup>19</sup>” In an interview with representative of CJ, a multi national corporation with \$10.4 billion in revenue per year, he revealed that there has been a push within the company for strategic social impact investments over cash

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<sup>19</sup> Porter, M., & Kramer, M. (n.d.). Creating Shared Value. Harvard Business Review, Jan-Feb 2011, 62-77.



donations or even operations of corporate social responsibility projects. This includes investing into the community of its supplier to economically develop the region, ensuring eco-friendly sourcing methods, and promoting overall increase in health standards in those communities. While this may not necessarily solve the issue of CSR initiatives being unresponsive to the public's opinion on social needs, it does provide evidence that there are several companies that have understood the limitations of cash or product donation. The role of CSV, as a more entrepreneurial and relevant form of CSR may not necessarily align with public opinion but is an attempt at refocusing what CSR is. This movement should be carefully observed and should be subject of future studies.

## **VI. Conclusion**

An analysis of literature has shown evidence that the niche the failures of government and market have created has allowed social enterprises to grow exponentially in the space in past years. It is imperative to note, however, that the study simply reflects the need for more current field research with access to data that would better represent the needs of the social impact field in South Korea with updated data. The article reveals, in the end, that social impact, as a fast developing space in South Korea, will require cooperation from companies and social enterprises, who must structurally report their data for greater transparency, and academics, who must then analyze that data for the future generations.

## **VII. Appendices**

### Appendix A

#### On Changing Topics

This article has definitely been through a series of changes. Firstly and most largely, I underwent a change of topic. Having worked closely with D3 Jubilee, a for-profit social impact venture capital firm in South Korea, this past summer, I quickly realized that the data that I would need so as to do my intended project, which was to understand funding for social impact organizations, was highly unavailable.

Instead however, I was able to speak to D3 analysts about corporate social responsibility projects that fund social enterprises in Korea. This discussion led to contacting the director of corporate social responsibility at CJ, a multimillion-dollar conglomerate in South Korea. The discussion I had with him was on the current problems with Korean CSR initiatives and what CJ was doing differently that he felt led to more successful programs. This discussion sparked my interests immediately and I began to research further on a more solid thesis I could develop for the research paper. This focus led me to observe a niche created by CSR that enabled for development of legislation for social enterprises. The result is that social enterprises developed successfully in some aspects, though it still has its own challenges.

## Appendix B

### Interview with D3

- Due to some discussion of confidential information, answers will be withheld from the research paper.
1. What is the state of social enterprises in South Korea?
  2. Where do you see it going in 10 years?
  3. How does D3 generate revenue?
  4. What large are its investments?
  5. Can you walk me through your investment process?
  6. What are the top 5 criteria that you look for when deciding investments?
  7. Who funds the investments made by D3?
  8. How profitable has D3 been so far?
  9. What kind of sectors do D3 portfolio companies work in?
  10. What industries do the angel investors hope to invest in, in the future?
  11. What kind of ROI is promised to these investors?
  12. What kind of support do the budding social enterprises look for with D3?
  13. What other organizations do you feel “compete” with D3?

## Appendix C

### Interview with CJ Director of CSR

1. What does CJ consider to be its social responsibility?
2. What are the ways in which CJ has shown its commitment to social responsibility?
3. Why has it chosen to pursue its current CSR initiatives?
4. Who does that initiative affect?
5. What are the benefits it is providing for the community?
6. What are the benefits CJ reaps from conducting these initiatives?
7. What kind of projects do you see CJ investing into the future?

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