

1. Inclusive Growth and Businesses

With globalization and technological advances, the global economy has grown tremendously, but the benefits have not been equitably distributed. Economic growth's lack of inclusiveness has resulted in worsened inequality of income, wealth and opportunity, excluding many

generally perceived to be passive actors and recipients of welfare.

The term vulnerable group generally refers to a class of people exposed to social risk, but its definition may vary depending on the context in which it is being discussed. The international community regards the poor, women, and children of developing countries

The Creation of Inclusive Value at Korean Firms¹⁾

from the benefits of growth. In recent years efforts to solve the social side effects caused by inequality have led to the birth of inclusive growth as a concept. Inclusive growth is a growth theory that highlights equal opportunity for each member of the society to participate in economic activities, both to ameliorate inequality and promote economic growth.

The key to the inclusive growth defined by the international community is that it gives equal opportunities to all the members of society. This means that it embraces the vulnerable: those in the low-income bracket, children, the elderly and the disabled. Until recently, vulnerable people have been regarded as objects of charity or aid in international discussions and domestic policy. As a result, rather than being part of economic activities, the vulnerable were

as vulnerable, especially those who are unable to maintain a basic livelihood due to various economic, social and cultural factors. It can also refer to those who are affected (or are likely to be affected) by climate change, or those people ill-served by educational and/or medical services.

This study seeks to first define and then identify corporate activities that are creating inclusive value, and in particular ways in which companies incorporate vulnerable groups into their core business. For the purposes of this study, inclusive value-creating activities are all types of corporate activities that enhance the inclusiveness of corporate and society by allowing the vulnerable to actively engage in the corporate core business value chain as an active entity.

1) This article draws heavily on the research report "Corporate Inclusive Action in Value-Chain of Domestic Firms: Performance and Policy Measures" (original in Korean).

There are challenges that need to be addressed when it comes to seeing vulnerable groups as active economic players and engaging them in business. In addition to the difficulty of active consumption due to the lack of money, vulnerable groups are usually lacking in employable knowledge and skills. The fact that the vulnerable lack information on goods and services means that the purchase of products from vulnerable groups is inactive and their ability to pay is low. Thus, inclusive value-creating activities emphasize enhancing engagement of the vulnerable in the input, production, and distribution stages as well as in the marketing and sales stages of the firm's value chain.

2. Implementation and Awareness of Social Activities by Korean Firms

(1) Types of Inclusive Value-creating Activities from a Value Chain Perspective

The value chain of a company is divided into design and packaging of goods and services, procurement and production, distribution, promotion and marketing and consumption. Designing and packaging is based on an understanding of the needs of consumers. Therefore, in this study, the value chain of a company is divided into four stages: input and supply, production, distribution, and marketing and sales.

Inclusive value-creating activities are divided

into the following categories: building supply chain capacity, inclusive production through investment in and employment of the vulnerable, reorganization of distribution and sales networks and product development and sales for vulnerable classes. This study investigated the performance of each company by type of social activity through questionnaires. First, we surveyed whether or not respondents were engaged in activities to achieve particular social objectives. Activities were grouped into two main categories which were then divided into eight subcategories.

The first category consists of the four types of typical corporate social responsibility (CSR) activities. These include: 1) regular sponsorship/donation activities, 2) minimizing environmental damage and improving the environment in the production and sales processes, 3) community service programs for vulnerable people and 4) solving community problems and improving the local community. The second category, on the other hand, comprises the core business of the enterprise, which is composed of the four types of social activities that are tangible at each stage of the value chain, corresponding to the inclusive value-creating activities defined by this study. In other words, they are activities that encourage the vulnerable to participate in every stage of the corporate value chain, such as input and supply, production, distribution, sales and consumption. They are 5) strengthening the capacity of vulnerable groups in the supply chain, 6) providing jobs

for the vulnerable and preferentially hiring local talent in the production process, 7) reorganizing the distribution network considering vulnerable classes, and 8) developing and selling products and/or services targeting vulnerable classes.

(2) Overview of the Questionnaire

The survey was conducted among the top domestic firms on the basis of sales from August to September 2018, through both an online questionnaire and an interview. The questionnaire consists of four parts: corporate (institutional) information, perception of corporate social value-creating activities, performance status by type of business activity to achieve social purpose and demand for measures to facilitate social value-creating activities.

In order to identify the selection and implementation status of inclusive value-creating activities by Korean firms, we examined their organizational responses, objectives and de-

terminants of social activities. In addition, we investigated whether the individual companies have performed inclusive value-creating activities or not by type, as determined previously from a value chain perspective. Moreover, it examines the obstacles faced by domestic companies in pursuing social value-creating activities, corporate-level countermeasures and government support necessary to help firms overcome these hurdles.

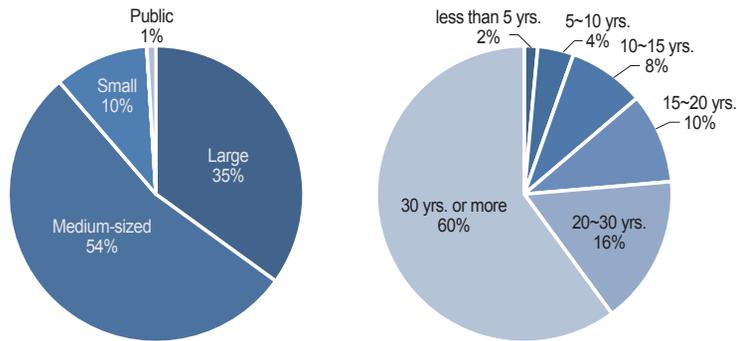
Among the 203 companies surveyed, medium-sized enterprises (54 percent) accounted for the largest portion, followed by large corporations (35 percent) and small businesses (10 percent). It was found that 60 percent of the respondents had been in business for more than 30 years (see Figure 1). The reason why the companies that responded to the survey seem unusually large with relatively long histories likely owes to the fact that only companies of a certain level of scale and ability were able to respond to a questionnaire asking about the status of corporate social value-creating activities.

Table 1. Overview of the Questionnaire

Category	Questions
1. Corporate (institutional) information	Size, years in business, type of business, types of organizational responses related to social activities
2. Perception of corporate social value-creating activities	Purpose of social value-creating activities, stage of activity, social performance factors
3. Performance status by type of business activity to achieve social purpose	Performance by type of activity, start/end year, impact on financial returns
4. Demand for measures to facilitate social value creating activities	Obstacles to social value-creating activities, corporate-level countermeasures, preference in government means of support

Source: Lim *et al.* (2018).

Figure 1. Size and Years in Business of Responding Companies



Source: Lim *et al.* (2018).

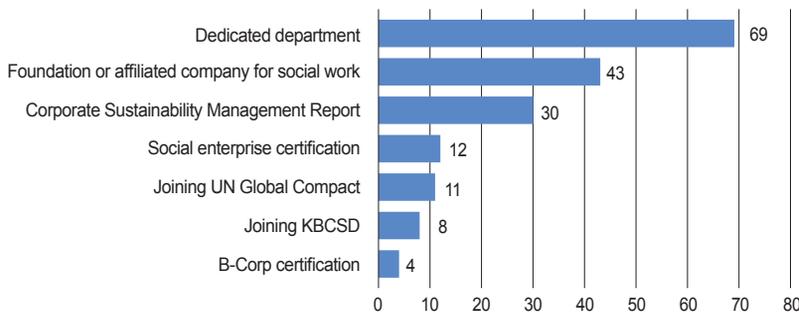
(3) Organizational Responses to and Perception of Corporate Social Activities

Corporate social action is most commonly embodied by departments that are dedicated to social activities, and many companies also establish social foundations, subsidiary companies or publish sustainability reports. In addition to this, it is possible to acquire certification that measures the degree of corporate social value creation, such as social enterprise certification and B-Corp certification, or to participate in such councils as the United Nations Global

Compact and the Korea Business Council for Sustainable Development. In other words, the social activities of domestic companies are mainly carried out through the formation or establishment of internal organizations of the company. External cooperation efforts, such as joining relevant councils or acquiring certifications, are relatively insufficient.

We surveyed the perception of corporate social value creating activities in the questionnaire to investigate the purpose of corporate social activities, the stage of activities, and the degree of expectations about the impact of social per-

Figure 2. Corporate Organizational Responses to Social Activity



Source: Lim *et al.* (2018).

formance factors. The reasons given for each respondent's social value-creating activities were divided into five general categories which were then ranked. They include 1) to enhance corporate image, 2) to comply with relevant laws and regulations, 3) to improve financial performance, 4) to contribute to community development and corporate-social co-prosperity, and 5) to enhance employee satisfaction.

Firms responded that the main reason for companies to perform social activities is to contribute to community development and co-prosperity between businesses and communities (57 percent). It was also revealed conducting social activities was viewed major way to enhance the image of a company (32 percent). On the other hand, only a small number of respondents said they perform social activities in order to comply with relevant laws and regulations (5.5 percent) or to improve financial performance (3.5 percent) or employee satisfaction (2 percent). This shows that the awareness of the possibility of linking social purpose activities directly to the economic performance of the firm has not yet spread

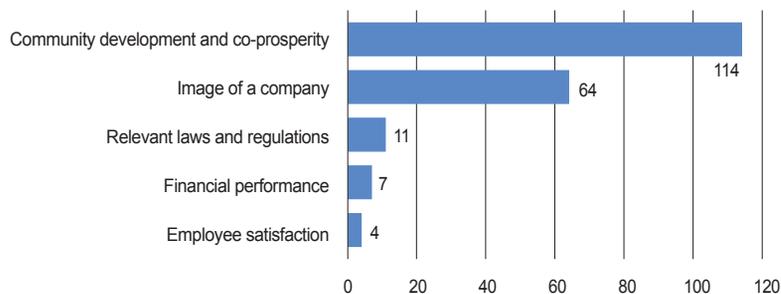
among domestic companies.

(4) Performance of Social Activities

We surveyed whether or not respondents had experience performing activities to achieve the social objectives identified by this study. Respondents were asked to answer for each type of activity, whether their companies had experience performing them and how they expected the activity to affect their financial returns. In the case that the respondents had experience with the activity, they were asked about its current status and the period in which it was conducted.

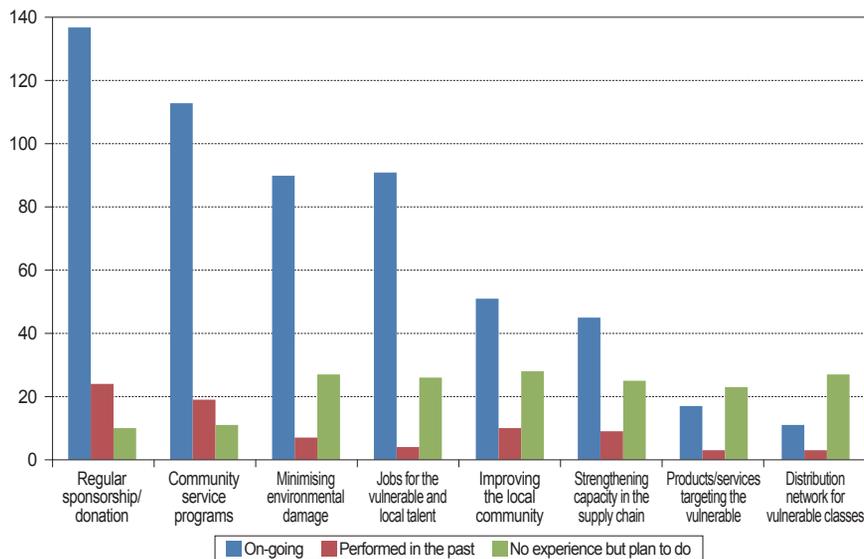
The most common type of social activity, both currently and historically, is regular sponsorship and donation. Domestic companies are still more likely to have regular sponsorship and donation experience in social welfare centers, facilities, and nonprofit civic groups than conduct active and strategic social activities. Other types of common corporate activities include community service programs for vulnerable people, minimising environmental

Figure 3. Purpose of Corporate Social Value-creating Activities



Source: Lim *et al.* (2018).

Figure 4. The Number of Respondents Performing Each Type of Activity



Source: Lim *et al.* (2018).

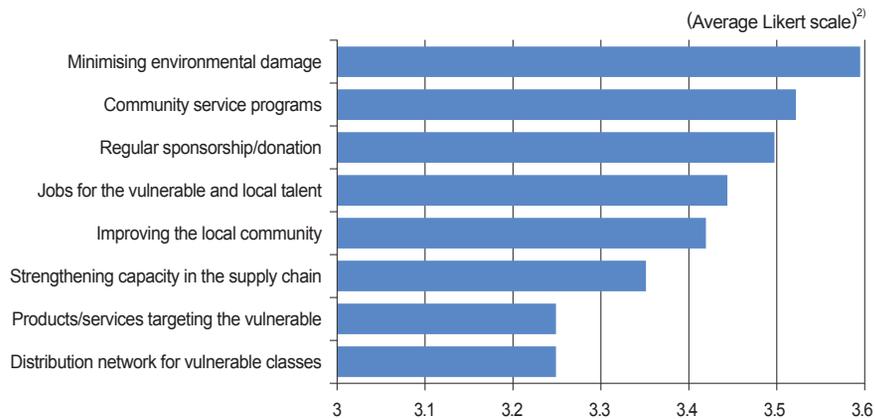
damage and improving the environment in the production and sales processes, and providing jobs for the vulnerable and preferentially hiring local talent in the production process. The first category of activity that this study classifies as a typical corporate social responsibility is ranked in the top three. Yet few firms engaged in reorganizing the distribution network to consider vulnerable classes or in developing and selling products/services targeting vulnerable classes.

Furthermore, we examined the expected effect of the types of activities presented in the questionnaire on the financial profit of each company. The respondents answers weighted based on the 5-point Likert scale. The larger the score, the more positive the effect and the smaller the negative effect; a score of three indicates that the corresponding type of activity

would have no effect on the financial profit of a company. According to the results of the responses by activity type, all eight types of activities were distributed in the range of three to four points on average. Thus it can be seen that companies expect their social activities to have a positive impact on their financial returns, but not a significant one.

Specifically, the respondents said that activities that minimise environmentally harmful effect or improve the environment in the production and sales process were the most financially positive social activities for the entity. It could be because the survey provided the cost effective activities such as resource efficiency enhancement and recycling as well as activities for simple environmental pollution treatment as examples. This was followed by community

Figure 5. Ranking of Types of Social Activities Expected to Affect a Company's Financial Returns



Source: Lim *et al.* (2018).

service programs for vulnerable people, community service for the underprivileged, regular sponsorship and donation activities and providing jobs for the vulnerable and preferentially hiring local talent in the production process. These results are similar to the current status of social activities that are being undertaken by entities, and show high financial returns are generally expected for social-purpose activities that are currently underway or have been performed previously.

(5) Barriers to and Demand for Countermeasures for Corporate Social Value Creating Activities

This study also identified the obstacles faced by the respondents in carrying out social activities through surveys. We also surveyed the needs of companies at the enterprise level, ways to

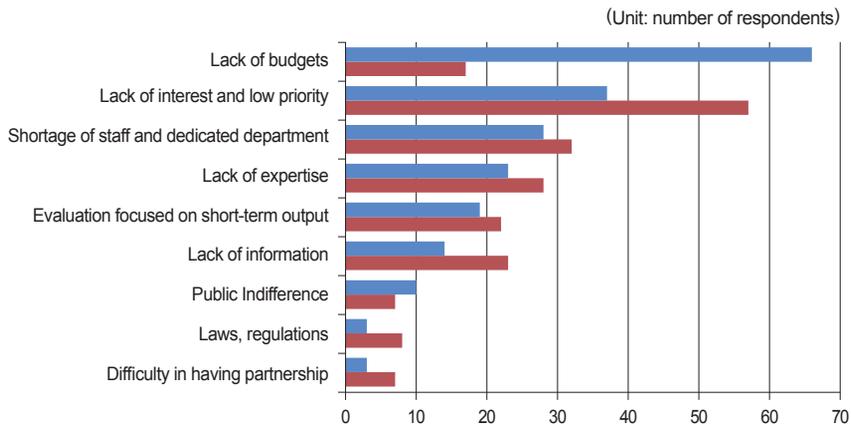
cooperate with the government and the means of government support, which are necessary to grasp to overcome the above obstacles.

Respondents cited a lack of relevant funds as the overwhelming barrier in pursuing social value-creating activities. They also see a lack of interest and low priority of internal executives and employees, a shortage of staff to manage such activities (or even a dedicated department), and a lack of expertise in social values as major barriers. Based on these results, it can be seen that companies need to have a sufficient budget first and give priority to these activities in-house in order to actively engage in activities to generate social value.

These obstacles are linked to countermeasures required by companies as a way to overcome them. In other words, responding companies viewed an increase in social activities funds as the most necessary measure at

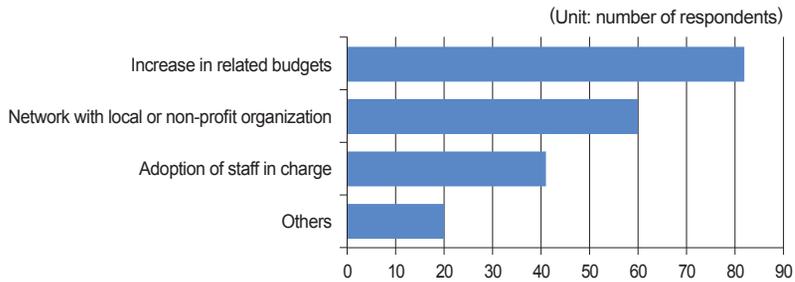
2) 1 (Significantly negative effect), 2 (Negative effect), 3 (No effect), 4 (Positive effect), 5 (Significantly positive effect).

Figure 6. Barriers for Companies to Do Social-purpose Activities



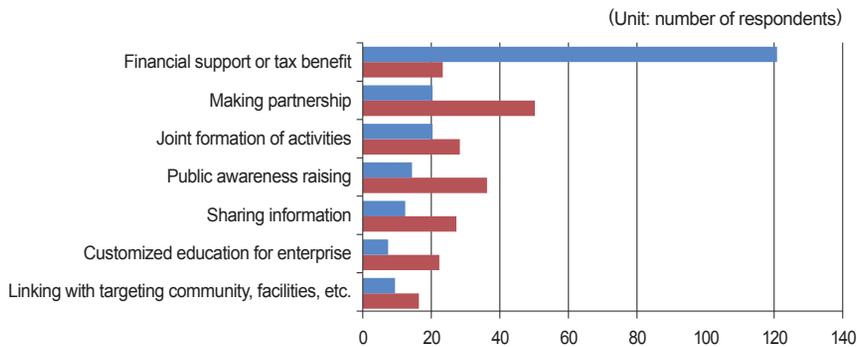
Source: Lim *et al.* (2018).

Figure 7. Preferred Ways at the Firm-level to Overcome the Barriers to Corporate Social Activities



Source: Lim *et al.* (2018).

Figure 8. Preferred Types of Cooperation with Public Sector to Overcome the Barriers to Corporate Social Activities



Source: Lim *et al.* (2018).

the corporate level to overcome obstacles to social purpose activities. Likewise, demand for financial support or tax benefits was most commonly requested of the government.

Difficulty in partnering with external organizations was not found to be a serious obstacle, to conducting social purpose activities, whereas the use of networks or partnerships as a solution at the corporate and government level was found to be in high demand. This may be a result from the fact that many companies have not yet tried any activities through which they might realize how difficult cooperating with external parties can be. However, when they want to carry out social activities in a more advanced form in the future, external partnerships, especially with the public sector, can play an important role.

3. Implications

This study examines the role of corporations in realizing inclusive growth, which has recently been firmly established as an important growth paradigm globally. It analyzed the current status of activities for enhancing inclusiveness and their impact on the financial returns of companies.

It focuses on activities that enhance inclusiveness within the core business of a company and defines a number of inclusive value-creating activities, which differ from similar concepts related to corporate social responsibility in that they specifically include the

consideration and promotion of inclusiveness as a core business of companies. Inclusive value-creating activities seek social innovation by recognizing the vulnerable class as an active economic entity within the corporate value chain.

This study investigated the current state of social purpose activities of Korean firms. In particular, it analyzed differences in the effects of different types of social activities by identifying whether the activities were carried out, separating them according to their place on the value chain of the entity. Unlike other research with similar purpose, this work is unique owing to the fact that the data subject to its primary analysis was obtained through a direct questionnaire measuring whether or not companies conducted social purpose activities.

As a result of the analysis, 203 companies responding to the questionnaire tended to practice primarily through internal organizational readjustment in order to achieve social goals, rather than trying to acquire formal certification, conduct network activities or collaborate with external parties. The reasoning given of social purpose activities revolved around the development and co-prosperity of the community, which is expected to enhance the corporate image as a result. Although there were relatively few respondents who said that social activities were carried out in order to comply with relevant legal regulations, the social performance factors that most significantly affect short-term revenues and long-

term sustainability in line with the strategies or visions of the entity were the soundness and fairness of the entity, both of which are related to the legal system. It confirms that there was a gap between the perception of the purpose of social activity and the perception of the means.

Companies are still not particularly active in their efforts to link social-purpose activities to core businesses. Rather than active social-purpose activities that involve the vulnerable as economic players at the value chain stage of input and supply, production, distribution, marketing and sales (as categorized by the survey), firms are more familiar with general social activities such as regular sponsorship and donations, minimizing environmental damage, community service and community problem solving. It follows that they are more likely to conduct the kinds of social purpose activities that they are most familiar with. Furthermore, companies expect general social activities to have more positive impact on corporate financial returns than inclusive value-creating activities. Still, activities that encourage the inclusion

of vulnerable people in the corporate value chain by engaging them in core business are regarded as costs, rather than revenue-generating tools.

Whether companies conduct social-purpose activities is directly related to financial issues. Companies recognize that the lack of relevant funding is the biggest obstacle to promoting their social-purpose activities. This is followed by organizational challenges, such as low priority at the corporate level and a lack of dedicated departments and expertise, which are cited as major obstacles. Difficulties in the relationship with the general public or external institutions are understood to be relatively unimportant obstacles. As a result, domestic firms most prefer changes in financial aspects, such as the expansion of social purpose budgets and government financial support or tax benefits as a solution to the above barriers.

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