Policy assessment on outcome measurement of Seoul Metropolitan Government’s social economy
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The content of this report reflects the opinions of the researchers of this study and may differ from the policies of Seoul Metropolitan Government.
Summary

Seoul Metropolitan Government’s social economy policy is differentiated in terms of systemization of public-private cooperation and relatively small financial scale

Must develop outcome measuring method for Seoul Metropolitan Government's social economy in order to establish policies and budget

This study aims to improve perceptions of the diverse values of the social economy by (theoretically) proving how they contribute to the resolution of structural problems in Seoul Metropolitan Government (SMG)’s social economy. The primary aim of this study is to contribute to the development of quantitative and qualitative measurement methods for SMG’s social economy policy and to use these methods to conduct policy assessments, prioritize policies and budgets, and establish detailed implementation process for policies/budgets. This study is expected to be utilized by various sectors of the social economy to establish the grounds for internal assessments as well as development plans through the development of outcome indices.

Concept of social economy has long history, a “third player” in between the market and state

Research on the historical background and ideological roots of the social economy revealed that the social economy, while its system may not yet be fully matured, is comprised of a long history of substantive concepts. The ideology of the social economy dates back to Aristotle, is grounded in the background of Adam Smith and John Stuart Mill, and put into practice by Robert Owen. In the 20th century, the concept of the social economy was revived by Karl Polanyi, with behavioral economics named as additional evidence at the end of the 20th century. Aristotle argued that the “violence of the market” must be restricted and that production and labor must be made “humane.” In relation to this, Smith emphasized the need for altruism, sympathy, and mutuality. Owen advocated an independent and democratic production unit, while Polanyi further developed Aristotle’s theory to formulate the concept of a “suppressed” market economy that maintains a mutually-interactive ecosystem with society and makes substantive efforts to contribute to human livelihood.

Recently, dependence is much stronger on the microeconomic level in the private sector for the purpose of integrating labor and satisfying social demand (contrary to the Keynesian response of neoliberalism). The microeconomic units relied upon by the social economy, which is a “third player” existing between the market and the state, are social enterprises and cooperatives. These units have coexisted with the market economy in terms of their shared emphasis of independence, mutuality, solidarity, and participation, and are distinct from charitable institutions and non-profit organizations (which rely on individual donations). In Korea, which is today plagued by inefficiency, abuse of authority and unjust practices on a micro-level since its democratization on a macro-level in 1987; the social economy is expected to contribute to the achievement of “actual” democratization in addition to improving efficiency, impartiality, and solidarity. The value of the social economy, starting with the social enterprise, can be summarized as two things: mutuality and solidarity. Mutuality demands trust and long-term relationships, while solidarity is based on civic-mindedness and social participation. The nature of interpersonal relations in Korea and other Eastern countries can only bring about trust when combined with civic-mindedness—such change is noteworthy in that it is viable in the format of the social enterprise or cooperative. More specifically, social enterprises can be utilized for capability- and relationship-building for the socially vulnerable (middle/high school dropouts, people with
Social economic organizations can create good-quality jobs and provide relationship-based social services

An analysis of existing documents shows that Seoul has nine major types of social economy-related problems: structural unemployment, polarization, increase in economically-alienated individuals, poverty and social isolation of seniors, increased social demand for childcare, failure of aged districts to be regenerated, environment/energy, education, and the tendency for the dissolution of villages. To answer the question of whether social economic institutions can help solve these structural problems in Seoul’s social economy, an analysis of existing documents on the role and accomplishments of social economic organizations was conducted in addition to an expert survey. First, results of the analysis revealed that social economic organizations are carrying out four major roles: creation of high-quality jobs, creation of labor-integrative jobs, provision of relationship-based social services, and the reconstruction of local communities.

The outcome of the survey on experts (SMG policy officers, Seoul Metropolitan Council members, Seoul Institute, employees responsible for policy matters at local governments, employees of social economy support divisions at local governments, etc.) showed the highest overall evaluations for the efficiency of social economic organizations in good-quality areas of the social service sector (senior care, childcare, etc.). But in the “creation of happy local communities that live in peaceful coexistence” category, there was a discrepancy of opinions between social economy support divisions of local governments and other groups. While those who are part of social economy support divisions of SMG’s local governments pointed to unemployment and polarization as the easiest problems for social economic organizations to solve, SMG policy officers pointed to social economic organizations as the second best solution for unemployment and polarization.

Social economic organizations in relatively advantageous position in terms of production of goods or services with high transaction costs/external effects

Outcomes of research on areas for which social economic organizations can be relatively more efficient than the profit-making sector or organizations in the public sector show that social economic organizations have a high probability of maintaining a relative advantage in: 1) the production/provision of goods or services with high transactional costs or significant external effects or 2) industries that are based on collectives, values, and/or relationships.

There are five theoretical reasons that can put social economic organizations in a relatively better position than the profit-making or public sectors. First, the nature of businesses operated by social economic organizations (not profit-seeking, aims to accomplish goals for good of society) makes it easier for such organizations to provide high-quality social services. Second, conditions are more favorable for the creation of a virtuous cycle (enhanced loyalty of employees, improved productivity, securement of business competitiveness) due to the conscious effort of social economic organizations to have a corporate culture based on democratic governance, participation and trust. Third, by regarding the consumer not as an outside user but a co-producer, co-supplier and long-term partner, social economic organizations can distribute more information, gain more trust, and significantly improve product quality. Fourth, due to the difference in business object (achievement of social goals) and openness of diverse stakeholders, the social economic organization is more open to additional
externally-derived resources than can be gained by profit-making corporations or the government. Social economic organizations can also help create happier local communities due to their ability to encourage participation by diverse local residents. Fifth, because the users and consumers of social economic organizations actively voice their opinions and/or exit, greater degrees of flexibility and innovation compared to the public sector can be combined with the strong loyalty of diverse stakeholders to result in greater desire for innovation as well as enhanced capabilities.

A survey of representatives of social economic organizations resulted in the frequent naming of the following reasons named for the relative superiority of the social economic organization: innovation-friendly governance, high degree of productivity due to democratic decision-making structure and internal motivation, and the attraction of additional external resources that are based on the trust of local communities.

**Development of three types of outcome measurement indices for social economic organizations (e.g. provision of social services)**

The development of an index that can effectively measure the financial and social outcomes of the social economic organization will be highly instructive in the performance management of not only political supporters or outside stakeholders but internal agents. This study aims to develop a performance index that can compare similar and dissimilar types of social economic organizations. This study attempted to create an outcome measurement index that can measure the four major areas (creation of high-quality jobs and efforts to increase the income of members, creation of labor-integrative jobs, provision of high-quality social services, contribution to formation of local communities) of the activities of social economic organizations based on their aspiration toward social outcomes. This study created a measurement index for three areas excluding the fourth area (formation of local communities).

The outcome measurement index for the social economic organization, whose primary goal is to create/maintain high-quality jobs and increase the income of its constituents, was comprised of eight categories. The objective portion of quality of employment included “employment stability and income levels” and “increase in constituents’ income levels that can be determined by business or labor (employee) cooperatives. The subjective portion of quality of employment (for job seekers) included three areas: worker pride in their occupations, corporate democracy, and good interpersonal relations with coworkers. Finally, contributions to society by the constituents of the social economic organization comprised the following areas: hiring of socially-vulnerable individuals, constituents taking a genuine interest in the local community, and the creation of a corporate culture that encourage voluntary social contribution.

A comprehensive index was developed in order to compare the outcomes of social economic organizations in terms of the creation/maintenance of good-quality jobs. This resulted in differences in weighted value among category items, ranked in the following order: first, increased income of constituents; second, employment stability; third, corporate democracy; and fourth, worker’s pride in his/her occupation and degree of contribution to corporate mission. If a social economic organization derives numerical values for the objective scores and/or subjective qualitative assessments of the above-named categories, weighted value can be applied to each number in order to draw up a composite score.

The outcome measurement index of the labor-integrative social economic organization was defined via nine categories in three major areas: quantitative indices on the employment of socially-vulnerable individuals, indices on the quality of jobs provided for socially-vulnerable individuals, and indices on social contribution through labor-integrative missions. Weighted values were calculated in accordance with Borda count rules, with the comprehensive ranking as follows: first, proportion of hired socially-vulnerable individuals; second, indices on the relative employment security of socially-vulnerable individuals; third, number of employed socially-vulnerable individuals; and fourth,
The number of opportunities for socially-vulnerable individuals to participate in the company and the extent of their sense of ownership.

Lastly, the outcome measurement index on the social economic organization’s provision of social services was defined via eight categories in four major areas: price competitiveness, quality of service(s), participatory operational structure of stakeholders, and extent of social contribution. The composite index was calculated in accordance with Borda count rules, with the comprehensive ranking as follows: first, user participation level; second, flexible price system; and third, degree of user sensitivity. This shows that of the outcome measurement indices for the provision of social services, the quality of service as a relational good, participation by stakeholders, and contribution to social services for individuals with weak purchasing power were regarded as highly important.

**Increase in social economic organizations results in meaningful increase in happiness levels of local residents**

The social outcomes of social economic organizations and sectors can be realized not only by individual organizations but by residents outside the boundaries of the organization. In general, social economic organizations have a strong tendency to develop their corporate cultures in a way that encourages its constituents to contribute to the local community based on its social cohesiveness and integrative abilities. Therefore, it is safe to establish the hypothesis that the more active the social economic organization, the higher the probability of improving the quality of life for residents who live in the areas immediately surrounding said organization.

The past 30 years of research in the social sciences shows that the “subjective happiness level” felt by individuals is the most valid and reliable index that measures individuals’ quality of life. Based on such theoretical outcomes, this study also used subjective happiness level as a substitute variable for quality of life, which was extracted from the “happiness variable” of the Seoul Survey (conducted in October 2014 on 45,496 residents of Seoul age 15 or above). To measure the activity level of social economic organizations, there was a need to define the ecosystems of each –gu that are comprised of social cooperatives, certified social enterprises, village enterprises, and currently-operated cooperatives. Based on this standard, the number of social economic organizations in SMG per –gu defined as above was measured in October 2014. This variable was used as the substitute variable of “activities of social economic organizations.” The variables that are controlled in this study by quantitative analyses are as follows: variables that reflect the socioeconomic characteristics of residents (income, age, gender, educational level, occupation, regional differences, marital status) and –gu-specific variables (number of residents per –gu, number of profit-making corporations per -gu, crime rates per -gu).

The quantitative analysis showed that when all resident socioeconomic variables and –gu-specific variables are controlled, an increase in the number of social economic organizations directly corresponds to a meaningful increase in happiness levels of local residents.

More specifically stated, cases where all controlled valuables are the same in a regression analysis, an increase of one social economic organization resulted in a 0.033 increase in happiness levels of local residents. The preliminary estimate of 0.033 is statistically significant but may look like an extremely small number. The implication of a 0.033 increase in residents’ happiness levels with the increase of one social economic organization is the equivalent of the increase in happiness levels that would occur with an increase in local income levels by KRW 23,400. Therefore, considering that the average number of residents per –gu is 400,000, an increase in the number of social economic organizations by one results in a (combined) increased happiness level that corresponds to the happiness increase that would result from an increased income of approximately KRW 9.36 billion.

To show that the estimated outcome was based on cause-and-effect rather than correlation, a sample pool comprised of 45,496 people was divided into two groups (residents who are aware of the social
economic organization, residents who are unaware of the social economic organization), after which the same regression analysis mentioned above was conducted. If the relationship between the activities of social economic organizations and residents' happiness levels was cause-and-effect, the goal was to prove that the effect of a social economic organization's activities on residents who are aware of the social economic organization is significantly larger than that on residents who are unaware of the social economic organization. After the sample was divided as above, estimated results showed that the happiness levels of residents who are aware of the social economic organization reacts to the activities of social economic organizations significantly more than that of residents who are unaware. These results further emphasize the argument of this study for the cause-and-effect relationship.

**SMG's social economic policy is more effective than central government policies and more accommodating of private sector demands**

The enactment of the Social Enterprise Promotion Act in 2007 prompted the creation of a systemic foundation for SMG’s social economic policy. SMG's support project began in earnest in 2010, with the start of the village enterprise cultivation project. In 2011, systemic conditions were established (centered on SMG) for the revitalization of a social economy that is capable of creating an innovative solution for the problems of job creation as well as those related to local communities. In 2012, with the enactment of the Framework Act on Cooperatives, an environment was created for diverse policy projects. The focal areas of SMG’s social economic policy were as follows: i) establishment of a systematic intermediate support system, ii) comprehensive and specialized support per growth stage, iii) expanded consumption market in the public sector, and iv) establishment of a cooperative business environment based on the local community. SMG stated that its long-term goal was to make the proportion of the social economy seven percent (against GRDP) and employment in the social economy one percent of total employment. Considering that the social economy is currently less than 0.1% of GRDP, with employment levels in the social economy less than 0.5% of total employment, it is obvious that SMG’s goal is not an easy one to achieve.

The basic philosophy of SMG’s social economic policy is the adequate training of people who are interested in or currently working in the social economy and provision of support for promotional efforts so that SMG is not the project/business operator but a support provider for intermediary support organizations that have expertise in relevant areas. This policy direction is resulting in various tangible changes, of which the most important are: i) the fact that the representative of Seoul’s social enterprise association is in close contact with SMG and actively negotiating on projects and ii) the creation of diverse arenas of exchange for on-site personnel of the social economy.

A comparison of SMG’s social economic policy with similar policies of the central government reveals that both emphasize specialized support that is appropriate for the growth stage of companies (the consumers). What makes SMG’s policy different is its systemizing of public-private cooperation and the relatively small budget size. For example, the creation of a fund of KRW 10 trillion for the policy on small business owners during the Park Geun Hye administration and its focus on quantitative government aid is quite different from the policy and approach of SMG.

The survey analysis showed that the sequence of government aid is as follows: financial support (investment/loan, personnel costs) – PR and sales route support – and operational support (spatial support, education). What is noteworthy is that demand for spatial support is especially strong for the provision of social services. The comprehensive policy satisfaction level of all survey respondents (calculated as weighted average) was between 40 and 60 percent in all areas of the social economy. While social service-providing social economic organizations had relatively high satisfaction levels on policy, quality job-creating social economic organizations had relatively low satisfaction levels on policy.

SMG's actual policy priority (first priority) is roughly similar in terms of directionality to the priorities of
areas that require such policies, but the “weight” of the priorities varies significantly. Areas related to job creation and increasing the income of co-op members were evaluated as having relatively low levels of actually-provided support compared to need. On the other hand, the area on creating happy local societies were evaluated as having relatively high levels of support compared to actual need.

The number of organizations that positively evaluated the contributions of social economic organizations in needed areas was roughly only one-third of all survey respondents. This shows that social economic organizations need to make a more concerted effort to produce socially-impactful outcomes.

Two-thirds of survey respondents replied that SMG’s social economic policy is more effective and accommodating of private sector demands than are similar policies of the central government, has a better PR system, and a more proactive implementation body. In terms of ability to accommodate or systematical structure, the number of positive responses was relatively low (approximately 50 percent). Overall, outcomes showed that while SMG’s social economic policy is regarded as more effective than central government policies, there is a need to consider inadequacy in terms of inclusiveness and systematical structure. Other noteworthy points are that intermediary organizations gave more generous evaluations than the social economic organizations in question and that scores on communication with the private sector were much higher when given by intermediary organizations than the social economic organizations. This shows that compared to intermediary organizations, social economic organizations have relatively few opportunities to witness/confirm SMG’s communication capabilities. Therefore, there is a need to diversify communication channels as well as the composition of public-private councils. Demand was highest for financial support (investment/loans, personnel costs, etc.). Because on-site demand for financial aid cannot be ignored; to make this process as efficient as possible, a solution must be derived through consistent cooperation with the central government.