

Characteristics of High-Growth Service SMEs in Korea

Younsuk Park
Korea Small Business Institute

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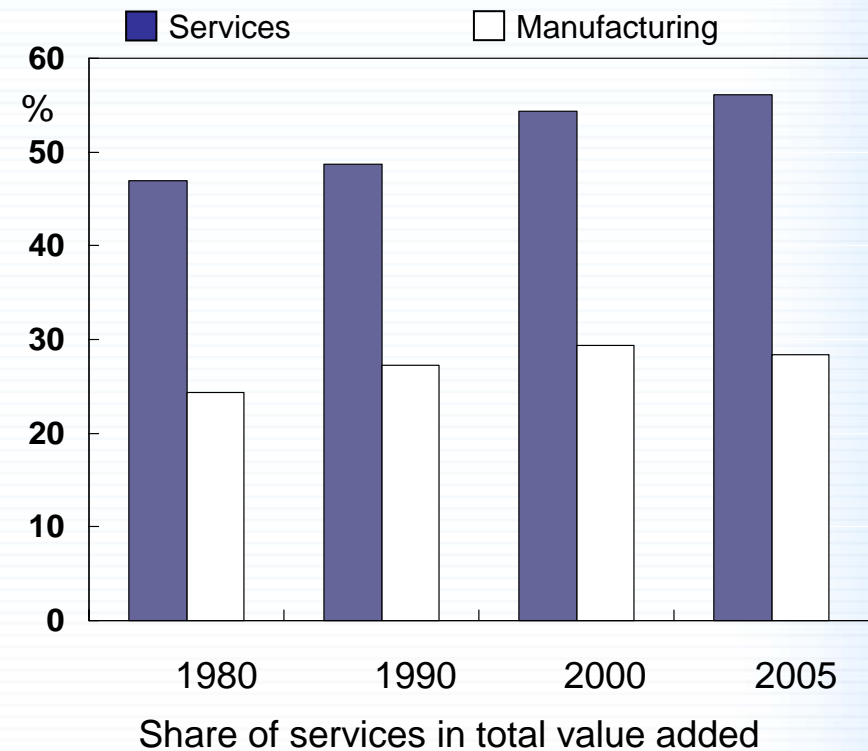
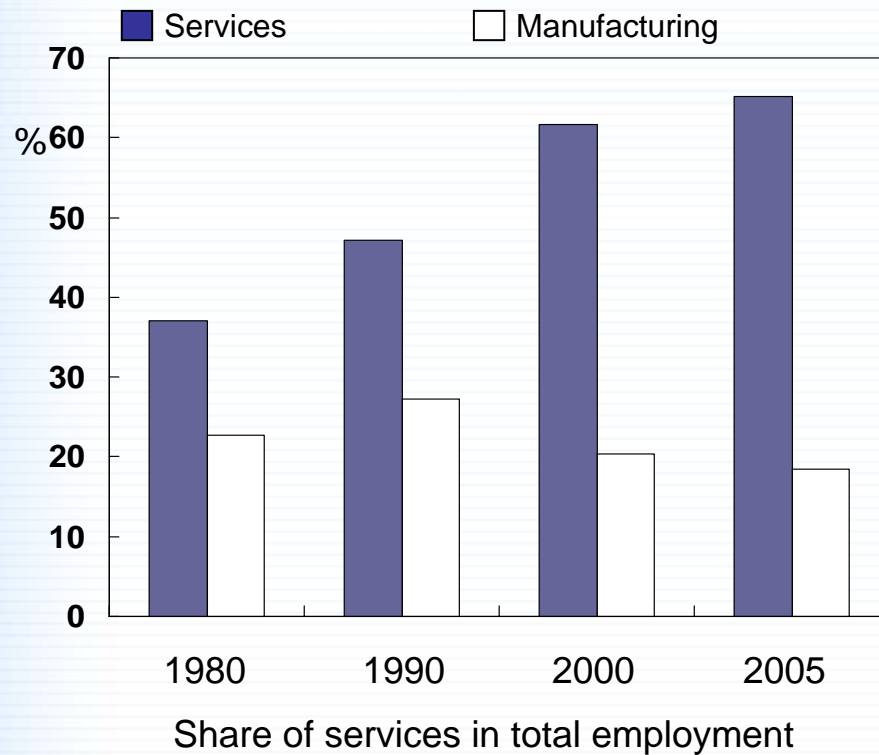
Contents



- Introduction
- Objectives and data
- Defining high-growth SMEs
- Methodology
- Characteristics of high-growth SMEs
 - Sector, size and age
 - Innovative technology/knowledge
 - The market, financing
 - Human resources, the entrepreneur
 - Public policy
- Conclusion

Introduction

- The Korean economy is increasingly services-oriented



- The knowledge-based service sector of Korea occupied for 23.1% of the total employment and 26.1% of the total value added in 2005

Objectives and Data

- **Objectives**

- Analyzing the characteristics of high-growth SMEs in the knowledge-based service sector of Korea
- Comparing and contrasting those of developed countries (mainly manufacturing)
- Drawing policy implications

- **Data**

- Korea Information Service, the credit rating agency, based on the data from the Financial Supervisory Service, Korea
- Surviving firms from 2000 to 2005
- Knowledge-based service sector
- 1,643 SMEs ($10 \leq \text{size} < 300$) at the beginning of the period

Defining High-growth SMEs

- Measure of growth

$$G \equiv (\ln S_{t'} - \ln S_t) / (t' - t)$$

S= Firm size (number of employees); $t' > t$

- Growing SMEs
 - 1,033 firms experiencing growth ($G > 0$)
- High-growth SMEs
 - 104 firms growing at a very high rate (upper 10%)

Methodology

I. Data Analysis

- 104 high-growth SMEs in comparison with 1,033 growing SMEs out of the total 1,643 SMEs
- Sector, Size and Age

II. Survey Analysis

- 61 respondents among high-growth SMEs
- Innovative technology/knowledge
- The market
- Financing
- Human resources
- The entrepreneur
- Public policy

Sector I

- High-growth SMEs are significantly concentrated in the computer and related activities

- Breakdown by sector -

Sector	All SMEs		Growing SMEs		High-growth SMEs	
	No.	%	No.	%	No.	%
Post and telecommunications	44	2.7	24	2.3	2	1.9
Financial intermediation	204	12.4	123	11.9	9	8.7
Insurance and pension funding	7	0.4	5	0.5	2	1.9
Activities related to financial intermediation	29	1.8	16	1.6		
Renting of machinery and equipment	20	1.2	10	1.0	1	1.0
Computer and related activities	691	42.2	440	42.6	69	66.4
Research and development	13	0.8	10	1.0	2	1.9
Professional, scientific and technical services	484	29.5	316	30.6	15	14.4
Education	12	0.7	8	0.8	1	1.0
Health	12	0.7	8	0.8		
Motion picture, broadcasting and performing arts	127	7.7	73	7.1	3	2.9
Total	1,643	100	1033	100	104	100

Sector II

- Concentration is also significant within the computer sector: 82.6% in software

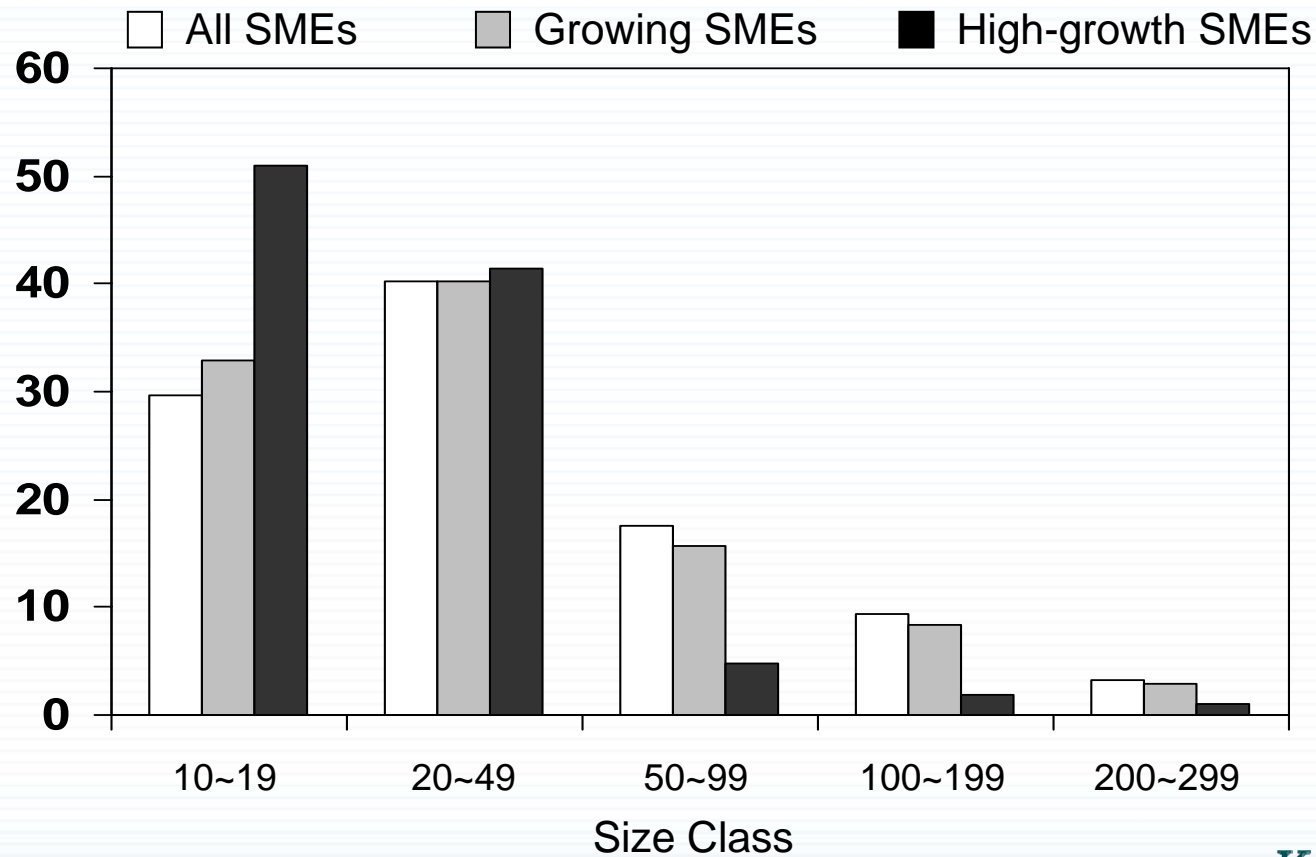
- Breakdown of the computer and related activities into five sub-sectors -

Sub-sector	All SMEs		Growing SMEs		High-growth SMEs	
	No.	%	No.	%	No.	%
Computer system design and consultancy	56	8.1	34	7.7	2	2.9
Software consultancy and supply	559	80.9	359	81.6	57	82.6
Data processing and computer facilities management	7	1.0	4	0.9	1	1.5
Data base and On-line information provision	55	8.0	34	7.7	9	13.0
Other computer activities	14	2.0	9	2.1	0	0.0
Total	691	100	440	100	69	100

Firm Size

- Over 90% of high-growth SMEs had fewer than 50 employees at the beginning of the period

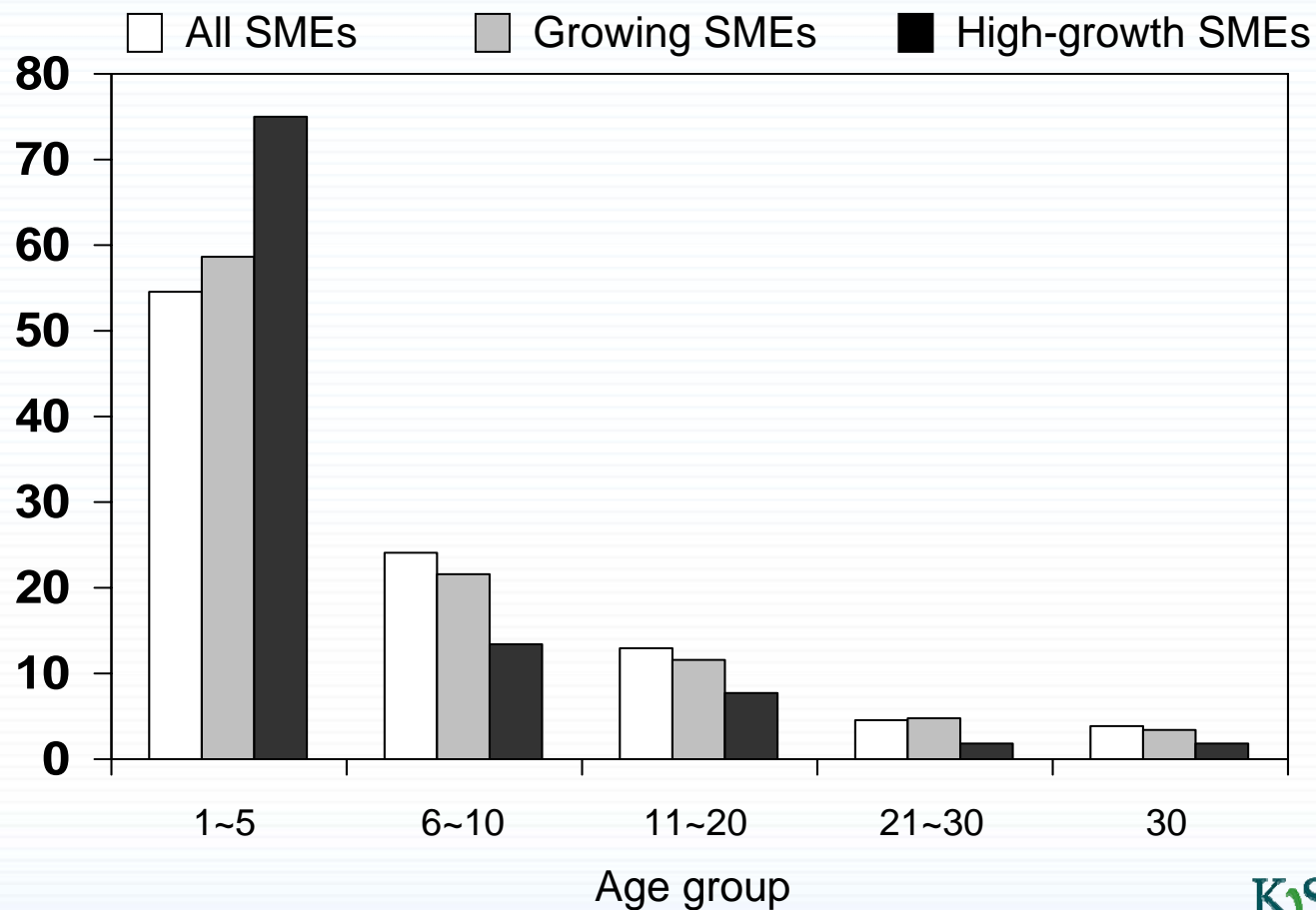
- Breakdown by size class in 2000 -



Firm Age

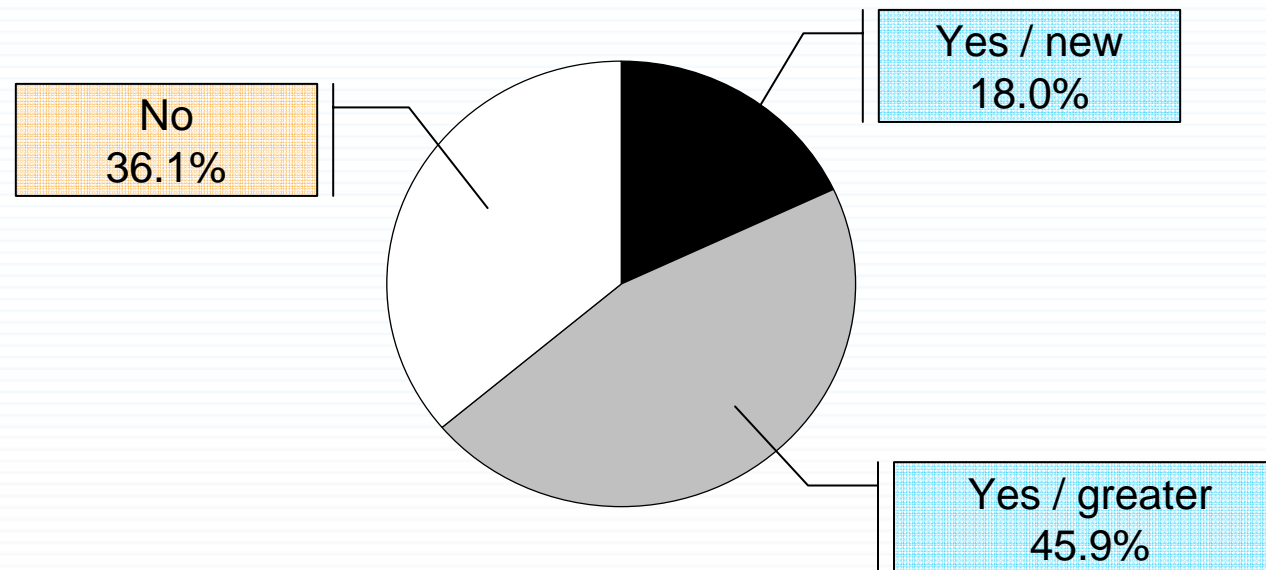
- 75% of high-growth SMEs aged less than 5 years at the beginning of the period

- Breakdown by age group in 2000 -



Innovative Technology/Knowledge I

- The development of new products/services drives growth: 73.8%
- R&D activities have been expanded compared to five years earlier: 63.9%

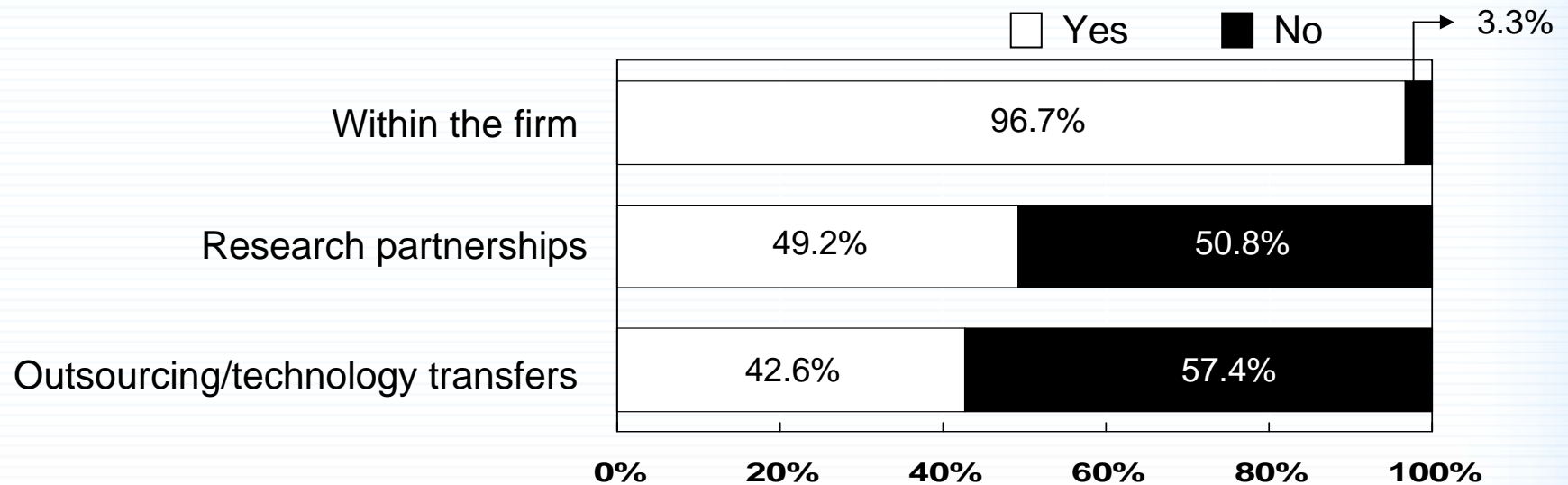


- Seven out of ten high-growth SMEs have organized R&D activities

Innovative Technology/Knowledge II

- Innovative technology/knowledge for growth relies on R&D within the firm

- Methods to develop innovative technology/knowledge -

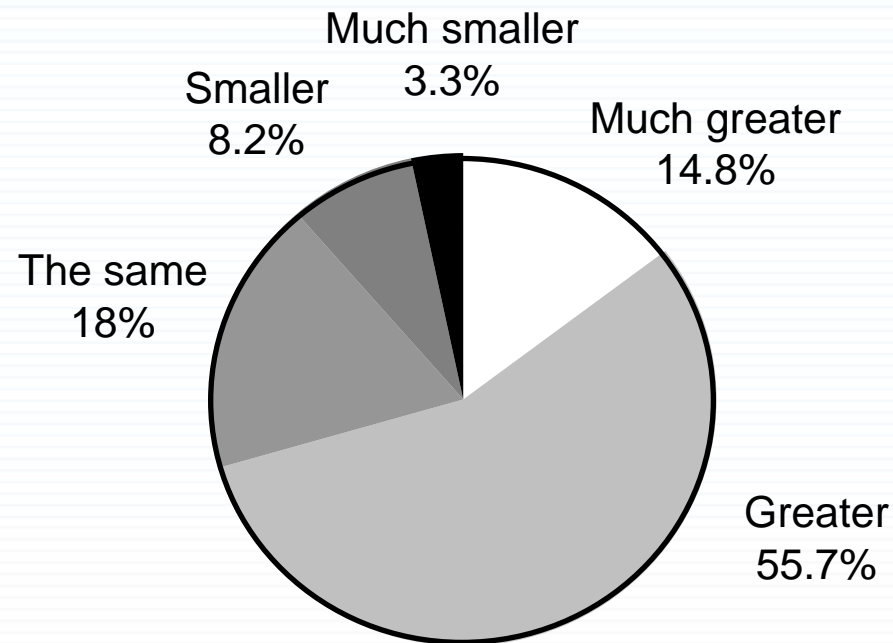


- SMEs and universities are the main research partners of high-growth SMEs

The Market I

- Markets for high-growth SMEs have been greater compared to five years earlier

- Growth of Market compared to five years earlier -

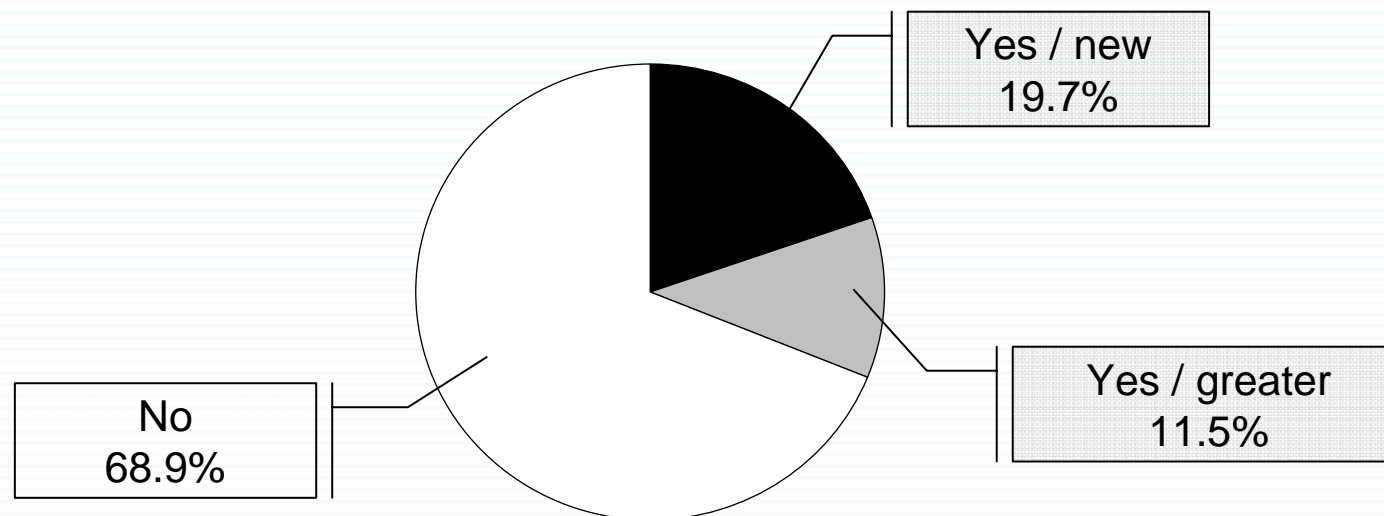


- Sales concentrate on major customers: Nearly 50% of firms derive over half their turnover from their three main customers

The Market II

- Four out of five firms do not export at all or export less than 10% of turnover
- The increase in export turnover may not be a key driver for growth

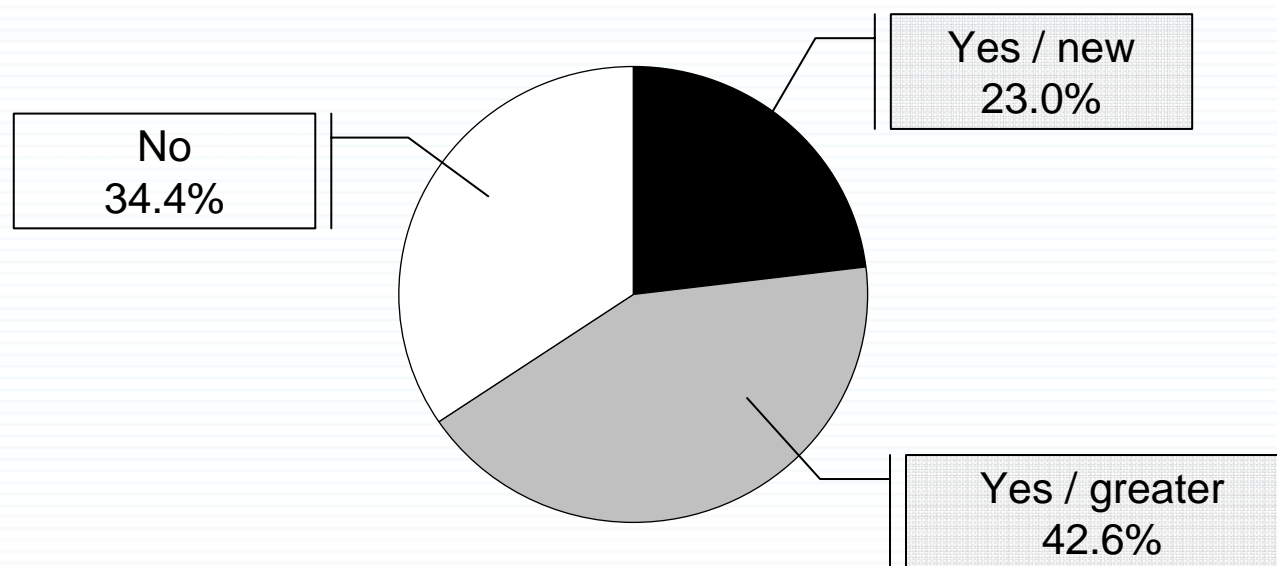
- Change in export turnover/total turnover -



Human Resources

- 65.6% of firms have started or expanded staff training over the period

- Training effort compared to five years earlier -

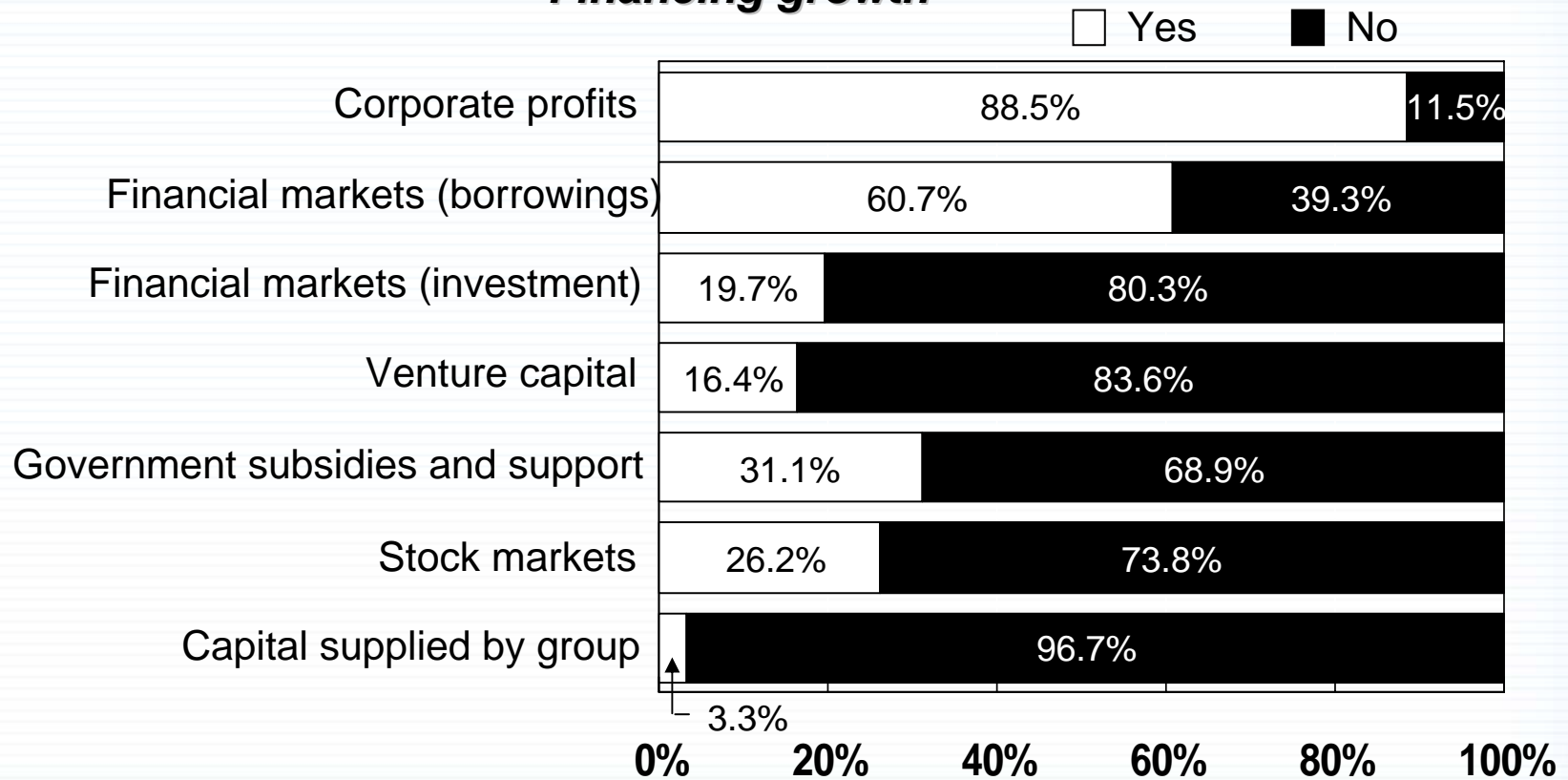


- Less than 50% of firms have introduced or expanded incentive packages

Financing

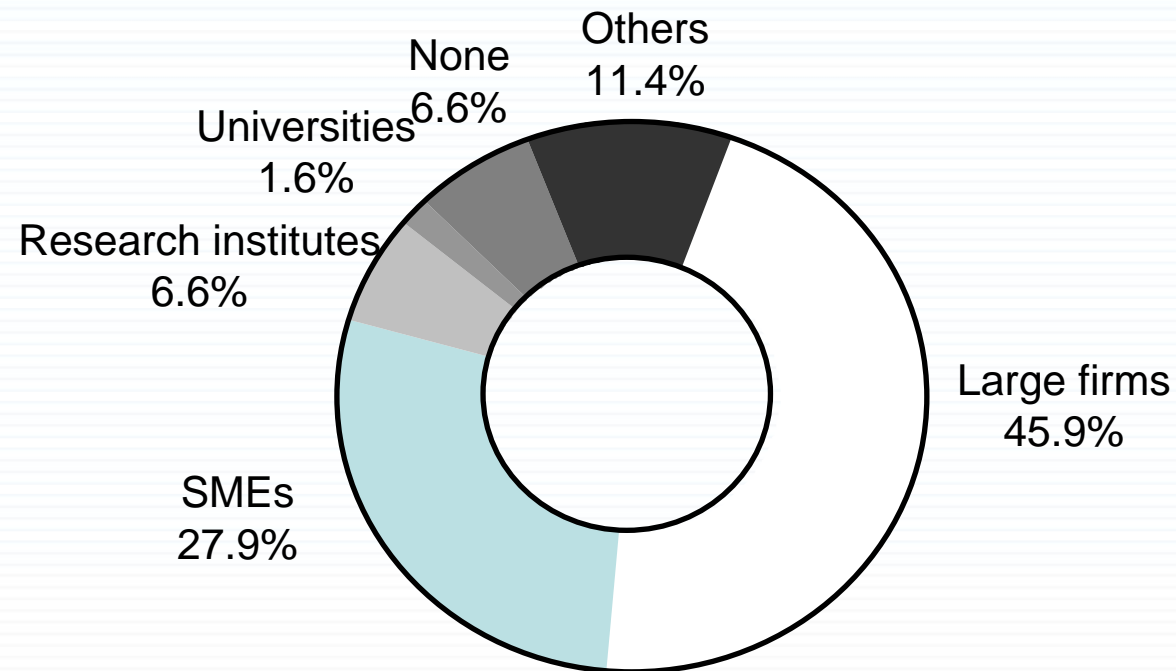
- Corporate profits and borrowings are the significant sources for financing growth

- Financing growth -



Characteristics of the Entrepreneur

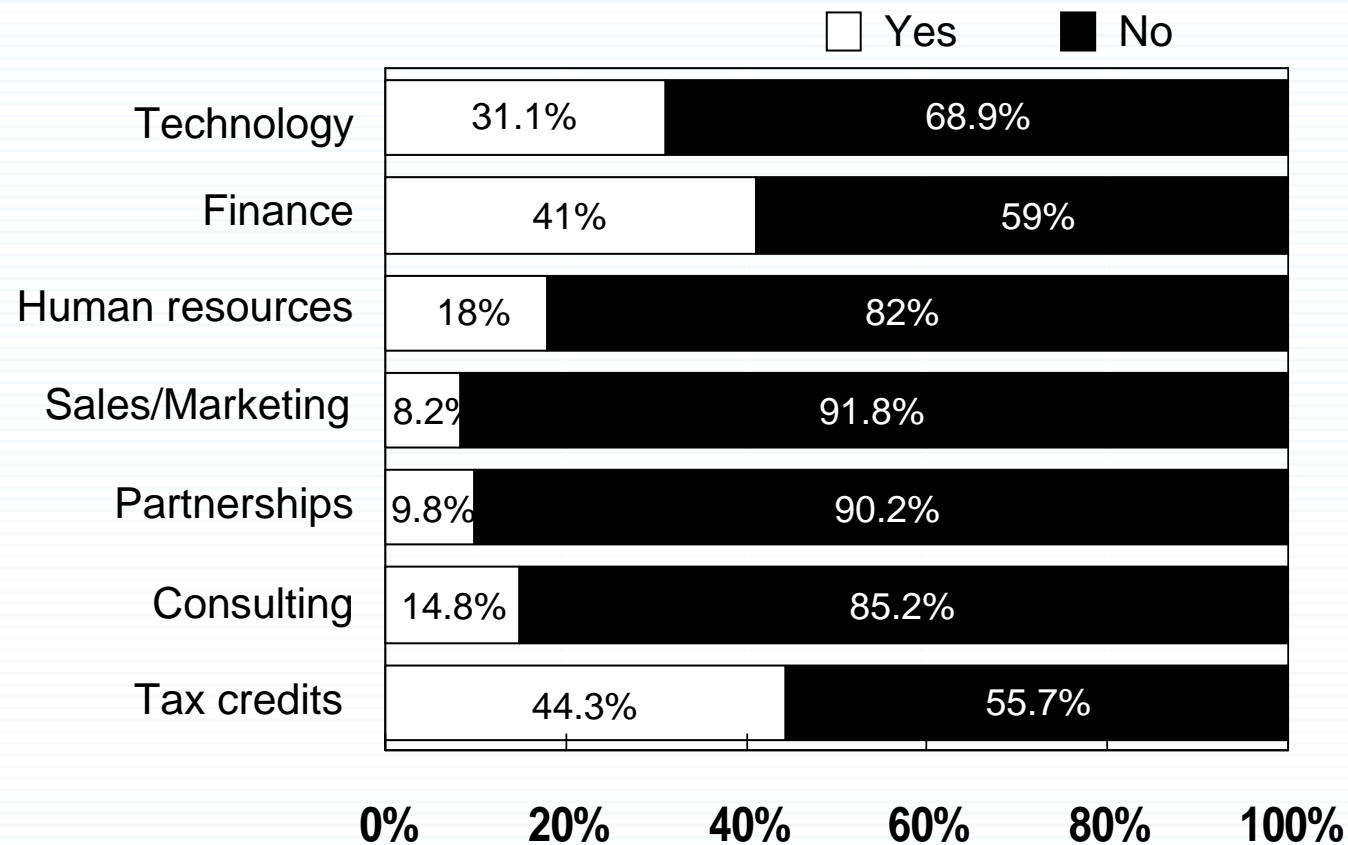
- The past career of the entrepreneur was mainly in large firms or SMEs



- The entrepreneur's experience is strongly related with his/her current business in many cases

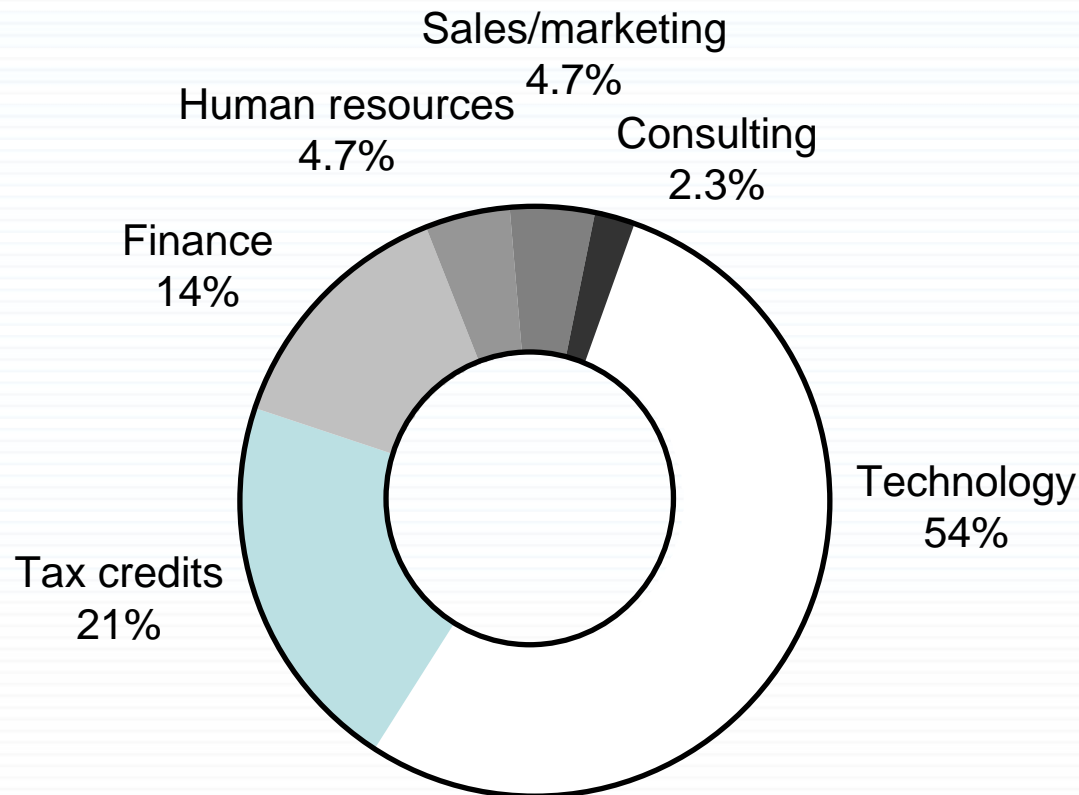
Public Policy I

- High-growth SMEs are exposed to various public policies, esp. tax credit, finance and technology support



Public Policy II

- Technology support by the government has been most important for growth



- Over half of the firms answer that they would encourage other firms to apply for government support

Conclusion

- Firms of small, new and the high-tech service sector drive growth
- R&D activities for the development of new products/services are mainly responsible for growth
- Exports may not go hand in hand with growth
- Training is given great importance in high-growth firms
- Corporate profit is a significant source for financing growth
- The entrepreneur's experience in related businesses promotes growth
- Government support in technology (R&D) in particular is important

Thank you

Younsuk Park
Korea Small Business Institute

yspark@kosbi.re.kr
www.kosbi.re.kr