

도시계획학 석사학위논문

The Effect of Social Network on  
the Location of Social Enterprises

사회적 네트워크가 사회적기업  
입지에 미치는 영향

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도시및지역계획학과

김 찬 미

## 국문초록

사회적 문제를 누가 어떻게 해결해야 하는가에 대한 논의는 오랫동안 있어왔다. 기업은 오로지 이윤 창출에 주력하고 사회적 문제는 주로 정부나 비영리 기관이 담당하는 것이라는 기존의 공식이 한계에 봉착하게 되자 ‘사회적 목적을 수행하는 기업’이라는 특수한 형태의 조직이 세계 여러 국가에서 각광 받기 시작했다. 우리나라의 경우 2007년도에 사회적기업육성법이 제정되면서 사회적 기업이 활동할 수 있는 기반이 마련되었고 2013년 현재 900개가 넘는 인증사회적기업이 활동하고 있다.

현재까지 사회적기업을 입지 측면에서 연구한 사례가 많지 않다. 현재와 같은 형태의 사회적기업이 시작 된지 얼마 되지 않은 국내의 경우는 더욱 관련 연구가 부족하다. 본 연구는 사회적기업의 입지가 매우 불균일하게 나타나고 있다는 점에 착안해 이러한 입지 분포가 정부 정책과 국내 사회적기업의 특성이 혼합된 결과물로 가정하였으며, 그 요인을 분석함으로써 정책적 시사점을 찾고자 하였다. 영리와 비영리 기관 중간 형태를 갖고 있는 이들에게 사회적 네트워크가 영향을 미쳤을 것이라고 판단하였는데 그 이유로는, 여러 당사자와의 관계가 회사 생존에 중요한 영향을 미치는 사회적기업의 특성, 사회적 네트워크가 중요한 신생 기업이라는 점, 그리고 정부의 강력한 정책적 뒷받침을 배경으로 성장한 만큼 정부 기관과의 네트워크가 중요할 것이라는 점이 있다.

사회적기업이 혼합적인 특성을 갖는 조직인 점을 참고하여 분석의 틀로 기존 연구의 기업과 비영리 기관의 입지 요인을 각각 수요와 공급 요인으로 분류하여 사용하였다. 공간 분석을 통해 공간적 분포를 면밀히 살펴 본 후, 사회적 네트워크가 입지 요인에 어떤 영향을 주는지 분석하였다. 또한, 심층 면접 및 설문을 사용하여 관악구 안에 있는 사회적기업 간 네트워크 매핑을 하였다.

분석 결과 입지 요인 중 공급과 수요 요인 각각에 사회적기업이 갖고 있는 네트워크가 영향을 미치는 것으로 나타났다. 창립 경로에 따라, 공공 기관이나 원래부터 협력 관계에 있던 비영리나 협동조합과의 관계가 입지에 영향을 미치는

것으로 나타났으며 사회적기업 간의 네트워크도 존재하는 것으로 나타났다. 이는 정부 정책 흐름에 따라 공공이 창출하는 시장이 커지면서 이에 따른 정보 공유 필요성이 한 요인으로 작용한 것으로 보인다. 지원기관들도 네트워크 활성화에 기여하고 있었는데 사회적기업 간의 네트워크를 통한 상호 협력으로 사업 기회를 창출을 독려하기 위함이다.

이 결과는 입지에 영향을 미치는 네트워크가 공공과 비영리 부문에 치중되어 있어, 일반 시장에서의 경제활동을 통한 경제적 자립이 향후 사회적기업 부문의 중요한 과제임을 시사한다. 또한 현재의 사회적기업 네트워크가 공공 프로젝트 뿐 아니라 일반 시장에서 실질적인 사업기회를 만들 수 있으려면 네트워크 특성 및 규모의 변화가 필요할 것으로 보인다. 현재 국지적인 사회적기업 네트워크는 규모의 경제를 기대하기에는 그 규모가 충분히 크지 못하고 또 참여하고 있는 사회적기업의 업종이 다양해 초점을 잡기가 어렵기 때문이다. 따라서 네트워크 규모의 확대와 업종별 특색에 맞는 네트워크 구축 방법이 필요할 것으로 보인다.

**주요어 : 사회적기업, 입지 요인, 사회적 네트워크**

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## <Table of Contents>

<b>I. Introduction</b>	<b>1</b>
1. Background and Purpose of Research	1
2. Scope and Methodology	4
<b>II. Theoretical Background and Literature Review</b>	<b>6</b>
1. Social Enterprise	6
1) Definition	6
2) Typology of Social Enterprise	8
3) Social Enterprises in Different Countries	9
2. Location Factors	10
1) Location Factor of Industry	11
2) Location Factors of Non-Profit Organization	14
3. Social Network	16
1) Description of Social Network	16
2) Social Network and Enterprise	17
4. Previous Research	22
5. Conceptual Framework	23
<b>III. Overview of Social Enterprise in Korea</b>	<b>24</b>
1. Historical Background	24
2. Characteristics of Social Enterprises in Korea	26
1) Classification of Social Enterprise	26
2) Policies and Administrative System	29

<b>IV. Distribution Analysis</b> .....	<b>33</b>
1. Spatial Distribution Analysis .....	33
2. Location Quotient .....	38
3. Distribution and Concentration by Certification .....	40
<b>V. Effect of Social Network on Location Factors</b> .....	<b>45</b>
1. Interviewees .....	45
2. Overview .....	50
3. Location Factors .....	51
1) Production Factor .....	51
2) Demand Factor .....	59
3) Personal Factors .....	63
4. Conclusion .....	65
<b>VI. Characteristics of Social Network</b> .....	<b>66</b>
1. Social Network Analysis of Social Enterprise in Gwanak .....	66
2. Characteristics of the Social Network .....	73
1) Horizontal: knowledge sharing .....	73
2) Vertical: connecting value chain among social enterprises .....	74
<b>VII. Conclusion and Implication</b> .....	<b>76</b>

<Table>

Table 2 Spectrum of Practitioners .....	8
Table 3 Loci of Social Enterprise in Hybrid Spectrum .....	9
Table 4 Social enterprises in different countries .....	10
Table 5 Factors affecting location of NPO .....	15

Table 6 General Resource Mix (%) .....	20
Table 7 Frame of analysis .....	23
Table 8 History of social employment and social enterprise policy .....	25
Table 9 Classification of social enterprise by social service type .....	27
Table 10 Type of social enterprise by certification .....	29
Table 11 Number of Social Enterprise by Region .....	33
Table 12 Number of social enterprise by type .....	35
Table 13 Location Quotient of Social Enterprises by Gu .....	39
Table 14 List of support organization and government organization .....	47
Table 15 Interviewed Social Enterprise .....	48
Table 17 Resource origin of office and facility of social enterprises .....	55
Table 18 Collaboration with the public and the private sector .....	61
Table 19 Level of interaction and knowledge .....	67

### 〈Figure〉

Figure 1 Porter' s Diamond of Competitiveness .....	18
Figure 2 Internet post on number of social enterprise Seoul City plans to create .....	25
Figure 3 Number of social enterprise by industrial sector .....	26
Figure 4 Number of social enterprise by type .....	29
Figure 5 Business stage of social enterprise in Korea .....	31
Figure 6 Distribution of social enterprise in Korea .....	34
Figure 7 Ratio of social enterprise by type .....	35
Figure 8 Distribution of Social Enterprises in Seoul .....	36
Figure 9 Concentration Analysis of Social Enterprise in Seoul .....	37

Figure 10 NSE Distribution .....	40
Figure 11 NSE Concentration .....	40
Figure 12 SSE Distribution .....	41
Figure 13 SSE Concentration .....	41
Figure 14 RSE Distribution .....	41
Figure 15 RSE Concentration .....	41
Figure 16 Distribution of social enterprise by type .....	43
Figure 17 Seoul Social Economy Center at Eunpyeong .....	44
Figure 18 Satisfaction of current location .....	50
Figure 19 Siloam Welfare Center .....	55
Figure 20 Incubating Center in Gwanak .....	55
Figure 21 Gwanak Dream Center .....	56
Figure 22 Gwanak Social Economy Hub Center .....	56
Figure 23 Origin of office space and facilities of social enterprise .....	57
Figure 24 Greatest difficulty for a social enterprise .....	60
Figure 25 Local ice-skating rink, cooperative project of Gwanak and social enterprises .....	62
Figure 26 Result of degree distribution analysis .....	69
Figure 27 Result of clustering coefficient distribution analysis .....	70
Figure 28 “Weak” network of social enterprises in Gwanak .....	71
Figure 29 “Strong” network of social enterprises in Gwanak .....	72

# I. Introduction

## 1. Background and Purpose of Research

The concept of social enterprise has spread persistently in Europe and the United States since 1970s. It has begun from the heart of the third sector—which includes cooperatives, associations, mutual societies—and has grown significantly in the third sector (Defourny, 2012) as well as in the other sectors over the years. It is an effort to adopt strength of both the private and the voluntary sector in order to achieve a social goal more effectively.

Even when economic forecasts have been gloomy, the social enterprise sector has received positive reviews as demand for their services increased, partly, due to people's increased perception of social issues. In UK, there are around 68,000 social enterprises employing 800,000 people (Thornley, 2012). In addition, 14% of them are start-ups less than two years old. This figure is three times that of mainstream small businesses. They are also growing fiscally stronger with increased turnover and reduced dependence on public sector (UK, 2011). In the United States, social enterprises employ about 10 million people and comprise 3.5% of GDP.<sup>1)</sup>

Korea has also seen an unprecedented “boom” in the social enterprise sector since 2007, when the government of Korea passed the *Law on the Promotion of Social Enterprises*. Unlike in other countries, the sector is marked by strong government presence. The Ministry of Employment and Labor pushed for a strong pro social enterprise policy and other regional governments have followed the lead. For instance, Seoul alone has a goal of creating 1,800 social enterprises by 2014, employing more 50,000 people.<sup>2)</sup> As the result, Korea has seen dramatic rise in number of social

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1) [http://www.huffingtonpost.com/ben-thornley/social-enterprise\\_b\\_2090144.html](http://www.huffingtonpost.com/ben-thornley/social-enterprise_b_2090144.html)

2) <http://www.seoul.go.kr/>

enterprises during the past few years. More than 900 enterprises are “certified” as official social enterprises<sup>3)</sup>, by the Ministry of Employment and Labor and some other 300 enterprises are certified by City of Seoul.

Interestingly, spatial distribution of the social enterprises seems to show concentrations in areas that are difficult to explain with the industrial location theories as well as theories for non-profits. Unlike other businesses and start-ups, they are not concentrated in business centers like Gangnam. This might not be surprising, since they are expected to serve for social needs in places where the market has failed. However, this is not sufficient to explain the spatial pattern, because some regions with high concentration do not fall into any of the expected category—neither the market nor the social need. Thus, we can assume that some other factor is in action.

The primary purpose of this paper is to identify the factors that affect the location pattern, which would include both the similarities and the differences to the traditional location theories. Understanding what affects an important decision like location would give insight to the current state of the social enterprise sector. In addition to revealing how community and government policy affects social enterprises, it would also add to the understanding of the typology of social enterprises, especially those in Asian countries like Korea.

Social network is used as a conceptual framework in this research. Since it is important to both businesses and non-profits, social network is assumed to have significance in social enterprises. Following aspects of social network are taken into account: (1) For a business, concentration of similar businesses are seen to raise its competitiveness by cooperating with and

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3) Because the Korean government took right to use the term “social enterprise” , using it without certification through due process is illegal.

learning from each other. These clusters are marked by informal network which greatly reduces the transaction costs of creating an effective value chain and obtaining tacit knowledge (Porter, 1992). (2) In addition, social network is of particular importance to newly starting business and businesses in its early stage of life. (3) Finally, it is found that social network and human connections are major success factor for social enterprises (Sharir, 2006).

In sum, major objectives of the research are,

- To analyze spatial distribution of social enterprises and identify any significant concentrations or distribution patterns,
- To describe how social network affect location of social enterprises, and
- To describe the characteristics of the network.

## 2. Scope and Methodology

Since the paper analyzes spatial characteristics and goes on to unveil it in terms of social network, major tools used in the research are spatial analysis, social network mapping, and in-depth interviews. For spatial analysis, I have limited my scope to social enterprises in Seoul since greatest portion of social enterprises are located in Seoul. It provides sufficient number of cases—hundreds—in a relatively close area.

As for the organizational form, the study would be limited to social enterprises certified by the government. There are different types of social enterprises in Seoul. Some are certified by the MOEL and others by City of Seoul and municipal governments. Though there are enterprises that serve social purposes without certification, I have limited my study to the certified SEs, since purpose of the research is to identify characteristics of social enterprise in light of the government policy.

BIZ GIS<sup>4)</sup> is used as a tool for analyzing spatial distribution and concentration. The address provided by the Korea Social Enterprise Promotion Agency (KoSEA) would be used and they would be analyzed based on administrative ‘Gu’ districts — there are 25 of Gu in Seoul. Location quotient (LQ) is used to supplement the findings in spatial analysis.

To study the connection between social network and location, in-depth interviews on both the CEOs and managers of social enterprises and staffs in relevant organizations like social enterprise network and support center are conducted to unveil the dynamics of the network. Moreover, a survey on the location factors supplemented the interviews and replaced them in case interview was not possible.

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4) An adapted version of GIS provided by a Korean on-line provider

Finally, Gephi is used to map a network of social enterprises in Gwanak, one of the 25 municipal divisions in Seoul. The site was chosen because it is one of the places with large number of social enterprises. It also has social enterprises with different certification and background. In addition, Gwanak-gu has two organizations that support social enterprises and one of them aims to create a network of social enterprises in order to improve their environment. Thus, I judged that Gwanak is an excellent sample site to find out how social enterprises connect with each other.

## II. Theoretical Background and Literature Review

In this chapter, important concepts about social enterprise, location, and network is reviewed. The concept and typology of social enterprise is described in detail since it has only been introduced recently and its hybrid organizational form needs to be understood before analyzing its location factors. Because separate theory for location of social enterprise has not been established yet, location theories of industry and non-profit are reviewed to find location factors which is applicable. The factors drawn from both sides are reorganized to serve as a framework for analysis in this paper. Description of social network is provided, focusing on definition and how it relates to social enterprises. This chapter also introduces previous research on location of social enterprises. The research framework derived from the theories and the previous researches are written at the end of the chapter.

### 1. Social Enterprise

#### 1) Definition

Social enterprises can trace its roots several centuries back to the beginning of industrial revolution when many social organizations emerged to solve the unprecedented problems created by the Industrial Revolution which were mostly left untackled by the government. In the United Kingdom, for instance, cooperatives started by Robert Owen functioned as a means to fund social-economic agendas back in the mid-1800s.

However, social enterprises as we know of today can be traced back to more recent movements: the emergence of the third sector which belongs neither to the public nor the private sector. This sector characterized by being non-profit, non-governmental organization appeared as a response to

both the government and the market failure. These non-profits gradually began to adopt business model as a means to achieve their social goals. In the 1960s, for instance, the non-profits began projects to create jobs for disadvantaged groups (Alter, 2004). In 1970s, the micro-credit and other community building organizations like the Community Development Corporations were introduced.

Because the field is quite young, there is no one commonly accepted definition of social enterprise or social entrepreneurship. Yunus describes social business, one of parallel terminology, as non-loss, non-dividend company which are created and designed to address social problems. According to his description, one of the major differences of a social business is that its profits are reinvested in the business itself to increase social impact(Yunus, 2007). However, social enterprise is slightly broader in its meaning. Few of the dominant descriptions of social enterprises are:

“...any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit...”

OECD, 1999

“Social Enterprises are competitive businesses, owned and trading for a social purpose.”

Social Enterprise London

“A social enterprise has two goals: to achieve social, cultural, community economic or environmental outcomes; and, to earn revenue.”

Enterprise, 2013

The core of the concept is that it is a sustainable business model which operates for social missions. Unlike social business which strictly requires it to be self-sufficient, the boundary is not as clear for a social enterprise.

Depending on the type of business, non-business funds like government and charitable funding could be a major financial support for a social enterprise. In case of Korea, social enterprise is defined as ‘a company or organization which performs business activities while putting priority on the pursuit of social purposes.’ (KoSEA)

## 2) Typology of Social Enterprise

Social enterprise is a multi-sector, hybrid organization where it crosses borders of the private, the public and the third sector. While charities utilize goodwill of people to create a social value and businesses to the self interest to bring back profit for investors, the social enterprise combines these seemingly contradicting qualities to overcome weaknesses of each approach and maximize the strength of two different organizational forms.<sup>5)</sup>

**Table 2 Spectrum of Practitioners**

	Purely Philanthropic	Hybrid	Purely commercial
<b>Motives</b>	Appeal to goodwill	Mixed motives	Appeal to self interest
<b>Methods</b>	Mission-driven	Balance of mission and market	Market-driven
<b>Goals</b>	Social value creation	Social and economic value creation	Economic value creation
<b>Destination of Income/ Profit</b>	Directed toward mission activities of nonprofit organization (required by law or organizational policy)	Reinvested in mission activities or operational expenses, and/or retained for business growth and development (for-profits may redistribute a portion)	Distributed to shareholders and owners

Alter, 2004

5) Adaptation of Kim, Alter; adapted from Gregory Dees, “Why Social Entrepreneurship is Important to You,”; and Lee Davis and Nicole Etchart, Profits for Nonprofits, NESsT, 1999.

Social enterprise, however, is not the only hybrid organization in this sense. The other hybrid organizations include socially responsible corporations, income-generating non-profits, and corporations practicing social responsibility.

**Table 3 Loci of Social Enterprise in Hybrid Spectrum**

Traditional Nonprofit	Nonprofit with Income-Generating Activities	<b>Social Enterprise</b>	Socially Responsible Business	Corporation Practicing Social Responsibility	Traditional For Profit
		Mission Motive •	• Profit-making Motive		
		Stakeholder Accountability •	• Shareholder Accountability		
		Income reinvested in social programs •	• Profit redistributed to shareholders		

Alter, 2004

On the far right there is ‘Traditional For Profit’ which is a traditional enterprise with sole aim of making economic gain, regardless of their social responsibility. ‘Corporation Practicing Social Responsibility’ are normal businesses who would practice their business with more social awareness. As the spectrum goes left, the orientation of organization becomes more social.

What divides the spectrum into two is the purpose. On the right side of the diagram is socially responsible business, corporation practicing social responsibility and traditional for profit. The ones on the left—traditional nonprofit, income-generating nonprofit, and social enterprise—are founded to create social value. Each group would adopt other’s value and means to certain degree, depending on their position.

### 3) Social Enterprises in Different Countries

Emergence of social enterprises and the role they take in each country are diverse. It is important to know different context, since it affects characteristics of SE (Defourny, 2006). In Europe, the social economy began

to receive attention when the governments could no longer finance welfare service and social security (Birkhölzer, 2009). On the other hand, social enterprises in the United States were dominated by NGOs, charities, and philanthropic foundations. They have adopted business model into their activities, partly, in reaction to the reduction in grants and aids from the government (Kerlin, 2006).

**Table 4 Social enterprises in different countries**

	United States	Western Europe	South Korea
<b>Background</b>	1980s Grant reduction	1980s Welfare state crisis	2000s Need for social service and welfare
<b>Existence of legal frame</b>	x	o	o
<b>Organization type</b>	Non-profit	Co-operatives	Non-profit
<b>Description</b>	Business with social goals	Business organization with social goals	Business organization with social goals
<b>Objective</b>	Support NGOs through business model	Provide jobs and social service; urban renewal	Provide jobs and social service

Lee, 2010

Like Europe, social enterprises in Korea have legal identity and are strongly promoted by the government. The Korean government has chosen social enterprise as a strategy to create employment and provide social services (Kim, 2011). However, their organization form is very much like the US with a strong non-profit base. Many non-profits have used the policy as an opportunity to start a social business or to support their existing programs. For social enterprises in Korea, the government and non-profit are two major pillars of their foundation.

## 2. Location Factors

Since social enterprises are hybrid organizations, we can imply that their choice of location would be combination of factors affecting the businesses and the non-profits. In this section, location theories of both corporations and non-profits will be reviewed to derive location factors for the social enterprises.

### **1) Location Factor of Industry<sup>6)</sup>**

The purpose of an industry is to make profit by combining labor, capital, and other production factors with raw material to create a product with increased value and sell them in a market. A corporation would make decisions about their products and services, the technology and capital to use, and strategies. Location, like other factors, would be weighed and selected where a corporation can best produce and sell their products and services. They could be divided into production factor, demand factor and agglomeration factor.

#### **(1) Production Factors**

The major production factor include raw material, labor, capital and land. First, raw material had traditionally been one of the most important factors for choosing location of an industry. Its importance varies depending on the characteristics of raw material like weight, possibility of being spoiled during the transportation, and how easily it could be transferred. The importance of raw material on location has decreased over the years as cost for transportation of most raw material dropped significantly as development in technology has overcome many of the previous obstacles.

Second, labor is one of the most important factors. A corporation would consider price, quantity, and quality of labor a region can provide. The attraction of an industry towards labour centers depends on the ratio of

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6) *Economic Geography* by Lee, Hee Yeon

labor cost to the total cost of production. While industry like high tech industry tend to locate itself in large cities with large pool of skilled labor, labor intensive industry has tendency to find smaller cities or regions with large pool of cheap labor.

Third, capital is also an important production factor. It could be divided into fixed and circulating capital. Fixed capital include equipment, plant, and facility which are difficult to move. On the other hand, circulating capital are movable assets like raw materials and operating expenses. Though capital is often seen as one of the most flexible and moveable factors, it is nonetheless important since higher possibility of capital attainment could decrease risks for industries.

Fourth, land is an inelastic factor with little substitute which price is marked by accessibility to resources and opportunities. Competition for limited supply of land raises the price of the land and the highest bidder who has matching productivity level succeeds in paying the land related costs. Thus, the cost for land and rent is one of the most important factors influencing industry location.

## **(2) Market Factor**

Access to markets is an important factor any entrepreneur must take into consideration. Industries producing perishable commodities which cannot be transported over long distance are generally located in close proximity to markets. Industries producing more durable, transportable products are generally located farther from the market to reduce rent costs. Industries located near the markets could be able to reduce the costs of transport in distributing the finished product. Moreover, they can react to the market quickly. Proximity also allows them to find marketing opportunity is more easily. Accessibility of markets is more important in the case of industries manufacturing consumer goods rather than producer goods.

### **(3) Economies of Scale**

Economies of scale are the cost advantages that enterprises obtain due to size. Often operational efficiency is also greater with increasing scale, leading to lower variable cost as well. Reduction in capital cost of manufacturing facilities and friction loss of transportation and industrial equipment allows industry to cover disadvantages of agglomeration such as high rent. Examples could be seen all around. Engineering clusters where learning process and cooperation accelerates as transaction costs between related firms goes down. The Garment District and shopping streets are forms of agglomeration economies which reduce marketing costs and other transaction costs through economies of scale.

### **(4) Other Factors**

Other factors like amenities, regulations, and business environment also affect location of industry. Amenities are growing in importance in choosing a location of industry partially because better amenity attracts quality labor to the area, making it a more favorable location to industries which need good pool of skilled labor. Regulations, particularly those resulted as a response to climate change and environment deterioration, affects location as well. In many cases, industries prefer area with less regulation. Thus, when regulations strengthened, some corporations moved their location to another region or a country. Regional characteristics can also affect the business environment.

In addition to the conventional location factors, other factors are also in action. New researches show that while conventional factors hold true, they might not be as strong as once thought. Early researches assumed that firms located where they could maximize profits. However, a likelihood that manager' s decision would tilt toward "safe" location with satisfactory

profits is no less than, if not greater, a high risk high return location. In case of new businesses, they are even less sensitive to the profit-maximization in choosing its location. They tend to be located near the founder, meaning many personal factors could outweigh the profit maximization (Blair, 1987).

## **2) Location Factors of Non-Profit Organization**

Based on the theories of non-profit organization, both supply and demand factors as well as community factor were identified in previous research. Major theories are the market and government failure theory, the interdependence theory, and the social origin theory.

The market and government failure theory states that the third sector emerged as a result of failure of market and government to provide collective goods. Market, though very efficient in private and clear-cut interactions, is unsuitable to provide public goods since it only provides goods and services to individuals who could pay for them. This gave rise to government as a provider of such collective goods, however, they have failed, the theory says, because of its system which provides the service to median voters and leave the other “minorities” out. Under this thinking, more diversity means more minorities out of government umbrella. Thus, the third sector act as a hybrid sector that government cannot provide (Weisbrod, 2009).

We can imply from the theory that places with unmet demands will be the location where non-profits would be more likely to go. There are researches that shows correlation between the number non-profits and mentioned factors like low income population and religious diversity (Grønberg, 2001).

The interdependence theory emphasizes the cooperation and complementary

aspect of non-profit and government. Unlike the market and government failure theory, it does not see each sector as in rivalry, but rather in cooperation. Since non-profit has difficulty in securing stable funds to run their programs, which government has little difficulty. A research proved the effect of government support on the distribution of nonprofit (Lecy, 2013). Similar effect could be expected for social enterprises in Korea.

On the other hand, social origin theory says that social context and political system of a region is what affects occurrence and character of organizations that take place in an region. More non-profit will appear in countries and regions with government structures that are more friendly to such activities. Experience of social activities a region has is also an important asset to future non-profits. Level of social trust a region has affects the non-profit activities by amount of donation. Moreover, such tendency increase as the number of years a non-profit increases (Graddy, 2006). When there is social network and sense of trust in community, it gives rise to greater number of civic activities (Putnam, 2001).

**Table 5 Factors affecting location of NPO**

Type	Factor in Effect	Researcher
Demand	Ratio of low income Religious diversity Population	Gr ø nbjerg (2001)
Supply	College graduates Middle aged population Government grants	Gr ø nbjerg (2001) Lecy (2013)
Socio-political structures	Government type Previous non-profits Social capital	Graddy (2006) Putnam (2001)

In sum, location factor of non-profit could be divided into demand, supply, and social context. First, there will be more non-profits in area where there is greater need for public goods and services which government is

failing to or ineffective to deliver. Secondly, non-profits will be located where they could be better supported, both by government and community. Lastly, they will be affected by the social and political structures of an area and the subsequent history of community activity and social capital accumulated in the area.

### **3. Social Network**

There are many popular claims about social network: they create social capital for individuals and communities; they create a breeding ground of innovation and they are the main feature of competitive “cluster” ; they give rise to market opportunities. In this section, I will introduce some definitions of social network and scope of the meaning in this research. Following section will describe how social network affects enterprises, start-ups, and social enterprises.

#### **1) Description of Social Network**

A dictionary definition of social network is a network of social interactions and personal relationships. It is an interaction between people and entities. It could be something as micro as a family tie or as macro as national interactions. Some of the major networks are:

- 1) Individual network like friendship and family relationship
- 2) Formal contractual relationship among organizations which includes strategic alliances and supply chain related contracts
- 3) Informal inter-organizational relationships
- 4) Affiliations, share memberships like associations and committees

In this research, a social network will primarily focus on formal and informal relationship among organizations. Business associations, networks among different organizations like social enterprise, non-profits, and

governments would be of primary interest. Individual and personal network, though not excluded altogether, will only be considered as a reference in the research.

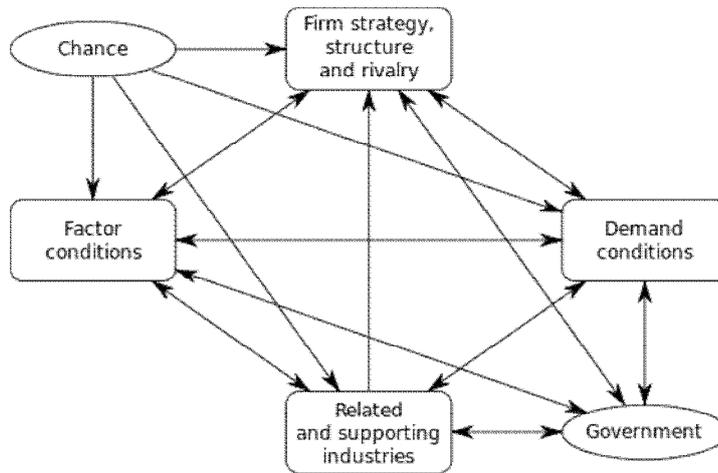
## **2) Social Network and Enterprise**

Network and entrepreneurial activity is a close-knit package. There is no need for extensive research to understand that social network is very important to survival and ‘thrival’ of business activity. Entrepreneurs tend to have richer social capital than an average person. However, it is important to understand what aspect of network affects business and how it affects businesses in different stage. In this section, I will first explain the cluster theory which explains how interaction among enterprises influence collective competitiveness of industry. Then, I will go on to explain its effect on start-ups and social enterprises.

### **(1) Cluster Theory**

A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities (Porter, 2000). It is known to be fostering ‘localization economy’ , accumulated competitiveness through competition as well as a learning process within the economy(Glaeser, 1999). It is important to note that essence of a cluster is not in being close to each other but in the network and the connection prompted by the proximity.

Figure 1 Porter' s Diamond of Competitiveness



*Competitiveness in the Food Industry* (Porter, 1990)

Despite the fact that many of the traditional advantages of proximity has decreased with technical development, new importance and competitiveness of proximity—mainly transfer of tacit knowledge—has proved that distance is not quite ‘dead.’ The learning processes in clusters which cannot be transferred in codified form provides an impetus for innovation (Gordon, 2000). By working closely together, the costs of co-ordination is reduced (Steinle, 2002). Clustering has been considered a critical factor for success in innovation-dependent, high-tech industries like IT and biotechnology. It is evident in the quote: ‘The health of the cluster is important to the health of the company’ (Porter, 2000).

Term ‘pipeline’ is used to describe connections which goes beyond geographical agglomeration. It is a channel through which resources and information flow (Owen-Smith, 2004). Such location-independent networks, international cooperation, partnerships, inter-field co-work, add to competitiveness of organization by exchange of foreign information which would not have come through local connections. The inter-organizational network and collaboration have become key drivers of organizational

operation (Powell, 1998).

Positive effects of cluster and network on industry depends on their appropriate combination. For instance, if local network is so strong that it begins to block expansion, it undermines industries competitiveness. Types of resources exchanged are also important. Homogeneity of information or resources could be less than useful to innovation.

It is also important to note dimension of its implication. The positive externality of clusters is not unbounded. Horizontally dimensions consists of firms that produce similar goods and compete with one another. Vertical dimension would be firms which are complementary and forms a value chain. If a group of firms in location are totally different, having different customers and production processes, not only would there be no motivation to compete, but learning from each other makes no sense. What would a telecommunication company learn from food company and where would it use the knowledge, if it learned any? In the same way, if there is no point of cooperation, proximity adds little value to their agglomeration.

## **(2) Start-ups**

Social network is important to all businesses in all stages. However, it is of a particular importance to small businesses and those in early stage of business cycle. It is found in many researches that social network of CEOs of enterprises tends to be most active at the beginning stage of firm. In his paper, Greve divides the stages of business into three: planning stage, beginning stage and stabilizing stage. His survey results show that networking activity is most active in the beginning stage (Greve, 1995). Social network is useful for expanding customers and resources, and it can also create opportunities where enterprises can reduce costs (Shaw, 1998).

### (3) Social Enterprises and Social Network

Because primary purpose of social enterprises is pursuing dual goal of social value for community and profit to sustain them, they often face difficulties in competing with solely-for-profit organizations. The mechanism they take to offset the disadvantage is to take mixed resource approach which could be made available through diverse network. In fact, many of the production and market factors are not independent from social network a social enterprise has.

**Table 6 General Resource Mix (%)**

Type	From individuals	From the private sector	From the public sector	From the third sector	Total
<b>1 Monetary resources</b>	<b>16</b>	<b>15</b>	<b>51</b>	<b>6</b>	<b>88</b>
1.1 Sales	15	15	19	4	53
1.2 Subsidies	0	0	32	0	32
1.3 Gifts	1	0	0	1	2
<b>2 Non-monetary resources</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>2</b>	<b>12</b>
2.1 Indirect subsidies	0	0	4	2	6.5
2.2 Voluntary work	5	0	0	0	5.5
<b>Total</b>	<b>21</b>	<b>15</b>	<b>56</b>	<b>8</b>	<b>100</b>

In one of Gardin's work, *A Variety of Resource Mixes inside Social Enterprise*<sup>7)</sup>, the origin of resources for the Work Integration Social Enterprise (WISE) in Europe were measured and the results in the table above show they use combination of sales, subsidies, and gifts. At the first glance, the proportion of origin of resources seems moderate and healthy with sales making up 53%. However, an keen reader would notice that only 15% of resources actually come from private sector. The rest originates from individuals and public sector. The predominance of public sector in both subsidies (production factor) and sales (market factor) is highlighted.

7) A chapter from *Social Enterprise: At the Crossroads of Market, Public Policies and Civil Societies* (edited by Marthe Nyssens)

Combining together, the monetary resource by the public accounts for more than half of all the resources. The European WISE managers stress the importance of social networks in mobilizing resources in various sectors:

All WISEs involved in the sales of goods and services to persons and to the private sector emphasize that being connected to local formal as well as informal networks plays a significant role in the mobilization of these resources, as well as pointing out key members of the organizations and external actors as vital for their reputation and campaigns for products and services.

*A Variety of Resource Mixes inside Social Enterprise*

This implication is not limited to WISE in Europe but to the social enterprise around the world. Even when the role of public sector is not as strong as in case of WISE, other non-market relationship and network plays an important role nonetheless. Much of capital flow and business opportunity for SEs arises not from their market competitiveness but from people and organizations they are connected with which value their mission. Thus, it is not surprising to find social network ranking the top of the list of success factors for social enterprises. (Sharir, 2006)

## 4. Previous Research

History of research on social enterprise is short, and spot-lighting it as a separate sector has began only recently in academia. Many of the previous research has treated social enterprise as a part of the third sector. Even the studies which does recognize it as a separate mainly focuses on conceptual aspect or on management and success factors. There has been only few that describes the environmental factor—that including location—that leads to emergence and success of social enterprise.

Sharir and Lerner (2006) show that the regulation and laws are factors that influence environment of the organizations. Smith and Stevens (2010) focus on how location and differences in geography influence social networks in which social enterprises are embedded. Social need is also identified as a factor that affects social enterprises (Tan, 2005) (Dees, 2003). Ferri (2011) points out that government policies and participation by citizens in social purpose organizations could provide favorable condition for social enterprises.

Lee (2010) shows that SEs in Korea are quite isolated in terms of network, other than network with the public sector. Such dependence on public sector sometimes make autonomous operation difficult. In addition, locality has little effect on SEs. Meaning, they do not choose a location or carry out their activities based on historical or cultural assets of the location. Despite their positive effect on surrounding community, their activities have little relation with local culture or issues (Moon, 2010).

Meanwhile, there are cases where SEs contribute in empowering communities by increasing social capital of the surrounding area. (Kim, 2011) Since many of the SEs have evolved from the third sector, they tend to have strong third sector network.

Lee (2013) has conducted a statistical analysis showing the correlation between different factors and the distribution of social enterprises. While factors like rent and industrial linkage was statistically significant, supply factors like demand for social service were not.

## 5. Conceptual Framework

Based on the literature review, the framework in Table 7 is used as a frame of analysis. This research first sees how each factor—supply, demand, cluster, and other—affects the location and further relate it with social network by studying how social network each factor. The supply and demand factor of the private sector includes factors like affordable rent, accessible facilities, and access to market. As for the public and the third sector, they include access to the public market, social need, and resources from other non-business relationships.

**Table 7 Frame of analysis**

Factor	Type	Description
Supply	Market	Affordable rent and accessible facilities
	Non-market	Resources provided by community, non-profits, and public organization
Demand	Market	For profit market
	Non-market	Need for social value and public market
Cluster	Horizontal	Knowledge sharing between SEs
	Vertical	Business cooperation
Other	Personal	Proximity to CEO's home, social capital

*Cluster* is treated separately because it is one of the key elements of concentration for industries. The social network of social enterprises is compared with a typical industrial cluster. *Other* includes factors that are not identified in previous categories such as social capital.

### III. Overview of Social Enterprise in Korea

#### 1. Historical Background

Just as in other countries, there has been efforts by individuals and community to achieve social goals through business activities before enactment of the Law on the Promotion of Social Enterprise<sup>8)</sup> in 2007. Interest on this sector have begun in 1990s during the economic crisis. Before the crisis, Korea had gone through rapid economic growth and providing jobs or social services was not a priority in the government's agenda.

However, when the crisis produced massive unemployment, pressure for government action mounted and as a result, public employment programs took off. Though these jobs created through public effort helped the unemployed to muddle through difficult times, they were temporary and unstable. The government enacted the *National Basic Living Security Act* in 2000 to improve the limitations of the public jobs and to create businesses for the people in need. However, the government initiated businesses were hardly sustainable and very few survived in the market. After the failure, the government turned its attention to job creation through social enterprise, and the interest grew until actions were taken in 2007 (Lee, 2011).

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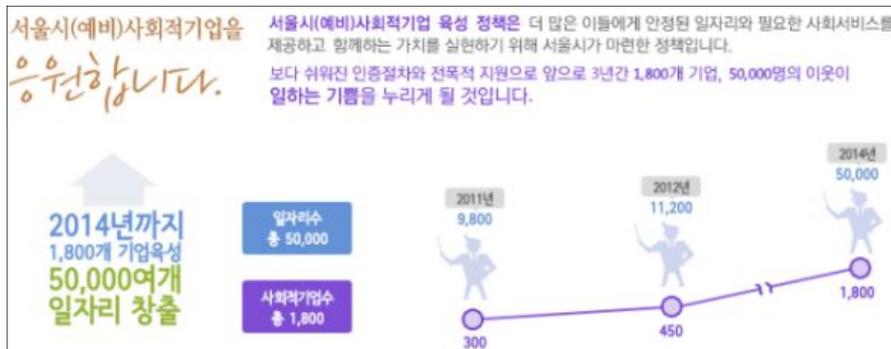
8) Law on the Promotion of Social Enterprise a law enacted by the Korean government to promote social enterprises in Korea by creating a system of acknowledging and supporting social enterprises.

Table 8 History of social employment and social enterprise policy

Year	Events
Early 1990s	Production community movement in poor regions. Workers' production cooperatives, etc.
Since 1990s	Social Job Project-Social service for low income, alienated class-unemployment · polarization
1996	Self-support project of the Ministry of Welfare
1997	Public working program was launched with the economic crisis.
2000	The National Basic Living Security Act was enacted to help the self-support of the poorest class
2003	Social Job Project-Social service for low income, alienated class-unemployment · polarization Since 1990s Rehabilitation and self-support project for the handicapped
2007	The Law on the Promotion of Social Enterprises was enacted, and 36 enterprises were certified initially.

Since 2007, national government as well as regional governments have set ambitious goals. The figure below is number of social enterprise Seoul wants to create: 1,800 SEs and 50,000 employment by 2014. It has provided separate certification, which is easier to obtain than that of the Ministry of Labor and Employment, to meet its goal.

Figure 2 Internet post on number of social enterprise Seoul City plans to create

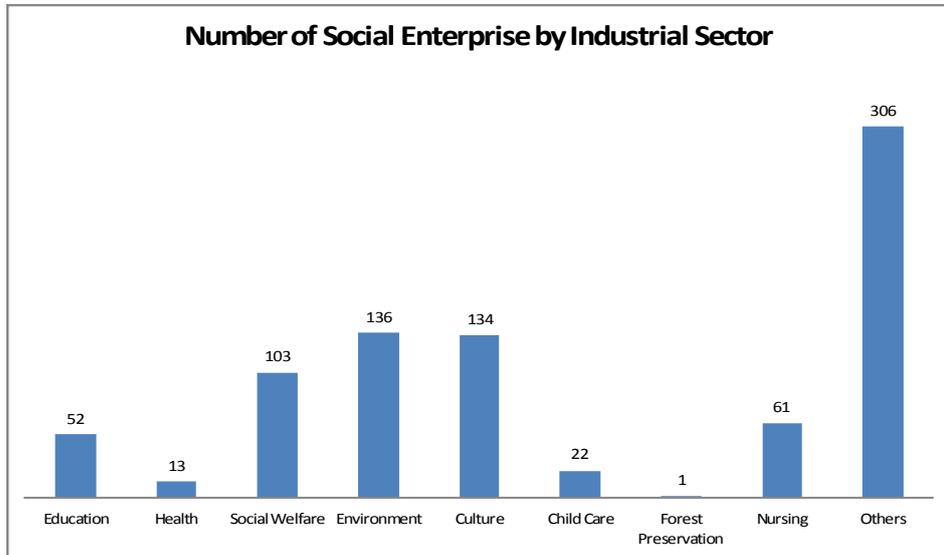


## 2. Characteristics of Social Enterprises in Korea

### 1) Classification of Social Enterprise

Social Enterprises could be classified by service they provide, how they perform social value, and by the system which approves them. Industrial divisions are education, health, social, welfare, environment, culture, child care, forest preservation, nursing, and others. Based on the data released in May, 2013, (KoSEA) their numbers are as follows:

Figure 3 Number of social enterprise by industrial sector



*Environment* (136), *Culture* (134), and *Social Welfare* (103) comprise nearly half of all the social enterprises. Increasing interest in the environmental issue seems to be responsible for the large number in this industry. According to the information released by the Seoul Institute, the environment related social enterprises are making greatest profit average than SEs in other industries. It is also interesting that largest portion of them are categorized as *Other* which signifies the diversities of social

enterprise and inability of this classification system to adequately categorize them.

The MOEL provides another classification system. Because the whole notion of social enterprise started as a ‘solution kit’ for unemployment, Korean SEs are very much focused on creating jobs for underprivileged and providing social services for them.<sup>9)</sup> This is clearly reflected in how the law defines the purpose of SEs and how it classifies them. The law classifies the social enterprises into following categories:

**Table 9 Classification of social enterprise by social service type**

Type	Purpose
I. Job-creation	Offer jobs to vulnerable social groups
II. Social Service Provision	Provide vulnerable social groups with social services
III. Mixed	Job-creation Type + Social Service Provision Type
IV. Other	Create social values that is difficult to judge on the basis of the ratio of employment or provision of social service
V. Local Community Contribution (newly defined in 2011)	Contribute to the improvement in the quality of life of the local community

Type I (Job-creation) focuses on work integration. social enterprises which provides jobs for disadvantaged groups belongs to this type. In order to be Type I, a social enterprises should have proportion of employment of disadvantaged groups greater than 30%. A typical of this type would be *MEZZANINE I-PACK*, a box manufacture company, which provides employment to North Korean refugees.

Type II SEs (Social Service Provision) provide social services to disadvantaged groups. The ratio of customers who receive their service

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9) That is the two purpose stated in Law on the Promotion of Social Enterprises.

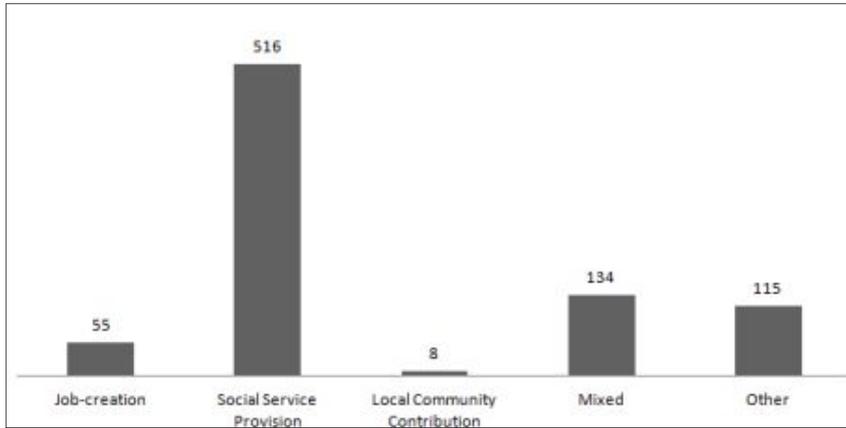
must exceed 30%. Home care service for seniors, health service for low income patients, and education for the disadvantaged students are examples of activities carried out by these SEs.

Type III which is a mixture of Type I and Type II provides job and social service at same time. The employment ratio of disadvantaged groups and service provision should be greater than 20% each. Happy Lunch Box, which belongs to this category, delivers free lunch to poorly-fed neighbors and provides jobs for vulnerable social groups.

Type IV (Other) is where the rest of SEs which create different type of values belong. There is no quantified valuation system and the whether the value such enterprises create is sufficient is decided by a professional committee.

Until 2011, these were the four categories to identify certified social enterprises in Korea. Upon adoption of the “localization” strategy to better promote SEs, the amendment included the final Type V (local community contribution). these SEs employ disadvantaged groups or provide service to them in the surrounding region. The criteria is 20% each. SEs with strong community base belongs to this category.

**Figure 4 Number of social enterprise by type**



Finally, SEs could also be categorized by certification type. SEs could either be certified by Ministry of Employment and Labor (MOEL) or Seoul City. National Social Enterprise (NSE) is certified by MOEL. Regional Social Enterprise (RSE) was created as a result of the new policy which delegated the right to regional government. Seoul Social Enterprise (SSE) is certified by Seoul City. Seoul has created additional category in order to promote social enterprises.

**Table 10 Type of social enterprise by certification**

Type	Description
National Social Enterprise	Original certification by MOEL
Seoul Social Enterprise	Special certification by Seoul City
Regional Social Enterprise	MOEL delegated the power to certify to regional and municipal governments

## 2) Policies and Administrative System

As mentioned earlier, dramatic rise in numbers of social enterprise in Korea is the direct result of the government policies. The government created a system of identifying and supporting social enterprises. Social

enterprise are “licensed“ by government organizations. In fact, the term ‘social enterprise’ is owned by the MOEL and could be used only under its certification. Anyone using it without certification will be fined with 5 million won (about 4800 US dollars) penalty. Upon certification, SEs can receive financial supports for certain amount of time in forms of development grants and employee salary aid.

In the initial stage, the government support was mainly financial, providing capital and defraying some portion of labor costs of the certified social enterprises. It has been criticized for increasing the number of unviable social enterprises without building an environment where they can sustain themselves when the government support ceases. Now, the government has shifted from monetary support to fostering SEs through having better support system.

As a result of such effort, they have employed non-profit organizations which can help foster and incubate future social entrepreneurs. There are about 20 such organizations in Korea and 5 of them are in Seoul. They are called by different names, since they are distinct organizations which conduct certain project under a contract, but for convenience sake, they will be called support organizations.

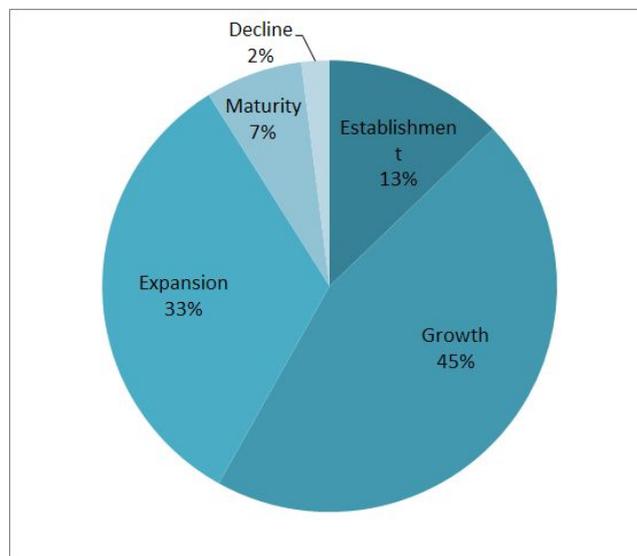
These support organizations have been working on to create an environment where social entrepreneurship can flourish. Creating network of entrepreneurs and pool of experts available for them, connecting government with social entrepreneurs to enlarge currently small business opportunity, and providing education and consultation are few of the services and programs provided by these organizations.

The origin of the SEs is composed of non-profit(36.3%), social employment organizations<sup>10</sup> (17.9%), charities(16.1%), commercial enterprise(15.1%), and

employment/rehabilitation centers for handicapped(10.7%).(Hansin, 2012) The characteristics of non-profit in many cases overlap with other charities and social employment organizations. In this case, about two-thirds of SEs are either government provided jobs or facilities for handicapped.

Most of SEs in Korea have begun only recently after legal frame was enacted in 2007. And more than half of the CEOs identify their business as start-up or being in its early stage. (Hansin, 2012) According to a social enterprise report produced by the government, more than half of the SEs consider themselves in the growth and establishment stage. Thus, the social enterprise sector has some characteristics of start-ups.

**Figure 5 Business stage of social enterprise in Korea**



While government drive is quite strong, SEs in Korea suffers from low or little awareness of people. Unlike in UK where market for social goods and services are growing despite downturn in private sector, people have relatively low awareness of SEs and their goods in Korea. In addition,

people tends to distrust quality of products and services by social enterprises which is sign that little relationship and understanding exists between SEs and their customers. (Kwag, 2008) This lack of trust is the single largest barrier for survival of SEs. Many of them feels the need to create a network to improve their business environment.

## IV. Distribution Analysis

### 1. Spatial Distribution Analysis

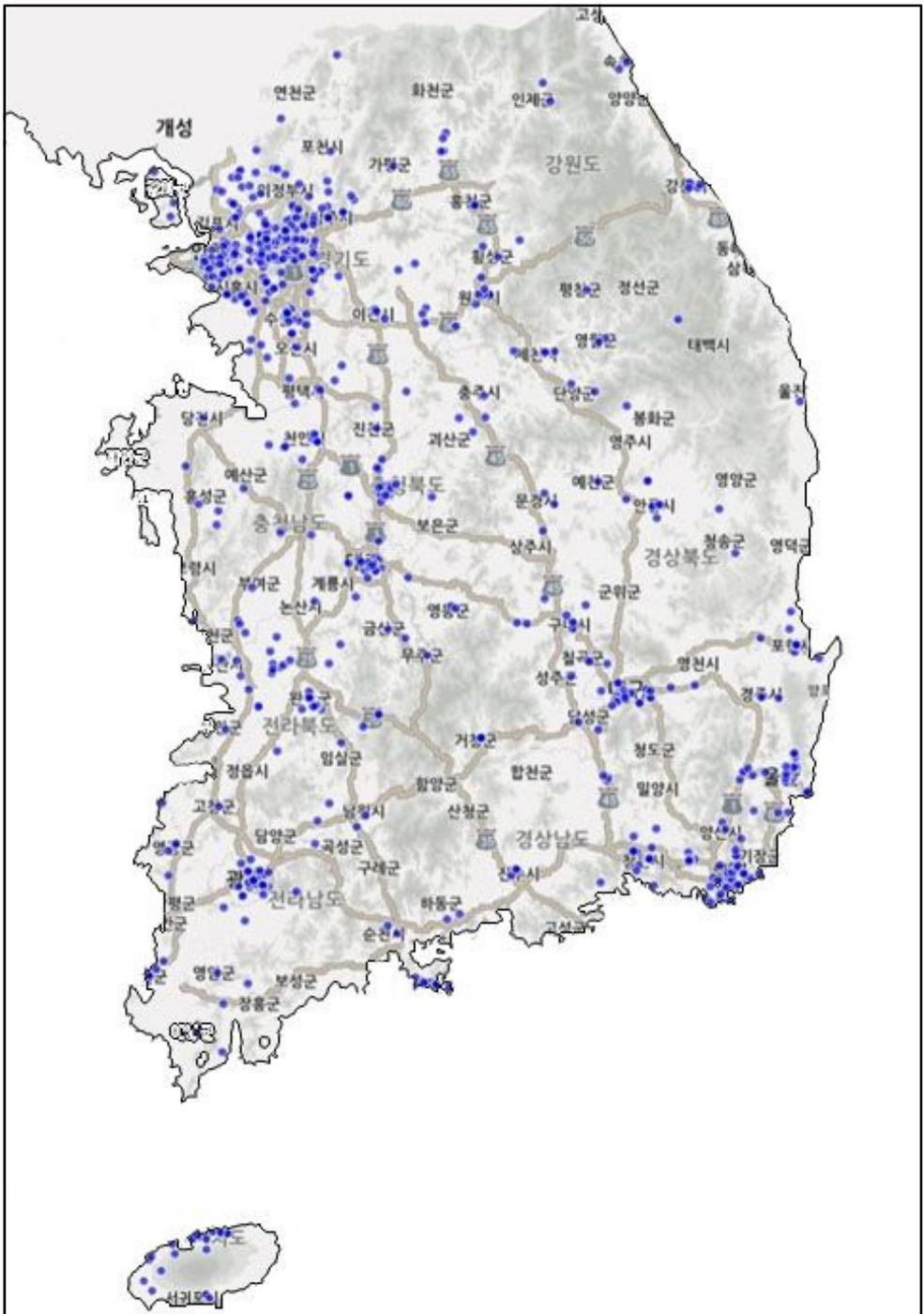
Selecting a location is one of important decisions for a firm including social enterprises. Since each location has different infrastructure, environment and supportive system, which social enterprises can take advantage of, the distribution of their location would be different.

The number of social enterprises varies by region. They are concentrated in major cities like Seoul, Busan, Incheon, and Daegu. Seoul and Gyeonggi combined comprises nearly 40% of NSEs.

**Table 11 Number of Social Enterprise by Region**

Region/City	Number	Percentage
Seoul	188	22.7%
Incheon	41	5.0%
Gyeonggi	137	16.5%
Kangwon	39	4.7%
Busan	56	6.8%
Ulsan	23	2.8%
Gyeongnam	33	4.0%
Daegu	36	4.3%
Kyeongbuk	49	5.9%
Gwangju	43	5.2%
Chonnam	31	3.7%
Jeonbuk	50	6.0%
Daejeon	22	2.7%
Chungnam	26	3.1%
Chungbuk	33	4.0%
Jeju	18	2.2%
Sejong	3	0.4%

Figure 6 Distribution of social enterprise in Korea

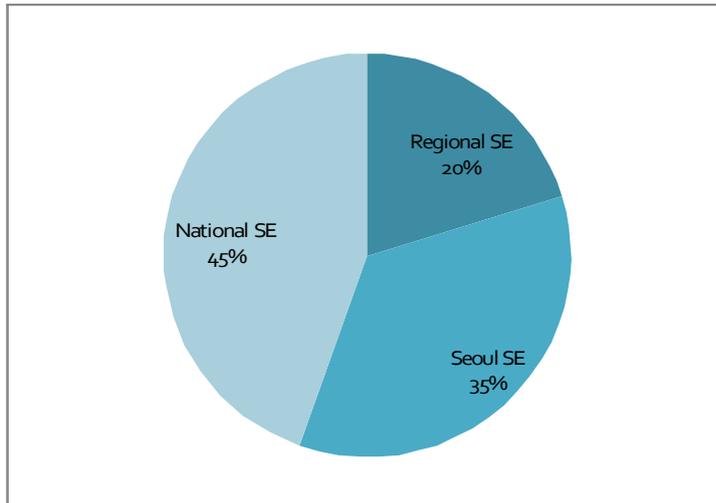


Seoul has more social enterprises than any other region in Korea. According to figures provided by the Seoul City, there are 433 social enterprises in Seoul and 193 (44.6%) of them are certified by the Ministry of Employment and Labor (MOEL), which is 22.5% of total number of social enterprises in Korea. Compared to the 2008 when Seoul had only 49 NSEs, the number nearly quadrupled. The SSE and the RSE comprises 35.1% and 20.3% respectively.

**Table 12 Number of social enterprise by type**

National Social Enterprise	Regional Social Enterprise	Seoul Social Enterprise
193	88	152

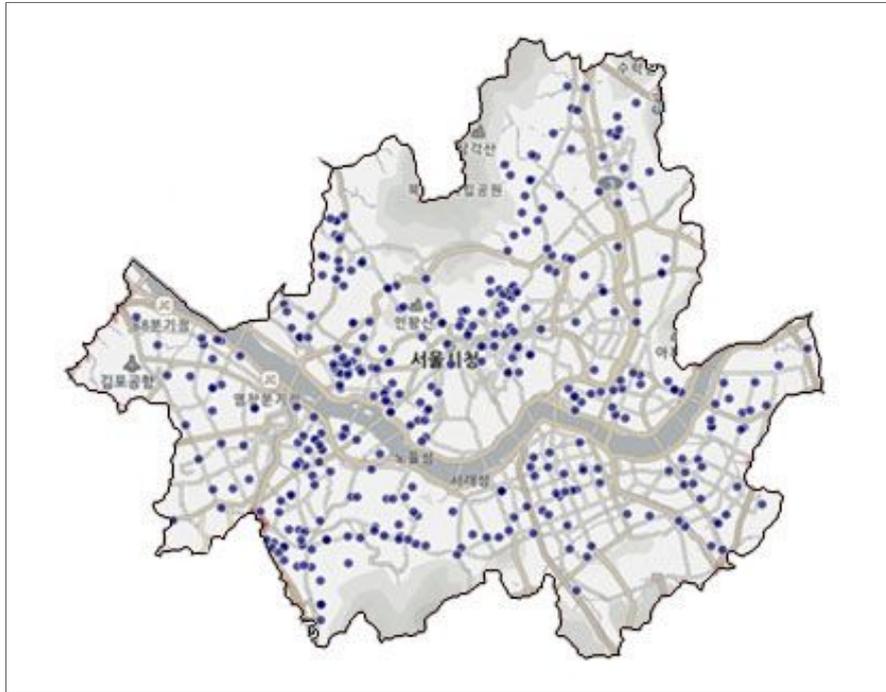
**Figure 7 Ratio of social enterprise by type**



Spatial analysis on the location of social enterprises was conducted to disclose agglomeration and spatial pattern of social enterprises in Seoul. The data used for analysis was obtained from websites of Seoul City and KoSEA on July, 2013.<sup>11)</sup> Seoul City provides total list of social enterprises in Seoul—national, regional, and Seoul social enterprise. KoSEA provided list of

national social enterprises in all parts of Korea including Seoul.

Figure 8 Distribution of Social Enterprises in Seoul



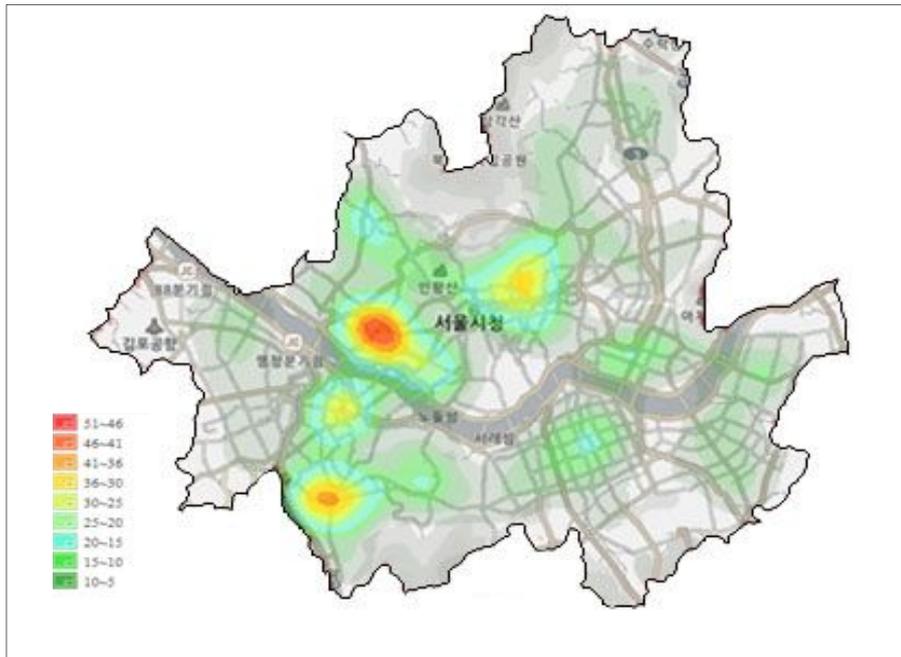
By plotting their location on map, certain districts showed higher concentration than the others. Mapo-gu has the highest concentration of social enterprises with 47 out of 432 social enterprises in this district. Yeongdeongpo-gu has second highest concentration (31) followed by other districts like Jongno (26) and Seongbuk(25). They are noticeably concentrated in few Gu<sup>12)</sup> districts. Top three districts are responsible for around 24% (104) of all social enterprises in Seoul. There are total of 25 Gu in Seoul.

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11) an organization established to foster and support social entrepreneurs (<http://socialenterprise.or.kr/>)

12) Administrative subdivision of Seoul

Figure 9 Concentration Analysis of Social Enterprise in Seoul



## 2. Location Quotient

In addition to geographical analysis, the location quotient is used to analyze how concentrated social enterprise is in a region compared to other industry. Location Quotient (LQ) is one of popular methods to quantify how concentrated a particular industry, cluster, or demographic group is in a region compared to the national average. It reveals uniqueness of a particular industry or cluster in a region by comparing the concentration of that particular attribute in a region to the concentration in a larger region typically to the nation. It could be expressed as:

$$LQ = \frac{e_i/e}{E_i/E}$$

Where:

$e_i$  is local employment in industry  $i$ ,

$e$  is total local employment,

$E_i$  is reference area employment in industry  $i$

$E$  is total reference area employment.

Because exact numbers of employment in social enterprises by Gu district is not available, number of SEs were compared to the number of total enterprises instead assuming that difference in number of employers in SEs are negligible. Thus, in this analysis,  $e_i$  would be number of social enterprises in a Gu district and  $e$  would be total number of enterprises in a region;  $E_i$  would be total number of SEs in Seoul and  $E$ , total number of enterprises in Seoul.

Table 13 Location Quotient of Social Enterprises by *Gu*

District	Number of Social Enterprise	Total Commercial Enterprise	Number of Total Employer	Location Quotient
Jongno	26	19,577	182,230	1.16
Junggu	18	32,828	324,577	0.48
Yongsan	13	10,421	107,885	1.09
Seongdong	9	11,969	112,613	0.66
Gwangjin	13	11,614	92,281	0.98
Dongdaemun	9	12,706	100,751	0.62
Jungrang	5	9,398	63,480	0.47
Seongbukgu	25	9,724	75,446	2.25
Gangbuk	10	7,158	46,955	1.22
Dobong	7	5,839	41,573	1.05
Nowon	14	9,393	75,580	1.30
Eunpyeong	19	7,813	53,197	2.13
Seodaemun	16	7,382	72,946	1.89
Mapogu	47	17,974	178,897	2.29
Yangcheon	9	10,788	80,923	0.73
Gangseo	13	13,724	134,354	0.83
Guro	17	17,334	152,694	0.86
Kasan	18	15,533	180,250	1.01
Yeongdeungpo	31	21,513	287,985	1.26
Dongjak	15	8,609	78,797	1.52
Gwanak	23	10,909	76,951	1.84
Seocho	20	27,039	365,970	0.65
Gangnam	24	44,242	607,049	0.47
Songpa	15	22,579	216,292	0.58
Gangdong	16	11,615	88,486	1.20

Mapo has the highest LQ (2.29), followed by Seongbuk (2.25) and Eunpyeong (2.13). Though most results are in accordance with the distribution and concentration analysis, some results seems to have shifted,

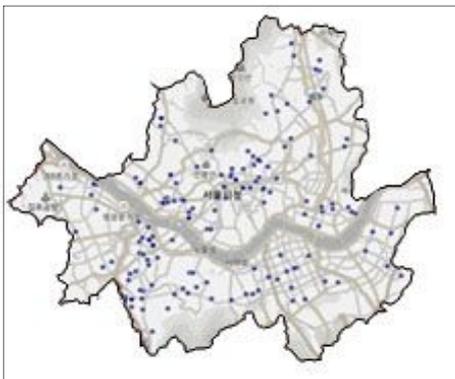
due to relative difference in number of enterprises. Jongno and Seongbuk has about the same number of social enterprises but Seongbuk has higher LQ because its size of industries and enterprises is smaller than Jongno.

These results imply that not only are social enterprises concentrated in certain regions like Seoul, they are also concentrated in much smaller scale at Gu district, and that there can be certain factors that make one place more attractive than another.

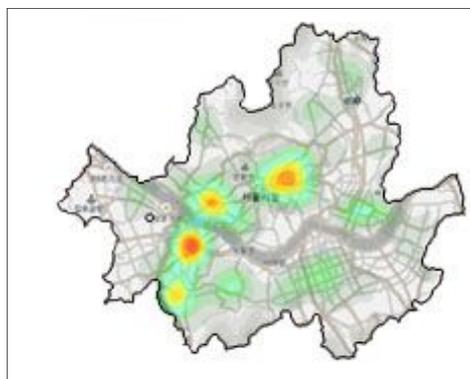
### 3. Distribution and Concentration by Certification

Among the three types of divisions—industrial type, social service, and certification—only certification showed a meaningful difference. The industrial division could not provide meaningful result because there were too many divisions and insufficient number of social enterprises. Some industrial type had less than 10 enterprises which makes the analysis meaningless. Thus, I focused on the certification type, which reflects distinct policies and measures.

**Figure 10 NSE Distribution**



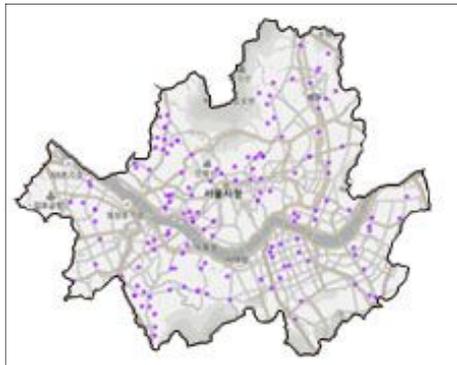
**Figure 11 NSE Concentration**



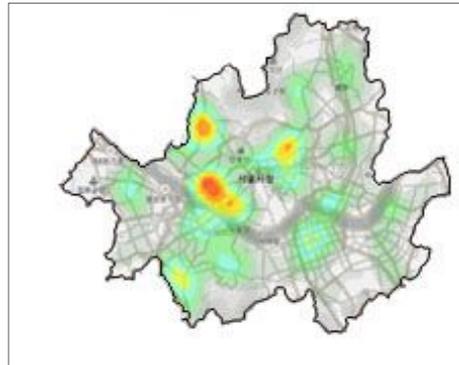
Looking at the distribution of each type, different patterns were slightly noticed. Distribution and concentration of each type of social enterprises

are on figures below. National Social Enterprise are of greatest number (198). They are the oldest category and SEs that belong to this category are better established than other SEs. They are concentrated in Jongno, Yeongdeongpo, and Mapo.

**Figure 12 SSE Distribution**

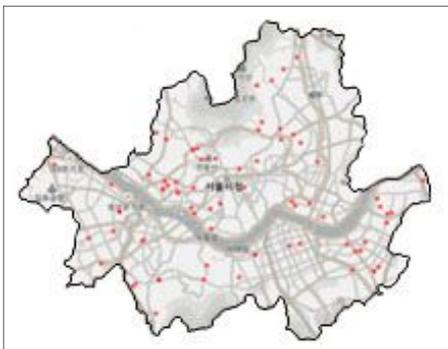


**Figure 13 SSE Concentration**

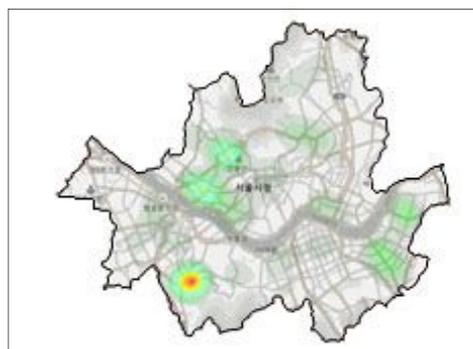


Meanwhile, SSEs are more heavily concentrated in Mapo than NSE and RSE. Another interesting concentration is found in Eunpyeong, far north of Mapo. This is interesting since, it is quite distant from most part of Seoul and has little economic activity compared to other parts of Seoul, which is why Eunpyeong has third highest LQ in Seoul.

**Figure 14 RSE Distribution**



**Figure 15 RSE Concentration**



The concentration of RSE is significantly different, with heavy concentration in Geumcheon and Gwanak. It shows that RSEs are concentrated in limited areas, which are neither a traditionally vibrant market nor a place where other social enterprises has been.

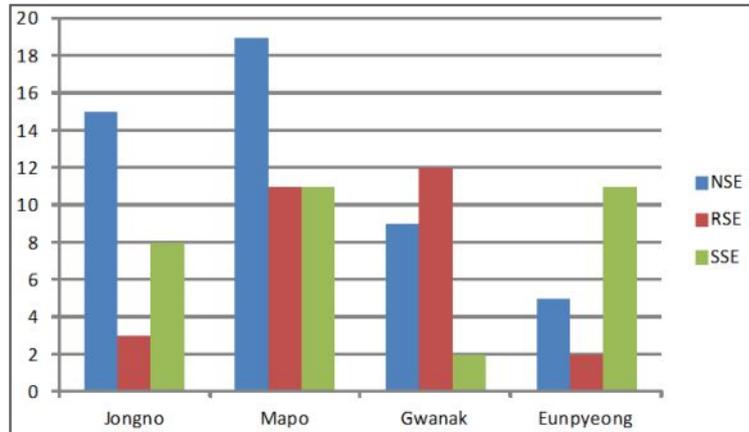
The high performing markets in Seoul like Gangnam and Songpa area with large population and greater economic power were not among the top ranking districts. Though the numbers of social enterprises are increasing in these areas as well, compared to the population and size of the market, the number is not significant.

Many of social enterprises are concentrated in areas with smaller, older population like Jongno and Seongbuk. These areas are areas with greater demand for social services, and such demand could have attracted many social entrepreneurs. Jongno has had many civic movements and non-profit organizations like YMCA Korea.

Mapo is not only a center of art industry and youth culture, but also a birthplace of numerous civic movements and cooperatives. One of the most famous civic initiatives is the cooperative childcare center in Sungmisan Village which began in 1994. More than a thousand residents live as a community in this area of Mapo, which was built around the childcare center. In addition to childcare, they have began numerous community cooperatives to create jobs and services necessary.

The high concentration of RSE in even more limited areas could have resulted because a RSE is the direct result of interest of municipal government. Unlike NSE, which could is certified and supported by MOEL or SSE by Seoul, municipal government is responsible of RSEs. This distribution could mean that there is uneven interest of interest on social enterprises by each of the 25 municipal governments.

Figure 16 Distribution of social enterprise by type



The figure above shows how each Gu has different distribution of NSE, RSE, and SSE. Jongno and Mapo, traditional civic movement hot-spots, have high proportion of NSE. As mentioned above, requirements for NSE are stricter than those for RSE and SSE. It is not difficult to assume that it would have been easier for existing non-profits and social organizations to pass the social enterprise criteria, since many of them had already been running businesses with social purposes long before certification. In this sense, high proportion of NSEs in Jongno and Mapo shows that the social organizations have taken full advantage of the new policy.

Meanwhile, Gwanak has highest proportion of RSE, as well as significant number of NSE. This shows that there is two sides to the social enterprises in this area. On one hand, there has been social movements in Gwanak that has used the social enterprises program. This could be supported by the fact that Gwanak has strong grass root communities and long history of civic movements. On the other hand, there has been efforts made at regional level. There are two organizations that support social enterprises in Gwanak: Gwanak Social Economy Ecosystem Building Center (GASE) and

Social Enterprise Support Network (SESNet), one of 20 social enterprises supporting organizations. These organizations not only consult social enterprises and candidate social enterprises, but also work to create a network which can help social enterprises access necessary resources and opportunities more easily.

High proportion of SSEs in Eunpyeong can be explained by the Seoul Social Economy Hub Center located here. The Seoul Social Economy Network, a major tenant in this center, promotes social enterprises in Seoul and works closely with Seoul to help social enterprises and create an healthy environment for them. There are other support organizations like Seeds which provide incubation program, providing office, services, and network to social enterprises which have attracted resource-scarce social enterprises.

**Figure 17 Seoul Social Economy Center at Eunpyeong**



Provided by *Agenda*<sup>13)</sup>

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13) an internet news ([http://www.agenda.or.kr/bbs/board.php?bo\\_table=B09&wr\\_id=24](http://www.agenda.or.kr/bbs/board.php?bo_table=B09&wr_id=24))

## V. Effect of Social Network on Location Factors

Spatial analysis showed concentration of social enterprises at different level, which suggests application of different factors at work. To grasp how networks among social enterprises and with related organizations affect location of a social enterprise, this part of the research identifies the influence of social network on each of the location factor mentioned in the literature review—demand, supply, cluster effect, and personal factor.

It is divided into two parts: (1) assessing effect of social network on supply and demand factors through interview with social entrepreneurs and staffs at support organization and government; (2) network mapping of social enterprises in Gwanak through surveys and interviews.

Total of 26 surveys and in-depth were conducted during the period of May, 2013 - January, 2014. The interviewees include staffs from 2 municipal governments in Seoul, 6 support organizations, and 18 social enterprises. Three of the social enterprises are chosen randomly, while the other 15 are located at Gwanak. The interview was done person-to-person, or through phone in case meeting was not possible. 7 out of 8 support organizations and 13 out of 18 social enterprises were interviewed person-to-person, and the rest were either conducted through phone or internet.

### 1. Interviewees

The preliminary interview includes 3 social enterprises and 8 related organizations. SESNet, Seongbuk Social Enterprise Hub Center, and Seeds are support organizations which currently provide services to and create network of social enterprises to create a more social enterprises friendly environment. They provide consultation and help social enterprises with

different administrative needs. One of their major programs includes ‘social enterprise incubation’ where they would select a certain number of social venture teams and provide consultation as well as other necessities like office space for a year. They are under contract with the Ministry of Employment and Labor.

Gwanak Social Economy Ecosystem Building Center (GASE) supports social for-profit institutions including social enterprises. Its major goal is to promote social economy of Gwanak by overlooking and connecting these organizations. It has initiated Gwanak Social Enterprise Network, in order to encourage interaction among social enterprises and also to create cooperation and business opportunities.

The Hope Institute is a nonprofit, civilian institution which does diverse activities and researches for social innovation. Incubating social enterprises and producing sound incubating centers are one of their aims. They have helped social enterprises through consultation from the very beginning stage and now have moved on to social economy creation.

Impact Square in Seoul is a branch institution of Impact Square in the UK and the US. It is a social enterprise that provides services to other social enterprises like consultation, incubation and “impact” measurement.

Seongbuk and Seodaemun municipal governments each has departments that support and promote social enterprises in their district. Seongbuk Department of Social Economy and Seodaemun Department of Economic Development provide administrative service and encourage public procurement to be favorable to social enterprises.

**Table 14 List of support organization and government organization**

Name	Location	Objective	Interviewee
Social Enterprise Support Network (SESNet)	Mapo	Provide network of experts to support social enterprises	Executive director
Gwanak Social Economy Ecosystem Building Center (GASE)	Gwanak	Create social economy where social enterprises can thrive	Executive secretary
Seeds	Secho, Eunpyeong	Incubating SE, network between sectors Researches on social enterprises InvestmentNetwork	Former director
The Hope Institute	Jongno	Promote social innovation through educating and incubating social enterprise and other social entities	Senior researcher
Impact Square	Gangnam	Provide a platform for effective networking	CEO
Seongbuk Department of Social Economy	Seongbuk	Promote social economy of Seongbuk including social enterprises	Staff
Seongbuk Social Enterprise Hub Center	Seongbuk	Provide necessary network and resources for social enterprises	Executive director
Seodaemun Department of Economic Development	Seodaemun	Promote social enterprises and provide administrative service	Staff

**Table 15 Interviewed Social Enterprise**

Name	Location	Industry	Type	Business	Since
Café Timor	Jungu	Etc.	NSE	Fair trade and community business through coffee manufacture and sales	2010
Eco Mom	Eunpyeong	Environment	SSE	Education, Produce and sell eco-friendly products	2011
Yongsan Nanum Center	Yongsan	Welfare	NSE	Senior care service	2012

Cafe Timor originally began as fair trade program of YMCA Korea. Due to limitations of a nonprofit in performing profit-producing activities, it has created a separate corporation Café Timor, that is before 2007, and applied for social enterprise certification in 2009.

The second interviewee, the CEO of Eco Mom, also began the activity before certification of social enterprise took form in 2007 and later converted its activity into social enterprise. Major activity of Eco Mom is education and sale of eco-friendly products.

Yongsan Nanum Center, like the other two SEs, originated from another organization, Yongsan Rehabilitation Center. It has strong connection to the parent organization receiving education and likely sharing pool of volunteers and workers. In fact, their addresses of are the same.

There are currently around 20 social enterprises in Gwanak. Out of 20 contacted, 12 of them were able to respond to the interview and the survey. Three candidate social enterprises—Asian Hub, Good Mom, and Star—have also responded to the interview. Interview and survey for Gwanak include their relationship to each other.

**Table 16 List of interviewed/surveyed social enterprises**

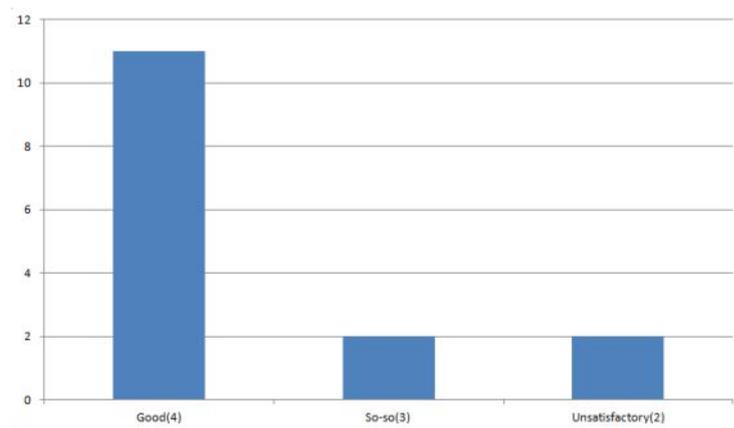
	<b>Name</b>	<b>Industry</b>	<b>Type</b>	<b>Business</b>	<b>Year</b>
1	Puren Korea	NSE	Environment	Cleaning and facility management	2007
2	Kongkakgi	NSE	Welfare	Food production	2010
3	Good Travel	NSE	Etc	Responsible travel, education	2011
4	Academie Percussion Ensemble	NSE	Culture	Orchestra	2012
5	Eco Kid	SSE	Etc	Provide healthy food to child care institutions	2010
6	Seam	SSE	Environment	Construction	2011
7	Heaven's Music	RSE	Education	Music education	2012
8	Beautiful Learning	RSE	Education	Career consultation	2012
9	SPC	RSE	Welfare	Exercise program for seniors	2012
10	KYGD <sup>14)</sup>	RSE	Education	Health education for youth	2012
11	SE&T	RSE	Etc	Software testing	2012
12	Trust Dance	SSE	Culture	Art performance	2010
13	Asian Hub	-	Education	Multi-cultural education	2013
14	Good Mom	-	Education, logistics	Education	2012
15	Star	-	Manufacture	Furniture production	2012

14) Korea Youth Growth and Development Institute

## 2. Overview

When asked ‘who are your customer?’ , many social enterprises had multiple “layer” of customers. For instance, Asian Hub which educates immigrants also targets in educating companies interested in doing business with southeast Asian countries. Dividing the customer into three category of private market, public sector, and groups with social need, 8 out of total 17 responses (multiple answer) said socially disadvantaged are their major customer. Private market and public comprise 5 and 4 respectively. Many social enterprises considered people in Seoul (8) and all part of Korea (7) their target customers. In fact, many whose customers are located in Seoul said they are planning to enlarge their scope in coming years. Only three respondents said their customers are at nearby area.

**Figure 18 Satisfaction of current location**



The respondents are generally satisfied with their current location. Given scale 1 to 5 (1 being most unsatisfactory and 5 being most satisfactory) 11 ranked their present location 4. Score 3 and 2 comprise two each. In case of moving to a new location, answers varied depending on the characteristics each social enterprise. Those who were sensitive to private market—like Cafe Timor, Eco Mom, and Heaven’s Music—put priority on

access to market. Meanwhile, other social enterprises put more importance on factors like good facility and good access to transportation.

Most SEs preferred person-to-person meeting over other means of communication such as internet and phone calls. Out of all the surveys, only two answered that they use email, SNS, or phone calls to maintain their relationship with important stakeholder. The rest used face-to-face interaction to share knowledge and cooperate for business.

### **3. Location Factors**

The interview confirmed some of the findings of the previous research and disclosed new facts specific to the environment in Korea. As an enterprise, social enterprise was influenced by general industrial location factors. As a branch of non-profit, it work closely with its partner organization, especially in its early stage. Network with the public and the third sector played an significant role in their choice of location.

#### **1) Production Factor**

The production factor is one of the most important factors affecting location of start-ups, SEs, and even charities. Production is the very basis of all corporate activity and when production resources could not be secured, business activity is also threatened. Since many SEs in Korea are small sized businesses in their initial stage, accessibility to capital, cheap rent, and labor is very crucial. Taking into account the fact that large portion of the SEs are not stable financially, it is not difficult to understand why production factor easily outweighs other factors.

When asked which factor they consider when selecting a place to run their business, many of the SEs said ‘cheap rent’ is most important. Even when it is not the sole reason for choosing the location, it was always an

important consideration.

“Everything that matters to an enterprise in deciding a location... it matters for social enterprise as well. The most important thing is rent. Then, other things matter such as transportation.”

Seeds

Location of many social enterprises are affected by supply of capital, labor, and information from the third sector where they originated from. The partner NPOs can defray part of the capital needed for the business and provide free education programs for their employees. They can also help them find a market through the established network.

Supply of monetary support from government has been a strong incentive for organizations to apply for social enterprise status. In the earlier years (2007~2010), many of the social enterprises originated from profit-making NPO activities and social employment programs. Since the public support was usually monetary with little human interaction involved, their location was not largely affected by the public organizations. In this stage, relationship with partner NPOs had relatively larger impact on their initial location.

“YMCA which began this business is located at Jongno. That is why our original location is not far from YMCA.”

Cafe Timor

“We have separated out from the rehabilitation center. We are in Yongsan because that is where our the center is located. Though we do separate activities, we still cooperate with the rehabilitation center like joint education.”

Yongsan Nanum Center

This is in accordance with the spatial distribution analysis where most social enterprises, particularly national social enterprises, show high concentration in Jongno and Mapo where NGOs and civic activity have proliferated. These places had civilian organization like The Hope Institute which could provide know-how and guidance to social enterprises in their initial stage.

Seoul Youth Factory for Alternative Culture, or more often called Haja Center, is one example of public-voluntary sector cooperation. It is entrusted by government to be an hub where they can educate and create programs for young people to solve social problems in 1999. Haja Center later plays a very important role in incubating many of the early social enterprises. Such nonprofit-government cooperative became a major policy after 2010.

The Ministry of Employment and Labor (MOEL) made contracts with 20 support organizations around the country which will serve overall supporting role for SEs and incubate candidate teams. Because these organizations provide office space and services to candidates and some of the young SEs, their location has become an pivot point for social enterprises. Though MOEL does not choose the location of these support organizations, municipal governments who sees social entrepreneurship as an opportunity for their region sometimes attracts these organizations with cheap rent and other benefits. These organizations have incubated more than 300 candidate teams and many of them successfully received certification. Their influence on the location of social enterprises is very strong, at the least, for the moment.

“Location of social enterprise is very simple. They circle around support organizations and municipal governments.”

Impact Square

“In the beginning, they usually stay in support centers where space is provided. They would have stayed not too far from the center anyhow. They could, however, change their location after some time.”

SESnet

These ‘graduates’ from the program tend to work more closely with the government and among themselves because they have already built relationship over a year period. Incubated social enterprises tend to be more cohesive and better connected among themselves and with the local government than other social enterprises. Whether these network gain enough significance to be a consideration in choosing a location needs further research. Nonetheless, there is likelihood that these network can produce significant business cooperation under the condition that the primary obstacles, which will be mentioned later, are removed.

Through interviewing people and reviewing the history of each organization, many of the social enterprises obtained their space through non-market sources. Puren Korea, for instance, was able to move into the current office building which is owned by Seoul City through the help of Gwanak Municipal Government. Many of the young social enterprises start in offices provided by support organizations.

The other efforts to support social enterprises made by the government also affects the location. Seodaemun Municipal Government has purchased old buildings in one of its traditional market area and has provided shop spaces to social enterprises. In fact, almost a third of all social enterprises were using spaces provided by the government. Depending on the interest of each municipal government, they are putting in different level of efforts to provide resources and infrastructure social enterprises typically lack.

**Table 17 Resource origin of office and facility of social enterprises**

Name	Description of non-market source
Puren Korea	Seoul City
Good Travel	Gwanak Municipal Government
Eco Kid	Cooperative
SPC	Incubating Center
KYGDI	Incubating Center
SE&T	NGO
Café Timor	Seoul City
Yongsan Nanum Center	Yongsan Rehabilitation Center
Asian Hub	Incubating Center
Good Mom	Incubating Center
Star	Incubating Center

NGOs, civic communities, and cooperatives were also sharing space and infrastructure with their partner social enterprises. One computer system enterprise had moved back out from Gwanak to Dongdaemun where the NGO was located. The manager said they are using facilities and education programs of the partner NGO to educate their staffs. The Table 17 shows non-market source of spacial resources used by social enterprises. More than half (11) of interviewees were using office space provided by other entity.

**Figure 19 Siloam Welfare Center**



**Figure 20 Incubating Center in Gwanak**



Figure 21 Gwanak Dream Center



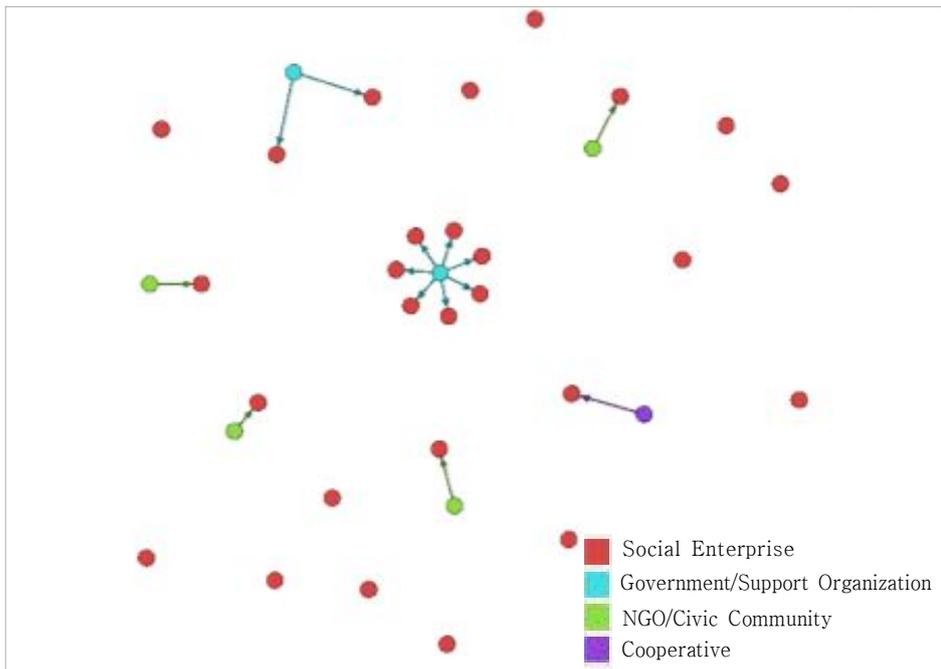
Figure 22 Gwanak Social Economy Hub Center



Many of the buildings and office spaces is in the public and the third sector realm. Siloam Welfare Center, a non-profit for blind, shares the building with social enterprise Siloam. Incubating Center, a public organization, supports social enterprises candidates and new social enterprises. Gwanak Dream Center, and Gwanak Social Economy Hub Center are also public buildings provided to social enterprises at less than market prices. One social cooperative in Gwanak uses an office building owned by one of its members. Such provision from non-private sector serves as a strong actor in their decision.

Figure 23 is a diagram which shows the origin of office space and facilities used by social enterprises in Gwanak. The municipal government and support organization are the main provider of office spaces. They are responsible for providing space for 9 social enterprises.

Figure 23 Origin of office space and facilities of social enterprise



The support organization is the single largest provider of office space. Since support organizations have office space they can use for social enterprises, they will offer them to some of young social enterprises they incubated. The municipal government also important source of space. In case of Gwanak, office provision was one of the benefits it offered to attract some of the well-known social enterprises which it thought would benefit the area.

NGOs and civic organizations also provide spaces to their partner organizations as could be seen in the figure. In many of these cases, social enterprise activities were part of the NGO activities. There are some cases where they do so out of good will and previous relationship they have. In another case, a social cooperative had a very large network of its own at national level and the office was provided by one of the members.

These are the minimal, direct links through which resource related to space flow from one party to the social enterprises. I say ‘minimal’ because they are the number identified in this research and there could be more ways the resources transfer. Some social enterprises are offered funds for rent instead. One social enterprises in Gwanak which was supported by a large corporation was provided funds which include the cost of rent.

There was diversity in spaces needed by each social enterprises since they belong to different industrial sectors and serves different customers. social enterprises with education programs were sensitive to facilities—computers, instruments, and sports equipments—needed for the education, in addition to basic office space which could be more easily provided by the government. On the other hand, social enterprises which conducts most of its service outside their office, like cleaning or construction, they were less concerned about facilities but was more concerned with costs.

“We have thought of moving to another place. We will find a cheap place. We are planning to build a temporary building on empty land owned by the government. We have requested for it before, but... we have to take care of it ourselves.”

Seam

“One of the reasons we moved all the way here is because of the computer facilities. Though it is not always comfortable to share, we can easily use one that belongs to the NGO we work with.”

SE&T

Thus, I found that office spaces provided by the government could be an affordable and suitable choice for one type of social enterprise, but not for others with different needs. In order to have access to necessary facilities,

they need close cooperation with either the government organizations or partner organizations. They tend to move where they have these key networks which are flexible enough to satisfy their specific needs. That was one of the reason the computer company had moved near to the partner NGO even when the office space in the incubation center in Gwanak was also available. social enterprises have to weigh between the options since different they have access to different facility access in different areas.

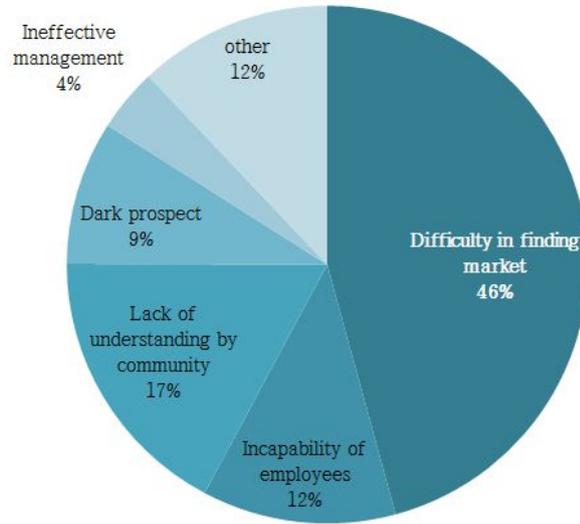
Not as strong as the rent, but other input factors like administration and management service also affected the location. A welfare center nearby manages Senior Club which provides job to elderly and healthy food to the local residents. In social enterprises who work closely with their partner organizations—sometimes sharing the management service—tend to locate themselves in their proximity.

## **2) Demand Factor**

Demand can be divided into private market where they earn profit and social demand which may or may not provide enough profit. Depending on the business model, social enterprises have different combinations of the two.

When it comes to market, social network is not only important to social enterprises but also to typical for-profit organizations. According to the *2012 Social Enterprise Report*, finding a market is the greatest difficulty for social entrepreneurs. Public purchase of goods and service from social enterprises is one of the major government policies and different organizations adopts it at different level. Seongbuk Municipal Government, for instance, their budget for such social procurement reaches 2 billion won. This has been an incentive for some of the social enterprises to relocate themselves.

Figure 24 Greatest difficulty for a social enterprise



Reference: *2012 Social Enterprise Report*

This is why the Ministry of Labor and Employment and Seoul City is encouraging municipal governments and public organizations to purchase products and service from social enterprises to create a public market. Though it is still in process, public is nonetheless one of the attractive market for social enterprises. Many of them work closely with different government organizations.

**Table 18 Collaboration with the public and the private sector**

Name	Description
Puren Korea	Business projects from different government organizations
Kongkakgi	Gwanak Municipal Government Welfare Center
Good Travel	Gwanak Municipal Government
Academie Percussion Ensemble	Seoul City, Gwanak Municipal Government, music foundations
Seam	Seoul City projects like 'Hope Housings'
Hana Social Art	Seoul City, Gwanake Municipal Government
SPC	public organizations
KYGDI	Local schools

Many of the social enterprises interviewed pointed out the government and public organizations as their primary market. Such tendency was stronger in industries like construction and social service area. It is not surprising since construction industry is a very competitive market and also a market of scale, both of which is a barrier for small sized social enterprises. For social enterprises in this industry, government projects are the most viable market. They seem to be sensitive to government policies and projects. However, because the projects are large in scale and rarely local, they made little impact on the location.

“[Our work] is everywhere in Seoul. It is not limited to the local area.”

Seam

“Though we began from the local movement, most of our projects are not local... However, we are willing to move if there is an opportunity to cooperate with local projects.”

Puren Korea

On the other hand, some of them worked closely with local government. For example, SPC took advantage of public resources and developed a joint

project to open an ice-skating rink for local people. The picture below shows the advertisement on the GASE building. Gwanak Municipal government also helped advertise the project. This is largely a result of the close network it has with support organization and the local government.

Figure 25 Local ice-skating rink, cooperative project of Gwanak and social enterprises



Even when they do not have clear producer-customer relationship, social enterprises have relationship and cooperation with different organizations of interest. Eco Mom cooperates with Ministry of Environment and Gwanak Radio with media NGOs. Though it had not chosen its location because of the relationships it had, Gwanak Radio said it will consider the connections if they get to move to another location.

Other part of the demand, customers who need social service, also plays a role in their location selection. This, of course, varies in extent and sometimes compete with the market. They would be best described by introducing some of the cases:

#### (1) Hana Social Art

In addition to other factors, proximity to its customers was a decisive factor in choosing its location. Its customers are students from low income families with little opportunity to learn. It was important that the education

center is located where their customers are.

## **(2) Heaven' s Music**

Heaven' s Music is also a music academy with a social mission of providing services to students in the lower bracket. It has very deep local roots as welfare center in Nangok, a less prominent part of Gwanak. However, it had to choose between the market that brings profit and the social service recipients. It chose the market, because the staffs believed they will not be able to help the low income students unless their business is sustainable.

It is located in a rich residential area with demand for quality music education. The students from the lower bracket moves to the academy by bus. One of the teachers in the academy said students actually perform better when they come to the academy than in welfare center in Nangok. In this case, priority was given to the market, but the decision does not contradict its social mission.

## **(3) Gwanak Radio**

It is a radio station for Gwanak residents. Its customers include other Seoulites, but as their name tells, their primary customers are locals. Because it is a radio station which reaches its customer not through direct contact but through radio program, its location could be more flexible. However, it is unlikely that they would move very far from the central districts in Gwanak. They had moved once before, but it was less than 1 km from current office.

## **3) Personal Factors**

Previous researches had revealed that start-up businesses tend to have strong personal factors in effect such as CEO' s hometown. In other words, this could also be understood as weak, informal relationships. In if it

is not direct business related connections, one from the area could obtain diverse informations more easily through personal social network and receive support from their family and friends in both direct and indirect ways.

While production and demand factors played an important role in choosing specific locations, personal factors had great affect in the boundaries of their choice. Quite a few of the interviewees mentioned CEO' s home being the reason for staying where they are.

“CEO has all the social connections in this area. Information is everything in business. I think that is the primary reason any social enterprise will choose their location.”

Heaven' s Music

It was also interesting that those who had more 'social capital' elsewhere tend to move more easily to the area with higher social capital even if it does not affect their business directly. Hana Social Art and SE&T had their community networks in Bangbaedong and Jangandong respectively, and they moved back to their original area after incubation period ended. Similarly, others moved into Gwanak more easily when they have some connection to the area before, as was the case of Good Travel.

Personal factor does not seem to affect the detailed location like demand or supply factors. However, they tend to set the boundary. 13 out of 18 CEOs had either studied, worked, or lived in Gwanak. Home location of CEO does affect the location of the enterprise. 5 interviewees pointed out that proximity to the CEO' s home is one of the important reasons for choosing the location. People with the local background, though they claim that they will move at the site of opportunity, admits that it will be difficult to move.

“Though I said we would move when we continue to lack local work, I have to admit it will not be easy. Our staffs and CEO all live around here... So, it will take a lot of incentive to move.”

Puren Korea

#### 4. Conclusion

Location factors for social enterprise could be best described by the case of *Star*, a furniture company that employs socially disadvantaged. *Star* has an office in the Incubation Center. In the future, it wants to open a shop in one of the furniture clusters in Seoul because it expects to find customers and suppliers more easily there. However, the interviewee said that if it targets the public market, it is better to stay near public organizations. He also said since a social enterprise has much more paper work than an average enterprise, it is convenient for social enterprises to stay where they can easily perform the paper work.

On top of production and supply factors that affect industries and non-profits, relationship with public organization and amount of paper work also affect the location of social enterprises.

## VI. Characteristics of Social Network

### 1. Social Network Analysis of Social Enterprise in Gwanak

There are different ways to gather social network data—questionnaires, interviews, observations, archival records, experiments, etc. This research has utilized survey questionnaires, and interviews when survey was not available. There are three different question formats that can be used in making questionnaire for network analysis<sup>15)</sup> and they are:

- 1) Roster vs. Free recall
- 2) Free choice vs. Fixed choice
- 3) Ratings vs. Complete ranking

Since there are fixed number of social enterprises in Gwanak (roster) and this research is focused on how a social enterprise relates with the another (rating a relationship), I have provided a complete list of enterprises, and asked the respondents to rate each one in the list. This way, I was able to reduce the risk of any network being omitted which is what often happens to free recall method. Rating has four categories: ‘I don’ t know’ ; ‘I know’ ; ‘I interact time to time and share information’ ; ‘I meet them frequently and consider business collaboration.’ First two asks whether they know each other or not. Later two asks the intensity of their interaction.

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15) Wasserman, Stanley. Social network analysis: Methods and applications (Pg. 45)

**Table 19 Level of interaction and knowledge**

No interaction (Do not know)	No interaction (Know each other)
Light interaction	Strong interaction

The list of social enterprises includes candidate social enterprises under the incubating program and those which had been a social enterprise before but not in the system currently, totaling 27. In a case when a survey was not possible, I asked them to mention names of social enterprises which they interact frequently. Out of all the Gwanak social enterprises requested, 15 responded. Network map was constructed based on these responses, assuming that the relationships are mutual and undirected.

A graph model, an undirected dichotomous relation model, is used. It consists of nodes, representing entities, and lines, also called edges, representing relationship. Some of the key concepts to understand in this model are:

**Degree:** number of nodes a node is connected with

**Density ( $\Delta$ ):** ratio of the number of lines present to the maximum possible lines (minimum 0 to maximum 1)

$$\Delta = \frac{\text{actual number of edges}}{\text{maximum number of edges}} = \frac{2L}{g(g-1)}$$

Where,

L: number of lines present

g: number of nodes except itself

$\frac{g(g-1)}{2}$ : all possible lines

**Local clustering coefficient ( $C_i$ ):** ratio of the number of edges between its neighbors to the maximum possible number of such edges (minimum 0 to maximum 1)

$$C_i = \frac{\text{Number of closed triangles}}{\text{Number of possible triangles}} = \frac{2l_i}{d_i(d_i-1)}$$

Where,

$l_i$ : number of triangles

$d_i$ : number of nodes except itself

$\frac{d_i(d_i-1)}{2}$ : all possible triangles

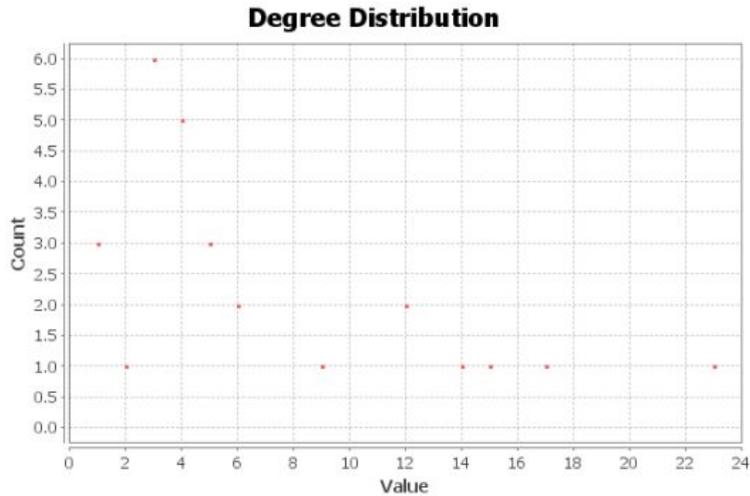
**Average clustering coefficient ( $\bar{C}$ ):** the average of the local clustering coefficients of all the nodes n

$$\bar{C} = \frac{1}{n} \sum_{i=1}^n C_i$$

From the interview and the survey, it was found that everyone basically knew all the other social enterprises in Gwanak. So, I only mapped direct interaction between social enterprises. Average degree, or average number of links, a social enterprise has is 6.37.

Figure 26 Result of degree distribution analysis

Average Degree: 6,370

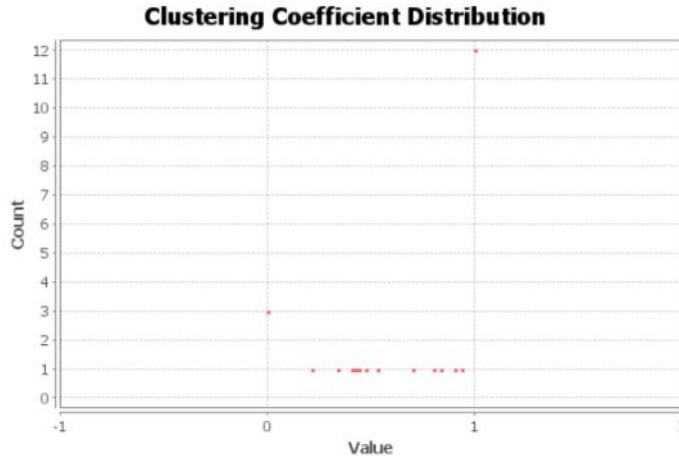


This means that out of about 20 social enterprises, they have interaction with 6 to 7 social enterprises in average. Considering that they are not from the same industry, their level of interaction is not low. This number does not count the interactions that could have been if all the social enterprises were to be surveyed, in which case the degree would have been higher. The density of the network is 0.245. This means that out of all the number relationships possible, around 25% of them are present.

The average clustering coefficient is 0.791. This means that when a social enterprise has relationship with a number of other social enterprises, it is quite likely that they also have relationship among themselves. This concept is much like “mutual friend” in facebook.

**Figure 27 Result of clustering coefficient distribution analysis**

Average Clustering Coefficient: 0,791  
Total triangles: 120  
The Average Clustering Coefficient is the mean value of individual coefficients.



The degree distribution chart shows that different nodes have different number of degree. There seems to be certain nodes that are very well connected and others which have minimal connection.

Social enterprises in Gwanak knew each other quite well as a result of Gwanak Social Enterprise Network.

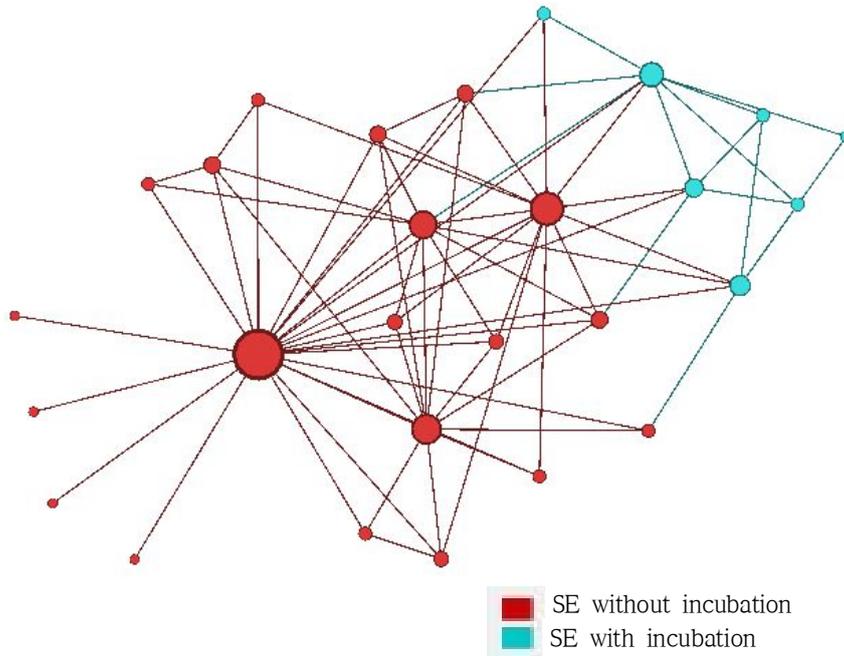
“Most of us [social enterprises in Gwanak] attend the monthly meeting. At least all of us will show up once or twice a year, at the least. So, I know most of them.”

Seam

Because nearly all social enterprises in Gwanak knew each other, only the actual interaction was analyzed based on their intensity. There are two separate graphs each showing the light and strong relationship. Those with light interaction meet each other time to time, either personally or by attending a program which involves other social enterprises. Strong network

is where they interact more often and are willing to carry out business activity together.

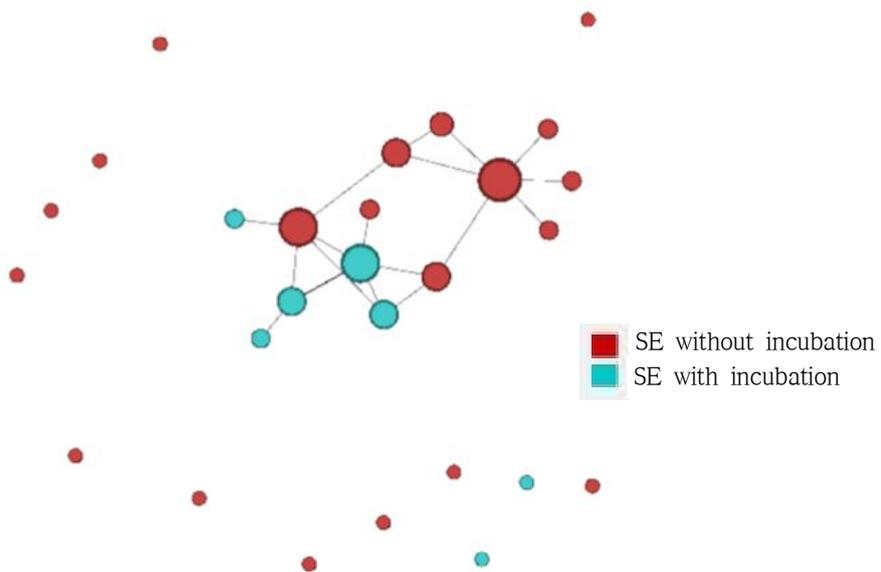
Figure 28 “Weak” network of social enterprises in Gwanak



This is a result of mapping light network. The circles, called *nodes*, are the social enterprises; the lines, called *edges*, represent the interaction between the nodes. Size of a node is proportional to the number of connections a node has, meaning more edges a node has larger it would be. In the diagram some nodes are much larger than the others and serve as centers of the network. These hubs seem like a result of the Gwanak Social Enterprise Network, a casual meeting where social enterprises in Gwanak come together monthly to interact with each other. The active members of the network—likely the older and more established ones—have interaction with larger number of social enterprises.

The diagram also shows that the social enterprises with similar background are more likely to interact with each other. Many of the new social enterprises participate in a year program provided the support organization, and they know each other better as a result.

Figure 29 “Strong” network of social enterprises in Gwanak



This graph shows network of social enterprises who see each other more often and are close enough to consider cooperating. These numbers are, of course, fewer than the “light” network, but the basic structure has not changed. Interestingly, size of blue nodes are larger in this graph compared to the previous diagram. This means that while traditional social enterprises have more number of connections, the social enterprises with incubation have fewer but stronger connections, particularly among themselves. This is because they have already spent a year together in the center. They know

each other well and are willing to cooperate with each other.

“The incubation program is now incubating teams for the third time. We have casual meeting for each program. I am the first year team... Though actual business cooperation is not easy because we have such a different businesses, we still have casual interactions. I also interact with the third year team quite often.”

SPC

## **2. Characteristics of the Social Network**

The characteristics of the network are compared to a industrial cluster to see if the network, in any way, share common features with a cluster. According to Porter’ s definition, there are horizontal and vertical levels of cluster. Horizontal level is mainly rivalry and knowledge sharing in a same industry group, while vertical level is about cooperation among different companies which cooperate to create an effective value chain. Creating such cluster—it is called by different names like Social Enterprise Network and Social Enterprise Ecology—has been one of the major objectives of the government policies and there are many voluntary networks responding to their needs.

### **1) Horizontal: knowledge sharing**

There is little local knowledge sharing directly related to the business operation in municipal level like Gwanak. Because social enterprises serve in different industries, the business related knowledge of one social enterprise is not relevant to the other. This is not limited to Gwanak since there are only so many social enterprises in each area.

There are, however, networks in the same industries at city or national level. There are Association of Construction Social Enterprises which connects all the construction social enterprises in Seoul. They sometimes

form consortiums to bid for larger projects. Corporations in construction and commercial cleaning tend to form stronger network since they can create new business opportunities through knowledge sharing and cooperative approaches.

Knowledge sharing at municipal level is focused on different policies and projects from the municipal government. Both current and former presidents of Gwanak Social Enterprise Network, Puren and Kongkakgi, said that the reason for networking is, first, networking as an end in itself and, secondly, to share knowledge of different projects by Gwanak government and to have a stronger voice when communicating with the government.

## **2) Vertical: connecting value chain among social enterprises**

Both the government and social enterprise networks showed willingness to promote vertical cooperation among social enterprises. For instance, when a enterprise holds an musical event, another in food industry can do the catering. This is what

One of the main purposes of the

This is one of the main reasons why the hub centers and social enterprises themselves created the meetings.

In Gwanak, social enterprises are relatively well connected due to monthly meetings and other meetings among incubated social enterprises. They have willingness to work together and sometimes do, but actual occasions of cooperation are not very high. And the interaction seems to be among certain social enterprises. For one thing, new social enterprises have not had much opportunity to cooperate with others. Another thing to keep in mind is the difference of social enterprises themselves. There are such a diversity of industry and services. Customer and target group are as diverse as the social problems themselves. They are enterprises that would never have come together if they were not social enterprises. There is

occasional cooperation, as neighbors, but deeper cooperation would need more strategy.

“Carpenter[a candidate social enterprise] made all the furniture for us. I think they gave us at a cheap price.”

Heaven’ s Music

“You see. We are a dance performance team and others are... so different. I personally keep a good relationship with Academie Percussion Ensemble. We have once tried to hold some event together with them, but things did not work out.”

Trust Dance

In sum, creating a value chain is desired by both the government and social enterprises. They have created associations and meetings as an effort to create a social enterprise version of an industrial cluster, to raise its competitiveness. Though a network is an asset, it is difficult to expect the network of social enterprises to function like an industrial cluster. First of all, social enterprises are too broad a concept. Their spectrum ranges from cafes to construction companies, which makes traditional cooperation and knowledge learning difficult. Secondly, there is not enough number to create an effective value chain. Cooperation among enterprises in different industries are possible, but it is not easy when there is, like 30 of them. The pool itself is not large enough to create enough business opportunities.

## VII. Conclusion and Implication

Social enterprises that are rapidly increasing in Korea shows an uneven distribution in their location both at national and district level. Through closer look at Seoul, the concentrations were found in few Gu districts like Mapo, Jongno, Yeongdeongpo, and Seongbuk. Each of them has their unique mark: Mapo and Jongno has been centers of civic movements in Korea; Yeongdeongpo has Haja Center which served as one of the earliest incubating centers for social enterprises; Seongbuk Municipal Government has taken strong pro-social enterprise measures.

The concentration also varies by their certification type. Eunpyeong has a very high proportion of social enterprises certified by Seoul, while Gwanak has more social enterprises certified by regional government than others. Such uneven distribution by type shows that the location of social enterprises reflects policy of the government and their connect with different public organizations.

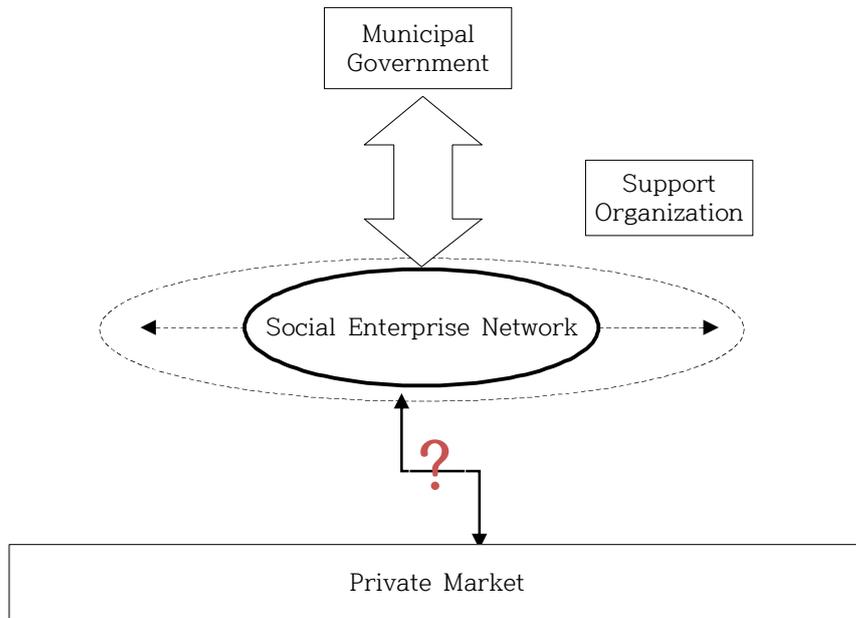
Interviews show that relationship with different partner organizations affect location factors. Their network, primarily with public and third sector organization, affects the following factors: (1) For supply factor, social enterprises obtained office spaces and facilities from their partner organizations and support organizations. (2) Demand factors, which are composed of market and social service demand, are affected by the public market created by the government. (3) Personal factor like personal network also affects the location. When other factors are equal, people tend to choose place where they are familiar with.

Network analysis of social enterprises in Gwanak shows that there is moderate to high level of network among social enterprises. The bond

seems to be stronger among those who received incubation program together. Comparing with a conventional cluster model, they showed following characteristics: (1) Their knowledge sharing and networking at regional level is primarily focused on attracting public market and resources. Connectivity of network among social enterprise with same industry at wider level differs by industry. While social enterprise with more focus on private market like those in food and beverage is weak, others with focus on public market have stronger network. (2) Cooperation between industry is still on the process. There is willingness to cooperate, but the fact that they belong to different industries—with different business model and different target customers—pose as a barrier to carry out actual business cooperation.

In sum, network with the public and the voluntary organizations affects the location of social enterprises directly and indirectly, by serving as a channel for securing resources and obtaining information. As for the network among social enterprises, they do not seem to have strong impact on the location. Whether their network could be significant in the future depends on how the network function. Though casual network is a valuable asset, it would not be part of important decision making factors unless it benefits their businesses.

Figure 29 Diagram of social network of social enterprise



The findings from the research implies that the social enterprises networks should grow in scale and design creative ways to network in order to help social enterprises be sustainable business entities. The strong policies and supports were able to create considerable number of social enterprises and also helped them connect with each other. However, they are not sustainable yet in market terms. It is necessary to fine tune the networks to meet the specific needs of social enterprises in each industry. It is recommendable that the network serve as a way to help them find its place in the private market, rather than in the public or the voluntary organizations.

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