

The Development of Social Economy in South Korea: Focusing on the Role of the State and Civil Society

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Abstract The existing literature has claimed that the state-backed social enterprises in South Korea could be degenerated since the South Korean civil society is not advanced enough to safeguard them against the isomorphic pressure wielded simultaneously by the state and the market. Taking this claim seriously, this paper examines the recent development of social economy in South Korea. Based on the considerable changes in the long-standing statist model of non-profit sector since the late 1990s, the enormous impact of 2011 FAC on the civil society and social economy, and more frequent collaborative effort between the local governments and civil society organizations since 2012, this paper claims that the development of social economy in South Korea has recently shifted from dominance of state power to a mixture of top-down and bottom-up approaches.

Résumé La documentation existante a affirmé que les entreprises sociales de Corée du Sud qui sont adossées par l'État pourraient être abâtardies, puisque la société civile coréenne n'est pas suffisamment moderne pour les protéger contre la pression isomorphe simultanément exercée par l'État et le marché. En prenant cette affirmation au sérieux, le présent article étudie l'évolution récente de l'économie sociale en Corée du Sud. En fonction des changements considérables qu'a subit le modèle de longue date statique du secteur sans but lucratif depuis la fin des années quatre-vingt-dix, l'énorme impact de la FAC 2011 sur la société civile et l'économie sociale, et les efforts de collaboration plus récents entre les gouvernements locaux et les organisations civiles depuis 2012, le présent article avance que l'évolution de l'économie sociale en Corée du Sud est récemment passée d'un pouvoir d'État dominant à un amalgame d'approches verticales.

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Zusammenfassung In der vorhandenen Literatur wird behauptet, dass die staatlich unterstützten Sozialunternehmen in Südkorea degenerieren könnten, da die südkoreanische Bürgergesellschaft nicht ausreichend entwickelt ist, um sie gegen den isomorphen Druck, der simultan vom Staat und vom Markt ausgeht, zu schützen. Der vorliegende Beitrag nimmt diese Behauptung ernst und untersucht die kürzliche Entwicklung der Sozialwirtschaft in Südkorea. Beruhend auf den beträchtlichen Änderungen im langjährigen staatszentrierten Modell des gemeinnützigen Sektors seit den späten neunziger Jahren, den enormen Auswirkungen des Genossenschaftsrahmengesetzes von 2011 (Framework Act on Cooperatives, FAC) auf die Bürgergesellschaft und Sozialwirtschaft und den seit 2012 häufigeren kollaborativen Bemühungen der Lokalregierungen und Bürgergesellschaftsorganisationen behauptet man, dass sich die Entwicklung der Sozialwirtschaft in Südkorea kürzlich von der Dominanz der Staatsmacht zu einer Mischung aus Top-down- und Bottom-up-Ansätzen hin bewegt hat.

Resumen El material publicado existente ha sostenido que las empresas sociales respaldadas por el estado en Corea del Sur podrían degenerar dado que la sociedad civil de Corea del Sur no es lo suficientemente avanzada para salvaguardarlas frente a la presión isomórfica ejercida simultáneamente por el Estado y el mercado. Tomando esta manifestación en serio, el presente documento examina el desarrollo reciente de la economía social en Corea del Sur. Basándose en los cambios considerables en el modelo estatista de larga tradición del sector sin ánimo de lucro desde finales de los años 1990, el enorme impacto de FAC 2011 sobre la sociedad civil y la economía social, y el esfuerzo más frecuente de colaboración entre los gobiernos locales y las organizaciones de la sociedad civil desde 2012, el presente documento sostiene que el desarrollo de la economía social en Corea del Sur ha pasado recientemente de la dominación del poder estatal a una mezcla de enfoques de arriba-abajo y de abajo-arriba.

Keywords Capability of civil society · State–civil society partnership · Social economy · Cooperatives · Institutional change

Introduction

Social enterprise has emerged to innovatively deal with social problems that were not effectively managed by either market or government. However, the way in which social enterprise is organized varies across countries. According to the existing literature, the emergence and development of social enterprise in Europe and North America are more influenced by the voluntary initiatives of civil society rather than the state, whereas those in East Asian countries are more affected by the state (Kerlin 2006, 2009; Nyssens 2006; Defourny and Kim 2011). The difference between the three regions concerning the development path of social enterprise is ascribed to each region's distinct social structures and institutional environments (Salamon et al. 1998; Kerlin 2010). According to Salamon and Anheier's (1998) classification, South Korea falls into the statist model of third sector, which features

low government spending on social welfare and weak non-profit sector. The role of civil society is restricted directly by the state control and indirectly by the emphasis on the role of family in meeting demand for care and welfare service, which has been traditionally buttressed by Confucianism (Bidet 2002; Park et al. 2004).

Recognizing the *dirigiste* tradition of South Korea, Defourny and Kim (2011) cautiously pointed out that the social enterprises in South Korea could easily degenerate since the civil society is not advanced enough to safeguard them from the isomorphic pressure wielded simultaneously by the state and the market. In their analysis of the structure and implementation of 2006 Social Enterprise Promotion Act (2006 SEPA), Mendell et al. (2010), and Bidet (2012) express similar concerns about the dominant role of the state in the development of social enterprise in the country. The importance of civil society derives from the multiple goals and multiple resource structures of social enterprise, contrary to those of conventional firms (Evers 2001; Laville and Nyssens 2001; Gardin 2006). Actors in civil society discover innovative business models to solve social problems and organize various non-market resources that enhance sustainability of social enterprises, which are critical for the emergence and development of social enterprise. The crucial point here, then, is to address how the magnitude and capability of civil society should be improved.

The existing literature suggests that the development of civil society is largely influenced by two factors. The first factor points to the “condition of necessity,” which is likely to arise from structural changes in a socio-economic environment in which either the market or the government fails to meet the increasing needs (Defourny and Develtere 1999). From the standpoint of the condition of necessity, civil society organizations are seen as an alternative way to meet these needs. The second factor is associated with the supply of civil society organizations, specifically the capability of civil society organizations to deal with socio-economic problems. This factor includes changes in institutions (North 1990; Mahoney and Thelen 2010) and power relationships among different social classes and between state and society (Salamon and Anheier 1998; Salamon and Sokolowski 2010), which may give rise to the changes in the scale, structure, and characteristics of civil society sector.

Using these theoretical frameworks explaining the supply and demand in civil society sector, this paper examines the recent changes in the magnitude and structure of civil society sector in South Korea. Specifically, it focuses on the recent evolution of the role of government and civil society sectors in shaping the South Korean “social economy” (Defourny and Develtere 1999; CIRIEC 2012).¹ The case of South Korea is interesting because of its dynamics in the supply and demand in civil society sector, which is connected to the emergence and development of social economy during the past two decades.

¹ The concept of social economy has been developed in European countries in recent decades. It consists of economic activities of cooperatives, mutual societies, and non-profit organizations, all of which share a set of principles that sets them apart from for-profit firms (Defourny and Develtere 1999; CIRIEC 2012). See also Salamon and Sokolowski (2016) and Defourny et al. (2016) for the very recent discussion on relationship between the approaches of social economy and nonprofits to explain the third sector.

South Korea, a country that achieved industrialization and democratization in a relatively short period of time in the aftermath of Japanese colonialism, has undergone significant changes in the economic, socio-demographic, and political structures since the financial crisis in 1997. While these changes may provide a legitimate explanation for the increasing demand for civil society organizations, they also indicate more than simply the change in the supply side of civil society, since it also entails the change in power relationship between state and civil society, in government's attitude toward institutional pluralism, and in government-NPO linkages at provincial or local level. The significant institutional changes include the introduction of the 2000 Act of Assistance of Non-Profit Civil Organizations (2000 AANPCO) and the 2012 Framework Act of Cooperatives (2012 FAC).

However, the existing literature on the development of social enterprise and the characteristics of civil society sector in South Korea does not seem to consider these significant changes that recently took place. In their studies on the development of social enterprise in South Korea, Mendell et al. (2010), Bidet and Eum (2011), Defourny and Kim (2011), Bidet (2012), and Lee (2015) omit the impact of the 2012 FAC and the increasing linkage between provincial or local governments and civil society sector on the development of social economy in the country. Studies on the civil society sector in South Korea, including Bidet (2002), Park et al. (2004), and Choi and Yang (2011), do not address the recent change in the size, structure, and characteristics of the civil society, which may considerably affect the social economy of the country.

This research is aligned with the historical observations on the emergence and expansion of non-profit organizations and the dynamic view on the relationship between government and third sector (Coston 1998; Young 2000; Salamon and Toepler 2015). For example, the spurring of the US non-profit sector in the late 1970s was largely a result of implementation of The Great Society programs of the Kennedy–Johnson administration in the 1960s, when billions of dollars were invested in poverty reduction programs, healthcare, education, community development, environmental improvement, and the arts. Instead of expanding government bureaucracy, a large portion of these funds were channeled through non-profit organizations, which resulted in the emergence of the third sector in the US (Salamon 1995; Young 2003). Italy is another example in which the cooperative types of social enterprise in the late 1980s emerged in order to meet the social needs for work integration and personal services, caused by rapid aging of population and changes in family structures (Borzaga 2004; Ranci 2015). The non-profit organizations, however, were relatively few and confined merely to advocacy activities, because in Italy, similar to South Korea, family has been traditionally responsible for welfare provision, and church-related charitable organizations were controlled by the state during the twentieth century (Borzaga 2004).

This paper is organized as follows: Sect. 2 describes the long-standing characteristics of the third sector in the country and how it has evolved in respect to its scale and structure since the 2000s. Section 3 provides the overall picture of the social economy in South Korea with an emphasis on the limitation of social enterprise model initially institutionalized by the government and the need to transit from a narrowly institutionalized model of social enterprise to social economy as a

much broader concept. In Sect. 4, we describe the legislative background and main contents of the 2011 FAC, how the act differ from the 2006 SEPA, and the impact of the FAC on the capability of civil society and social economy. Lastly, we examine recent partnership between local governments and civil society organizations, and evaluate its impact on the development of civil society in South Korea, followed by concluding remarks

The Recent Evolution of the Third Sector in South Korea

During the industrialization period which lasted until the 1990s, South Korea was considered a country close to the statist model of non-profit sector which featured low government spending on social welfare and weak non-profit sector. In 1990, the social welfare expenditure of the country measured by a share of GDP was 3%, which was far below the OECD average of 17% (OECD 2014). The size of civil society sector in South Korea measured by civil society organization workforce as a share of the economically active population was 2.4% in 1997, which was much below the 4.4% mark, the average size of 36 countries (Park et al. 2004). In addition, the non-profit sector in South Korea by the 1990s featured a weak degree of volunteer participation and a strong presence of service organizations in the field of education and healthcare, depending heavily on service fees and charges rather than philanthropic donations or government fundings (Park et al. 2004).

Cooperatives, which comprise a sub-sector of social economy (Defourny and Develtere 1999; CIRIEC 2012), were also strictly controlled by the state and behaved like state agencies (Jang 2013). During the developmental dictatorship, cooperatives were employed by the government to mobilize resources for the developing economy. The government established the cooperative laws for different industries, which specified that each cooperative sector must be *de facto* administrated and monitored by different ministries so that they could serve well the industry policies initiated by these ministries. In fact, Korean people were not allowed to freely form their own cooperatives. As a consequence of the top-down development of cooperatives, the traditional cooperative sub-sector in the country fell short of the voluntariness and participation from ordinary people in organizing and running an associational enterprise to meet their common needs and aspiration.

This statist model of non-profit and cooperative sector was by and large buttressed by Confucianism and state-bureaucratic developmental dictatorship. As Bidet (2002) noted, Korean Confucianism contributed to weakening of the “condition of necessity” (Defourny and Develtere 1999) for the third sector by keeping demand inside the family sphere. The Confucian culture disciplined parents to spend their time and money on child rearing in exchange for the eventual role-reversal in caregiving. Even caregiving for disabled family members was part of their family’s responsibility.

In addition, during the developmental dictatorship, the state monopolized the power to mobilize and distribute resources in the nation for the catch-up industrialization, which, at the same time, quelled the freedom of speech and association and the emergence of civil society featuring pluralism and diversity.

Although bottom-up movements for community development and integration of marginalized people were assiduously attempted by organizing and supporting cooperatives, grassroots organizations, and nongovernmental organizations, the government resisted the institutional pluralism, resulting in a little linkage between NPOs and the government and a highly asymmetrical power relationship between the two sectors until the early 1990s, which is regarded as a “repressive” type of government–NPO relationship (Coston 1998). Therefore, it was natural that the civil society in South Korea emerged with a burst of citizens’ energy for political democratization. The democratization movements escalated during the 1980s and reached its peak from 1987 to 1997 (Kim 2011). During this period, most of the civic organizations concentrated on the advocacy role in promoting democracy and human rights and checking and safeguarding against the abusive use of power by the state and big firms (Kim 1997).

However, the factors affecting the scale, structure, demand, and supply of the third sector have considerably changed since the late 1990s. Table 1 shows recent growth of the non-profit sector in South Korea measured by NPIHs’ share of GDP. NPIHs, short for Non-profit Institutions Serving Households, is one of the five institutional sectors classified by the Bank of Korea to estimate the national accounts.² Although the NPIHs’ shares of GDP were around 3% from 1970 to 1990, they began to grow after the 1990s and continued at a much higher rate during the 2000s. Table 1 demonstrates that the annual growth rate of non-profit sector in South Korea in terms of total production value has passed that of GDP since the 1990s.³ Therefore, we can say that the NPO sector in the country has expanded considerably since the 1990s.

In addition, the structure of the NPO sector also transformed during that period. Until the early 1990s, the vast majority of the non-profit organizations in the country were either educational institutions or medical and healthcare institutions. However, the picture has changed since the 1990s. Social welfare institutions or professional and business associations have become an important type of non-profit organization. In particular, as Table 2 indicates, the share of social welfare institutions increased from 4.1% in 1990 to 15.6% in 2010 while that of educational institutions decreased from 51.1 to 32.8% during the same period. The striking growth of non-profit organizations involved in social service since the late 1990s is also confirmed by other studies including Kim et al. (2008), Kim and Kim (2013), and Jeong and Kearns (2015). In their analysis of the data on the 2010 central government accounting, Son and Park (2014) also report that non-profit organizations have become social service providers on behalf of central government in South Korea.

Additionally, it was also during the late 1990s that a new wave of cooperative movement, as opposed to the *de facto* government-controlled cooperatives, emerged in the organic food, child care, medical, and college sector as a considerable number of activists transitioned from the political democratization movement to the

² The data are not comprehensive since NPIHs do not cover all nonprofit organizations in South Korea (Park 2006). However, the trend can be identified with the data.

³ Park (2006) also identified higher growth rates of the nonprofit sector during the period 1997–2003, which were estimated by the method identical to the work of Johns Hopkins University’ Global Civil Society Index Estimation 1995–2000.

Table 1 NPIHs' shares of GDP

	1970	1980	1990	2000	2005	2010
Share of GDP (%)	3.0	2.8	3.1	4.2	4.9	5.7

Source: Bank of Korea, National Accounts, www.ecos.bok.or.kr, cited from Kim and Lim (2012)

economic democratization movement (Jang 2014b). In 1994, as Korea achieved GDP per capita of ten thousand dollars, there were an increasing number of people who became aware that natural environment and community have deteriorated significantly during the period of rapid economic growth. As various consumer cooperatives expanded voluntarily, the Consumer Cooperatives Act was passed in 1999 to legally support their activities. Since then, the consumer cooperative movement has developed significantly in both membership and business transaction.⁴

Although the given account of the third sector in Korea is not comprehensive, it can be said that the overall picture of the non-profit sector and cooperatives sector has changed since the late 1990s. The recent evolution of the Korean third sector can be explained by the analytical frameworks on the supply and demand of third sector. To explain the demand side of the change, or the “condition of necessity,” one must emphasize that Korean people have begun to experience significant changes in the economic and socio-demographic structures since the late 1990s. While South Korea is well known for their success in achieving both economic growth and political democratization, it has in recent decades suffered from a series of social problems including polarization of income and wealth, rising unemployment and poverty rate; apparent shrinking of decent jobs, burgeoning of vulnerable non-regular jobs and insecurity of self-employed workers; and mounting demand for social services resulting from rapid aging and social needs for women’s active participation in economic activities.⁵ Furthermore, a striking decline of intergenerational co-habiting households and a surge of single person households have become important factors for the change in the tendency to keep the demand for social welfare inside the family sphere.

These issues have become acute since South Korea underwent the slowdown of economic growth rate in 1994 and the financial crisis in 1997. Analyzing the causes and consequences of these issues, the existing literature maintains that South Korea has experienced a structural transformation from an industrial society to a post-industrial society, and therefore, the state-driven and *chaebol*⁶-dominated development strategy is no longer effective (Cheon 1999; Cheon et al. 2006; Go 2008; Yoo et al. 2012). Furthermore, an increasing number of people have been looking for an

⁴ For example, the number of members of consumer cooperatives for transacting organic food business increased from 30,000 to 700,000 during the period 1998–2012 (Jang 2014b).

⁵ See Grubb et al. (2007), Jones and Tsutsumi (2009), Bidet and Eum (2011) for the English version of literature on these issues and also see Jang (2014b) for the demand for cooperatives as a “condition of necessity.”

⁶ *Chaebol*, which literally means a clan of wealth or property, is a South Korean form of business conglomerate. They typically own various international or domestic enterprises, controlled by a chairman with power over all the operations.

Table 2 Compositions of NPIHs classified by service areas (% of final production value)

	1990	1995	2000	2005	2010
Medical and health	28.1	25.8	29.4	32.5	36.2
Culture and recreation	(1.5)	(1.7)	(1.2)	(1.1)	(1.0)
Education	(51.1)	(46.9)	(42.3)	(40.0)	(32.8)
Social welfare	(4.1)	(5.2)	(8.8)	(10.1)	(15.6)
Religion (congregations and associations)	(8.5)	(11.0)	(10.2)	(9.7)	(6.9)
Political party and trade union	(1.7)	(2.0)	(1.1)	(1.0)	(0.8)
Others	(4.9)	(7.4)	(7.0)	(5.7)	(6.7)
Total	(100.0)	(100.0)	(100.0)	(100.0)	(100.0)

Source: Bank of Korea, National Accounts, www.ecos.bok.or.kr

alternative way to deal with these issues as big business conglomerates rely on temporary jobs and early retirees instead of creating additional regular jobs. This condition of necessity explains the surge of non-profit organizations, especially social welfare service organizations, and the emergence of community-based organic food and daycare cooperatives.

The recent evolution of the Korean third sector can be also explained by the changes in institutional environments, policies, and power relationship between the state and civil society, all of which are relevant to the supply of civil society organizations. The power relationship between the state and civil society had been gradually changing since the persistent political democratization movements led by ordinary citizens succeeded in ending the military dictatorship in 1993 and electing, with strong support of civil society organizations, the two other civilian governments in 1998 and in 2003 (Kim 2011). The long-standing repressive relationship between the two sectors had been transformed into cooperative relationship, as the civilian government accepted “institutional pluralism” (Coston 1998), facilitating the idea that the government and civil society organizations needed to collaborate to effectively deal with the problems of employment, welfare, and social integration on the tight government budgets. Two major institutional changes took place: introduction of the National Basic Livelihood System Act (NBLSA) of 1999 and the 2000 AANPCO.

The NBLSA of 1999 guaranteed all households whose incomes do not meet the minimum standard of living welfare benefits from the government. This introduced for the first time the idea that society should provide every citizen with a decent standard of living. As a result, the public social welfare expenditures of the country measured by a share of GDP increased considerably from 3% in 1999 to 9% in 2012.⁷ The significant expansion of social welfare expenditures and the acceptance of institutional pluralism since the 2000s are powerful explanatory factors for the

⁷ This is a threefold growth. On the OECD average, the social welfare expenditure’ share of GDP grew 17–22% during the same period. Although the gap between South Korea and the OECD average in regard to the social welfare expenditure is still big, it has been reduced significantly since the 2000s.

surge of social welfare service organizations aforementioned (Salamon 1995; Son and Park 2014).

Another important institutional change has to do with the introduction of the AANPCO in 2000. During the developmental dictatorship, most grassroots organizations, civil organizations, mutuals, or cooperatives were not supported by either law or policy, while non-profit institutions involved in school, education, medical service, religion, and social welfare service were regulated by the Law of Establishment and Operation of Public Interest Corporations of 1975.⁸ However, as the relationship between the government and civil society became increasingly reciprocal rather than one-sided, the Kim Dae Jung government, after a close dialogue with civil society organizations, introduced the Act of Assistance of Non-Profit Civil Organizations in 2000 to offer a legal basis for the grassroots organizations to officially operate and collaborate with the government.⁹ The law specified that once a non-profit organization is registered at a relevant government office, either central or regional, it has the right to receive financial assistance, postage rate reduction, and other administrative benefits.

The civil society's response to this Act was quite remarkable. Table 3 shows the recent trend in the number of various non-profit organizations in South Korea. It turns out that the number of registered non-profit civil organizations increased from 3654 in 2001 to 12,252 in 2014. Considering that in 2014 the 10,758 out of 12,252 organizations are registered at regional governments, the vast majority of registered non-profit civil organizations perform their activities based on locality. While some civil organizations intentionally choose not to register, most civil society organizations that are willing to collaborate with the central or local government to serve their beneficiaries more effectively or achieve their social objectives are likely to register. Table 3 also exhibits the surge of non-profit corporations or public-interest corporations since the 2000s, which indicates the significant expansion of the non-profit sector during the 2000s.

The Emergence and Limitations of the State-Driven Social Enterprise Model in South Korea

In South Korea, the concept of social enterprise has gradually attracted attention from civil activists, policy makers, and researchers who have been making efforts to manage the unemployment problems exacerbated by the financial crisis in 1997. As

⁸ However, the legal establishment and operation of associations or foundations were mostly controlled by the government with the right to give permission and require operation-related reports, while the public-interest corporations, which took various types of legal entity, including association, foundation, or special legal entity, were strictly controlled by the government on the basis of the special laws on the private school institutions, private medical institutions, etc.

⁹ The law defines nonprofit civil organization as follows: i) direct beneficiaries of its business shall be many and unspecified persons; ii) no profit shall be distributed among its members; iii) it has not been actually established or operated primarily to back or support any specific political party or candidate in election or to spread a creed of any specific religion; iv) the number of its regular members shall be at least 100; v) It has actual results from public-interest activities for the preceding one year or more; and vi) where it is not a juristic person but an organization, it shall have a representative or manager.

Table 3 Recent trend in the number of non-profit organizations in South Korea

	1990	1995	2000	2005	2010	2014
Non-profit corporation ^a	9318	11,487	10,694	15,046	19,798	21,768
Public-interest corporation ^b	3790	4461	5773	26,517	29,132	29,732
Registered non-profit civil orgs ^c	–	–	3,654 ^d	n.a.	9603	12,252

^a Includes civic non-profit corporations and central or local government non-profit corporations. The numbers were calculated based on the number of non-profit corporations which reported tax return to the National Tax Service in South Korea. The data were derived from the Statistical Yearbook of National Tax, National Tax Service (www.nts.go.kr)

^b Derived from the Statistical Yearbook of National Tax, National Tax Service (www.nts.go.kr)

^c Derived from the website of Ministry of the Interior (www.moi.go.kr)

^d Indicates the number as of 2001

Defourny and Kim (2011) pointed out, the policy makers and civil activists of South Korea were very active in learning from the Western European countries' examples of social enterprise, among which a mix of Italian and the U.K. examples were adopted for the enactment of SEPA in 2006.¹⁰ The main components of the act included the certification of social enterprise; classification of social enterprise into the likes of WISE, social enterprise providing social services, and social enterprise aimed at community development; and government subsidies for certified social enterprises that employ disadvantaged people in the early stage of their growth. The number of certified social enterprises increased to 1408 by the end of 2015 and employed about 33,000 workers. 1059 certified social enterprises, which is about 75% of the total number, have a major social mission statement aimed to provide workplaces for disadvantaged people such as low income earners, the elderly, the handicapped, and the long-term unemployed, while 6.3% of the total certified social enterprises seek to provide social service (KSEPA 2016).

Although there have been the civil society's voluntary efforts to deal with the unemployment problems, including establishment of worker cooperatives and creation of social jobs such as maintenance of forest and caregiving service for the poor elderly and working women's children, one may say that the development of social enterprise in South Korea has been largely led by the state (Mendell et al. 2010; Bidet and Eum 2011). Because the 2006 Act authorizes the Minister of Employment and Labor to grant social enterprise certification, it subsequently created an inevitable divide between the official government-led social enterprise sector and the non-official social enterprise sector without certification or subsidy. As stated by Defourny and Kim (2011) and Bidet and Eum (2011), there are other types of social enterprises in South Korea that are not certified by the government, including self-sufficiency enterprises, local community businesses, consumers' medical cooperatives, community welfare centers, and social ventures. Although the exact size of non-certified social enterprise sector remains unknown due to the statistical lack, most people in the sector agree that they are growing (Cheon et al.

¹⁰ Later, the idea of the social innovation school (Dees and Anderson 2006) from the US was also transmitted to South Korea.

2012). Furthermore, in order for the Minister to exercise the right to grant subsidy to certificated social enterprises, the Social Enterprise Promotion Agency, a government-affiliated organization, was established to implement the process of screening and monitoring the registered social enterprises.

In respect to the role of state and civil society in developing social enterprise, two outstanding consequences ensued. First, although the government contributed to informing citizens of the significance of social enterprise for the suffering country, the initiative of the government and the minimal collaboration between the government and civil society organizations in developing social enterprise tended to induce potential social entrepreneurs to focus mostly on meeting certification and subsidy requirements that are narrowly specified by the Ministry, rather than stimulating and broadening their imagination for enterprising social integration or social innovation. This was likely to result in the narrowness and officialism of the social enterprise sector and under-utilization of potential capabilities of the civil society for developing social economy more broadly.¹¹ Second, the central government's focus on the individual enterprises and the weak links between national, regional, and local governments were likely to undermine the capacity for social enterprises or, more broadly, social economy to be integrated into socio-economic development strategies for local communities (Mendell et al. 2010).

An increasing number of scholars, practitioners, and policy makers have agreed with the overall assessment on the first five years' performance of SEPA and its related measures that called for the need to reform the role of central government by focusing on improving infrastructure, including social finance and socially responsible public procurement, and to enhance the role of civil society and local governments in a way that encourages citizens to participate in social economy sector (Mendell et al. 2010; Cheon et al. 2012). These directions have been supported well by the enactment of FAC in 2011 and the emergence of partnership between local governments and civil society organizations (see Table 4 for the chronological illustration of major events in the development of social economy sector in South Korea).

The Enactment of Framework Act on Cooperatives and Its Implications for the Social Economy Sector

Cooperatives emerged earliest and are integral players of the social economy. Cooperatives and social enterprises, both being an initiative launched by a group of citizens, share some common features, including integration of social and economic activities to meet the common needs, the participatory nature of forming and running an organization, and a high degree of autonomy (Macpherson 1996;

¹¹ These are confirmed by the results of a population survey on the certified social enterprises conducted in 2012 (Cheon et al. 2012), which indicates that although the social enterprises have contributed to providing jobs for disadvantaged people, a non-trivial portion of them would have financial difficulties if the government subsidies do not continue. In addition, the research states that only a few social enterprises have succeeded in obtaining sufficient amount of support from the civil society and innovatively meeting the social needs.

Table 4 Major events in the development of social economy sector in South Korea

1988–2005	New cooperative movement after political democratization in 1988	Emergence and development of consumer cooperatives (organic food, medical, and child care)
	Worker cooperative movement after financial crisis in 1998	To provide the working poor with employment by establishing worker cooperatives (construction, clothing, cleaning, etc.)
	Introduction of National Basic Livelihood Security Act (1999)	Emergence of self-sufficiency enterprises by government-supported self-sufficiency promotion program for the working poor (WISE): cleaning, recycling, care service, etc. Introduction of a policy for creating social service jobs and emergence of non-profit organization providing the jobs
2006–2011	Enactment of Social Enterprise Promotion Act (2006)	Emergence of social enterprises certified and subsidized by government
	Civil society's increasing awareness to social enterprise	Policy for social enterprise is promoted by many ministries in both central and regional governments Organizations to support social enterprise have emerged
2012–present	Introduction of Framework Act on Cooperatives (2011)	The act allows citizens to establish traditional cooperatives and social cooperatives Start-ups of cooperatives have explosively burgeoned
	Spreading out of social economy concept over the country	Local governments are increasingly involved in promoting social economy including cooperatives, social enterprises, and community activities The emergence of social economy networks at local or regional level

Source: The author's own evaluation

Defourny 2001). As the types of cooperative vary, the specific aims and characteristics of cooperatives also vary across regions or countries (Birchall 2011; Jang 2014b). In relation to social enterprise, social cooperative is a newly emerged type of cooperative and is regarded as a cooperative form of social enterprise. Traditional cooperatives tend to pursue members' individual benefits by organizing members' common needs and collective actions rather than capital gains, while social cooperatives emphasize the collective nature of the economic activities to be organized, such as co-production and governance structure in which multi-stakeholders participate in order to effectively achieve the public or collective interests of a group of people who may be disadvantaged (Thomas 2004; Defourny and Nyssens 2013).

The essence of cooperative sub-sector lies in the voluntary creation and management of a firm by a group of ordinary people with common needs and aspiration. It is well known that the people's experience of participation in organizing and managing cooperatives positively influences the quality of civil society by enhancing social trust (Putnam 1993) and boosting citizens' capability to

organize “shared destiny” (Defourny and Develtere 1999). In most Western European countries, various cooperatives, ranging from consumers’ cooperatives to small entrepreneurs’ or workers’ cooperatives have been created and managed by ordinary people for the past 150 years.

However, as described in the previous section, the experience of modern cooperative movement in Korea has been limited and the cooperatives have been distorted by the ruling state for 80 years, from the colonial period to the developmental state period.¹² In fact, Korean people have not been allowed to freely establish their own cooperatives until the FAC went into effect in December 2012. There have been strict regulations on the establishment and management of cooperatives in terms of the boundary of their activities, conditions for obtaining permission from the government, and the governance structure.¹³ Although workers’ cooperatives and social cooperatives alike emerged in the 1990s, there was no basis for legal support for these types of cooperatives. To solve this problem, several organizations in the newly emerging cooperative movement launched a project for enacting legislation that could cover various types of cooperatives in February 2011.¹⁴ Thanks to the political leaders’ increasing expectation for the role of cooperatives in alleviating the problems of economic downturn and social welfare, the Framework Act on Cooperatives was passed by the Korean National Assembly on December 29th, 2011, and went into effect on December 1st, 2012.¹⁵

The 2011 FAC states its purpose of legislation as follows: “To facilitate independent, self-supportive and autonomous activities of cooperatives and so contribute to social integration and balanced development of the national economy by providing for basic matters regarding the establishment and operation of cooperatives” (Art. 1). Since December 2012, Korean citizens have been allowed to freely establish, with at least five members,¹⁶ social cooperatives as well as traditional cooperatives, including worker cooperatives, entrepreneur cooperatives, and consumer cooperatives, except financial or insurance cooperatives.¹⁷

¹² See Jang (2013) for more details of the history of Korean cooperatives.

¹³ Seven special cooperative laws have regulated cooperatives, including agricultural cooperatives (1907, 1957), forestry cooperatives (1911), fisheries cooperatives (1911, 1961), small and medium enterprises cooperatives (1963), credit unions (1972), community credit cooperatives (1982), and consumer cooperatives (1999).

¹⁴ The members participated in the project had increased to 29 organizations in August 2001, including the Federations of Consumer Cooperatives, the National Association of Social Enterprises, the Federation of Alternative Enterprises, the Association of Daycare Service Cooperatives, and the National Union of Unemployed.

¹⁵ The enactment of the act was initiated by the Assembly members while the vast majority of legislation were initiated by the administration in South Korea.

¹⁶ In some special laws, a larger number of members are required. For example, 1000 members are required for an agricultural cooperative to be established on a territorial basis while 100 members are required for a credit union or community credit union to be established. The Consumer Cooperative Act stipulates that the minimum size of membership for founding a consumer cooperative is 300 (Jang 2013).

¹⁷ Therefore, Korea has transitioned from a country having a special law system on cooperatives, like Japan, into a country having a mixed system of general laws and special laws for cooperatives, like France.

The FAC distinguishes a cooperative from a social cooperative with regard to the distribution of net income, and imposes heavier regulations on a social cooperative. A social cooperative is not allowed to distribute surplus to its members (Art. 97–98). This prohibition originates from the characteristics of non-profit organizations (Hansmann 1996). Social cooperative is a cooperative form of social enterprise which is featured with a general interest mission, non-state character, multi-stakeholder membership structure, substantial representation of worker members, non- or limited distribution of surplus (CICOPA 2009). The social cooperatives stipulated in the FAC are aligned with the statement of CICOPA on social cooperatives.

The 2006 SEPA and 2011 FAC differ in how each handles the legal nature of social enterprise. The SEPA grants a certificate of social enterprise while the FAC grants a legal entity of social cooperative by permission. The legal entity of certified social enterprise may be for-profit or non-profit, while a social cooperative must be a non-profit firm. A major item of government support to a certified social enterprise is the subsidy for employment of disadvantaged people for maximum of 5 years. While the FAC specifies some grounds for government support for social cooperatives, there are no specific provisions on the support. In other words, a new form of social enterprise which relies less on government subsidy has emerged, thanks to the 2011 FAC.

Korean people's response to the enactment of the FAC turned out to be explosive. As shown in Table 5, the growth of establishments of cooperatives based on the FAC increased considerably over a short period of time. 8289 cooperatives were created during the first 3 years after FAC came into effect. 7880 cooperatives were traditional ones such as small entrepreneurs' cooperatives, consumer cooperatives, and workers' cooperatives, while 362 cooperatives were social cooperatives. About 100,000 people have participated in the creation of cooperatives and invested approximately 130 billion Korean won¹⁸ in their cooperatives at the time of establishment. The planned activities of newly established cooperatives included commerce, agriculture, manufacture, food service, lodging, recycling, solar power energy, education, culture, social services, consulting, etc.

The enactment of the 2011 FAC has been influential and will continue to influence the capability of civil society and the development of social economy in South Korea. First, the acquisition of people's freedom to establish their own cooperatives would significantly boost the capability of Korean civil society. Those who have suffered from the existing economic system—the self-employed, freelancers, early retirees, and unemployed youth, as described in the previous section, make up the majority of leading members of the newly established cooperatives (Jang 2014a, 2016). Looking at the surge of new cooperatives, the old cooperative legislation system suppressed people's social and collective entrepreneurship and capabilities to cooperate with each other. In this regard, the enactment of FAC would contribute to boosting citizens' capability to recognize and organize “shared destiny” (Defourny and Develtere 1999), and therefore enhance the citizen's participatory nature in the social economy of South Korea.

¹⁸ It is equivalent to approximately 118 million dollars.

Table 5 Accumulated number of cooperatives newly established based on FAC

	Nov. 2013	Dec. 2014	Nov. 2015
Traditional co-ops	2943	5938	7880
Social co-ops	102	262	362
Federations	12	35	47
Total	3057	6235	8289

Source: Ministry of Strategy and Finance in South Korea

According to some scholars, the weak power of civil society is ascribed to the state initiative in the emerging social economy sector in South Korea (Defourny and Kim 2011; Bidet 2012). However, it is expected that the implementation of FAC would help facilitate citizens' willingness and know-how to cooperate with other citizens, which then would strengthen the social economy sector. Such expectation is supported by the fact that a large number of new cooperatives have been founded at the beginning stage of FAC implementation, though the FAC does not specify any government subsidy to the general type of cooperatives. From the organizational perspective on civil society, it is observed that the civil society sector engaged in the cooperative movement has been expanding. An increasing number of infrastructure organizations, including voluntarily established associations, existing associations and foundations, and extension services of colleges, have begun to provide education and consulting activities in order to assist the new cooperative movement since poor people's self-help and self-responsibility elicit civil organizations and regional or local governments to support their actions. In this manner, the newly established cooperatives will contribute to boosting the quality of civil society as the cooperative sector has done in Western European countries for the past one and a half centuries.

Second, the implementation of FAC would help significantly enlarge the cooperative sub-sector and alter the long-lasting parastatal image of the Korean cooperative sector. It is predicted that the trend of cooperatives creation would be steady at least for a while and the accumulative number of newly established cooperatives will reach over ten thousands by the end of 2016.¹⁹ Although the size of current cooperative sub-sector, including agricultural cooperatives and financial cooperatives, is relatively large,²⁰ they have been criticized for the lack of social mission, member participation and democratic control of their organizations (Jang 2012). However, the newly established cooperatives are distinguished from the old ones in terms of their mission, members' control and the voluntariness of members (Jang 2016). Therefore, the newly emerged cooperative sub-sector would change

¹⁹ This estimation is based on information collected from the prospects made by practitioners in cooperatives and officials in local and central governments. The accumulative number of cooperatives newly established was 9642 as of the end of June 2016.

²⁰ The agricultural cooperatives and two financial cooperatives employed over 100,000 workers as of the end of 2010 (Jang 2012).

the long-standing dominance of old government-controlled cooperatives and play a leading role in the social economy sector.²¹

Finally, the implementation of FAC will also continue to influence the current or prospective social enterprises in South Korea. The current or prospective actors in either social enterprises certified according to SEPA or other types of social enterprises would respond to the introduction of a legal basis for social cooperative (Cheon et al. 2012). Specifically, the leaders of self-sufficiency enterprises and non-profit organizations in welfare service sector or community development sphere could take advantage of the cooperative type of social enterprise to enhance the initiative of employees and democratic nature of their organization. They believe that social cooperative is a more appropriate type of the firm for fulfilling the purpose of their social enterprise in terms of stakeholders' participatory management and constraints on profit distribution.²² In this manner, the FAC would contribute to moderating the limitations of certificated social enterprise sector, which have been continuously pointed out by the extant literature (Mendell et al. 2010; Bidet and Eum 2015). As the number of social cooperatives has increased to almost 400 by the end of 2015, the concept of social enterprise has become a broader concept of social economy after the implementation of FAC, which is one of the recommendations proposed by the OECD (Mendell et al. 2010).

The Emergence of Partnerships Between Local Governments and Civil Society Organizations for Developing Social Economy

Local governments influence the landscape of social economy in a country since the actors of social economy primarily focus on the social or economic issues in the region where their organizations are located and the local government possesses self-governance mechanism by the people in the municipality as well as financial and human resources. If policy makers of a local government recognize the advantages of social economy and view social economy actors as important partners to work with in regard to the mounting unemployment problem, the growing demand for social services, and effective rehabilitation of local communities, the social economy sector in the region is more likely to flourish, like the case of Québec (Noya 2009; Bouchard 2013).

In South Korea, however, during the central government's initiation of the so-called statist model of social enterprise, it was widely held that the role of local governments in developing social enterprises was trivial and their policies were narrowly focused on the individual enterprises, similar to the central government's policies as described in Sect. 3. As a result, there was a little link between local governments and civil society sector, and the relationship between those two sectors could be characterized as competitive (Coston 1998).

²¹ For example, a number of consumer medical cooperatives have converted their legal type from the old consumer cooperatives into social cooperatives based on the FAC.

²² Mendell et al. (2010) pointed out that the SEPA had the lack of asset lock or constraints on profit distribution to reduce the possibility of "free riders" among private companies that can receive subsidies.

However, this picture has considerably changed since the political landscapes, in other words the power relationship between local governments and civil society sector (Salamon and Sokolowski 2010) in most municipalities, have begun to transform with the local elections in April 2010.²³ In addition, the special election for mayor of Seoul metropolitan city, which took place in October 2011, resulted in a big change in the attitude of local government toward the social economy. The new mayor of Seoul metropolitan city, Park Wonsoo, was held as a representative civic activist possessing deep understanding of social economy.²⁴

Two major transformations on the local level began to take place. First, unlike the central government's approach, an increasing number of local governments have developed policies in a way that integrated social enterprise promotion with the larger social economy, including cooperatives, associations, and foundations, to strengthen the link between social enterprise activities and strategies for local community development. Instead of direct intervention measures, they emphasized the ecosystem for the development of social economy, including education and training system, social finance, social markets, and a network system of social economy players, which was believed to help enhance the capability of civil society in the municipality. As a result, an increasing number of civic organizations have emerged to play the role of an infrastructure organization in developing social economy.

For example, Mayor Park of Seoul has succeeded in persuading the representatives of Seoul city assembly to pass the municipal ordinances to support social economy, which include the establishment of partnerships between Seoul city government and civic organizations, Korean Social Investment, socially responsible public procurement program, and Seoul Center for Supporting Social Economy (SCSSE). The SCSSE was established by the local government, but the operation was entrusted to a civic organization in April 2013. The Korean Social Investment aims to fund social economy organizations and is composed of the matching funds between the city government and private sector.²⁵

Second, the relationships between local governments and civil society have been transformed from the competitive or contract-based type into the third-party government-, cooperative, complementary or collaborative type of relationship (Coston 1998). Recognizing the comparative advantages of each sector in financial resource and service delivery, both sectors have been building up connection and mutual dependency, ranging from informal information sharing to formal

²³ At the 2010 local elections, the number of heads of primary local governments taken by the ruling conservative Saenuri Party decreased from 155 to 82 while the number of heads taken by the oppositional Democratic Party increased from 39 to 92. At the elections for the heads of provincial governments, for the Saenuri Party the number reduced from 12 to 6 while for the Democratic Party the number grew from 3 to 7.

²⁴ As one of anonymous referees thankfully pointed out, the 2010 local elections were influenced by the civic organizations' activities on welfare issues such as the Citizens' Solidarity for Eco-friendly and Free School Lunch Program, which significantly affected the change in the heads of local governments from the ruling conservative Saenuri Party to the oppositional Democratic Party in many municipalities.

²⁵ Visit www.gsef-net.org for more details. Global Social Economy Forum (GSEF) has been launched in 2013 by the initiative of Seoul and Québec.

information sharing, resource sharing or even joint action, mostly mediated by the new heads of the local governments (Coston 1998; Salamon and Toepler 2015).

The relationship between Seoul metropolitan city and the civil society sector in respect to the social economy issue, for example, has developed into the complementary or collaborative type of relationship. The new policies for social economy were set up after numerous discussions with civic activists from organizations such as Seoul Social Enterprise Network, consumer cooperatives associations and other supporting associations. In order to enhance the coordination between the two sectors in setting and implementing policies, they run a formal council consisting of third sector representatives and government officers. The SCSE and Korean Social Investment have been launched under the third-party government contract with Seoul Social Economy Network, an NPO network.

The activities that Seoul metropolitan city government carried out to support the social economy have gained positive responses from other local governments as well as the civil society of Seoul. The new governor of Chungnam province has initiated policy activities similar to those of Seoul city government's. Several heads of the provincial governments in the country, including Gyeong-gi province, Jeju province, Gangwon province, and the city of Daegu, have echoed the activities initiated by the new mayor of Seoul by introducing a set of policies including the establishment of partnerships with the civil organizations in their districts.

In this manner, an increasing number of local governments believe that the sustainability of local development relies largely on the capability of civil society in the municipality to identify the common social economic issues, discover innovative ways to solve the issues and mobilize resources to accomplish the proposed ideas. This is to say that they have begun to admit the effectiveness of the partnership between local governments and civil organizations. 27 heads of primary local governments got together to launch the Local Government Council for Social and Solidarity Economy in May 2013, whose members have increased to 35 by the end of 2015. They made an agreement that social and solidarity economy plays an integral role in community rehabilitation, social integration, and social innovation, which will lead them to cooperate with each other by sharing the experience of social economy development. They held the first conference to discuss how the local government could effectively introduce a socially responsible public procurement program. In addition, looking at the fact that 71 out of 226 primary local governments total, and 10 out of 17 provincial governments total legislated municipal ordinances to support social economy in January 2016,²⁶ characterizing South Korea's social economy would not be complete without examining it on the local level.

²⁶ Visit <http://ksenet.org> for more details. KSENET is an abbreviation of Korean Social Economy Network.

Concluding Remarks

This paper has attempted to identify the recent changes in the alleged statist model of social enterprise developed in South Korea by examining how the role of civil society and government and the relationship between the two sector for shaping social economy have been changed. It is confirmed that there have been considerable changes in the long-standing statist model of non-profit sector since the late 1990s, namely the enormous impact of 2011 FAC on the civil society and social economy, and the rising collaboration between local government and civil society organizations since 2012.

The alleged statist model of the third sector in South Korea has been changed with the considerable expansion of non-profit sector, the surge of social welfare service organizations, and the newly emerged cooperative sector since the late 1990s. This recent evolution can be explained by the significant changes in economic and socio-demographic structures and the institutional changes, including the introduction of 1999 NBLSA and 2000 AANPCO, which were enabled by the shift in the power relationships between the state and civil society in the late 1990s. In addition, the significant increase of social welfare expenditures and the acceptance of institutional pluralism since the 2000s are powerful explanatory factors for the surge of social welfare service organizations.

The significant change in legal environments for the cooperative sector from the heavily regulated one to the one with minimal interference and freedom to citizens to create and operate a cooperative has been very influential on both the civil society and social economy sector. The fact that a considerable number of cooperatives have been voluntarily established by the self-employed, freelancers, early retirees, and unemployed youths who have suffered from the existing economic system would be regarded as an indicator for enhancement of the capability of Korean civil society. It would also expand the cooperative sub-sector and alter the long-lasting parastatal image of the Korean cooperative sector. It should be also mentioned that the concept of government-certified social enterprise has become a broader concept of social economy after the implementation of FAC in the country.

This research has also claimed that, unlike the central government's approach featuring the initiative of central government on supporting social enterprises individually and minimal collaboration between the government and civil society organizations in developing social enterprise, an increasing number of local governments have recently developed policies in a way that integrates social enterprise promotion with the larger social economy. In addition, the relationship between local governments and civil society in the primary or provincial municipalities has developed with a higher degree of mutual dependence, formality of relationship, and mutual respect, which help facilitate the emergence and development of network organizations and infrastructure organizations in the social economy on the local level.

This paper, therefore, maintains that those three factors have facilitated the evolution in the role of civil society and government for shaping social economy and thereby have helped moderate the concerns that the social economy sector in

South Korea might degenerate due to the strong initiative of the state power and the relative weakness of the civil society. The series of recent events, however, have resulted in the “institutional layering” or “conversion”, which contributes to the change in the existing institutional path (Thelen 2003; Mahoney and Thelen 2010). Based on these observations and analyses, we learn that the development of social economy in South Korea has been in recent years changed from dominance of state power to a mixture between top-down and bottom-up ones. The future landscape of social economy in South Korea will depend largely on whether the civil organizations and social economy actors succeed in gaining reputation by accumulating innovative cases to tackle the multifaceted social economic issues.

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