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## The Conception and Practices of Social Enterprise Between Indonesia and South Korea<sup>1</sup>

Endonezya ve Güney Kore Arasındaki Sosyal Girişim Kavramı ve Uygulamaları

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### ABSTRACT

Emerging countries like Indonesia and developed countries like South Korea have a common need for the participation of their people to develop their economies aimed at overcoming social problems. One of the organizational vehicles that can be used to overcome social problems is Village-Owned Enterprises (BUMDes) or social enterprises. The purpose of this study is to find out the definition of social enterprises in Indonesia and South Korea; to find out the mechanism of establishing social enterprises in Indonesia and South Korea; and to find out about the management of social businesses in Indonesia and South Korea. Furthermore, the method used is a conceptual paper related to the definition of social enterprises, the mechanism of social enterprises, and their governance. In this study, it is known that social businesses in South Korea have better governance than social enterprises in Indonesia. The contribution of this research is to provide input to all stakeholders to improve the performance of social enterprises, especially in Indonesia.

**Keywords:** Social Enterprises, Indonesia, South Korea, Governance

### ÖZET

Endonezya gibi gelişmekte olan ülkelerin ve Güney Kore gibi gelişmiş ülkelerin, halklarının sosyal sorunların üstesinden gelmek için ekonomilerini geliştirmelerine katılmalarına ortak bir ihtiyaçları vardır. Toplumsal sorunların üstesinden gelmek için kullanılabilecek organizasyon araçlarından biri de Köylere Ait Şirketler (BUMDes) veya sosyal işletmelerdir. Bu çalışmanın amacı, Endonezya ve Güney Kore'deki sosyal işletmelerin tanımını bulmak; Endonezya ve Güney Kore'de sosyal girişimler kurma mekanizması için; Endonezya ve Güney Kore'deki sosyal işletmelerin yönetimi hakkında bilgi edinmek. Ayrıca, kullanılan yöntem sosyal işletmelerin tanımı, sosyal işletmelerin mekanizması ve yönetimi ile ilgili kavramsal bir makaledir. Bu çalışmada, Güney Kore'deki sosyal işletmelerin Endonezya'daki sosyal işletmelerden daha iyi yönetişime sahip oldukları bilinmektedir. Bu araştırmanın katkısı, özellikle Endonezya'daki sosyal girişimlerin performansını artırmak için tüm paydaşlara girdi sağlamaktır.

**Anahtar Kelimeler:** Sosyal Girişimler, Endonezya, Güney Kore, Yönetim

## INTRODUCTION

Improving welfare is a significant issue not only in emerging countries like Indonesia but also in developed countries like South Korea. Attempts to enhance the community welfare are the efforts of all stakeholders, both the private sector and the public sector. Some indicators that the well being of the community increases, if there is an improvement in terms of education, decreasing

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unemployment, increasing the level of public health and reduce the level of poverty in a country (Arius, 2012; Perez-Moreno, 2011; Prasetyo, 2008).

Therefore the government, as one of the stakeholders whose role is to improve people's welfare, has development priorities in locations or areas that are still poor where these areas are rural areas that are still underdeveloped and remote (Dao, 2004; Yao et al., 2005). In the early 1980s, there was a phenomenon of shifting corporate goals that were initially purely profit-oriented and shifted to companies that also had a focus on achieving a social mission. (Battilana et al., 2012; Child, 2010; Hudon et al., 2018; Hudon & Périlleux, 2014). Furthermore, the term referred to social entrepreneurs and social enterprises has become a trending topic in the 1990s because business dynamics require organizations or companies to have a long-term framework in which profit is not the final goal. The dynamics of business development and the interests of all stakeholders to create an ethical and fair business in European and American countries triggers the trend of social entrepreneurship (Defourny & Nyssens, 2010). In Europe, the implementation of social entrepreneurs tends to be collective so that the organization takes the form of cooperation or association. Whereas in America, the term social entrepreneur becomes the focus of organizations in the way of foundations such as Ashoka. Nevertheless, the activities of social entrepreneurs in America are driven by individuals who have a dedication to social values and in managing their social activities also apply good governance. While the concept of social enterprise was first popularized in Europe, precisely in Italy, then a few years later in America, the term social enterprise also became a trend. The concept of social enterprise was introduced through the journal *Impresa Sociale*, in which the term social enterprise is an initiative of the Italian parliament implemented in the form of a social cooperative organization as its legal basis. The social enterprises in Europe are a hybrid form of organization that combines business operations with social missions. Therefore the concept of social business in Europe is different from the concept of social enterprise in America, which states that the definition of social enterprises as a non-profit oriented or non-profit organization so that the source of income comes from subsidies, donations, and grants from private organizations and foundations (Defourny & Nyssens, 2017; Doherty et al., 2014; Kerlin, 2010).

The trend of social enterprises as a solution to overcoming social problems also spread to emerging countries, including in Indonesia and South Korea. In Indonesia, there is a significant economic, educational, and health imbalance between people living in urban areas and those living in rural areas. Therefore, to overcome this imbalance, the development priorities in Indonesia are aimed at rural areas. To support the rural development, the Indonesian government based on Law No. 6 of 2014 and Government Regulation (PP) No.43 of 2016 established a Village-Owned Enterprise (BUMDes). In addition to supporting village development, BUMDes is a village economic institution with the following roles: (i) Development of rural human resource capabilities so that they can provide added value in the management of village commercial assets; (ii) Integrate rural economic products so that they have a good sale value; (iii) Making rural economic activities competitive and opening up optimal opportunities for rural communities to participate (iv) Implementing good institutional governance. A similar phenomenon with BUMDes also founded in South Korea. Since the economic crisis in 2001-2002, there was unemployment in Korea, and many residents were unemployed. To help the weak economy, the South Korean government in 2007 issued a regulation called "Korea's Social Enterprise Promotion Law," and in 2012 issued "Cooperative Basic Law." In 2017 the number of Social Enterprise recorded was 1776 units. The Ministry of Manpower oversees the implementation of social enterprise activities. Social enterprises must be registered and regularly visited to ensure that their operations meet the requirements set out in the Social Enterprise Promotion Law. Therefore a comparative study is needed between social enterprises in Korea and Indonesia so that they can provide input for improving the implementation of social enterprises (BUMDes) in Indonesia. The formulation of the problem in this research are : (i) What are the definition of BUMDes in Indonesia and the definition of social enterprises in South Korea?; (ii) What are the mechanism for establishing social enterprises (BUMDes) in Indonesia and social enterprises in South Korea?; (iii) How is the management of BUMDes in Indonesia and the governance of social enterprises in South Korea?.

## **MATERIAL AND METHOD**

This research aims to contribute to stakeholders to be able to improve the performance of social enterprises so that the existence of social businesses can enhance the welfare of the community. Furthermore, the objectives of this article are as follows: (i) To find out the definition of BUMDes in Indonesia and social enterprises in South Korea; (ii) To find out the mechanism for establishing BUMDes in Indonesia and social enterprises in South Korea; (iii) To find out about BUMDes governance in Indonesia and social enterprises in South Korea.

## **RESULTS AND DISCUSSION**

### **DEFINITION OF BUMDES (SOCIAL ENTERPRISES) IN INDONESIA AND SOUTH KOREA**

#### **Indonesia**

Related to Suryanto (2018) and Widiastuti et al., (2019) there are several stages in the establishment of BUMDes, which include:

- Socialization of Establishment of BUMDes;
- Establishment of BUMDes Establishment Preparation Team;
- Mapping of Potential and Selection of Business Types; Budgeting and planning;
- Implementation of Regional Discussion.

The socialization of BUMDes aims that the village community and the local government have the same understanding related to the objectives and benefits of the BUMDes to be established. Furthermore, socialization is needed to equalize perceptions and explore the commitment of village heads to establish BUMDes. Moreover, the formation of a BUMDes establishment preparation team is required to assist and assist the BUMDes establishment process. The preparatory team will help to map and inventory the village potential. The process of mapping and listing through the mechanism of observation, interviews, and discussions with various stakeholders in the village community. As a result of the mapping and inventory, a business type that has a prospect and is a priority to be chosen. The mapping and inventory process must also involve the local community because the local community is the party that best understands the conditions of the village. The next stage is to make a budget and planning related to the implementation and work programs that are the focus of BUMDes. Besides, the legality of establishing BUMDes as an official organization is also required before BUMDes operates in the community. After BUMDes has legitimacy, a village meeting is held which aims to determine the strategic issues of the BUMDes work program and also to approve regulations or Operational Standards from BUMDes.

#### **South Korea**

Social enterprises are defined in Article 2 of the Korean Social Enterprises Promotion Act as follows. "Social enterprises" means that a company is pursuing social goals that enhance the quality of life of residents by providing social services, jobs or contributing to the vulnerable class, and conducting business activities such as the production and sale of goods and services, and who has accreditation by Article 7. Article 7 Paragraph 1 states that a person who intends to operate a social enterprise shall meet the accreditation requirements of Article 8 and obtain accreditation from the Minister of Employment and Labor. Article 8 then proposes the following eight requirements:

- To have an organizational form prescribed by Presidential Decree, such as a corporation/cooperative under the Civil Act, a company/cooperative partnership under the Commercial Act, and a corporation or nonprofit private organization established under a special law;
- To hire paid workers to conduct business activities such as producing and selling goods or services;
- By providing social services or jobs or contributing to the vulnerable and/or the community, the primary purpose of the organization shall be the realization of social objectives, such as improving the quality of life of residents. In such cases, the specific criteria for judgment shall be prescribed by Presidential Decree;
- To have a decision-making structure involving stakeholders, such as service beneficiaries and workers;
- Income earned through business activities shall be at least as high as the criteria prescribed by Presidential Decree;
- To have articles of incorporation or agreement as provided in Article 9;
- Where profits that can be allocated for each fiscal year arise, two-thirds of the benefit shall be used for social purposes (only for companies/joint unions under the Commercial Act);
- Other matters prescribed by Presidential Decree on the operational standards.

## **ESTABLISHMENT MECHANISM BUMDES (SOCIAL ENTERPRISES) IN INDONESIA AND SOUTH KOREA**

### **Organizational structure and Financial Source of Indonesia BUMDes**

BUMDes management is regulated through rural ministerial regulation No. 4/2015, which contains requirements, rights, and authority of BUMDes managers (Yudiardi & Karlina, 2017). The BUMDes organizational structure is divided into three main sections which include:

- The advisor, the task of the advisor is to supervise and provide advice to operational implements, BUMDes advisors are held ex-officio by the village head;
- The operational executive, the operational executive, is appointed and dismissed by the village head. The task of the operational implementer is to ensure that the company's operations are following the plans that have become the commitments of all BUMDes stakeholders. Also, operational actors are required to manage BUMDes following the principles: professionalism, transparency, accountability, independence, and fairness;
- Supervisor, the supervisor's duty is as a representative of the community. Therefore the supervisor has to oversee the implementation of the BUMDes management policy and submit the results of the supervision report along with advice to the village government.

The initial capital to establish a BUMDes comes from village income and community equity participation. Therefore, the inclusion of money from the village becomes a share of the village government. Types of village capital include:

- Grants from the private sector, social and economic institutions;
- Grants from the central government, provincial governments;
- Village assets submitted are following the provisions regarding village assets.

Also, one key to the success and sustainability of a business is the presence of proper financial records

and reports. Therefore, the existence of appropriate implementation of accounting will have an impact on the excellent performance of BUMDes because BUMDes can make the right decisions that are supported by financial data and valid financial information. Three financial statements are recommended to be provided by BUMDes, namely the Balance Sheet, profit/loss statement, and cash flow. In connection with the payment of taxes by BUMDes, referring to the corporate income tax (PPH) of the business entity that becomes a reference to the tax amount is the turnover from BUMDes. Under taxation, regulation No.46 / 2013 for BUMDes whose turnover is less than IDR 4.8 billion per year, then it is subject to a tax of 1% of gross income. Whereas if the BUMDes turnover has reached above IDR 4.8 billion - IDR 50 billion, the tax rate imposed on BUMDes is 12.5%.

## **Organizational structure and Financial Source of Social Enterprises in South Korea**

Social enterprises in South Korea have governance supported by the central and local governments (Korea, 2018). The components supported by the South Korean government include:

- Labor cost support (professional workforce support):
  - Government supporting labor costs when social enterprises hire specialists for business operations such as strategic planning, accounting, and marketing;
  - Subsidies paid by some beneficiary institutions up to 2 million to 2.5 million won, and some beneficiaries are self-paying;
  - Supporting staff: Preliminary social enterprises – 1 person;
  - Supporting staff: Accredited social enterprises – 2 persons.
- Labor cost support (job creation support):
  - Preliminary social enterprise's labor costs are supported when participating in a job creation project;
  - Differential payments for annual support based on the minimum wage for the year (including social insurance premiums paid by employers);
  - Preliminary social enterprises: 1st year 70%, 2nd year 60%;
  - Social enterprises: 1st year 60%, 2nd year 50%, 3rd year 30%
  - 20% additional support for continued employment;
  - 20% additional support for vulnerable groups.
  - Support persons: Up to 50 people;
  - Support period: 2 years for preliminary social enterprises, three years for accredited social enterprises
- Project development cost support:
  - Support for business expenses to improve management capabilities of social enterprises such as technology development, R&D, public relations and marketing;
  - Support limit: KRW 100 million annually (preliminary social enterprises, social cooperatives, village companies, self-supporting companies 50 million won), maximum KRW 300 million;
  - Self-pay: Self-pay more than a certain percentage of the total project cost depending on the number of support.
- Social insurance support:
  - Partial support for employers' four major social insurance premiums (four years);
  - Support Persons: Maximum 50 persons.

- Management support:
  - Customized support by diversifying support topics, contents, and matching consulting firms according to the growth stage of social enterprises;
  - Support limit: 5 times (once a year), Preliminary social enterprises within 10 million won per year;
  - Self-pay: 10~40% of each section, depending on the amount of application (contract).
- Priority purchase recommendations for public institutions:
  - Recommend preferential purchase of products or services produced by social enterprises;
  - Targets (Law on Promoting SME Product Purchase and Market Support): 832 places such as national institutions, local governments, and public institutions in 2017.
- Tax Support:
  - 100% corporate tax and income tax for three years and 50% for two years after that;
  - 50% reduction in acquisition tax, registration license tax, 25% reduction in property tax;
  - 100% reduction for three years for local income tax, 50% for two years after;
  - The VAT exemption for medical health and education services provided by social enterprises.
- Facility costs:
  - Support/finance the land purchase/facility costs required for the establishment and operation of social enterprises, or support the lease of national/public lands;
  - Micro-finance, SME Policy Fund, Hope Dream Loan Agreement Guarantee, Social Enterprise Special Guarantee, Social Enterprise Policy Special Guarantee, etc.
- Fund:
  - Invest in the Ministry of Employment Fund of Funds and participate in private investments to form social enterprises investment associations and invest in (preliminary) social enterprises;
  - Additional KRW 7.5 billion of Fund of Funds in 2018.

## **COMPARISON OF BUMDES (SOCIAL ENTERPRISES) IN INDONESIA AND SOUTH KOREA**

The issue of the operational sustainability of BUMDes as social enterprises becomes essential because the role of BUMDes is significant in improving the welfare of the community (Nugroho et al., 2018; Shafie et al., 2018). According to research conducted by Anggraeni (2016) states that there are weaknesses of BUMDes in Indonesia that need to be corrected, among others, are: (i) Communication, there is a disharmony between the manager and the community related to the delivery of information that is not transparent yet. Therefore, many residents who do not trust the contribution of BUMDes can improve their welfare; (ii) Transparency and accountability, BUMDes has a routine reporting mechanism every year. The report is written in writing and given to stakeholders. The problem that arises is that citizens do not understand the contents of the report, do not read it, or do not know if there is an annual report. Transparency requested by residents other than finance is transparency in employee recruitment. The public is asking for transparency in the process of hiring employees. During this time, the community around BUMDes felt that BUMDes was less transparent in the process of recruiting employees and did not recruit residents as employees; (iii) Managerial Capacity, Problems in a managerial capacity is revealed by the BUMDes manager and the Village Government. The main weakness of both BUMDes and Village Government is in terms of administration/inventory and also finance. Financial records do not use accounting standards. Furthermore, the condition of social enterprises in South Korea has become more established, with

the central government providing certificates for social enterprises that have met the governance standards set by the government.

## CONCLUSION

Both in emerging countries and developed countries, it requires the participation of all people in solving social problems. One solution is the existence of social businesses that function optimally to empower the potential of the region so that the welfare of the people in the area increases. There are several challenges in running social enterprises such as Indonesia, which are related to governance issues that need to be improved. Therefore to implement good governance, comprehensive long-term, medium-term, and short-term strategic planning is required. Furthermore, there is a need to empower competencies from BUMDes employees and also proper monitoring related to the implementation of strategic initiatives that have become the commitment of BUMDes managers. The impact of excellent competence and adequate control will optimize the performance of BUMDes both in terms of increased revenue and better governance of BUMDes.

In this paper, we compared the essential characteristics of social enterprises both in Indonesia and in South Korea. The further study we attempt to do next is focused on at least three-point as bellow:

- First, comparing the member's characteristics of the preparatory team both of BUMDes in Indonesia and social enterprises in South Korea. We will adopt the theory of social entrepreneurship;
- Second, there is a series of the policy of 'village companies' in South Korea. We will make a closer comparison of BUMDes and not only with social enterprises but also with village company in South Korea;
- Third, field studies in Indonesia and South Korea are left to conduct after theoretical comparison in the next research.

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