

Refereed article

Opportunities and Disadvantages: The Institutional Embeddedness of North Korean Defector Entrepreneurs in South Korea

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Summary

North Korean defectors struggle with economic and social integration into South Korean society. Facing structural disadvantages in the job market, they are mainly employed in low-wage and undignified jobs that are undesired by South Koreans. A growing proportion of defectors look to self-employment as an alternative. Literature in the research field has shown that those defectors who are self-employed earn notably higher incomes than those defectors who stay in dependent employment, which positively affects their upward economic mobility. Institutional theory has brought to light that opportunity existence and the quality of formal and informal institutions stimulate the formation of enterprises. However, prior research has reported an insufficient start-up system for defector entrepreneurs. This article therefore asks what opportunities and disadvantages North Korean defector entrepreneurs encounter as a result of the formal and informal institutions in South Korea. Using a quantitative and qualitative research design, this article indicates the perceived supportiveness of institutional support for defector entrepreneurs. Results show that while bureaucratic hurdles to establishing a business are kept low, general start-up support is mainly targeted at highly innovative start-ups. As most defectors' businesses are concentrated in low-productive sectors such as service or restaurant businesses, defectors are not eligible for entrepreneurship support. Concerning the Korea Hana Foundation's support for defectors' start-ups, qualitative and quantitative interview results indicate that strict requirements and short application periods limit their perceived usefulness.

Keywords: North Korean defectors, immigrant entrepreneurship, institutional environment

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Introduction

Numerous factors influence a person's decision to become an entrepreneur rather than to accept a job as an employee (Castaño et al. 2015). For North Korean defectors, the decision to start a business is highly influenced by structural disadvantages in the labor market (Y. J. Kim 2019).

Previous research on North Korean defector entrepreneurship has brought to light, that the main motives of the defectors were a "longing for economic stability" and the struggle "for success and acceptance in society" (Y. J. Kim 2019; Yun 2000). Park and Lee tested the influence of the defectors' personal characteristics on their entrepreneurial intention, showing that financial stability and entrepreneurial education has a positive effect on the intention to start a business. However, they found an "insufficient start-up system" an intervening factor for defector businesses (N.T. Park and Lee 2016). This is indeed an important finding since entrepreneurial research also emphasizes the importance of institutional support to create a positive environment for businesses. A cross-national study among 40 economies shows that entrepreneurship thrives where the socio-cultural environment and formal institutions support "performance-based behavior" (Hopp and Stephan 2012: 923).

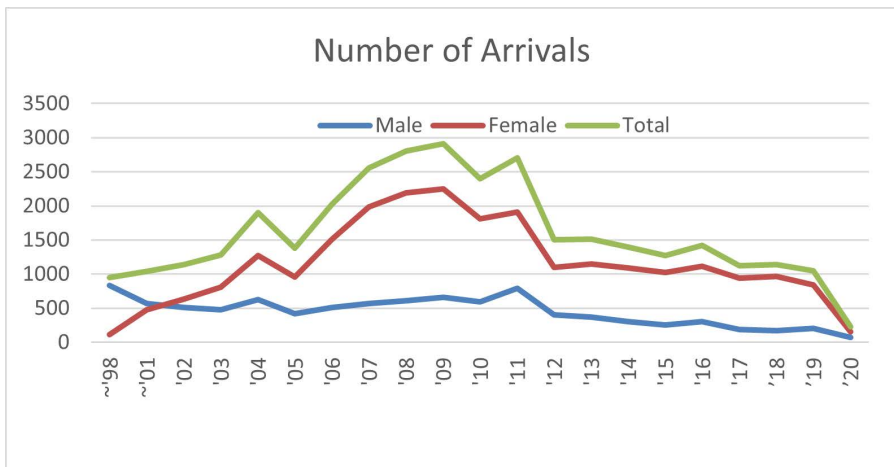
In this study, we apply institutional theory to examine the opportunities and disadvantages for defector entrepreneurs. Thus, the leading research question is: What opportunities and disadvantages arise for North Korean defector entrepreneurs out of formal and informal institutions? On the macro-level we will discuss how informal and formal institutions shape the institutional embeddedness of small and medium businesses to explain the current support program and on the micro-level we discuss the institutionalized support program for defector entrepreneurs. What problems North Korean defectors associate with these support programs will be answered by examining data from a quantitative survey (n=49) and four qualitative interviews. Research on this growing population is needed for two reasons: First, evidence shows that self-employed North Koreans achieve higher average incomes per month compared to those who stay in dependent employment (Lim and Kim 2019). This provides evidence that self-employment is used for upward social mobility and should therefore be encouraged (Rajiman and Tienda 2000; van Tubergen 2005). Second, viable businesses contribute to the creation of stable jobs, which foster social contacts and provide a certain status and identity in society (Porter and Haslam 2005). This helps the psychological wellbeing of the defectors, who are often traumatized by prior experiences including post-traumatic stress disorder (PTSD) (Jeon et al. 2003). Therefore, identifying problems concerning the institutional embeddedness of defector businesses is needed to foster their economic and social integration. By doing so, this study provides an important foundation for subsequent research on the institutional embeddedness of North Korean defector entrepreneurs.

The McCune-Reischauer system will be used to romanize Korean words, authors, and titles with one exception: the names of Korean authors whose papers are published in English are written as they appear in the original paper. The established terms to refer to North Korean defectors are *pukhanit'aljumin* (북한이탈주민) and *t'albukcha* (탈북자), both of which can be literally translated as “North Korean defector.” Therefore, the terms *defector* and sometimes, for variety, *immigrants* are used. Although North Korean defectors receive South Korean citizenship after arrival, they face similar difficulties to those experienced by immigrants to other nation states—therefore they are simultaneously perceived as immigrants, refugees and co-ethnics to South Koreans. (N.H.-J. Kim 2016)

North Korean defectors in South Korea

Since the beginning of the political division on the Korean peninsula, there has been cross-border movement between the Republic of Korea (ROK or South Korea) and the Democratic People’s Republic of Korea (DPRK or North Korea). According to the Ministry of Unification, the total number of North Korean defectors who have entered South Korea since 1948 is 33,752 persons. Graph 1 indicates a drop in arrivals since 2012, illustrating the impact of tighter border controls since Kim Jong-un (Kim Jōng-ŭn) took office in Pyōngyang. About 1000 defectors have immigrated to ROK annually during recent years, however, due to pandemic travel restrictions the number dropped to 229 in 2020. Furthermore, the number of women has exceeded that of men since 2002, representing 72 percent of North Korean immigrants today (Ministry of Unification 2021).

Graph 1: Number of Arrivals



Source: Ministry of Unification, own-graph

Until the late 1980s North Korea had a functioning public distribution system that provided the population with food and commodities. However, this system gradually weakened and finally disintegrated after the loss of Soviet subsidies. What followed was described as one of the greatest famines of the twentieth century (Schwekendiek and Mercier 2016). According to estimates, one to two million people (5–10 percent of the population) starved between 1995 and 1999 (Buzo 2017: 205). During these years, grassroots marketization became increasingly important as a means for survival (Schwekendiek and Mercier 2016). Reportedly, by 1997 as few as 6 percent of all North Koreans were still receiving food from the government, while market activity accounted for upwards of 90 percent of household income (Buzo 2017:209–10).

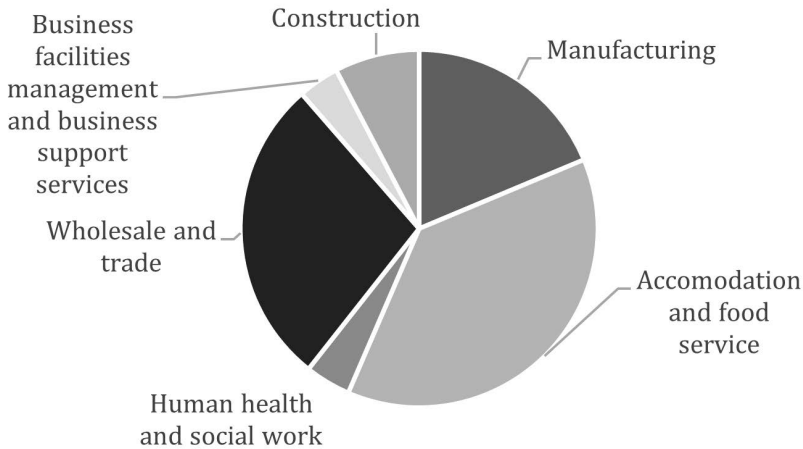
Due to the difficult living situation in North Korea, some decide to cross the Sino-Korean border in search of food and income. However, the People's Republic of China (PRC, henceforth China) and North Korea have signed a secret agreement calling for the return of North Koreans. Therefore, if caught during the defection process or while hiding in China, the defectors are subject to detention and deportation back to North Korea, where they face severe punishment and imprisonment (Lankov 2006: 3). Consequently, North Koreans must find a foreign embassy in China or a safe route through China to a neighboring country such as Mongolia, Thailand, Cambodia, or Laos where they can seek asylum status (Courtland 2010: 16). After crossing the border to a safe third country, the defectors submit themselves to the police and request protection. The ROK embassy then organizes a safe transfer to South Korea (Courtland 2010: 16). The defectors are then interrogated by the National Intelligence Service.

After their identity is verified, North Korean defectors are given South Korean citizenship and receive mandatory social orientation at an institution called "Hanawon." Over the course of three months, the defectors receive education on subjects such as history, society, economy, but also on daily life matters in South Korea (for example how to use the transportation system, how to write a resumé, etc.).

Social integration within South Korean society has proven difficult for defectors over recent decades, influenced by inter-Korean relations and the political environment (Choi 2018). There are currently two discourses in South Korea, which treat North Korean defectors as either "us" or "other" (Bell 2013). One of the consequences of this constructed "otherness" is that North Korean defectors face considerable discrimination in workplaces and receive lower wages. Many defectors therefore consider self-employment as a means to escape their low socio-economic status (Y. J. Kim 2019).

Statistics provided by the South Korean government reflect the rising interest of North Korean defectors in self-employment as a preferred employment option (KHF 2019:57). Furthermore, in a survey among 112 North Korean defectors it was revealed that as many as 74 percent were actually planning a business (B. H.

Cho 2015:162). Many defector businesses are run as small and medium businesses in the service sector (accommodation and food) followed by retail business and manufacturing (see graph 2). Looking at their viability, North Korean defectors have trouble sustaining their businesses in the long-term (H.C. Kim 2015), suffering from lack of information, social networks and an insufficient start-up system (N.T. Park and Lee 2016).



Source: Own graph adapted from KHF 2019: 146.

Unfortunately, there are no official statistics on the number of North Korean defector businesses. We have only projections that there are between 1000 and 2000 businesses run by defectors, mostly small and medium businesses (Y.J. Kim 2019). Only recently have researchers begun to address the issue of self-employment and this has received virtually no scholarly attention outside Korea. This paper thereby contributes to the state of the art in providing an institutionalist approach to defector entrepreneurship.

Immigrant business and the role of institutions

The term *ethnic entrepreneurship* is defined as “a set of connections and regular patterns of interaction among people sharing common national background or migration experiences” (Volery 2007:30). This definition includes members of ethnic minority groups who have been living in the country for several centuries, such as African Americans in the United States or Jews in Europe. An alternative term is *immigrant entrepreneurship*, which concerns individuals who have immigrated over the past few decades. This definition seems the best fit for the experience of North Korean defectors who have, for the most part, defected and immigrated to South Korea since the 1990s. Additionally, prior research on North

Korean defector entrepreneurship has revealed the resemblances of North Korean defector entrepreneurs with immigrant entrepreneurs (Hyön 2014; Y. J. Kim 2019). Immigrant entrepreneurship has been of interest for scholars in various fields including anthropology, economics, psychology, sociology (Dabić et al. 2020). Explanatory studies have recognized the importance of opportunities and constraints for immigrant businesses (Oliveira 2007: 65). The structural disadvantages explanation has been prominent in explaining immigrant entrepreneurship (Chrysostome 2010; Volery 2007). Others have emphasized the importance and resources of ethnic networks to immigrant entrepreneurs (Bonacich 1973; Dana 2007). Kloostermann et al. (1999) have noted that it is necessary to take a more holistic view and have developed an inclusive framework to combine different determinants of immigrant business. For analysis they suggest combining the micro-level of the individual entrepreneur with the meso-level of the local opportunity structure and the macro-institutional framework. This approach has been labelled the mixed-embeddedness model (R. C. Kloosterman 2010: 27–28). The macro-institutional framework has also been considered a lot in classic entrepreneurship research. Welter and Smallbone (2011) emphasize that entrepreneurial behavior must be interpreted in its institutional context, composed of the cultural, economic and political environment in which it operates (Welter and Smallbone 2011: 107).

By offering various kinds of support, institutional support has a positive influence on the foundation and development of new and small businesses (Scheiner 2009: 134). Researchers consider levels of bureaucracy and formalities, as well as assistance programs for new enterprises (e.g. education, office space, capital or business mentoring) (Tarres et al. 2007, p. 260). Therefore, the socio-cultural and politico-institutional environments are able to generate positive or negative incentives for entrepreneurs (Gimenez-Jimenez et al. 2020; Welter and Smallbone 2011).

One of the most cited sources in studying institutionalism is Douglass North who, as an economic historian, developed approaches that focus on a higher level of analysis. This includes the origins of cultural, political and legal frameworks that shape present economic forms and processes. North views the institutional frameworks as societal “rules of the game,” where organizations are considered the “players” (Scott 2013: 33–34). North also considers economic development as the central issue in understanding political and economic institutions. Those economies that fail to produce a set of “economic rules of the game” prevent sustained economic growth (North 1991: 98). Institutions are differentiated between formal and informal institutions. Formal institutions involve written rules, such as *laws and regulations* (North 1991), while informal institutions emerge from *socially communicated information* and are part of a cultural heritage (Gimenez-Jimenez et al. 2020: 198).

This article recognizes the government as the formal institution that has the power to shape enterprise policy and thus can either encourage or impede economic activities (Arshed et al. 2014: 642).

Therefore, the aim of this paper is to assess the South Korean institutional environment surrounding entrepreneurship and to evaluate the governmental support system that supports or discourages North Korean defectors. Accordingly, we will use institutional theory to analyze the formal and informal institutional embeddedness of North Korean defector entrepreneurs, whereas the analytical framework is indicated in table 1.

Table 1: Analytical framework

Formal Institutions	Economic development, policies, and measures, administrative formalities. Support programs for assisting North Korean businesses	North 1991, Welter and Smallbone 2011, Scheiner 2009; Tarres, et al. 2007
Informal Institutions	Values and norms indicating supportiveness for entrepreneurship in South Korea. North Korean defectors' positive and/or negative perception of entrepreneurship; perceived usefulness of support programs	North 1991, Hopp and Stephan 2012, Schüler 2020, Gimenez-Jimenez et al., 2020

Source:own table.

The first part of the paper presents the institutional background for entrepreneurship, which includes policies and levels of bureaucracy, but also values and norms indicating supportiveness for entrepreneurship in South Korea. The second part will critically review the institutional support programs for North Korean defectors on the micro-level. Additionally, we present the results of our survey (n=49) and qualitative interviews to show how North Korean defectors perceive the usefulness of the institutionalized support programs. The paper concludes with a discussion of the results and the implications for entrepreneurship research on North Korean defectors.

The following section offers a short review of the macro-institutional environment for entrepreneurship such as the level of bureaucracy and “ease” of becoming self-employed in South Korea.

The institutional environment for entrepreneurship

Economic development and the ease of becoming self-employed in South Korea

During Park Chŏnghŭi's (Park, Chung-hee) administration in the 1960s, economic development became the highest priority in public policy and strong relationships between state and big businesses were established. Until the mid-1990s South Korea was highly export-oriented and greatly benefited from the effects of

globalization. However, the selective promotion of a few big companies created an unpromising landscape for small- and medium-sized businesses (SMEs) with lower productivity and innovation capabilities (Engelhard 2004: 305). When the Asian financial crisis hit the economy in 1997–1998, the weak SME sector and the relationship between government and large conglomerates (*chaeböl*), was partly made responsible for the severe impact on South Korea's economy.

The financial crisis also initiated a trend of more and more new ventures entering the market. Today, SMEs form the backbone of the Korean economy, providing 80% of all business-sector employment, the second highest share among Organisation for Economic Co-operation and Development (OECD) countries. At the same time, the share of total employment in large companies with 300 or more employees decreased (OECD 2020: 25). Still, the productivity gap between large firms and SMEs in South Korea is the largest among OECD countries. Korean SMEs have a low technology adoption rate and are concentrated in low-production sectors. They offer low wages, have weak job stability, and provide few career opportunities compared to large firms (OECD 2020). The preference of the *chaeböl* to rely on foreign subcontractors has deepened the effect of leaving SMEs behind (Engelhard 2004).

The Moon administration, which assumed power in 2017, has acknowledged weaknesses in the SME sector and has proposed growth strategies that support innovation. The growth strategy is directed at “smart cities” and “smart factory industrial sectors” becoming the main engines of economic expansion, including smart devices, self-driving cars, etc. The Ministry of Science and ICT (Information and Communication Technology) fosters innovative business ideas by supplying funds, grants, accelerators, and more (*Ministry of Science and ICT* n.d.). In terms of administrative regulations, the government has also removed hurdles. The World Bank assessed the relative ease of registering a company in Korea. A company must be registered in order to receive a company seal, which costs only about 30,000 KRW (about 22 euro). To make registration easier, an internet registration office was combined with the local tax payment system (including other systems, such as insurance). The online platform Start-Biz, which was introduced in 2012, allows its users to complete the whole registration process online and it takes less than three days to obtain a certification of incorporation from the system. It is furthermore free of charge to register with the tax office. This makes for a relatively simple process of establishing a business compared to other countries. The World Bank “Doing Business 2019” report therefore ranked South Korea fourth out of 190 economies in terms of ease of starting a business (WBG 2020).

The Global Entrepreneurship Monitor (GEM) also provides a rich data source for analyzing the institutional environment. Its most representative indicator for entrepreneurial activity is the Total early-stage Entrepreneurial Activity rate

(TEA), which is a core metric in the GEM Adult Population Survey (APS).¹ The TEA rate reports the percentage of persons who are either nascent entrepreneurs or owner-managers of new businesses. Nascent entrepreneurs are individuals aged 18–64 who started a business less than three months ago and have not yet paid any salaries or other form of compensation. Owner-managers are business owners who have progressed beyond this state and have paid salaries and wages for more than three but less than 42 months. In South Korea, TEA rates have recently been increasing, from 6.7% in 2016 to 14.9% in 2019 (GEM 2020: 17), a high rate not only for East Asia but also when compared to European economies. A high TEA rate is usually attributed to the absence of alternative income sources.

In 2019, the National Expert Survey (NES)² conducted by GEM also reported on the adequacy of Korean policies in terms of support and relevance to new and growing firms. On a scale of 1 to 10, the overall score for the entrepreneurial environment in Korea was 5.13. Finance, government policies, government programs, and infrastructure were considered to be above average, while education and training were found to be unsatisfactory (GEM 2020:47).

The GEM report also assessed satisfaction with tax and regulations. It found that new firms can obtain most of the required permits and licenses within a week, confirming the effectiveness of Start-Biz. The tax burden for new and growing firms was also not considered to be unduly high. For example, there is a special corporate tax deduction ranging from 5% to 30% depending on firm size, location, business type, and other factors (PWC 2020). It also reported that taxes and other government regulations are applied in an expected and consistent way. Overall, government bureaucracy was found to be supportive of entrepreneurship.

Furthermore, the NES assessed the availability of financing for new and growing firms. Government subsidies were considered the most satisfactory, with equity, debt, and venture capital also receiving scores above five. However, private funding, such as business angels, and IPOs were found most lacking (GEM 2020: 44). Due to the small market size in Korea, the venture capital (VC) market that invests in start-ups and new businesses was reported to be underdeveloped (Schüler 2020).

In Korea, the most common way to fund a business is usually through debt financing. This is the foundation of the so-called joint guarantee system, which holds the founder of a business responsible in case of business insolvency, resulting in creditors seizing all private property from the business founder. In order for a business owner to receive a loan in the first place, a co-guarantor must agree to repay the full debt in case the owner is unable to do so. One consequence

1 The APS is a questionnaire administered to at least 2,000 adults in each GEM country that collects information on respondents' entrepreneurial activity, attitudes, and aspirations.

2 Thirty-six experts collect data on each GEM country's situation in context, resulting in information about each country's socio-economic milieu. The latest results for Korea were published in the GEM South Korea 2019 Report (GEM 2020).

of this system is that failed entrepreneurs are regarded as failed individuals in Korean society, creating a social stigma for failed entrepreneurs (Schüler 2020: 184–185). As a result, the government has gradually relaxed the joint guarantee system, especially for start-ups, thus shifting the financial consequences to Korean taxpayers (Schüler 2020:192).

Schüler (2020) conducted a survey among 171 business students at three different Korean universities to assess the students' perceived institutional environment. She reported that 42% of survey participants agreed or strongly agreed that the government assists individuals in starting a business, while only one-third disagreed. Furthermore, 45% confirmed that the government helps small or new businesses with administrative procedures, while only 14% disagreed (Schüler 2020: 140). The GEM report concludes: “almost anyone who needs help from a government program for a new or growing business can find what they need” (GEM 2020:51).

In general, most reports show an overall satisfaction with the macro-institutional environment for entrepreneurship in South Korea. We therefore conclude that the general level of bureaucracy in becoming self-employed is low and is thus supportive of entrepreneurship. The following section indicates the informal institutional environment in South Korea.

Attitudes towards entrepreneurship in South Korea

Among the informal institutions are values and norms that indicate supportiveness towards entrepreneurship (North 1991). Although formal institutions in South Korea are found to be supportive of entrepreneurship, a perceived lack of support for entrepreneurship in the socio-cultural environment has been identified (Schüler 2020).

The measure “fear of failure” is a GEM variable that reflects whether potential entrepreneurs undertake ventures, with a lower score being more favorable. In the past, fear of failure was comparatively high in Korea, but it saw a sharp drop from 2018 to 2019 (from 32.8% to 7.1%). While the GEM report (2020) does not provide a reason for the sharp drop, it could be directly related to the relaxing of the joint guarantee system, which shifted the financial consequences of business failure to Korean taxpayers (Schüler 2020:192).

Traditionally, Korean entrepreneurs have a higher rate of fear of failure than entrepreneurs in other developed economies, which may have a cultural explanation. Even though scholars argue that Korea has become more individualistic and less family-oriented in recent years, parents remain a decisive factor in the decisions made by young Koreans, including decisions about their occupation (Schüler 2020: 178). In the start-up scene, young Koreans who defied their parents to found a business often refer to themselves as “undutiful children” (Schüler 2020: 179). Schüler reported that most survey respondents did not agree that their parents or the older generation support their children in starting a

business (Schüler 2020: 145). She also found that among South Korean university students, the norms and values imposed by their parents were the most influential factors in whether they decided to start a business.

Almost half of the students Schüler surveyed disagreed or strongly disagreed that becoming an entrepreneur in Korea was considered abnormal behavior, although one-third agreed or strongly agreed. Almost 60% agreed or strongly agreed that entrepreneurs whose businesses failed would experience social stigma, but more than half indicated that Korean society respects entrepreneurs for their courage in starting a business. According to the GEM report (2020), satisfaction with cultural and social norms towards entrepreneurship is neutral in Korea. On a scale from 1 to 10, entrepreneurs were somewhat unsatisfied (4.3), while policymakers showed a higher satisfaction level (6.33). GEM also studied whether successful entrepreneurs are considered to have a high status in society, with 86 percent agreeing. These mixed results show that in Korean culture, business failure has a strong negative connotation but entrepreneurial success results in societal admiration (Schüler 2020).

The socio-cultural attitude towards entrepreneurship therefore shows a mixed outcome. While South Korean society praises successful entrepreneurs, taking the risk of self-employment seems to be negatively connoted. Unfortunately, resources on socio-cultural attitudes towards entrepreneurship in South Korea are limited and need to be addressed in future research frameworks.

Methodology and data

Doing interviews among North Korean defectors has proven difficult and largely explains why most research in the field is based on qualitative data. Informants for both quantitative and qualitative interviews were identified using snowball-sampling and with the help of the “door-opener” Lee John-ho who manages entrepreneurship education for North Korean defectors at Dankook University (DKU). Using his contacts, we were able to conduct an offline and online survey between October 11 and November 1, 2019. We collected 70 surveys, but had to exclude those that were incomplete or gave misleading information. Online, the number of useful surveys was 35 while offline we were able to collect another 14, equalling 49 surveys useful for data analysis.

It has to be noted that the defectors’ self-reported assessments do not reflect the actual performance or economic impact of governmental support but are intended to deliver evidence on the defectors’ personal opinions of governmental programs, how they perceive the socio-cultural environment in South Korea, and their attitudes towards entrepreneurship.

We utilized five-point Likert-type scales that reflected the following composite variables: entrepreneurial perception (positive and negative) as well as the perceived supportiveness of governmental programs. To assess the defectors’

positive and negative perceptions we used survey items developed by Kim Young Dae (Y. D. Kim 2019). Self-developed questions for the survey included question on the defectors' perceptions of institutionalized support. We used a panel of professors at Vienna University and Dankook University (DKU) to ensure the content validity of the survey items. The survey outcomes were analyzed using frequency analysis with the program IBM SPSS Statistics 26. The answers were coded "strongly disagree" = 1, "disagree" = 2, "neutral" = 3, "agree" = 4, and "strongly agree" = 5.

The survey items are indicated in the following table.

Table 2: Survey Items

Entrepreneurial perception positive	Scale
I think that entrepreneurship contributes to the nation and society.	1–5
I think that the societal perception of entrepreneurship is positive.	1–5
I think there are many respected entrepreneurs in society.	1–5
I think starting a business is another type of job choice.	1–5
I think starting a business will bring self-fulfillment.	1–5
I think starting a business will bring economic wealth.	1–5
Entrepreneurial perception negative	
I think entrepreneurs are perceived negatively in society.	1–5
I think entrepreneurs are rarely respected in society.	1–5
I would object if my family, relatives, or acquaintances started a business.	1–5
I think starting a business does not bring me economic stability.	1–5
I think starting a business does not bring me a sense of accomplishment.	1–5
Institutional support	
To start a business, I want to receive a bank loan.	1–5
It is easy to get a loan from a bank for a start-up.	1–5
The training I received at Hanawon helps me start a business.	1–5
The South-North Hana Foundation provides a lot of support for start-ups.	1–5
There are organizations that help me to get started.	1–5
I will visit relevant organizations for advice on starting a business.	1–5

Source: derived from Y. D. Kim 2019, own-translation.

The survey included 15 male (30.6%) and 34 female (69.4%) respondents. Twenty-one respondents were married (42.9%) and 28 were not married (57.1%); Of the respondents, 36.7% were 30 or below, 51.0% were between 31 and 50, and 12.2% were 51 or older. Most of the respondents had defected from North Korea in the 2000s (73.4%), while 14 percent entered Korea in 2016 or later. Most came from Hamgyongbukdo (42.9%), from Yagangdo (30.6%), or from Hamgyongnamdo (12.2%). Just under half, 44.9%, were high school graduates, and 40.8% were university graduates. The survey included 24.5% self-employed people, while 49% intended to become self-employed and 16.3% were students at the time of survey.

Qualitative interviews

Concentrating on the defectors' issues and problems, the so called "problem-centered" interview method seemed to best fit the research aims. The strength of this method is that it concentrates on a certain area to enable the researcher to unfold subjective perceptions of social reality (Witzel 2000). The first in-depth interviews with North Korean defectors were conducted in the metropolitan region of Seoul in April 2015. The interviewees were not reluctant to be tape-recorded since their identity would be kept confidential. The interviews were transcribed in Korean, except one, which was conducted in English and took place within the Seoul metropolitan area.

Questions used for this article included:

- Do you have any particular expectation from the government for your business? Or are there any special obstacles that must be removed?
- Is there anything that hinders the start-ups of North Korean defectors? Do you expect or wish for something from the government, such as policies or support?
- Have you ever been discriminated against? Have you ever had a hard time getting a loan?

Table 3: In-depth interviews with North Korean defector entrepreneurs

Gender (age)	In SK since	Educational level	Details
Female (38)	2003	University degree in SK	Trading business with gift articles within the metropolitan area. Employing six employees (two from North Korea).
Female (26)	2006	University degree in SK	Farming business, together with three other North Korean defectors. No additional employees.
Male (28)	2010	Secondary school in North Korea	Self-employed, trading commodities, later turning to web design and website development.
Male (33)	2004	University degree in SK	Managing two Social Enterprise Coffee Shops in Seoul. Number of employees varies.

Source: own-table.

For coding, the interviews were transcribed in Korean and translated into English. For content-structuring the program MAXQDA "Computer assisted qualitative data analysis software" was used (Kuckartz 2017). This is a program that helps organize and code files including audio transcripts.

Opportunities and disadvantages

Institutional support for North Korean defectors in South Korea

North Korean defector businesses have reported an “insufficient start-up system” as an obstacle to self-employment (Park 2016). This section will therefore outline several types of support available to North Korean defector entrepreneurs, give a broad overview of the available support programs and discern patterns and similarities.

The first organization usually consulted by North Korean defectors is the Korea Hana Foundation (KHF). It is a governmental nonprofit organization established in 2010 by the Ministry of Unification. Its mission is to contribute to the successful settlement and integration of North Korean defectors. KHF also provides free consulting and information for those who want to become self-employed and notifications of opportunities for entrepreneurial support are regularly published on their website.

Last year’s start-up support link on the KHF home page takes visitors to a notification titled “2020 North Korean defector recruitment companies support.” This offer was not targeted at all North Korean defectors who intended to start a business; those eligible to apply included only enterprises that sought social enterprise status (employing two or more North Korean defectors) and small and medium businesses that employed at least five North Korean defectors. If the CEO was a North Korean defector, they counted as one NK employee. The offer was open for a period of three weeks from October to November 2020 and the businesses selected were scheduled to receive up to 20 million KRW.

KHF also recruited candidates for a start-up commercialization project to support aspiring North Korean defectors with outstanding ideas and innovations in the fields of manufacturing and technology ventures. The application period was open from October to November 2020. Furthermore, KHF offers “management improvement funds” to North Korean defector entrepreneurs. The amount of support is capped at 3.5 million KRW, depending on the business type and size. An external link is available on the website, which leads to a specialized external agency that guides business founders to low-interest loan products such as microcredits, microfinancing, and small business support funds.

KHF also consults with and provides free information to founders of start-ups. Entrepreneurs are only eligible for this support for six months after establishment of a start-up. The KHF links some of their offers to the start-up promotion agency (k-startup.go.kr) to obtain more information. This indicates a cooperation between the Ministry of Small and Medium Enterprises (SMEs) and Start-ups, and the Ministry of Unification. The ministry of SMEs also overlooks the Korea Institute of Startup and Entrepreneurship Development (KISED), a governmental agency that provides support to one-person businesses. Hence those defectors not eligible

for the very specific KHF offers (a complete list of which is provided on their website) may turn to this agency.

However, KISED focuses on supporting entrepreneurs “with innovative tech startup ideas,” which is not often applicable to North Koreans who specialize in the food, trade, or manufacturing sectors. If they succeed, however, KISED provides a full package of support, ranging from management practices to business knowledge and commercialization, etc.

Religious organizations also offer assistance through KHF. One such organization, the Caritas Social Enterprise Support Center, is renowned among defectors. Caritas indicates that one of its objectives is to “support startups for vulnerable North Korean defectors” in order to “improve the quality of life for the socially underprivileged” (caritasworld.org). Defectors are offered loans through unsecured and unguaranteed microloan projects, which are based on socio-economic considerations. These loans provide up to 30 million KRW and for those who have repaid an initial loan, up to a further 20 million KRW may be provided.

The loan includes start-up education in areas such as social economy, marketing, publicity, tax, accounting, etc. The loan period is five years at an annual interest rate of 3% and a penalty rate of 7% (Caritas 2019).

Commercial banks are nongovernmental and nonreligious institutions where defectors can request a loan. Among them, the LG Smile Foundation promotes microfinance to support the independence of the financially underprivileged. The loan is up to 70 million KRW at an annual interest rate of 4.5%, and it is possible to apply with a credit rating of 6–10. Application is possible for enterprises with average monthly sales exceeding 30 million KRW per annum and for certain businesses that have been selected for a social enterprise establishment support project, preliminary social enterprise, or farming support project (LG Miso 2020).

A short review of available support shows that general support for start-ups and new enterprises focuses on innovative businesses. Support focusing on North Korean defectors, on the other hand, is often directly linked to the concept of Social Entrepreneurship (SE), with its tight requirements and application periods. In Korea an SE is defined as

an entity certified (...) that pursues a social objective aimed at enhancing the quality of life of community residents by providing vulnerable social groups with social services or job opportunities or by contributing to the communities while conducting its business activities, such as the manufacture or sale of goods and services; (Article 2, Social Enterprise Promotion Act 2012).

Depending on the services, several types of SE are distinguished, one of them being the “job-creation type” that offers jobs to vulnerable social groups such as the disabled, elderly people, North Korean defectors, and others. To obtain certification from the Ministry of Employment and Labor, application procedures include information on accounting, contracts, dates, numbers, people, grants, donations to other organizations and business reports are required. The certification

process involves at least nine steps as indicated on the official website (Social Enterprise, 2021) However, after successful approval by the Ministry of Labor, SEs enjoy financial subsidies for initial capital, various tax benefits, support consulting on business administration, preferential purchasing through public institutions, etc. (Jung 2018). According to Article 19, the term social enterprise refers only to those who are certified SEs and prohibits other organizations from using this term. Bidet and Jeong (2016) indicate that the social enterprise model in South Korea helps the work integration of North Korean defectors. However, others state that the governmental funding of social enterprises has a negative effect on the social services provided to vulnerable social groups (M. Park and Chung 2015). Our interviewees voiced concerns about the Social Enterprise concept, as will be shown in the final chapter. Before that, we will indicate the attitude and values of North Korean defectors regarding entrepreneurship in the following section.

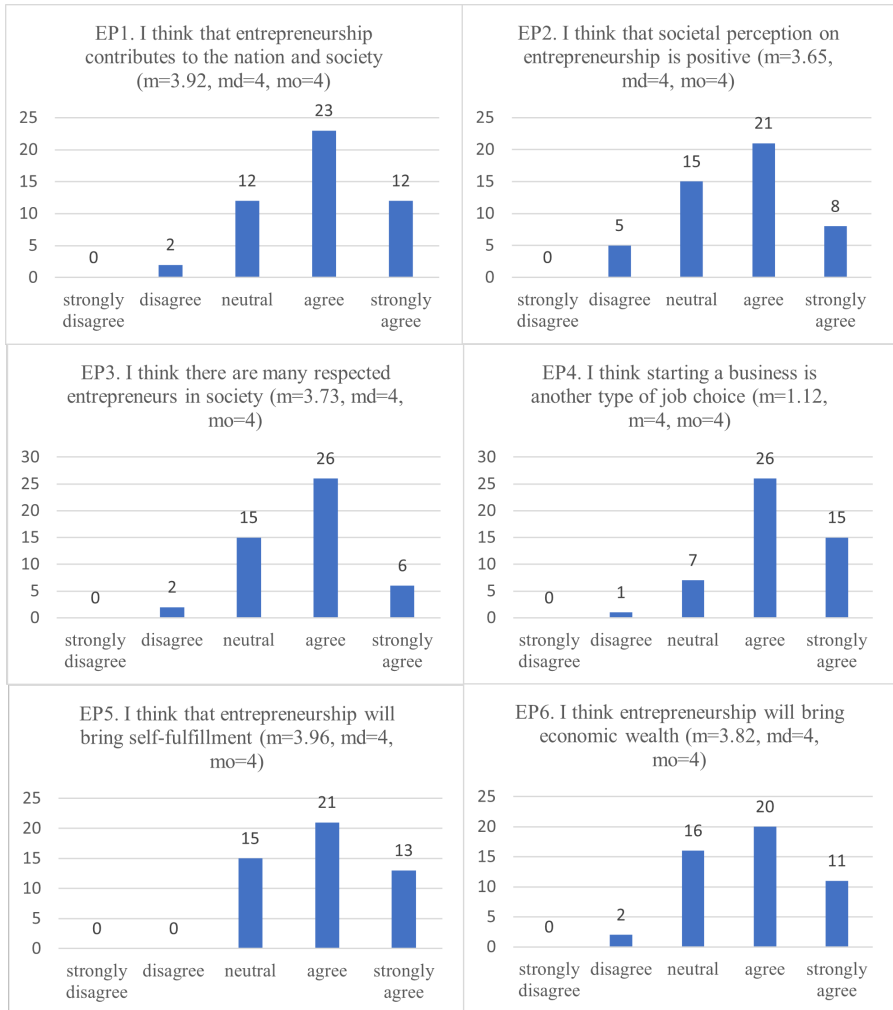
Survey results

North Korean defectors' perception of entrepreneurship and the socio-cultural environment

Our interviewees' perceptions of entrepreneurship are summarized in figure 1.

The majority of respondents had a positive perception of entrepreneurship. 70 percent agreed or strongly agreed that entrepreneurship contributes to the nation and society, while just two respondents disagreed (EP1). Almost 60 percent believed that societal perception of entrepreneurship is positive in South Korea, while only 10 percent disagreed (EP2). More than two-thirds agreed that there are many respected entrepreneurs in South Korean society (EP4). On the question of whether starting a business is another type of job choice, 83 percent strongly agreed. When asked whether entrepreneurship brings self-fulfillment (EP5) and economic wealth (EP6), 70 and 63 percent of respondents agreed, respectively, while a third of respondents remained "neutral" on both questions.

The index "entrepreneurial perception positive," consisting of six items, brought forth a mean of 3.87 and we therefore conclude a positive perception of entrepreneurship. For reliability analysis, Cronbach's alpha was calculated to assess the internal consistency of the subscale for positive affect, which consists of six items. The internal consistency of the questionnaire is satisfying, with Cronbach's alpha for positive affect = .84. The mean entrepreneurial perception of women ($M = 3.73$; $SD = 0.55$) was lower than that of men ($M = 4.12$; $SD = 0.58$). The difference was significant: $t(47) = 2.67$, $p < 0.05$.

Figure 1: Perceptions of entrepreneurship among NK defectors

Source: Author's figures based on results from own survey.

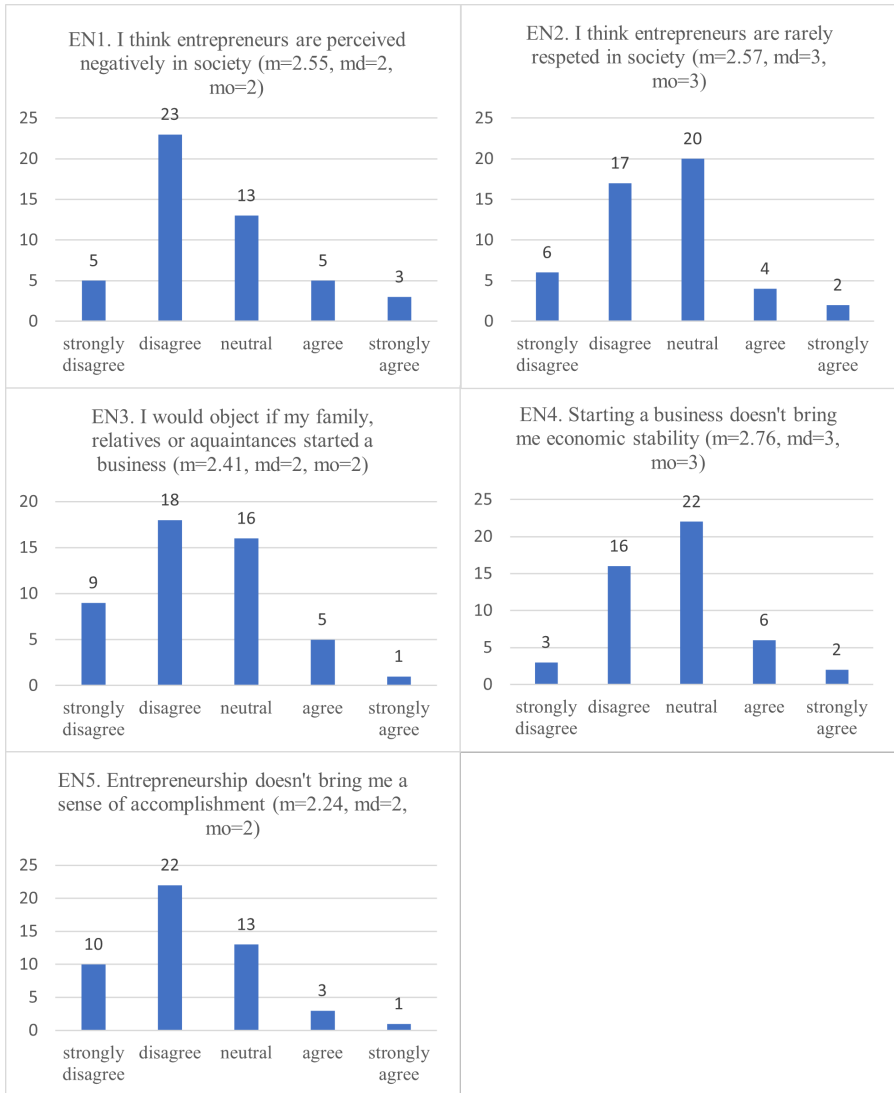
Note: The total number of respondents was 49. The answers were coded "strongly disagree" = 1, "disagree" = 2, "neutral" = 3, "agree" = 4, and "strongly agree" = 5. m = mean, md = median, mo = mode.

We reversed the question to indicate a negative entrepreneurial perception (figure 2), revealing that the majority of respondents do not think that entrepreneurs are perceived negatively in South Korean society (57%), with only 8 people (16%) indicating that they are perceived negatively (EN1) or that entrepreneurs are rarely

respected in society (12%), while 40% gave a response of “neutral” (EN2). Most (55%) indicated they would not object if their family, relatives, or acquaintances started a business, while 12% would object (EN3). On the question of whether starting a business would result in economic stability, almost half of respondents (45) were neutral or did not agree, 39% agreed, and 16% stated that it would not contribute (EN4). Two-thirds (65%) of respondents indicated that entrepreneurship would bring them a sense of accomplishment (EN5).

The index “entrepreneurial perception negative,” consisting of five items, brought forth a mean of 2.51. We conclude that the survey respondents do not have a negative attitude towards entrepreneurship but perceive entrepreneurship positively. For reliability analysis, Cronbach’s alpha was calculated to assess the internal consistency of the subscale for positive affect, which consists of five items. The internal consistency of the questionnaire is satisfying, with Cronbach’s alpha for positive affect = .83. The mean entrepreneurial perception negative of women ($M = 2.45$ $SD = 0.55$) was not significantly different from that of men ($M = 2.64$; $SD = 1.07$).

In conclusion, the above data suggests that the perception of our survey respondents regarding entrepreneurship is positive with a mean of 3.87. Men indicate a more positive entrepreneurial perception than women do.

Figure 2: Negative perception of NK defectors towards entrepreneurship

Source: Author's figures based on results from own survey.

North Korean defectors' perception regarding institutionalized support

Almost half of the survey respondents (44.9%) agreed that they know where they can turn if they decide to start a business, while 14% disagreed (SP1). Almost two-thirds indicated they would visit the relevant organizations to get start-up advice, while 22.5% disagreed (SP2). If we compare SP1 (whether they know about organizations) to SP2 (if they would visit such organizations), we can discern a bias. Even though support organizations are known to the respondents, not all of them consider visiting the relevant organizations. This bias is also manifested in response to SP5 and SP6. Education offered by Hanawon is not considered helpful for establishing a business, while support provided by the Korea Hana Foundation is considered better in educating for entrepreneurship.

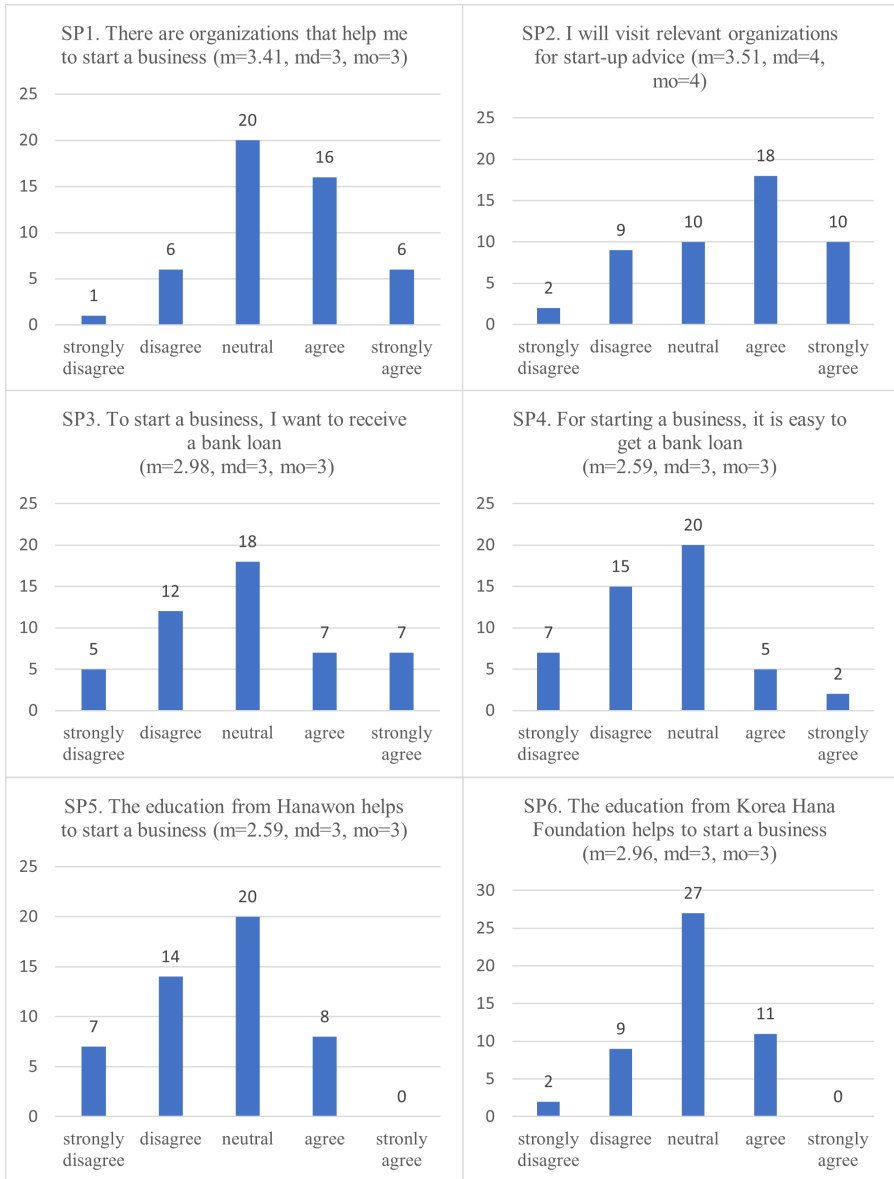
Unexpectedly, just 28.6% indicated that they wanted to receive a bank loan, while 24.7% stated they did not (SP3). Only 14.3% thought that obtaining a bank loan would be an easy task, while 45% did not think so (SP4). Kim Young-ji (2019), who interviewed 20 North Korean defector entrepreneurs for her doctoral thesis, states that most of them established their businesses without a bank loan or government support.

According to one of our in-depth interviewees it is difficult to obtain a bank loan because of prejudice:

receiving a loan is very difficult [...]. There is the prejudice that North Korean defectors don't know how a capitalist society works. (Male, 28, website developer)

Finally, the survey respondents were asked how they perceive the supportiveness of KHF and Hanawon governmental agencies. They did not consider either particularly helpful. KHF was better rated, with 22.4% agreeing that it was helpful (SP6), while 16.3% believed that Hanawon was helpful (SP5). On both questions, no respondent strongly agreed, but 22.5% and 43% respectively disagreed or strongly disagreed that these governmental agencies help in starting a business.

Figure 3: Perception of governmental support and bank loans



Source: Author's figures based on results from own survey.

During the in-depth interviews it was discerned that entrepreneurial support for defector entrepreneurs is associated with stringent requirements as reflected in this quote:

There are organizations, such as the Hanawon, to apply for support. However, if you do not meet their requirements, it is difficult to receive support. But we need support that matches our needs. As I told you before, if you majored in livestock industry, you can receive 400 million won. However, we have majored in business administration, so we could not meet their requirements. (Female, 26, livestock farmer)

Furthermore, it is difficult for North Koreans to apply for social enterprise status, which is strongly emphasized by KHF. To receive this status, there are various obstacles. The most significant issue indicated was that there must be at least one paid employee before an application is made. However, most North Korean defectors who need initial support for their start-up begin as a one-person enterprise. An additional requirement is that at least six months prior to application, the income from business activities should exceed 30% of the wages. This was reported to be a difficult hurdle:

I am preparing for this social enterprise status; however, the business needs a certain qualification, such as the number of employees, to whom we have to pay at least six months of a salary before you can apply. This also costs a lot of money, and we cannot pay for that at the moment. (Female, 26, livestock farmer)

Secondly, respondents indicated that any available support comes in the form of offers that are only available for a few weeks and lack consistency:

If you apply for support, you need perfect application papers, and it is very difficult to match the application period with the business opportunity. Once you finish applying, the business opportunity is gone. I didn't receive any support, it's difficult to receive money from such a support program" (Male, 28, website developer)

In my previous article (Jung 2018), it was furthermore shown that social workers at KHF and at Hanawon centers do not advise North Korean entrepreneurs to become self-employed, but instead stress the importance of working in dependent employment (Jung 2018). This stance is also reflected in governmental support programs with tight requirements and schedules.

Limitations

Our article, which provides first evidence on the institutional embeddedness of North Korean defector entrepreneurs, is not without limitations. First, the defectors' self-reported assessments do not reflect the actual performance or economic impact of governmental support but are intended to deliver evidence on the defectors' personal opinions of governmental programs. Additionally, due to the challenges of locating and studying defectors, we may have oversampled

defectors with higher education levels and literacy rates. With this potential bias in mind, future research frameworks should examine the policy support programs for North Korean defector entrepreneurs involving larger n-studies to make generalizations possible. Finally, the author tried to report the responses to the in-depth questions as closely as possible to the original answers, but subjective biases or translation inaccuracies cannot be excluded.

Conclusion

This study provides first evidence on the institutional embeddedness of North Korean defector entrepreneurs by using a quantitative-qualitative approach.

From a macro perspective, the entrepreneurship ecosystem was found to be supportive of business establishment in general. Within a few decades, South Korea was able to become one of the leading industrial nations worldwide, ranking 15th out of 140 countries in the 2018 Global Competitiveness Index of the World Economic Forum (WEF). South Korea's macroeconomic environment has seen above-average positive ratings in terms of size of the market, infrastructure, and strength of innovation, while scores for labor productivity and development of the financial system were lower. The "Creative Economy" policy initiated under Park Geun-hye is being continued under the presidency of Moon Jae-In. It aims to promote young, innovative technologies in the industries of the future. In that context, Moon Jae-In has set up the Ministry of SME and Startups to ensure that innovative start-ups are provided with office space, mentoring, research and development capital, and other services. However, most self-employed North Koreans operate businesses in the service sector, such as lodging and food, followed by retail business and manufacturing business, which are not the target of South Korea's innovation strategy. Thereby we conclude that South Korea has a well-established system of support, regulations, and taxes, as well as low bureaucratic hurdles to establishing a business, although it does not match the needs of North Korean defector entrepreneurs. Regarding the informal institutional context, satisfaction with cultural and social norms regarding entrepreneurship seems to be mixed in South Korea, even though there is a lack of data and more evidence is needed. According to GEM data (2020), satisfaction with cultural and social norms surrounding entrepreneurship in Korea are neutral on average. Successful entrepreneurs are regarded highly, but business failure has a negative connotation (Schüler 2020).

The defectors' perception of entrepreneurship was found to be positive as well. We collected quantitative data via a web-based cross-sectional survey (n=49). The index "entrepreneurial perception positive," consisting of six items, brought forth a mean of 3.87. Therefore, our data allowed us to conclude a positive perception of entrepreneurship. Male North Korean defectors indicated a more positive entrepreneurial perception than female defectors.

Regarding institutional support for North Korean defectors, a literature review showed that institutions such as KHF and Caritas both emphasize the concept of Social Economy and Social Entrepreneurship. In South Korea, social enterprises are implemented with a top-down approach, targeting socially vulnerable groups. Bureaucratic hurdles in obtaining the status of certified social enterprise were reported during qualitative interviewing. The support schemes seem to lead to frustration over unnecessary requirements such as having the “right” university major to be eligible for governmental support. Similarly, arbitrary, short application periods were criticized.

Even though institutionalized support exists for aspiring entrepreneurs, our survey respondents were critical about the level of bureaucracy and strict requirements. Therefore, we conclude that the socio-cultural and politico-institutional environment is not yet able to generate positive incentives for defector entrepreneurs. The available support should therefore be amended to fit the needs of aspiring defector entrepreneurs, and to target his or her skills, as well as the particular business project. Additionally, a support scheme should be made available throughout the year, involving entrepreneurship education and practical advice to aspiring defector entrepreneurs. We hope that our research sparks the interest of future researchers to better understand this under-studied but growing population of defector entrepreneurs to assist their businesses’ long-term viability.

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