
Abstract

Corporate Inclusive Action in Value-Chain of Domestic Firms: Performance and Policy Measures

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Korea is also facing a serious economic and social inequality following the foreign exchange crisis in late 1997 amid intensifying income inequality in countries around the world. This can be confirmed by indicators such as the proportion of individual income of the top 10 percent income, the proportion of people whose income is less than 50 percent of median income, the Gini coefficient and so on. As a new growth model to address such inequality, inclusive growth is being discussed with international organizations such as the OECD, World Bank and the United Nations. Korea also emphasized the importance of the inclusive growth in the 2017 Economic Policy Direction of the New Government.

This research is intended to focus on the role of the company as the

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main player of the inclusive growth. The study would be utilized to prepare the policy countermeasures by diagnosing the possibility of improvement in inclusiveness that may be implemented in the course of business activities and current state and result of the related activities.

The scope of corporate role as a major player in the development of national industries and economic growth is expanding in social aspects. Businesses are also required to play an important role in solving social problems. In particular, the corporate social problem solving methods, which were centered on charitable corporate social responsibility, are shifting to activities that generate social values through the core business of companies. When applying the social role of companies to the perspective on the inclusive growth, it is possible to share the economic values and benefits created by incorporating the vulnerable social groups into the value chain, and to promote social values. The discussions about the inclusive growth and the role of corporations are being strengthened through strategies and programs of the United Nations Development Program (UNDP), the International Finance Corporation (IFC), and OECD.

The primary role of companies contributing to the inclusive growth is the implementation of an inclusive business and the construction of the market. First, a firm can contribute to the income growth of the vulnerable social group and the community by engaging in business activities as suppliers, producers, distributors, and consumers. Such an inclusive business can achieve the most important goals of the firm which are enhancement of profitability, increase of income of the underprivileged and capability. In addition, a firm can support the

construction of the inclusive market by eliminating market constraints through the inclusive business and collaboration with other companies. Building an inclusive market can enhance the company's competitiveness by improving its business environment.

The discussions regarding the corporate inclusive activities have been implemented through a variety of concepts such as business ethics, corporate social responsibility (CSR), corporate social performance (CSP), social enterprise, and creating shared value (CSV), sustainable production and consumption, and inclusive business. Among these, corporate social responsibility (CSR) has been used as a representative concept. The similar concepts generally stemmed from CSR. The CSR concept was expanded and developed from the 1960s, and focused on the empirical studies rather than concept establishment in the 1980s, and the transition to alternative systems was made after the 1990s. Corporate social performance (CSP) began with a critical mind that the CSR concentrated on the recognition of corporate responsibilities and motivations, and was noted as a concept that focused on corporate behavior and performance. Creating shared value (CSV), a methodology that links companies with positive social change and economic value growth, is a concept that has been particularly popular today. With the emphasis on the inclusive growth, the inclusive business (IB) is defined as a business that involves the poor as consumers, employees and producers in business activities.

This study proposes a 'Corporate Inclusive Action in Value-Chain (CIV)' that differentiates the existing concepts associated with corporate social activities from the inclusion of the vulnerable social group and the utilization of the company's core business. CIV is defined as 'all

kinds of enterprise activities which enhance the enterprise and society's acceptability by ensuring that the vulnerable social groups are actively involved within the core business value chain of the entity.' CIV shifts the existing business models with a focus on enhancing enterprise capacity. Therefore, the applicable objects of CIV are typical entities with major management goals for creating economic value, such as traditional business and those seeking social responsibility activities.

CIV's greatest distinction is that it allows those who are alienated from the core business of the enterprise to participate in the core value chain. The corporate value chain is classified into the design and packaging of products and services, procurement and production, distribution, promotion, marketing, and consumption. As design and packaging are detailed based on understanding the needs of the vulnerable social groups and leads to marketing and consumption, the corporate value chain that are the criteria for distinguishing CIV types in this study is divided into four stages: input and supply, production, distribution, and marketing and sales.

This research determines whether the inclusive value generated by a particular corporate activity is at the stage of input and supply, production, distribution, marketing and sales, and analyzes the background, development process, effect of inclusive value creation, the implications and lessons of the project. To this end, we investigated domestic and foreign cases by stereotyping CIV through strengthen ability of supply chain, inclusive production via investment and employment, reorganization of distribution network, and product development and sale for the vulnerable social groups. In particular, we limited the cases when the traditional business changed the value

chain of existing business or the vulnerable social group is participated in the value chain through CIV activities.

As a result of the case analysis, discussions on CIV or the inclusive business in Korea have yet to be actively conducted, thus failing to explore various domestic cases. In the foreign case analysis, it was difficult to find precise examples in accord with our research. There is a lot more cases that firms have entered developing countries and targeted residents of developing countries than the companies in developed countries push forward the inclusive value creation business in their homeland. It is not often that entities have integrated all of the value chain stages into the activities of the entity as a whole that creates inclusive value.

Taking this into account, the business cases surveyed by the company's value chain stages include: ① SABMiller, Novartis for input and supply stage, ② Danon for production stage, ③ Coca-cola and CJ Korea Express for distribution stage, ④ the inclusive activity of MicroEnsure for marketing and sale stage.

A survey was conducted on the activities of Korean companies to create inclusive values. The questionnaire is largely divided into four parts: information about the enterprise (organization), awareness of the company's social value-generating activities, status of performance by type of corporate activity to achieve social goals, and demand of improvement measures to activate social value. The 203 companies that responded to this survey comprise of medium-sized businesses (54%), large enterprises (35%), and small and medium-sized businesses (%), and 60% are more than 30 years old.

Social activities of domestic companies are conducted mainly

through the internal composition of organization or establishment, but organizational responses through cooperation with the outside are relatively insufficient. Looking in detail, the management of departments exclusively responsible for social activities is the most frequent form of systematic response, and it also responds by establishing a social business foundation or subsidiary or publishing a sustainable management report. Other than that, there are not many other types of accreditation that measure the level of the company's social value creation or sign up to the relevant consultative body.

Local companies are still not aware of the possibility of directly linking social-purpose activities to corporate economic performance. The main reasons of performing social activities are to contribute a community development and mutual growth between business and society, and to enhance their corporate image (32.0%). On the other hand, there were only a small number of responses to social activities to comply with relevant laws and regulations (5.5%) or financial performance (3.5%) and to satisfy employees (2.0%). Meanwhile, the majority of respondents said that among Carroll's CSR pyramid stages, its ethical responsibility (48.3%), philanthropic responsibility (25.1%), economic responsibility (17.2%) and legal responsibility (9.4%).

The survey also divided the types of activities that would achieve an entity's social goals into largely general corporate social contribution activities and the entity's inclusive value-generating activities (CIV) and asked the status of their performance. There are general social contribution activities: 1. regular support/donation activities, 2. activities to minimize environmental damage in production and sales processes, 3. community service programs for vulnerable communities, 4. community

problem solving and improvement. CIV includes 5. enhancing the capabilities of the vulnerable in the supply chain and procurement of goods through them, 6. providing jobs for the vulnerable in the production process and local talent priority, 7. reorganizing the distribution network as consideration for the vulnerable class, 8. developing and selling products and services for the vulnerable social group.

As a result, the most frequently performed type of activity is ‘regular sponsorship/donor activity’. Other types of activities selected mainly by companies such as ‘social service for the socially vulnerable’, ‘minimizing environmental damage in the production and sales process and improving the environment’, and ‘providing jobs for the vulnerable in the production process and hiring of local talent’. Overall, the types of activities in the categories corresponding to CIV were found to have relatively little experience in performing. However, although CIV activities have a significantly lower performance than typical corporate social contribution activities, they show an increasing pattern that has been recognized as important as relatively recently.

Finally, response companies highly ranked ‘lack of related budget’ as the number one obstacles faced by respondents to their associated activities. They continually replied the main factors: ‘lack of interest in internal employees and low priority’, ‘lack of personnel and departments’ and ‘lack of professionalism related to social value’. The respondents saw expanding the relevant budget at the corporate level as the most necessary measure, and demand for financial issues, such as financial assistance or tax incentives, was the highest as a request for the government. In particular, demands for financial aid or

tax benefits to the government were quite high.

Although the empirical studies on the relationship between CSR and CSV activities and company result have been conducted at home and abroad, their results show a variety of conclusions. While many studies take up positive effects of CSR or CSV activity on corporate performance, there are quite a few studies claiming that it has a negative effect or an unrelated one. Based on survey results and corporate data, this study verified that ① whether the newly defined CIV activities of an entity have positive (+) effects on enterprise performance, ② whether CIV activities have a greater impact on enterprise performance compared to normal CSR activities, and ③ there are differences in impact depending on the type of CIV activity.

The verification result shows that an entity's CIV activities are far from profitable activities which can lead to direct revenue growth. In addition, the assumption that an entity's inclusive value-generating activities would have a relatively greater effect on the performance of the business compared to those of social contribution activities was not established. Finally, it was revealed that the CIV, which reorganizes the distribution network as consideration for the vulnerable, has a statistically significant positive effect on business performance.

On the other hand, it was analyzed that the size of the enterprise, firm age and the extent of the liability, were statistically significant effects on the performance of the entity in all models. In other words, the size and debt ratio of an entity was shown to have a positive effect on the entity's financial performance, and the firm age was analyzed to have negative influence.