

Exploring Key Factors Influencing the Establishment of Art-Based Social Enterprises (ASEs) in South Korea

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Abstract

This empirical study investigated the factors influencing the establishment of art-based social enterprises (ASEs) across 16 metropolitan/provincial governments of South Korea from 2007 to 2022. Given the community-oriented nature of ASEs, we examined the organizational resources of local governments (i.e., population size, social welfare budget, financial independence) and the presence of policies in other local governments as the primary independent variables. Our analysis reveals that a lower social welfare budget in a region or a higher proportion of young adults in the population increased the likelihood of establishing ASEs. Conversely, variables such as the number of ASEs in other regions, unemployment rate, and total population do not exhibit significant effects. Interestingly, we observed that the factors influencing ASEs underwent changes during the COVID-19 pandemic. The present findings on the distinctions between ASEs and general social enterprises yield empirical evidence that ASEs can effectively address social issues. This work highlights the importance of supporting the establishment of ASEs to foster the growth of the arts and culture sector, particularly in the post-COVID-19 era.

Key Words: art-based social enterprises, metropolitan/provincial governments, panel regression analysis, COVID-19

I. Introduction

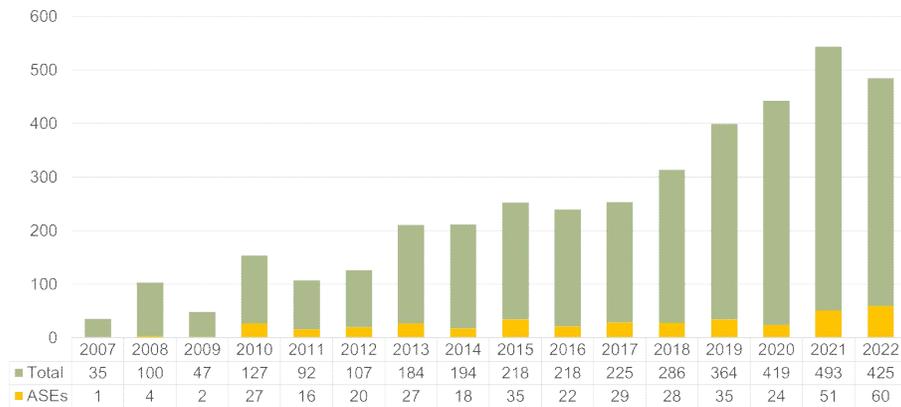
Social enterprises, known for their community-focused missions, have a rich history of providing goods and services to their localities (Haeffele & Storr, 2019). An exemplar is Divine

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Chocolate, a fair-trade chocolate company owned by cocoa farmers, which aims to secure them fair income and greater control over their livelihoods. In response to the significant shifts in the global landscape—including intensified globalization, shifts in industrial structure, declining birth rates, and an aging population—the international community has recognized the pressing need for community cohesion and sustainability. Consequently, there has been a growing recognition of the social economy as an alternative solution, prompting countries to explore and implement reinvigoration strategies (Yoo & Chung, 2018). In this context, social enterprises have emerged as a viable and effective response.

In South Korea (hereafter Korea), the rise of social enterprises can be attributed to two key factors. First, these enterprises have offered an alternative approach to addressing the issue of unemployment, particularly as traditional companies have faced challenges in generating employment opportunities since the economic crisis of 1997. Secondly, societal transformations such as increased opportunities for women, the rise of single-person households, and an aging population have created a demand for organizations that provide essential social services. Consequently, social enterprises have gained prominence and significance in the Korean context. Since the initial certification of social enterprises in 2007, a considerable number of such enterprises have emerged in Korea, encompassing various sectors, including arts and culture. Between October 2007 and December 2022, a total of 3,534 social enterprises received certification (Korea Social Enterprise Promotion Agency, n.d.). The arts and culture sector accounted for 399 certified enterprises, with the following breakdown: 349 in education, 282 in cleaning, 145 in social welfare, 137 in environmental initiatives, 107 in caregiver support, 83 in tourism, 21 in forest conservation and management, 19 in healthcare, 14 in childcare, 10 in employment, 10 in cultural assets, and 1,958 falling under the “others” category. Notably, the arts and culture sector constituted approximately 11% of the total certified enterprises, making it the second most significant category after “others,” which includes activities such as cafes, laundry services, printing, catering, manufacturing, etc. Figure 1 demonstrates a steady increase in the number of social enterprises within the arts and culture sector, mirroring the trend of growth in social enterprises as a whole.

<Figure 1> The Number of Certified Social Enterprises & ASEs by Year (2007–2022)

Source: Korea Social Enterprise Promotion Agency (n.d.)

Education, as a social product, a human right, and a crucial sector for economic development, naturally garners attention from governments (Li et al., 2018). Consequently, it is not surprising that social enterprise entrepreneurs are drawn to the education sector. However, the prevalence of social enterprises in the arts and culture sector raises intriguing questions, and a study examining their mission statements of arts and culture social enterprises (Moon & Chang, 2021) revealed that the primary goals of art-based social enterprises (ASEs hereafter) align with those of other social enterprises, namely job creation and improvement of employment conditions (Hwang & Cho, 2016). Other key objectives were cultural welfare, enjoyment, and the revitalization of local culture. This suggests that the establishment of numerous arts and culture social enterprises may be a response to the challenging employment environment in the arts and cultural sector, which demands more employment opportunities.

However, it is worth considering the Ministry of Labor's Basic Plan for the Development of Social Enterprises (2008-2012), outlining strategic areas for social enterprise development, including regional development, the environment, and culture. These areas are seen as having high potential for social enterprises due to new demand and less conflict with the market (Ministry of Labor of Korea, 2008: 25). Furthermore, the Third Basic Plan (2018-2022) supports the establishment and operation of social enterprises in the arts and culture field through consulting, public relations, marketing, and funding, tailored to the unique characteristics of the art scene (Ministry of Employment and Labor of Korea, 2018). In essence, the government has been actively promoting the growth of ASEs since the early stages of social enterprise development (Employment Policy Review Board of Korea, 2018).

Nevertheless, it is challenging to attribute the high prevalence of ASEs solely to extensive government support, as sectors like education and tourism also receive early-stage government

assistance in social enterprise development. Therefore, a comprehensive perspective that considers factors such as local government innovation and social innovation when examining the establishment of AEs must be adopted. Local governments have embraced the establishment of social enterprises in the arts and culture sector as a new alternative for addressing social issues, driven by their focus on resolving community problems through cultural activities, extending beyond job creation alone (Ministry of Culture, Sports and Tourism of Korea, 2009; Yeon, 2018; Moon, 2023). The primary objective of the present study is to analyze the founding factors of social enterprises in the arts and culture sector by using time series analysis and multiple theoretical perspectives. Furthermore, this study seeks to examine the variations in founding factors and the influence of unstable environmental factors on AEs by comparing the periods before and after the onset of the COVID-19 pandemic in 2020. Thereby, this research contributes to the existing literature by offering policy implications for fostering the sustainable growth of social enterprises in the arts and culture sector.

II. Art-Based Social Enterprises

1. Origins and Definitions of Social Enterprises and Art-Based Social Enterprises

Despite efforts to establish a comprehensive definition of “social enterprise,” the diversity of examples worldwide makes it challenging to formulate a single, definitive definition (Lee, 2015). Nonetheless, existing literature presents a clear and robust definition: a social enterprise refers to an organization that seeks to advance the public interest while generating profits (OECD, 1999; Kerlin, 2006; Li et al., 2018; Berbegal-Mirabent et al., 2021). Social enterprises operate with a market-oriented approach and employ revenue-generation strategies typically associated with commercial enterprises to fulfill their social mission. Therefore, they rely on revenue generated from their operations in order to attain their social objectives (Ham et al., 2016), effectively occupying a middle ground between for-profit and nonprofit organizations (Arena et al., 2015). There is also a conceptualization of social enterprise that ties it to the community. The Department of Trade and Industry of the United Kingdom (2007) defines a social enterprise as an entrepreneurial activity that reinvests profits into the community to achieve a social purpose (i.e., rather than seeking to maximize profits for shareholders or owners).

Within the realm of arts and culture, a social enterprise refers to an organization that utilizes artistic and cultural activities to address social issues, while concurrently pursuing profit-oriented

endeavors to accomplish social objectives (Ryu, 2011). Internationally, social enterprises operating in the arts and culture sector are characterized as entities that demonstrate autonomy and creativity through activities like artistic production, creation, and dissemination. They possess the potential to generate their own revenue, reducing reliance on government subsidies or donations (McQuilten, 2014). Distinct from traditional arts and culture organizations and nonprofit organizations, these social enterprises operate with greater independence from institutional and commercial pressures, emphasizing transparent profit distribution and the production and sale of goods (McQuilten et al., 2015). Furthermore, the arts have garnered recognition for their ability to foster social and economic development, create employment opportunities for marginalized individuals, and broaden access to the arts for diverse populations. Consequently, there has been an increasing focus on innovative arts enterprises that have challenged existing cultural markets in recent years (McQuilten, 2017).

In the international context, the terminology used to describe social enterprises in the arts and culture sector differs depending on the country and researcher. In Australia, the prevalent terms are “art-based” or “creative cultural industry,” while the UK employs the term “creative social enterprise” to encompass the cultural and creative industries within social enterprises (Moon, 2023: 63). For the purposes of this study, “ASE” is used as an inclusive term to encompass social enterprises that employ the arts and engage in cultural activities.

2. Status of Social Enterprises and Art-Based Social Enterprises in South Korea

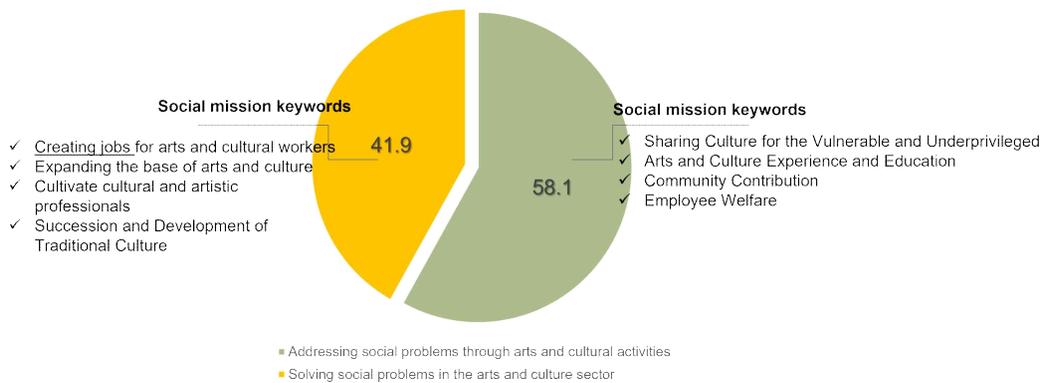
In Korea, social enterprises only gained academic attention around 2000. Since then, however, the government’s establishment of relevant institutions and provision of support services have facilitated the growth of social enterprises. The Social Enterprise Promotion Act, enacted in 2006 and effective since 2007, has been a significant contributor to this growth. This legislation outlines the certification requirements for social enterprises, including organizational structure, employment of paid workers, realization of social goals, stakeholder involvement in decision-making, business income, articles of association, and use of profits for social purposes. It also provides financial support for labor costs, business development, management consulting, preferential purchasing by public institutions, market development, network building, and offers financial and tax assistance for certified social enterprises (Korea Social Enterprise Promotion Agency, n.d.). Korea’s robust central government has played a crucial role in promoting and supporting social enterprises, distinguishing it from Europe and the United States, which have a long history of social enterprises. The government’s active promotion of social enterprises with a

clear focus on job creation and addressing employment instability is a unique characteristic of Korea. Extensive research has explored the sustainability of social enterprises, with factors such as location, market demand, connection to regional clusters, and adequate human resources identified as contributors to their competitiveness and long-term viability (Porter, 1985).

In Korea, most social enterprises, including those in the arts and culture sector, primarily focus on creating employment opportunities. The government recognizes the potential of social enterprises in this aspect and has established relevant institutions and support services to promote their growth, as mentioned earlier, with regard to the Social Enterprise Promotion Act. The participation of social enterprises in the arts and culture sector in Korea began when they served as teachers in cultural schools organized by the Korea Foundation for Working Together and the Joyful Cultural School Teachers Association called “Jobarte” in 2004 (Yeon, 2018). These schools aimed to provide cultural experiences to vulnerable groups, including children, youth, women, seniors, local residents, individuals with disabilities, and foreign workers. Initially implemented in Seoul, Incheon, and Ansan, these programs created opportunities for talented and unemployed individuals in the arts and culture field to contribute as teachers (Yeon, 2018: 45). Following the enactment of the “Social Enterprise Promotion Act” in 2007, social enterprises gained significant attention in Korea. The Ministry of Employment and Labor (formerly the Ministry of Labor) of Korea recognized the arts and culture sector as a strategic area in the Basic Plan for Social Enterprise Development, leading to the continuous discovery and support of social enterprises in this field. In June 2009, the Ministry of Culture, Sports and Tourism and the Ministry of Employment and Labor signed an MOU designating the Korea Arts Management Service as a specialized organization to provide support to social enterprises in the arts and culture sector (Ministry of Culture, Sports and Tourism of Korea, 2009).

According to the 2019 Culture and Arts Social Economy Survey report (Korea Arts Management Service, 2019), ASEs encompass arts and cultural businesses classified as social enterprises, preliminary social enterprises (regional and ministerial), cooperatives (general and social), village enterprises, self-supporting enterprises, and social ventures under the Culture and Arts Education Support Act, enacted in 2005. These organizations aim to address universal social issues such as social welfare and local social contribution through cultural activities. Additionally, they tackle specific social problems within the cultural sector, such as employment challenges and fair trade. While the primary focus of ASEs is job creation, their vision and purpose also include addressing social problems through various programs that engage and benefit the community through the arts and culture, as <Figure 2> displays.

〈Figure 2〉 Social Problem-solving by Art-Based Social Enterprises



Source: Korea Arts Management Service (2019)

III. Innovation in Local Governments

1. Social Innovation & Policy Innovation in Local Governments

The definitions of innovation vary widely across disciplines and perspectives. For instance, Mohr (1969: 112) defines innovation as the successful introduction of a new end or means into a particular situation, whereas Rogers (2003: 11) defines innovation more broadly as an idea, practice, or object perceived as new by the individual or entity adopting it.

Social innovation, akin to other forms of innovation, can manifest as a product, process, technology, idea, social movement, intervention, law, or a combination thereof (Phills et al., 2008). It has played a vital role in addressing various societal issues, including climate change, population aging, unemployment, and integration (Johansson & Gabrielsson, 2021). Accordingly, public policies have been devised to promote social innovation and social enterprises as complementary instruments to confront contemporary challenges, as evidenced in the Europe 2020 Strategy for smart, sustainable, and inclusive growth (Johansson & Gabrielsson, 2021). Social innovation primarily focuses on addressing social problems, prioritizing the creation of social value over economic value. In this context, the term “social enterprise” encompasses innovative endeavors toward a social objective within the for-profit sector, the nonprofit sector, or a combination of both.

The study of policy innovation originated with the work of Walker (1969) and Gray (1973), since which many studies have examined local government policy innovation. Research on innovation in local government can be categorized into three main areas. First, studies analyzing

the determinants of innovation explore the impact of external factors, such as neighboring governments, and internal factors on local government policy innovation (Walker, 1969; Berry & Berry, 1990; Kwon et al., 2009). Second, studies focusing on the diffusion of innovations analyze the order or pattern of diffusion and comparing the temporal differences in policy innovation among local governments (Gray, 1973; Berry & Berry, 1990; Mooney & Lee, 1999). Third, studies examining the drivers of innovation, including intergovernmental competition, social learning, and imitation provide the theoretical basis for innovation research (Berry & Berry, 1999; Mooney & Lee, 1999; Shipan & Volden, 2008). Similar to these studies, but with slightly different results, this study examines social innovation among local government policy innovations and considers the establishment of ASEs as one of them. Specifically, the study aims to empirically analyze the influencing factors on the establishment number of ASEs in Korea by region.

Franzel (2008: 255), in a study on innovation in urban government, defines innovation in urban government or organizations as introduction of a new policy or program introduced by the urban governmental community in response to a problem. Based on these definitions, local government innovation can be defined as a newly introduced policy or program. Local governments introduce new policies, or policy innovations, to meet the needs of their residents and promote local government development. In this process, they exhibit different behaviors, with some being more aggressive than others in adopting new policies, while others are relatively passive. These differences stem from the political, economic, and social characteristics of local governments, and this phenomenon has led to an interest in the causes of local government policy innovation (Jo, 2014). Studies analyzing the causes of policy innovation categorize them into internal and external factors. Those examining the internal determinants of policy innovation explain the behavior of policy innovation through the political, economic, and social characteristics of a country, such as wealth (Walker, 1969; Glick, 1981; Feiock & Cable, 1992). Studies that look for external factors of policy innovation explain government policy innovation behavior through policy diffusion or networks (Crain, 1966; Walker, 1969; Gray, 1973; Freeman, 1985; Weyland, 2005).

2. Factors Affecting the Establishment Art-Based Social Enterprises

Given that the government has chosen the arts and culture sector as a strategic area for fostering social enterprises for regional development, this study aims to examine the various factors that determine the establishment of social enterprises in the arts and culture sector, as well as considering previous studies on social enterprise, social innovation, and policy innovation by local governments to solve social problems like the lack of jobs for local residents.

In recent years, policy innovation has become a prominent topic of research in Korea,

particularly regarding the diffusion of policy innovation within local governments. Numerous studies have examined various factors that influence policy innovation and have revealed that the economic conditions of local governments play a crucial role (Namkoong, 1994; Bae, 2010; Suk, 2010; Cho & Lee, 2012; Lee & Hur, 2012; Jo, 2014; Lee et al., 2015; Park, 2018; Chung, 2020; Jung & Park, 2022). The financial situation of local governments can be a major determinant in adoption of new policies (Kim, 2018). Typically, local governments require some financial resources to implement certain policies, with more financially secure local governments having easier and faster access to new and innovative policies (Berry & Berry, 1990; Namkoong, 1994).

In addition to this, social enterprises, representing self-sustaining economic activities, tend to thrive in local governments with poor fiscal health, where meeting the demand for social services through direct fiscal expenditures is challenging (Choi, 2018). Among the studies explicating the size or growth of social enterprises, Pevcin (2011) and Nissan et al. (2012) assume that in a democratic state system with a high degree of diversity, public goods are more likely to be ineffectively supplied, which may lead to an expansion of the scope of social enterprises. On the other hand, the arts and culture are said to be services with high transaction costs, information asymmetries, monopolies, and public good characteristics (Baumol & Bowen, 1966), which are likely to lead to market failure and to require government intervention. This argument is the opposite of government failure, which is the reason for the emergence of social enterprises. Nevertheless, arts and culture “social enterprises” mainly arose as a result of government interventions such as budget investment that did not reflect the needs of various local residents. Based on similar concepts, Hwang and Cho (2016) introduce the social welfare budget ratio of local governments as a demand-side variable, positing that local governments with smaller social welfare budgets promote the establishment of social enterprises to supplement the government’s role. Therefore, we used financial independence and social welfare budget as economic factors to check whether the characteristics of general social enterprises are the same as in arts and culture social enterprises.

In the context of local government policy innovation, demand represents a key factor that can influence the decision-making process. In order to meet the needs of their constituents, local governments may respond to objective demand for policies and create new policy innovations. Indeed, an increase in objective demand is likely to force local governments to respond accordingly (Feiock & West, 1993: 401). Additionally, studies by Ha et al. (2011), Cho and Lee (2012), Choi (2012), Jo (2014), and Tak and Kwon (2021) find that service demand factors also significantly drive policy innovation. According to Florida (2005), younger populations exhibit greater diversity in education, economic status, and culture compared to older populations. This diversity leads to increased neighborhood activity, fostering cultural diversity and varied

educational offerings. Consequently, previous studies have included the younger population as a variable, suggesting that greater neighborhood diversity can contribute to the emergence of social enterprises. Dissatisfied individuals, unhappy with the government's provision of public goods, may be more inclined to establish social enterprises (Choi, 2012). We here adopt a unique perspective by considering young people as both consumers and contributors to ASEs, incorporating them into our analysis.

Based on previous research, the political ideology of the head of an organization plays a significant role in the adoption of policies, with a higher likelihood of policy innovation when the head of the organization holds liberal political views (Allen et al., 2004; Karch, 2006). In the Korean context, leaders' ideology has been identified as another significant determinant of policy innovation by researchers such as Bae (2010), Cho and Lee (2012), Choi (2012), Jo (2014), and Lee et al. (2015). In other words, political factors play a major role in the adoption of policies by local governments, such as the ranking of preferred policies based on the political ideology of political leaders, or the efforts of local government leaders to represent interest groups that influence elections (Lee et al., 2015).

Furthermore, studies that analyzed policy factors, including Kim (2012), Kim (2013), and Jung and Park (2022), have contributed to our understanding of the determinants of policy innovation. These confirm the positive influence of past policy adoption experiences on the implementation of innovative policies. Previous introductions of similar ordinances can be seen as forms of policy learning, indicating that local governments prioritizing social well-being through arts and culture initiatives are likely to continue adopting similar policies or establishing organizations in the arts and culture sector. Hence, this study examines whether past adoption of relevant ordinances in the arts, culture, and social enterprise domains can serve as a policy factor influencing the establishment of ASEs.

Horizontal factors, such as the influence of adjacent governments, have been found to have a significant impact on policy innovation in most studies (Cho & Lee, 2012; Lee & Hur, 2012; Tak & Kwon, 2021). Examining horizontal determinants at the same level of local government is important as a means of seeing how policies are learned and imitated among local governments, as well as whether competition and pressure from constituents are at work (Walker, 1969; Berry & Berry, 1990, 2007). Kim and Lee (2016) emphasize the significance of whether the local government is significantly influenced by a higher level of government, such as administrative area, cultural area, living area, and so on, but because this study focuses on the governments at the same level (i.e., metropolitan/provincial governments), we want to look at the effects of learning and competition at the horizontal level.

Taken together, these studies provide valuable insights into the factors driving social enterprises,

policy innovation, and diffusion. Economic, demand, political, policy, and horizontal factors have all been identified as key determinants of the establishment of ASEs in Korea. Building upon prior research, our primary objective is to conduct an empirical analysis focused on identifying the factors contributing to the growth of ASEs. By examining 16 metropolitan/provincial governments, we aim to understand how these ASEs serve as mechanisms for policy innovation.

IV. Research Model

1. Dependent Variable

In this study, the number of certified social enterprises measured in 16 metropolitan/provincial governments, excluding Sejong City, which was established relatively recently and lacked data, was used as a dependent variable. This variable is operationalized as the count of social enterprises that have been established through the certification process by the Ministry of Employment and Labor of Korea in each year of the study. Notably, the measurement of social enterprises is not based on cumulative value, but rather on the number of newly established enterprises per year.

2. Independent Variables

1) Economic Factors

In this study, the economic conditions and financial capabilities of each metropolitan/provincial government were assessed using indicators such as financial independence and the proportion of social welfare budgets. ASEs play a crucial role in providing cultural welfare services, which involve integrating culture and welfare. These enterprises view arts and culture as public services, aiming to ensure that individuals have the freedom to participate in their community's cultural activities, appreciate the arts, and have equal opportunities for arts and cultural engagement, regardless of various factors such as age, gender, disability, social status, economic conditions, physical conditions, and region of residence. Although there is no specific budget allocated for cultural welfare, this study uses the social welfare budget as a means to examine the financial aspects of ASEs. By analyzing these indicators, the present study assumes that localities with minimal budget allocation for social welfare could benefit from promoting social enterprises as a supplementary mechanism. Therefore, the social welfare budget ratio of each metropolitan/provincial government

is considered a relevant variable for supplementing the government's role in such areas.

2) Demand Factors

This study also focuses on demand factors that influence the establishment of ASEs. According to the Korea Social Enterprise Promotion Agency (2022), approximately 67% of certified social enterprises in Korea are job-providing social enterprises, and ASEs are no exception. Therefore, in areas with high unemployment, the establishment of social enterprises is likely to increase to meet job demand. Hence, the unemployment rate was selected as a variable to reflect the demand for jobs in the community.

Local residents are important external innovators who serve as users of local government services, voters, taxpayers, and target groups (Dibben & Bartlett, 2001; Teisman & Klijn, 2002). Therefore, the total resident population was used as the second demand factor in this study. The third and final demand factor is the number of people in specific age groups. The first age group includes young adults aged 25 to 34. The Framework Act on Youth, implemented in 2020, defines the age of youth as 19 to 34 years old, but for the purposes of this study, the age range of 25 to 34 was selected as it represents the age at which individuals may start an ASE or have an income that allows them to utilize social enterprise programs. The other age group includes middle-aged people between 35 and 59 years old, which encompasses the average age of starting a business in their 40s (The Seoul Economic Daily, 2021). Both of these age groups may function as entrepreneurs and beneficiaries of ASEs.

3) Political Factors

In the context of Korea, mayors and governors are identified as the primary policy actors driving innovation in local governments (Jee, 2000), with progressive politicians showing a greater interest in social policy (Moon & Lee, 2015). Additionally, Hansen (1983) argues that single-party governments tend to exhibit lower levels of disagreement among political parties, which increases the likelihood of policy adoption. Similarly, a study by Lee and Kwon (2014) in the Korean context find that the probability of ordinance adoption varies based on the political party composition of the local assembly. To account for institutional control by political parties, this study includes the variable whether the local government is a unified government.

4) Policy Factors

In the realm of policymaking, the experience of local governments in enacting similar ordinances in the past can be viewed as a valuable form of policy learning. This process of learning entails local governments developing and reconciling their own solutions based on a wealth of information and ideas acquired in the past (Kim, 2017). Prior research has also demonstrated that the experience of adopting similar policies has a positive impact on policy adoption (Kim, 2012; Kim, 2013). Hence, it is plausible to assume that local governments with a history of promoting innovative policies for arts and culture, and social enterprises are likely to adopt similar laws in the future. Against this backdrop, we identified the adoption of similar ordinances pertaining to ASEs in the past as a crucial policy factor to investigate the extent to which such learning shapes the innovativeness of social enterprise establishments.

5) Horizontal Factors

Horizontal factors have predominantly been utilized as a determining factor in policy diffusion research; however, they can also play a pivotal role in policy innovation. Notably, such factors can serve as a competitive mechanism to facilitate the creation of more diverse and superior forms of policy adoption in comparison to other governing bodies (Obinger et al., 2013). This study focuses on metropolitan/provincial governments, which do not necessarily share direct geographical proximity as in previous studies. Therefore, to account for this, the number of ASEs established by other metropolitan/provincial governments, excluding the focal region, was considered in the analysis.

6) Control Factors

To account for unobserved effects that may vary over time, time variables were included in the analysis as control variables. Specifically, yearly dummy variables were added to the model to control for any unobserved effects that may be unique to each year. By doing so, we can ensure that any observed effects of the independent variables on the dependent variable are not biased by unobserved time-varying factors.

V. Methods and Data

1. Methods

Given the data and variables used in this study, the appropriate statistical analysis method is panel regression analysis. To carry out the analysis, a Hausman test was conducted to determine the most appropriate regression model to use. The results of the Hausman test did not reject the null hypothesis, indicating that the random effects model is appropriate for the data. Therefore, random effects regression analysis was employed in this study.

2. Data and Measurement

The analysis is based on a sample of 16 metropolitan/provincial governments nationwide, and covers the period from 2007 to 2022 for the dependent variable, and from 2006 to 2021 for the independent variables, with a one-year gap to account for causality. In order to avoid potential endogeneity issues, we did not include a lagged year variable for the political factors, as the newly elected head of the organization can implement policies immediately within the same year. The data utilized in this study were primarily obtained from reliable sources such as the Korea Social Enterprise Promotion Agency, the Local Finance Integrated Open System (Ministry of the Interior and Safety of Korea), the Korean Statistical Information Service, and the Korean Law Information Center (Ministry of Government Legislation of Korea) websites.

〈Table 1〉 Measurement of Variables

Variable		Measurement	Source
Dependent Variable	Number of ASEs Establishment (t)	Number of establishments in a given year (t)	Korea Social Enterprise Promotion Agency
Independent Variable	Economic Factor	Financial independence (t-1)	Local Finance Integrated Open System
		Percentage of social welfare budget (t-1)	Local Finance Integrated Open System
	Demand Factor	Unemployment rate (t-1)	Korean Statistical Information Service
		Number of residents (log/t-1)	Korean Statistical Information Service
		Number of young adults (25-34) (log/t-1)	Korean Statistical Information Service
		Number of middle-aged adults (35-59) (log/t-1)	Korean Statistical Information Service

	Political Factor	Political ideology of mayor/governor (t) (Liberal=1, Conservative=0)	National Election Commission
		Unified government (t) (Unified=1, Divided=0)	National Election Commission
	Policy Factor	Number of arts and cultural ordinances (t-1)	Korean Law Information Center
		Number of social enterprise and social innovation ordinances (t-1)	Korean Law Information Center
	Horizontal Factor	Number of ASEs in other local governments (t-1)	Korean Law Information Center
Control Variable	Year	0 for 2007 (reference category) and 1 for 2008- 2015	

VI. Methods and Data

1. Descriptive Statistics

〈Table 2〉 displays the descriptive statistics for each variable. The dataset for this study comprises 256 samples collected from 2006 to 2022, inclusive. The observed number of ASEs varies from 0 to 14 in each municipality. The average number of arts and cultural ordinances adopted by local governments, which serves as an indicator of policy innovation and support, is strikingly low, at 0.41. Moreover, the number of social enterprise ordinances implemented is even more scant, averaging a mere 0.24.

〈Table 2〉 Descriptive Statistics

Variable		Mean	Standard Deviation	Min.	Max.
Dependent Variable: Number of ASEs Establishment		1.559	2.106	0	14
Economic Factor	Financial independence (%)	47.741	18.824	19.4	94.3
	Percentage of social welfare budget (%)	31.303	9.338	11.4	53.1
Demand Factor	Unemployment rate (%)	3.185	0.874	1.3	5
	Number of residents (log)	14.657	0.727	13.233	16.423
	Number of young adults, 25-34 (log)	13.042	0.771	11.580	14.842
Political Factor	Number of middle-aged adults, 35-59 (log)	13.721	0.738	12.202	15.525
	Political ideology of mayor/governor (liberal=1, conservative=0)	0.508	0.501	0	1

	Unified government (Unified=1, Divided=0)	0.801	0.400	0	1
Policy Factor	Number of arts and cultural ordinances	0.410	0.741	0	4
	Number of social enterprise and social innovation ordinances	0.238	0.487	0	3
Horizontal Factor	Number of ASEs in other metropolitan/provincial governments	19.770	12.998	0	51

Notes: All numerical calculations are rounded to three decimal places, while certain numbers beyond the scope of three decimal places are provided as given values without undergoing calculations.

1. Analyzing the Factors that Influence the Creation of Art-Based Social Enterprises

<Table 3> presents the results of panel regression analyses on the factors influencing the establishment of ASEs in Korea by region. Model 1 includes only control variables, while Model 2 includes all independent variables. While fixed effects models are typically employed to account for cross-sectional confounding, the Hausman test did not reject the null hypothesis for fixed and random effects, supporting the validity of the random effects model for analysis. The R-squared value of Model 2 is higher than that of Model 1, indicating a greater explanatory power of Model 2, which includes independent variables.

The present study yielded several key findings. Firstly, while financial independence is not found to be significant in terms of economic factors, a negative relationship was observed between the share of local social welfare budgets and the number of ASEs, implying that these enterprises play a crucial role in compensating for funding deficiencies. Secondly, among the demand factors, both the numbers of young and middle-aged adults are significant, whereas the unemployment rate and number of registered residents did not significantly impact the establishment of ASEs, challenging the common notion that social enterprises are primarily established to create jobs. Instead, this article suggests that ASEs are more focused on addressing social problems through arts and cultural activities, such as providing artistic and cultural experiences and education for vulnerable and marginalized groups. Additionally, we found that a higher number of young people increases the likelihood of establishing ASEs, likely because they are the primary beneficiaries of such enterprises. Conversely, a smaller number of middle-aged individuals increases the likelihood of establishing ASEs in the region. This is likely because young people are primarily both the founders and beneficiaries of ASEs, while middle-aged and older people are less likely to benefit from ASEs. Finally, political, horizontal, and policy factors did not have a significant impact on the establishment of ASEs, possibly due to the small number

of such enterprises compared to the “total (3,534)” or “others (1,958).”

〈Table 3〉 Panel Regression Analysis Results

Variable		Model 1	Model 2	
Independent Variable	Economic Factor	Financial independence	-	0.016 (0.017)
		Percentage of social welfare budget	-	-0.046* (0.025)
	Demand Factor	Unemployment rate	-	0.049 (0.220)
		Number of residents	-	6.765 (5.391)
		Number of young adults (25-34)	-	6.450** (3.172)
		Number of middle-aged adults (35-59)	-	-12.202*** (4.272)
	Political Factor	Political ideology of mayor/governor	-	0.018 (0.246)
		Unified government	-	-0.009 (0.289)
	Policy Factor	Number of arts and culture ordinances	-	0.240 (0.146)
		Number of social enterprise and social innovation ordinances	-	0.327 (0.217)
	Horizontal Factor	Number of ASEs in other metropolitan/provincial governments	-	-0.074 (0.060)
	Control Variable	Year (reference=2007)	2008	0.188 (0.502)
2009			0.063 (0.502)	1.377** (0.655)
2010			1.625*** (0.502)	3.296*** (0.721)
2011			0.938* (0.502)	4.603*** (1.578)
2012			1.188** (0.502)	4.366*** (1.111)
2013			1.625*** (0.502)	5.255*** (1.296)
2014			1.063** (0.502)	5.286*** (1.587)
2015			2.125*** (0.502)	5.913*** (1.251)
2016			1.313*** (0.502)	6.275*** (2.015)
2017			1.750*** (0.502)	5.839*** (1.455)

	2018	1.688*** (0.502)	6.429*** (1.754)
	2019	2.125*** (0.502)	6.939*** (1.743)
	2020	1.438*** (0.502)	7.068*** (2.057)
	2021	3.125*** (0.502)	7.647*** (1.627)
	2022	3.688*** (0.502)	10.331*** (2.871)
Number of Obs.		256	256
Number of groups		16	16
Prob>Chi2		0.0000	0.0000
Overall R-squared		0.2125	0.5274

*p<0.1, **p<0.05, ***p<0.01, Standard errors in parentheses.

In this study, we further analyzed the before and after periods using 2020 as the base year, when the COVID-19 pandemic began in earnest. In Table 4 below, the analysis is run for the pre-2020 period for Model 3 and for the post-2020 period for Model 4. In terms of significant influencers in both models, financial independence and resident population had the same positive impact on economic factors in both periods. This implies that financial support is important for the implementation of the policy innovation for establishing ASEs, as mentioned in previous studies. In terms of demand, the pre-2020 period has a stronger impact, likely due to a decline in arts and cultural activities during COVID-19.

The remaining variables were found to be affected differently depending on the timing of the two models. First, Model 3 shows that, similar to Model 2, regions with fewer middle-aged people are more likely to establish an ASE during the COVID-19 period, and, conversely, Model 4 shows that those with fewer young people are more likely to establish an ASE. This is likely due to the increase in other welfare programs and employment programs due to the impact of COVID-19, and the number of arts and culture-related ordinances is also significant in the positive direction, which can be interpreted as a result of the urgency of policies for artists and arts and culture consumers to support the victims of COVID-19. In Korea, the job creation project was in full swing in 2020 and 2021, as the Korean version of the New Deal policy began (Baek & Bae, 2022; Jung & Park, 2023), and it was expected to have a negative impact on the establishment of ASEs.

On the other hand, in terms of political factors, while there were no significant variables in Model 3, having a unified government had a negative effect on the establishment of ASEs in Model 4. It is generally believed that the mechanism of policy innovation is more likely to occur when the political parties of the mayor/governor and a majority of assembly members are

aligned, but the opposite is true in this study, which may require further exploration.

As part of these policy innovation activities, the number of social enterprises and social innovation ordinances also increases, which presumably influences the establishment of ASEs. In terms of the horizontal factor in Model 3, when the number of ASEs in other metropolitan/provincial governments increases, the number of ASEs establishments in the given region tends to increase. In the pre-COVID-19 period, the establishment of ASEs by other local governments at the same level seems to have served as a learning or competition mechanism.

<Table 4> Panel Regression Analysis Results with Year Effects

Variable		Model 3 (2007–2019)	Model 4 (2020–2022)	
Independent Variable	Economic Factor	Financial independence	0.040** (0.017)	0.039** (0.016)
		Percentage of social welfare budget	-12.577 (0.027)	0.019 (0.020)
	Demand Factor	Unemployment rate	0.098 (0.231)	0.011 (0.213)
		Number of residents	14.545*** (5.490)	9.861* (5.303)
		Number of young adults (25–34)	-0.880 (2.451)	-3.939* (2.276)
		Number of middle-aged adults (35–59)	-12.577*** (4.235)	-4.871 (4.116)
	Political Factor	Political ideology of mayor/governor	0.1411 (0.248)	0.393 (0.246)
		Unified government	-0.312 (0.294)	-0.638** (0.278)
	Policy Factor	Number of arts and cultural ordinances	0.410 (0.150)	0.309* (0.146)
		Number of social enterprise and social innovation ordinances	0.265* (0.226)	0.262 (0.216)
Horizontal Factor	Number of ASEs in other metropolitan/provincial governments	0.074*** (0.019)	-0.000 (0.017)	
Control Variable	Year (reference=2007)	2008	-0.088 (0.541)	-
		2009	-0.308 (0.544)	-
		2010	1.505*** (0.556)	-
		2011	-0.877* (0.502)	-
		2012	0.269 (0.499)	-

	2013	0.438 (0.499)	-
	2014	-0.571 (0.492)	-
	2015	1.135** (0.505)	-
	2016	-1.060** (0.495)	-
	2017	0.110 (0.502)	-
	2018	-0.365 (0.483)	-
	2019	0.106 (0.484)	-
	2020	-	-
	2021	-	1.075** (0.483)
	2022	-	2.279*** (0.601)
Number of Obs.		256	256
Number of groups		16	16
Prob>Chi2		0.0000	0.0000
Overall R-squared		0.4585	0.4415

*p<0.1, **p<0.05, ***p<0.01, Standard errors in parentheses.

VII. Discussion and Conclusions

The present study identifies the factors influencing the establishment of ASEs in Korea. The research mainly adopts a policy innovation approach, analyzing the multifaceted factors related to economic, demand, political, policy, and horizontal factors. Regarding the economic factors, we found that the share of local social welfare budgets is the only significant economic factor impacting the establishment of ASEs. Regions with lower social welfare budgets demonstrate an increase in the establishment of ASEs to compensate for government limitations. The same result was shown in Hwang and Cho's (2016) study which shows a smaller share of the social welfare budget increases the number of social enterprises. This may suggest that most social enterprises can play a crucial role as a social problem solver, complementing the government's social support. Regarding the demand factors, ASEs are more likely to be established where more young people reside in the region. This may be because the Ministry of Employment and Labor of Korea supports startups to foster social enterprises, and put an age limit of 19 to 39 years old in place

10 years ago (Kyeonggi Ilbo, 2012). Even though there are no such conditions for arts and culture social enterprises, it is noticeable that this still affects them. On the other hand, the political orientation of the mayor/governor was found to have no effect on the establishment of ASEs. This is because the demand factor for starting a social enterprise to solve social problems in the region is strong regardless of whether the political ideology of the organization's head is liberal or conservative. Regarding the policy factors, the number of social enterprise-related ordinances and the number of arts and culture-related ordinances, were also found to have no effect on ASEs, which is likely due to the fact that the average number of ordinances enacted per year being small and varying by period.

Additionally, the establishment of ASEs in other regions during the early years of social enterprise and before the COVID-19 pandemic, as well as the enactment of social enterprise and social innovation ordinances, significantly impacted the establishment of such enterprises. According to Jung and Park's studies (2022, 2023), the COVID-19 pandemic has led to an increase in various ordinances such as "Artist Welfare Promotion Ordinances," aimed at supporting the arts and culture sector, which presumably also influenced the establishment of ASEs. As for the horizontal factor that had a significant effect only before the COVID-19 pandemic, similar to the case of social enterprise ordinance enactment, it seems that the net number of social enterprise startups increased due to the COVID-19 experience, but it was limited by the short period of time. Regarding factors affecting ASEs before and after COVID-19, interestingly, only financial independence was found to be significant among the economic factors. This is contrary to the first set of results, which looked at the entire period, and is believed to be due to local governments' increased utilization of their own budgets after COVID-19, especially with the procurement of supplementary budgets.

The theoretical and policy implications of this study suggest that although local government's policy innovation targeting unemployment rates is a common demand factor for all social enterprises, ASEs rather focus on arts, cultural activities, and community education. This research emphasizes the need to supplement the government's role in promoting the establishment of social enterprises, as regions with limited social welfare budgets tend to have a higher number of social enterprises. To foster the growth of ASEs, which in turn will support communities and artists in the post-COVID-19 era, local governments should enhance their organizational capacity to meet the evolving needs of residents, which represent demands of the policy innovation. Strengthening capabilities and resources can create an enabling environment for the establishment and sustainable development of ASEs, thereby promoting social and cultural well-being in communities.

The study also acknowledges certain limitations. It is confined to analyzing only 16

metropolitan/provincial governments, not including municipal governments, and does not solely focus on ASEs, which also limits the number of observations. Future research efforts can yield more insightful findings by expanding the sample size and incorporating a broader range of observations, including other types of ASEs. Furthermore, additional independent variables such as gross regional product and local tax revenue per capita, and the number of people aged 65 and older are indicators that reflect the financial capabilities and vulnerable populations of local governments respectively. By broadening the scope of analysis, future studies can enhance our understanding of the founding factors and dynamics within the arts and culture sector.

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국문요약

광역지방자치단체 산하 문화예술사회적기업의 설립 결정 요인 분석

정 다 해
박 나 라

본 연구는 2007년부터 2022년까지 16개 광역지방자치단체 산하 문화예술사회적기업들(Art-Based Social Enterprises)이 설립되는 이유를 패널회귀분석을 통해 실증적으로 분석하였다. 이때, 대부분의 사회적기업이 지역공동체에 기반을 두고 운영되기 때문에 관할 지방자치단체의 조직 자원(인구 규모, 사회복지 예산 비율, 재정자립도 등)과 다른 광역지방정부의 정책 수립 여부를 주요 독립변수로 사용하였다. 분석 결과, 해당 지역의 사회복지 예산 비중이 낮거나, 청년층 인구 비중이 높을수록 문화예술사회적기업 설립 가능성이 높은 반면, 다른 지역의 문화예술사회적기업 수 및 실업률과 전체 인구 수는 유의미한 영향을 미치지 않는 것으로 확인되었다. 더 나아가, 코로나19 팬데믹을 겪으면서 문화예술사회적기업에 영향을 미치는 요인이 변화한 것을 발견하였다. 본 연구는 궁극적으로 문화예술사회적기업과 일반적인 사회적기업의 차별점에 대해 고찰하고, 문화예술사회적기업이 사회 문제 해결에 기여할 수 있는 지점을 실증적으로 제시함으로써, 특히 코로나19 팬데믹 이후 문화예술 분야 발전의 발판을 마련하기 위해서는 문화예술사회적기업의 설립을 지원할 필요가 있다는 점을 제안하였다.

주제어: 문화예술사회적기업, 광역자치단체, 패널회귀분석, 코로나19