

Chapter 3

Strengthening SMEs and entrepreneurship through the *Economic Democratisation Agenda*

This chapter analyses the contributions of small and medium-sized enterprises (SMEs) and entrepreneurship towards more inclusive growth in Seoul. It identifies the main challenges facing SMEs and entrepreneurs in Seoul. It then takes a closer look at how the city's Economic Democratisation Agenda, introduced by Seoul Metropolitan Government in 2016, is addressing the obstacles facing SMEs and entrepreneurs, as well as measures that could further strengthen its impact.

3.1. SMEs and entrepreneurship are important vehicles to more inclusive growth in Seoul

A diverse, innovative and competitive small and medium-sized enterprises (SMEs) sector is generally recognised as essential for economic growth. Across OECD countries, SMEs represent more than 95% of firms, provide the majority of training opportunities, account for 60% of total employment, and are responsible for the majority of new jobs. They also generate 50 to 60% of value-added on average (OECD, 2017a). An inclusive SME sector is one that contributes to economic growth and competitiveness, whilst ensuring that economic benefits are widely shared among the population. Entrepreneurship, which is the creation of productive new businesses by individuals, is key to ensuring that new ideas generate innovations and advance economic development. Inclusive entrepreneurship aims to ensure that all parts of the population have an equal opportunity to start and run a business, independent of their age, gender or education.

Sustainable business creation and small business development will play a major role in driving future economic development and social inclusion in Seoul. SMEs are the dominant source of employment in Seoul; SMEs and entrepreneurship also make critical contributions to wages and household incomes, and help drive innovation and economic growth. However, SMEs and entrepreneurs tend to be more sensitive than large businesses to shocks in the business environment and changes in economic conditions, and often face lower job quality. This calls for policy action to create a thriving and inclusive SME sector. Getting policies right could have a substantial impact on Seoul's workforce and the economy.

3.1.1. Structure of businesses in Seoul

Given the strong practice of business ownership and self-employment in Seoul, entrepreneurship – if centred around inclusive growth – has the potential to address economic exclusion. The growth in number of SMEs and microbusinesses has been continuous over the last decade with an annual growth rate of 1.49% and 1.81% respectively from 2007-14. Meanwhile, the growth of large firms was high in 2008 and 2010 before becoming negative in 2013 and 2014, with slightly fewer companies being registered in Seoul than in the years before (Box 3.1 and Table 3.1).

Box 3.1. The SME definition in Korea

Article 2 of the Framework Act on SMEs and the related Enforcement Decree defines a micro, small, and medium enterprise in Korea as an establishment with less than 300 regular employees or paid-in-capital less than or equal to KRW 8 billion (about USD 8 million). This definition is used by the Bank of Korea (BOK) and the FSS (Financial Supervisory Service). However, criteria differ by sector (Table 3.1 Table 3.1).

Table 3.1. Definition of SMEs in Korea, by sector

Sector	Medium enterprises		Small Business	Micro-enterprises
	Number of Workers	Capital & Sales	Number of Workers	
Manufacturing	Less than 300	Capital worth USD 8M or less	Less than 50	Less than 10
Mining, construction and transportation	Less than 300	Capital worth USD 3m or less	Less than 50	Less than 10
Large general retail stores, hotel, recreational condominium operation, communications, information processing and other computer-related industries, engineering service, hospital and broadcasting	Less than 300	Sales worth USD 30m or less	Less than 10	Less than 5
Seed and seedling production, fishing, electrical, gas and waterworks, medical and orthopaedic products, wholesales, fuel and related products wholesales, mail order sale, door-to-door sale, tour agency, warehouses and transportation-related service, professional, science and technology service, business support service, movie, amusement and theme park operation	Less than 200	Sales worth USD 20m or less	Less than 10	Less than 5
Wholesale and product intermediation, machinery equipment rent for industrial use, R&D for natural science, public performance, news provision, botanical garden, zoo and natural parks, waste water treatment, waste disposal and cleaning related service	Less than 100	Sales worth USD 10m or less	Less than 10	Less than 5
Other sectors	Less than 50	Sales worth USD 5m or less	Less than 10	Less than 5

Note: General Criteria (Article 2 of Framework Act on SMEs and Article 3 of Enforcement Decree of the Act). For micro-enterprises, Article 2 of the Act of Special Measures on Assisting Small Business and Micro-enterprises applies.

Source: OECD (2017b), *Financing SMEs and Entrepreneurs 2017*.

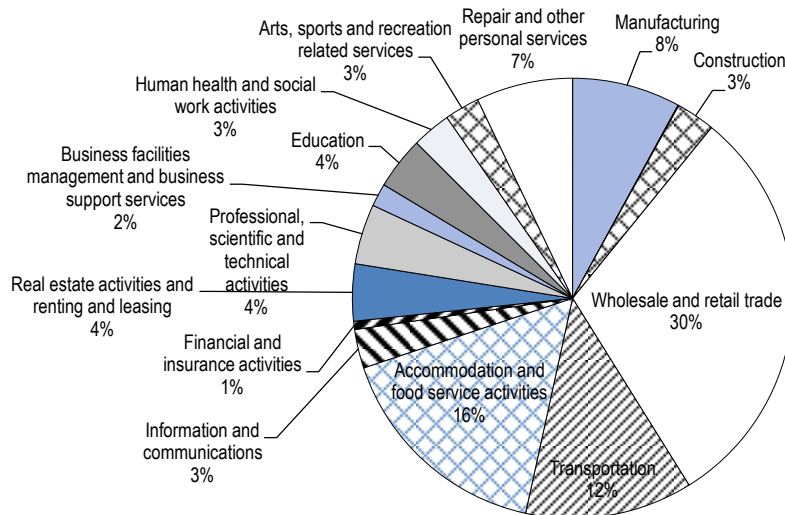
The SME sector in Seoul is comprised primarily of small and micro firms mostly situated in sectors with lower value-added, which points toward a challenge in its capacity to scale up and a predisposition to lower productivity industries. Seoul's SMEs sector is dominated by micro-businesses, that is, businesses with less than 10 employees, which account for 91.3% of the business population in Seoul and in 2014 employed 35% of the workforce. On the other hand, small and medium-sized businesses (10-300 employees) make up only about 8% of all businesses, with the distribution skewed toward smaller businesses, and employ about 44% of workforce. Large businesses represent just 1.6% of all firms, but employ about 21% of all workers in Seoul (Table 3.2).

Table 3.2. Employment size structure of Seoul enterprises, 2014

Number of companies and number of employees by firm size										
	1-4	5-9	10-19	20-49	50-99	100-299	300-499	500-999	More than 1 000	Total
Number of companies	650 125	99 353	39 099	20 111	6 572	4 007	675	441	275	820 658
Percentage (%)	79.2	12.1	4.8	2.5	0.8	0.5	0.1	0.1	0.03	100.0
Number of employees	1 176 347	632 631	511 697	593 613	453 779	645 550	258 400	299 510	537 301	5 108 828
Percentage (%)	23.0	12.4	10.0	11.6	8.9	12.6	5.1	5.9	10.5	100.0

Source: Seoul Statistics.

There is a large dominance of SMEs in services relative to manufacturing. About 30% of self-employed and SMEs can be found in the wholesale and retail sector, followed by accommodation and food (16%) (Figure 3.1). Nevertheless, Korea's strong export-led growth over the past decades has shifted a great deal of capital and talent from services towards large manufacturing companies, thereby further weakening productivity in the SME-dominated service sector (see Section 3.2).

Figure 3.1. Distribution of SMEs in Seoul by sector, 2014

Source: Statistics Korea.

Female business ownership is lower than male business ownership in Seoul. Around 57% of all businesses in Seoul are owned by men, compared to 43% by women. Female business ownership is largely present in the service sector, such as accommodation and food services, as well as education. Low rates of female owned-businesses in higher value-added and more knowledge-intensive industries indicate additional barriers women may face in business creation and self-employment.

3.1.2. Business demography

Business demography indicators – that is, business entry (birth) and exit (death) rates – provide an overview of entrepreneurial dynamics and are key indicators of job creation. The OECD finds, for example, that young firms (5 years old or less) accounted for on average 17% of employment over the past decade, but generated nearly half of all new jobs across a range of OECD countries (Criscuolo et al, 2014). Moreover, across OECD countries, an increase in the share of young firms (aged 6 years or less) relative to old firms (aged 12 years or more) is associated with an increase in multifactor productivity (MFP) growth, which can be primarily attributed to start-ups (aged 3 years or less) (OECD, 2015a).

In Seoul, the employer enterprise birth rate and death rate were quite high (14.6% and 13.1%, respectively) between 2007 and 2014 (Table 3.3). These figures are higher than for the rest of Korea, which had a firm birth rate of 9% and a death rate of below 5% in 2014 (OECD, 2017c) and also point toward a relatively high churn rate of 27.7%, which is equivalent to the sum of birth and death rates. The churn rate provides a measure of how frequently firms close and new firms are created, and reflect a country's degree of entrepreneurial dynamism. The average churn rate in the OECD has been around 20% (OECD, 2017c).

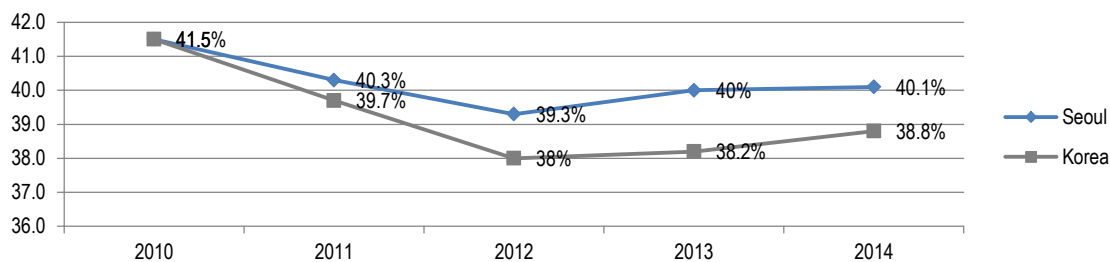
Table 3.3. Employer enterprise birth and death rates in Seoul, 2007-2014

Enterprise births and deaths as share of the total active business population per year

	Enterprise birth rate (%)	Enterprise death rate (%)
2007	17.6	13.5
2010	14.5	12.4
2012	13.4	12.9
2014	14.1	14.5

Source: Statistics Korea.

Churn rates can be a sign of a dynamic business sector, but they can also imply that many new businesses fail to sustain in the market. Low survival rates of newly created firms can be a disincentive for new entrepreneurs to enter the market and for investors to provide financial support to new firms. Observing post-entry performance of firms is therefore just as important as looking at their birth rates. OECD (2015b) finds that the survival rate of new enterprises in the OECD is equal to just above 60% after three years from entry. Businesses in Seoul display lower survival rates than the OECD average, with a three years survival rate of 38.8% in 2014 (however the survival rate in Seoul is higher than the Korean average of 40.1%) (Figure 3.2). This implies that a fairly large share of companies exit the market. While high entrepreneurial dynamism is in principle associated with net job creation, it is also important that the business environment facilitates long-term growth and innovation of companies.

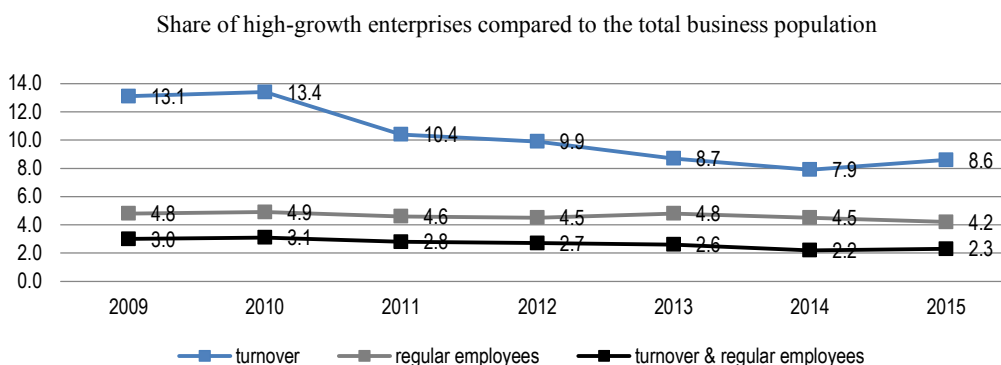
Figure 3.2. Three-year survival rate of new enterprises in Seoul and Korea (2010-2014)

Source: Statistics Korea.

High-growth enterprises

High-growth enterprises – firms which grow rapidly over a short period of time – are a major source of job creation. The OECD found that although high-growth firms represent only between 3.2% and 6.4% of the total enterprise stock in several countries, they account for between 40% and 64% of all new jobs in these countries (Bravo-Biosca et al., 2013). High-growth enterprises also contribute to the process of creative destruction and often generate spill-overs that can be harnessed by other firms (Bravo-Biosca et al., 2013; Mason and Brown, 2014).

Figure 3.3 shows that the rate of high-growth firms as a percentage of the total business population is relatively low in Seoul when measured by employees and turnover, and has decreased from 3% in 2009 to 2.3% in 2015. The share of high-growth enterprises is however significantly higher when measured by turnover only with 8.6% in 2015, implying that higher profits and firm growth do not necessarily translate into employment growth in firms.

Figure 3.3. High-Growth Enterprises in Seoul, 2009-2015

Note: High-growth enterprises are defined in Korea as enterprises which surpass 20% average in terms of sales or full-time employees. This differs slightly from the OECD definition, which defines high-growth enterprises as enterprises with average annualised growth in employees (or turnover) greater than 20% over a three-year period, and with ten or more employees at the beginning of the observation period. Gazelles are a subset of high-growth enterprises, i.e. those which have been employers only for a period of up to five years. The rates are calculated on the total number of employer enterprises with at least 10 employees at the beginning of the observation period.

Source: Statistics Korea.

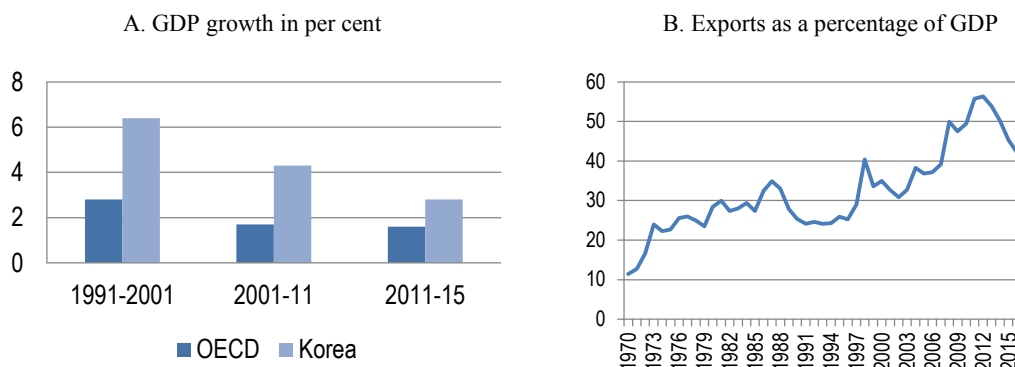
Gazelle companies are a specific subset of high-growth enterprises; i.e. those aged less than 5 years at the beginning of the observation period. There are relatively small numbers of gazelles in Seoul: 299 measured by turnover and employees and 854 measured by turnover only in 2015. This stands in contrast to the very high rate of graduates in science, technology and innovation (STI) in Korea and can point to structural and perceptual barriers to innovative entrepreneurship and SME development.

3.2. SME and entrepreneurship development challenges require action

3.2.1. Low domestic demand and declining exports call for a strengthened role of SMEs and entrepreneurship

Seoul faces a number of macroeconomic and structural challenges, which affect SMEs and entrepreneurship, including increased competition from emerging economies, an ageing population, and low domestic demand coupled with high household debt (Chapter 1). Although growth in Korea is still higher than in the OECD, it has slowed significantly and steadily since the 1997 Asian financial crises. The five-year GDP average growth rate was 7.9% between 1991 and 1995, and then sustained a significant drop over the next two decades, reaching 2.8% between 2011 and 2015 (Figure 3.4, Panel A). The slowdown in GDP growth is closely linked to very low growth in domestic demand, which was negative between 2010-2014 and has remained weak ever since (Whang et al., 2015). Growth in Korea has been driven largely by the export sector, whose share as a percentage of GDP rose steadily from the 1970s, experiencing drops in the late 1980s and the late 1990s, and dropping again in 2012. (Figure 3.4, Panel B).

Figure 3.4. Korea GDP growth is affected by declining share of exports



Source: OECD (2016b), and OECD Analytical Database.

One explanation for the slowdown of GDP lies in dampened spillover effects from the export sector. One important reason for this is the decrease of domestic value-added components in exports, which have declined from 76% in 1995 to below 60% in 2011 (OECD, 2016a). This suggests that Korean firms are increasingly outsourcing to foreign supply chains instead of relying on local SMEs. This phenomenon has been observed across OECD countries as a result of the expansion of global value chains, implying a drop in the contribution of domestic value-added components to exports. This decrease is, however, also the consequence of some structural observations inherent to the Korean and Seoul economy, such as a large productivity gap between SMEs and large firms.

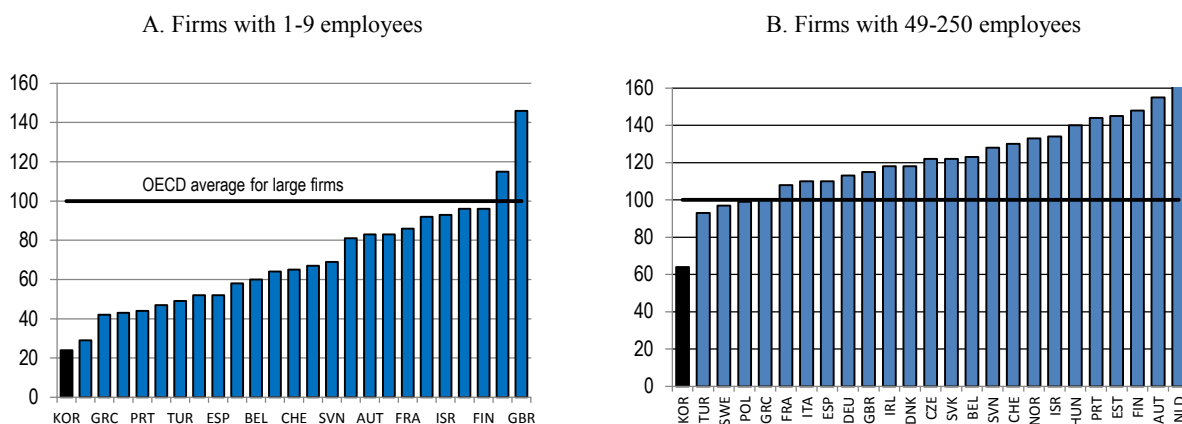
Productivity remains low in SMEs compared to large firms, affecting the distribution of economic growth

Efforts to foster business creation and increase the productivity of SMEs will be essential to the future development of Seoul. The growth of labour productivity in Korea has been the fastest in the OECD over the past 25 years at an annual average rate of nearly 5%. While this has helped raise per capita income, recent challenges have led to a slowdown and threaten further convergence to the highest income countries. Labour productivity per hour worked is still very low compared to OECD countries and can be mostly explained by low service sector productivity and low productivity in SMEs, which constitute about 87% of overall employment in the economy and also make up 90% of service-sector employment (OECD, 2016a). In the US, SMEs employ only 44% of workers in the service industry (Kim, 2015).

Labour productivity in SMEs is less than a third of that in large companies for all of Korea; the gap is widening, as labour productivity in SMEs fell from 53.8% of that in large companies in 1988 to 30.5% by 2014 (OECD, 2016a). This can partially be explained by the ability of large companies to scale-up investment in labour-saving technology and corresponding wage increases. Labour productivity of medium-sized companies (50-299 employees) in the wholesale and retail sector were only 62% of large firms and labour productivity of small firms (1-9 employees) was slightly above 20% of large firms (Figure 3.5). This stands in contrast to most OECD countries, where medium-sized companies outperform large firms' average productivity (OECD, 2017c).

Figure 3.5. Labour productivity gap between SMEs and large firms

Labour productivity in wholesale and retail trade¹ in 2012:
labour productivity for large firms (250+ employees) is set at 100²



Note: 1) Includes the repair of motor vehicles and motorcycles; 2) For Korea, the size class “50-249” refers to “50-299” and the size class “250+” refers to “300+”.

Source: OECD (2016a).

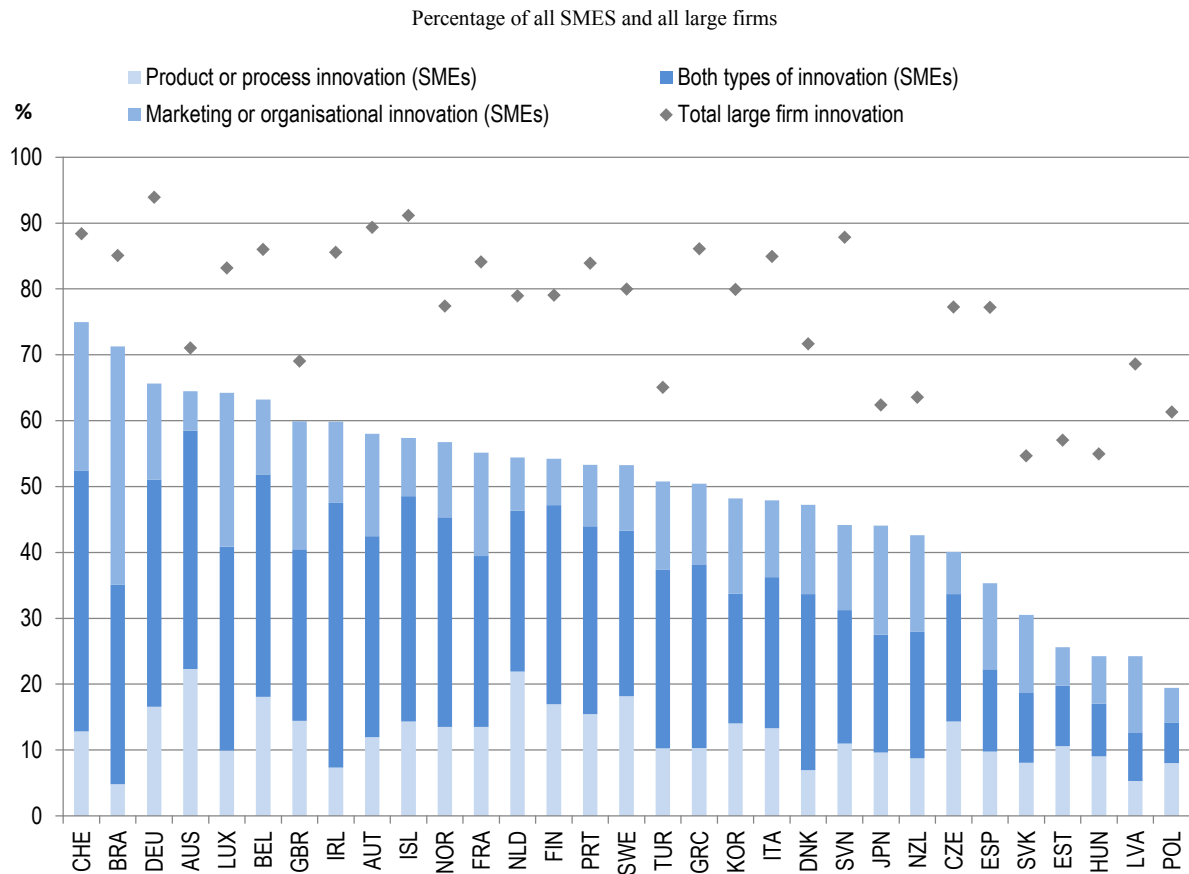
Low SME productivity and low levels of technology diffusion to small firms call for new policy measures to stimulate growth. The dominant role of large conglomerates (chaebols) poses challenges to SME and entrepreneurship development. Most SMEs rely on domestic consumption in their initial phase, which limits their growth possibilities. In many countries, one of the ways through which SMEs access wider international markets is through participation in the value chains of larger internationally-oriented enterprises.

While some SMEs in Seoul have been partnering with large corporations, the *chaebols* are increasingly internationalising their supply chain, making it more difficult for small firms to access international markets and to profit from knowledge generation and technology diffusion through the supply chain. Limited market access also affects SME bargaining power and ability to compete.

A large gap persists between large firm and SME innovation

Favourable framework conditions and a dynamic business sector are crucial to an inclusive entrepreneurship ecosystem, which enables all groups of the population to participate in productive entrepreneurial activities. Innovation is key to increasing productivity in small firms and can take various forms, including the adoption of new products or the adoption of new methods for production, firm organisation or marketing. Innovation can also go beyond firm benefits and seek answers to social problems in local communities and places. Such innovations are defined by the OECD as social innovations as they aim at enhancing the welfare of individuals and communities through entrepreneurial solutions (OECD, 2017d). Cities and regions play an important role in driving social innovations through incorporating it in regional development agendas or through the development of social innovation centres (Box 3.2).

Most firms adopt mixed methods of innovation that include new marketing or organisational methods alongside product or process innovations, suggesting complementarities between different types of innovation. Although the share of innovative SMEs is still lower in Korean and Seoul than in other OECD countries, SMEs are active in many types of innovation in addition to R&D (Figure 3.6). A large gap remains, however, between the share of SMEs that innovate (30.2%) versus the share of large firm innovation (59.6%) in Korea overall. Although full comparability is difficult, as different surveys are used to measure, for example, innovation in firms in the European Union and Korea, this nevertheless confirms the efforts by Seoul Metropolitan Government to strengthen innovation, raise awareness and provide support for non-technological and social innovation in micro-enterprises.

Figure 3.6. SMEs innovation by type compared to large firm total innovation, 2012 - 2014

Note: International comparability may be limited due to differences in innovation survey methodologies and country-specific response patterns. European countries follow harmonised survey guidelines with the Community Innovation Survey. For Korea, data come from the Korean Innovation Survey. The survey is carried out separately for manufacturing and services, but both sets of data refer to 2013-15. Data do not include ongoing or abandoned innovative activities. The phrasing of the question on product innovation is slightly different from the guidelines given in the Oslo Manual. As a result the introduction of new services by manufacturing firms or of new goods by service firms might be under reported. Sectoral coverage is smaller than CIS for the industrial sector and includes ISIC Rev.4 Section C Manufacturing only. All services are covered except for Section (O) Public administration and defence; compulsory social security. Please see www.oecd.org/sti/innostats.htm for more details.

Source: OECD (2017e).

Although not all innovation is based on R&D, the propensity to introduce new products among firms performing R&D is usually higher. R&D is typically concentrated among the global players at the technology frontier, which is usually dominated by large firms. Although Korea has the highest share of GDP invested in R&D in the OECD and a large share of business R&D (Business enterprise Expenditure on Research and Development; BERD), the main source of R&D remain large manufacturing conglomerates. They account for more than two-thirds of R&D in Korea, while SMEs (excluding micro-firms with less than five workers) account for another 30%. R&D per large firm in 2010 was more than 100 times greater than in core SMEs, reflecting their lower technological and financial capabilities (OECD, 2016a). These obstacles call for local and national government to actively support innovation in SMEs.

A range of activities have been undertaken, including raising budgets for SME innovation support and the provision of R&D tax credits by the national government. Complementing and improving existing initiatives, local and regional governments have several instruments at their disposal to support innovative entrepreneurship among different groups of the population. This includes innovation grants and vouchers, but also measures of knowledge transfer, such as business incubators and accelerators and open innovation networks (see also Section 3.3).

Data from Seoul Metropolitan Statistics show that on average 78.3% of all products bought by public institutions in Seoul were produced by SMEs over the past decade (Table 3.4). This is a high figure which could be further leveraged by adding, for example, distinct innovation criteria to public procurement or products bought by SMEs.

Table 3.4. Public procurement of SME products by public institutions in Seoul, 2006-2016

Year	Total amount of public buying (KRW 1M)	Amount of buying SMEs' products (KRW 1M)	Ratio (%)
2006	1 577 515	1 547 739	98
2008	2 060 942	1 712 401	83
2010	3 861 153	2 516 210	65
2012	2 946 922	2 002 493	68
2014	3 139 555	2 316 155	74
2016	3 743 244	2 997 752	80

Source: Seoul Statistics.

Box 3.2. Social Impact Factory: A business support structure founded by the City of Utrecht, the Netherlands

The Social Impact Factory is a business support structure that was launched in 2014 as a joint initiative by the city of Utrecht and the firm Kirkman company. Based in Utrecht, the Social Impact Factory gained legal status in 2015 as a *stichting* (foundation) with a supervisory board. Its “founding partners” comprise a group of traditional businesses, social entrepreneurs and one community organisation, each contributing time and financial support, according to their capacity. Its objective is to inspire and connect partners to create an enabling environment (“ecosystem”) for inclusive and social entrepreneurship. The Factory acts as a connector and conductor, federating the ecosystem by aligning its members’ efforts and actions through its three different service pillars: social procurement, impact challenges and change-making:

- *Social procurement*: In January 2016, the Social Impact Factory launched the “Social Impact Market”, an online business-to-business (B2B) marketplace for companies (including social enterprises) seeking opportunities to purchase social products or services.
- *Impact Challenge*: The Social Impact Factory has designed a model that connects different stakeholders to solve a specific societal challenge in an entrepreneurial way, thereby achieving social impact.
- *Change-making*: This pillar integrates the Factory’s various efforts to accelerate fair, sustainable and inclusive business practices. The Factory organises events on inclusive and social entrepreneurship, including entrepreneurial training activities.

Since mid-2015, the Social Impact Factory has built a network of over 90 social entrepreneurs, 7 large traditional businesses and 15 municipalities across the Netherlands.

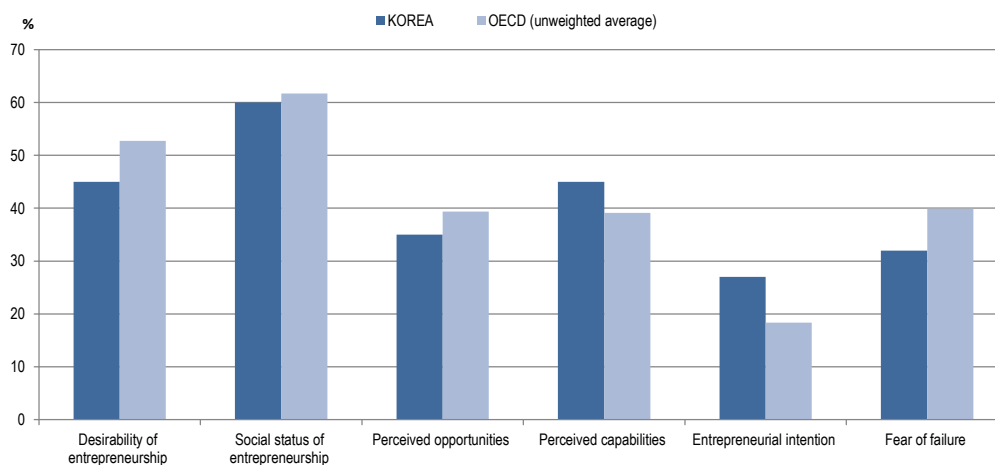
Source: OECD (2017d).

Entrepreneurial attitudes are lower in Korea and Seoul than in other countries despite higher trust in entrepreneurial skills

Positive entrepreneurial attitudes such as self-confidence, risk management, strategic thinking and team management are important levers of successful entrepreneurship. Data from the adult population survey from the Global Entrepreneurship Monitoring (GEM) research consortium show that entrepreneurial attitudes in the Korean population (aged 18-64), which can be considered as representative for Seoul, are generally lower than the average of the 27 participating OECD countries. Around 45% of the population considered entrepreneurship in 2016 as a desirable career option compared to 53% in the OECD. The perceived social status of entrepreneurship was nevertheless nearly as high as in the OECD, with 60% to 62% in the OECD. A higher than OECD average number of Koreans believed to have the skills to start a business and entrepreneurial intentions relative to the OECD average, with 27% to 18%. Only 32 % indicated that fear of failure would prevent them from establishing a business. Despite these positive indications, only 35% of the Korean people saw however an opportunity to start a business in the place where they lived. This could be an indication of structural barriers to entrepreneurship in a generally entrepreneurship-friendly environment (Figure 3.7).

Early stage entrepreneurial activity, as measured by the percentage of the 18-64 population who are either a nascent entrepreneur or owner-manager of a business with fewer than 42 months is low in Korea compared to the OECD average. Korea's Total Early-Stage Entrepreneurial Activity (TEA) rate was 6.7% in 2016 compared to an OECD average of 12.2%. Out of this rate, 2.7% have been driven by perceived market opportunities or the desire to improve one own's conditions in terms of income or independence. This also implies a relatively large share of necessity-driven entrepreneurship and confirms the need to improve local conditions for under-represented and disadvantaged groups in entrepreneurship and business ownership to fully reap the benefits of entrepreneurship.

Figure 3.7. Entrepreneurial attitudes in the Korean adult population, 2016



Note: Percentage values are out of the total adult population (18-64), except for “fear of failure” which is out of those who “perceive a market opportunity”. This is the exact definition for each indicator: i) Desirability of entrepreneurship: Percentage of 18-64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice; ii) Social status of entrepreneurship: Percentage of 18-64 population who agree with the statement that in their country, successful entrepreneurs receive high status; iii) Perceived opportunities: Percentage of 18-64 who see good opportunities to start a firm in the area where they live; iv) Perceived capabilities: Percentage of 18-64 population who believe to have the required skills and knowledge to start a business v) Entrepreneurial intention: Percentage of 18-64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years; vi) Fear of failure: Percentage of 18-64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business. Data exclude New Zealand and Iceland.

Source: OECD based on data supplied by the Global Entrepreneurship Monitor (GEM) research consortium.

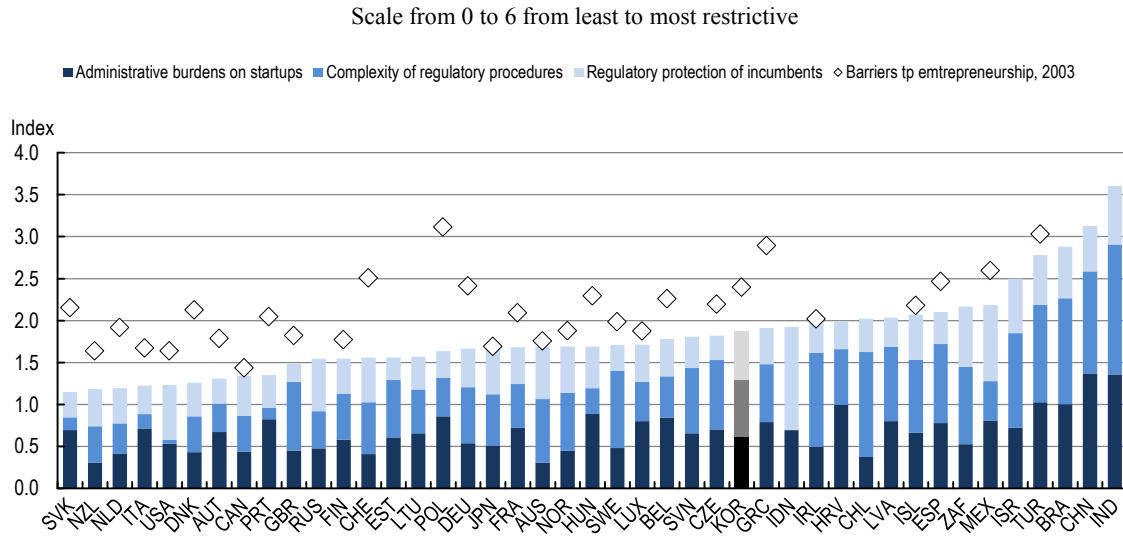
Regulatory simplification has the potential to drive entrepreneurial dynamics in Seoul

The policy environment plays an important role in encouraging new business creation and promoting competition in the economy. Business creation is facilitated through less red tape and low financial and regulatory barriers. The OECD Product Market Regulation Index measures to which degree policies promote or inhibit competition and innovative entrepreneurship by creating barriers to business entry or growth. The Index is composed of three components, the level of state control, barriers to entrepreneurship, and barriers to trade and investment. Korea's overall index score was the fourth most stringent in the OECD in 2013.

Barriers to entrepreneurship were seventh highest in Korea compared to OECD countries in 2013 (Figure 3.8). This implies relatively high entry barriers to new business creation, which is needed to boost productivity growth (Koske et al., 2015). A study on regulation

and industrial performance across Korean sectors found that higher entry regulations reduced both entries and exits, thus limiting entrepreneurial dynamism (Ahn, 2015). The OECD Product Market Regulation (PMR) Index further shows that entry barriers in Korea are higher in services than manufacturing, which is largely dominated by SMEs, thus putting a higher regulatory burden on small firms.

Figure 3.8. Barriers to entrepreneurship across the OECD, 2013



Source: OECD (2015c), Product Market Regulation (database), www.oecd.org/economy/pmr.

The regulatory burden on new business creation is also captured through the World Bank Doing Business Survey which measures business regulations across several dimensions for small and medium sized firms in 150 countries worldwide (Figure 3.9). The data for Korea have been exclusively gathered from Seoul, the survey is thus representative for both the country and the capital. Overall, Korea ranks fourth out of 190 countries on the ease of starting a business, suggesting that lengthy and costly business regulations do not affect entrepreneurship in Seoul. Korea and Seoul rank lower on providing access to credit, registering property and trading across borders, suggesting that barriers to SME development remain despite overall good business start-up conditions.

Figure 3.9. Ease of creating a small business in Korea, 2016

The ease of doing business ranking ranges from 1-190, with 1 being best and 190 worst.



Source: World Bank (2016), Doing Business Korea.

Labour market dualism presents a challenge for Seoul and calls for better integration of youth and women into entrepreneurship activities

Rigid labour markets, combined with rising youth inactivity rates and weak labour participation among women, highlight the need for a social equity agenda that creates a level playing field for self-employment and business creation among all parts of Seoul's population. Labour market efforts are needed in order to promote greater flexibility and give entrepreneurship and small firms a stronger role in driving inclusive growth.

Wage is one component that bridges gaps within the labour market and a key policy target for inclusive growth. Korea and Seoul are characterised by wide wage dispersion and a high share of low-wage workers. In 2013, nearly a quarter of full-time workers earned less than two thirds of the medium wage, which is the second highest share in the OECD after the US (OECD, 2016a).

One of the reasons for high income and wage inequality is the particularly high labour market dualism in Korea (Box 3.4), resulting in a high share of non-regular workers. This group of workers includes fixed-term, part-time and dispatched workers and has accounted for more than half of all employees in Seoul (Table 3.5) and a third of all employees in Korea overall during the past decade

Table 3.5. Non-regular workers account for half of workforce in Seoul

Employed persons by status of employee in Seoul, 2006 - 2017

	Wage workers		Non-regular workers	
	Thousand		Thousand	%
2006	2051		1 486	72.5
2008	2250		1 391	61.8
2010	2484		1 303	52.4
2012	2579		1 311	50.8
2014	2701		1289	47.7
2017	2716		1378	50.7

Source: OECD (2016a); Statistics Korea, Economically Active Population Survey.

Non-regular workers face a range of challenging employment conditions compared to regular workers:

- **Wage differences:** in 2016 the average monthly wage of non-regular workers in Seoul was 55.1% of that of regular workers; the average hourly wage of non-regular workers was 66.3% of that of regular workers.
- **Weaker social security:** non-regular workers have less access to social safety nets and face greater threats of poverty. In 2011, the relative poverty rate was 16% in a household headed by a non-regular worker (OECD, 2016a).
- **Limited employment stability and advancement:** A study by Lee & Shin (2017) found that non-regular employment is not a stepping stone to regular employment, but a ‘dead-end trap,’ and called for policy action.
- **Reduced skills and training opportunities:** Non-regular workers have less access to training provided by firms since the time delimited nature of contracts reduces incentives for firms to invest in them, thus further reducing their skills accumulation and earning power (Hara, 2014).

In Korea, vulnerable populations are more likely to be in non-regular positions. For example, 35% of youth under the age of 30 have non-regular positions compared to 27% of those between the age of 30-59; the elderly are also in precarious employment situations, with 67% of those 60 years and older holding non-regular positions. Women also represent a larger share of non-regular workers: 40% compared to men at 27%. Education continues to play a role in employment opportunities, as those without high school degrees or higher also tend to be over represented in non-regular employment (Table 3.6).

Table 3.6. Non-regular employment is most prevalent among small firms, women, youth and older workers and the less educated

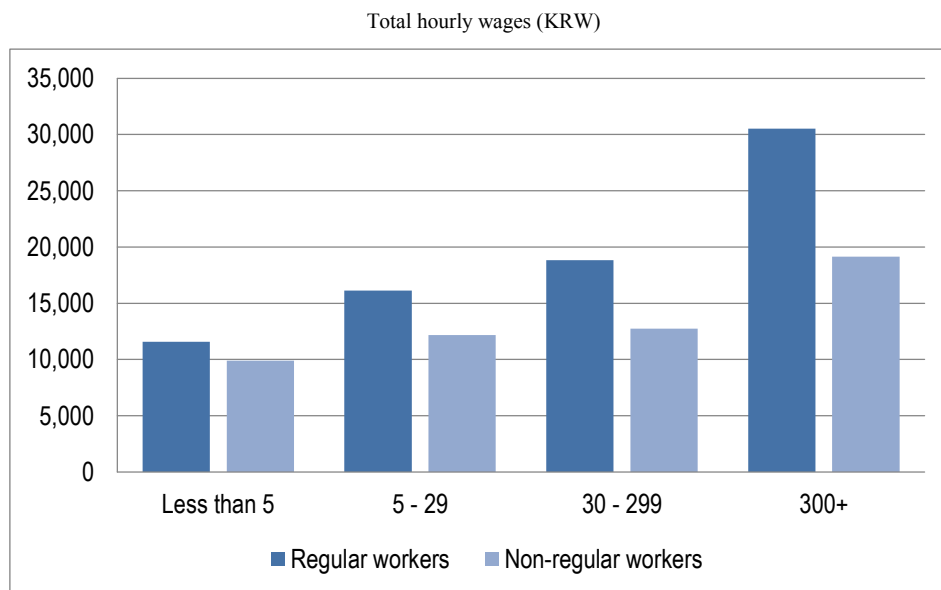
Percentage share of non-regular employment by category (August 2015)

Size of establishment	Below 5	5 to 299	Above 30
	47.5	31.7	14.0
Age	Under 30	30 to 59	Above 60
	35.0	26.8	67.4
Gender	Male	Female	
	26.5	40.2	
Education	Middle school or less	High school	Tertiary
	59.9	37.1	21.4
Sector	Manufacturing	Wholesale and retail	Construction
	13.7	28.9	52.3

Source: OECD 2016a; Statistics Korea, Economically Active Population Survey.

Non-regular workers are also largely present in micro and small businesses, which confirm the strong labour market duality between large and small firms. Businesses with fewer than 5 employees had a share of 47.5% non-regular employers as opposed to 14% in large businesses with 300+ employees. As non-regular workers also have wages within 60-70% of regular workers, a large wage gap exists according to employment type and firm size, leaving micro enterprises with low wage non-regular workers (Figure 3.10)

Figure 3.10. Average hourly wage for regular and non-regular workers by firm size in Korea, 2016



Source: Ministry of Employment and Labor of Korea (2017).

As labour market dualism in Korea and Seoul is highly stratified along the lines of education, skills, and gender, policies are needed that break down the strong divide between regular and non-regular employment and secure high-quality employment and self-employment opportunities for disadvantaged and under-represented parts of the population.

Expanding employment opportunities for women, youth, and seniors is key to combatting demographic trends and strengthening inclusive entrepreneurship and SME development in Seoul. The employment rate of women in Korea was the ninth lowest in the OECD in 2017 and 19.3 percentage points below that of men (OECD, 2016b). A high share of women exit the workforce following marriage and childbirth and return to the labour market at a later age, facing lower career and earning opportunities. Self-employment and business creation can be an alternative to the labour market if women have equal opportunity to start and run businesses. This includes improving maternity and parental leave systems and availability of high-quality childcare, and to facilitate re-enter into the workforce after long absences (Box 3.3).

Box 3.3. Women in the Labour Market, Croatia

How to support unemployed women in business creation

The project “Women in the Labour Market” is run by the Croatian Employment Service (CES) and aims to increase the employability of disadvantaged women and support their entry into the labour market. The project targets unemployed women over the age of 40, women who had been unemployed for at least 12 months, and those not active in the workforce. The main rationale for launching this initiative was to reduce the labour market disadvantages against Croatian women who had difficulties entering the labour market after a period of inactivity.

The grant scheme launched in August 2009 offering grants in the amount of EUR 90 000 to EUR 140 000. Eligible organisations proposed 12-month projects of for featuring a range of activities, including provision of assistance and information on labour market opportunities. Several projects were offered grants in different regions of the country. The projects ranged from:

- **Business development training:** training programmes offered participants basic entrepreneurship skills, business planning, business management, marketing, accounting, financial planning, computer skills, and communications know-how.
- **Communications resources:** development of publications, manuals and websites.
- **Networking:** organisation of business-to-business meetings connecting participating women and potential employers.

The programme enabled numerous institutions at the national, regional (i.e. county) and local levels to develop know-how and supports for various important vulnerable groups. The 3 projects selected supported unemployed women in business creation and 105 women into self-employment or paid employment in the first two years.

Source: OECD (2017f).

Although youth unemployment has fallen significantly since 2004 in Korea, 18% of all youth were neither in employment, education or training (NEET) in 2014 (Chapter 1). Korea is also one of the few countries where the rate of NEETs with tertiary education is higher than the overall 15-29 age group. Skills mismatch is especially acute within the educated youth population, youth also fall victim to the high labour market dualism as the rising number of graduates outnumber newly created high-quality jobs (Kim, 2015). Lower wages and weaker job security make SMEs less attractive and entrepreneurship is not always perceived as a desirable career choice (Kim, 2015). Policy-makers at local and national level have a role here to play in reducing the dualism between regular and non-regular workers and render boosting entrepreneurship and business creation (Box 3.4).

Box 3.4. Chaebols and SMEs in Korea

Korea's labour market is characterised by a duality between primary and secondary markets. The primary market consists of large business groups or *chaebols*. These are a collection of legally independent firms operating in multiple industries subject to *de facto* centralised control by the same person. They operate under tight regulation, such as on their intra-group shareholding, trading and debt guarantees that are aimed at limiting their economic power. They attract high-skilled workers by offering regular employment with generous benefits and career opportunities.

The secondary market is populated by SMEs, mostly labour-intense service providers working as subcontractors to *chaebols*. They rely much less on innovation and compete on costs rather than with innovative products. *Chaebols* have a holdout power over them, curbing their profitability. Bankruptcy and reorganisation rates are also high among SMEs. SMEs are regulated much more loosely than *chaebols* and are effectively exempted from labour standards. Given the larger share of non-regular workers in SMEs, many are not covered by social insurance. In addition, as many are fixed-term workers, firms provide less training for non-regular workers, thereby limiting their prospects for advancement.

Source: OECD (2016a); Hlasny (2017).

3.3. The *Economic Democratisation Agenda*: An important policy lever for entrepreneurship and SME development in Seoul

The *Economic Democratisation Agenda* (EDA), introduced by SMG in 2016, is an important policy response to many challenges facing small business owners, as well as other vulnerable workers and economic sectors. The EDA aims to reduce economic inequality and provide equal opportunity for all citizens to engage in sustainable economic activities. The agenda identifies 23 measures under three categories of 'partnership', 'fairness' and 'labour', which aim to eradicate unfair competition and support underprivileged and disadvantaged groups (Table 3.7). Some of these measures are targeted at groups of individuals, and others at supporting SMEs and entrepreneurship.

Table 3.7. Seoul's Economic Democratisation Agenda

23 measures introduced by Seoul Metropolitan Government

Overarching objective	Target of policy intervention	Specific measures
Partnership	Support for SMEs	Support for neighbourhood and small enterprises to strengthen capability to grow businesses Protection and invigoration of SMEs Enhancement of cooperation between large conglomerates and neighbourhood businesses Reinforcement of technological protection support for start-ups and SMEs Implementation of an outcome-sharing model between public institutions under SMG
	Support for financially vulnerable	Support for the financially underprivileged Support for young people to engage in sound financial activities Provision of a second chance to small business owners with financial difficulties Financial guarantees at a reasonable interest rate for small business owners
Fairness	Unfair business transactions	Prevention of unfair franchise-related transaction practices Elimination of unfair subcontracting practices in the construction industry Provision of relief on damages caused by unfair practices of the art industry
	Interactions between producers and consumers	Protection of consumers' rights and benefits Restraint of illegal activities threatening people's livelihood
	Building leases	Protection of tenants' rights to ensure stable businesses Implementation and promotion of fair commercial lease system Protection of tenants and their businesses from relocation caused by urban regeneration projects
Labour market	Levelling the playing field in the labour market	Social insurance support for small business owners Introduction of worker-director system for government-funded institutions Facilitation of the early implementation of the living wage system Conversion of non-regular workers to permanent work positions in the public sector Prevention of overdue wages of part-time workers and provision of relief Imposing obligations to pay prevailing wages to construction workers

Source: Seoul Metropolitan Government (2017), Background Questionnaire provided to OECD.

3.3.1. Important challenges faced by SMEs and entrepreneurs are highlighted by the Economic Democratisation Agenda

The EDA includes important features aimed to strengthen inclusive entrepreneurship and SME development, and highlights a number of challenges faced by large parts of the population engaged in SME and entrepreneurship activities. These include low levels of productivity, difficulties in accessing finance, unfair franchise practices and commercial leases, and specific labour market challenges faced by workers.

Supporting managerial skills in small businesses increases SME innovation and productivity

The EDA includes a range of important measures to support SME productivity and sustainability. Strengthening the capability of small firm owner-managers to sustain their businesses is vital for SMEs and entrepreneurs to be able to compete on an equal-playing field. Several studies have shown that strengthening managerial and organisational capital in small and neighbourhood businesses has implications for firm survival and growth (Bruhn et al., 2010; Bloom and van Reenen, 2007). Such managerial skills include the capacity of business owners to improve the marginal productivity of their firm's inputs, such as labour or physical capital, but also to deal with the small business capital structure and business plan. These skills require either training or experience from other well-run firms or might be acquired through outside consulting inputs, which public policy can provide, particularly for micro-enterprises. Positive effects of consulting services on managerial knowledge have been shown in Bruhn et al. (2010), who conducted a randomised control trial on managerial consulting in Mexico and found that monthly firm sales and profits were higher in the treatment group who had received the consulting (78% and 110%, respectively). Such small firm business support is a targeted policy that is very often delivered at the local level. In the case of Seoul, it would be important to ensure that support reaches out the firms in need and meets their productivity challenges.

Open innovation networks foster collaboration between large and small firms

The EDA also recognises the importance of an open innovation system, which seeks to encourage collaboration between large and small companies and with academia (Enkel, Gassmann, and Chesbrough, 2009). Larger businesses can contribute to and engage with SMEs to develop partnerships and networks through the principles of co-creation and co-development. Both small and large firms benefit from open innovation by increasing their reach for new ideas and customers, reducing costs for innovation when shared and scaling up the speed of innovation (Zahra and Nambisan, 2012, Box 3.5). There may also be wider social benefits from open innovation, for example through the introduction of new products and services from improved innovation. Policy has a key role in supporting open innovation in different ways (Roper, 2016) and the EDA rightly envisages some of them. A key role for local policy-makers lies in raising awareness of the benefits of open innovation, for example through events or network-based activities, which help firms connect with each other. The Seoul Metropolitan Government can act as an advocate here to build networks and promote open innovation and brokering between large and small firms.

Box 3.5. Interface: The knowledge connection supporting open innovation in Scotland

Interface is a service created in 2005 which aims to link small businesses and industry with academia. Interface works with 24 partner research and higher education institutes in Scotland. Its main objectives are to encourage increased open innovation and the commercialisation of research, and also to promote Scottish universities and their collaboration with businesses. Although no restrictions on participation by size exist, most companies supported in practice are SMEs.

Interface mainly provides a match-making support scheme, with staff in the organisation providing information on capability and capacity in the Universities in response to business enquiries. Enquiries when they are received from firms are filtered and directed to individual research and commercialisation offices in each university. Interface identifies the university or research institute that matches the needs of a company asking for support, and checks their capability to support the company and the interest raised. Typically, two weeks are given to respond and therefore to organise match-making if the assessment is positive. Contacts are monitored until they either result in an agreed partnership or are closed. Around 40 % of initial enquiries result in a collaborative project or agreement.

Source: www.interface-online.org.uk.

Financial support to entrepreneurs and SMEs can help correct market failures and help small businesses thrive

Access to finance is often identified as one of the greatest barriers to start and grow a business, and is recognised as such in the EDA. This challenge is magnified for disadvantaged and under-represented groups, reflecting their lack of collateral assets and financial resources (OECD, 2015a). The goal of public policy should be that everyone can access business financing tools irrespective of age and gender. Grants are the most common approach used by OECD countries to support inclusive entrepreneurship. Many small business owners also apply for bank loans, however not always with success as many are rejected due to a lack of collateral. Public policy can intervene in different ways, such as by targeting loans to people who would otherwise find it difficult to obtain them but who have a viable business plan. Alternatively, policy makers can offer a guarantee on private sector loans. These credit guarantee schemes are a commitment by the state to secure the loan if the borrower fails to repay. When it comes to risk-financing beyond the start-up phase, investments are more suitable than loans to finance high-risk firms.

While the EDA highlights the need to support small businesses financially, SMG needs to carefully design programmes to avoid deadweight costs, displacement effects and gain support for non-viable companies (Box 3.6). As pointed out by Chang (2016), a productive SME support policy should correct market failures and support SME contribution to job creation and output growth. The emphasis of Korea's current national policy lies too much on supporting firm survival instead of productivity, and current programs have lowered the productivity of recipient firms and increased the survival probability of incompetent ones. Setting up productivity-enhancing financial support

measures and introducing an adequate monitoring system which allows for restructuring where needed is important for SMG to strengthen inclusive entrepreneurship and SME development.

Box 3.6. What SME and entrepreneurship policy should avoid

High deadweight costs

The extent to which participants would have set up a new business without the subsidy. Since behaviour of these “deadweight participants” is unaffected by the scheme, their participation does not contribute to the economic value generated, but involves a public outlay. The social cost of this outlay is the sum of the distortionary cost or excess burden of the tax that finances it.

Displacement effects

The extent to which subsidised businesses take business from and displace employment in unsubsidised business. Policies should not support displacements.

Support for non-viable companies

Non-viable companies (often referred to as “zombie companies”) are those with negative operating profits over three years. Keeping these companies alive through poorly designed financial support instruments lowers the growth potential of the economy by preventing the allocation of financial resources to productive companies and preventing the exit of unproductive firms.

Inclusive entrepreneurship requires strengthening self-employment

Inclusive entrepreneurship policies have an important role in addressing the quality of the businesses started by people from under-represented and disadvantaged social groups (OECD, 2017g). This includes policies and programmes that assist under-represented and disadvantaged groups in the labour market (i.e. women, youth, seniors, the unemployed, immigrants and people with disabilities) in starting and growing businesses. The objective is to move more people into work via self-employment to allow people to participate economically and socially, and to generate income. It is also important that people acquire skills and experience by participating in entrepreneurship programmes and starting businesses, which then increases their overall employability.

Many of the small businesses in Seoul have low turnover and low levels of growth. Improving the quality of these businesses will have a direct impact on an entrepreneur’s life by increasing their income, standard of living, and well-being. This will also result in economic benefits as higher quality businesses are less likely to exit and more likely to contribute more to aggregate economic performance. A multi-pronged approach should be used to combat labour market dualism, and SMG and the EDA play a major role in designing and implementing policies that improve the employment and wage status of employees in small businesses. Measures such as social insurance support and the introduction of a living-wage system are vital in this regard.

3.3.2. A range of important public policy measures have been taken to support implementation of the EDA

SMG has initiated many initiatives to mitigate the negative impacts on disadvantaged and underprivileged segments of both the SME sector and individuals. The Small Business Development Centre provides **support and business development services (BDS)** to entrepreneurs and SMEs at all stages. The SMG Small Business Division further provides BDS to SMEs and entrepreneurs in the form of training and access to loan subsidies and consultants. As of July 2017, it has trained 12 847 people as potential entrepreneurs, provided mentoring and advice to 5 328 start-ups, supported 1 376 individuals to grow their business, and helped launch 15 new cooperatives.

The SBDC's **second chance programme** is an excellent initiative to address the stigma of failure. It provides support to businesses with a tax default status who would like a second chance, by lifting the delinquent borrower status and halting the seizure of deposits or vehicles. This has benefitted 50 727 individuals to date. The programme provides loan guarantees to business owners with poor credit ratings so they can profit from mid-interest rate loans in the range of 5% to 8% (this has been supported in 409 cases).

Several policy measures have also been undertaken to **strengthen SME innovation**. Most of these measures are targeted at protecting SMEs and need to be complemented with incentives to innovate and compete on the market. The Seoul Technology Protection Group is an important instrument for legal and financial support for litigation on breaches of intellectual property rights of SMEs.

Important **labour market measures** have been introduced by SMG, among them social insurance support to small business owners in the form of long-term, low-interest guarantees and loans. SMG has further supported the implementation of a living-wage system to private sector employees and has started the transition to convert non-regular workers into permanent work in the public sector, while lobbying for private sector to follow the example.

In order to make EDA a successful policy instrument to boost inclusive entrepreneurship, **co-ordination among all stakeholders** in charge of implementation is vital. This ideally requires the establishment of an action plan and a co-ordinating secretariat that monitors and evaluates outcomes against set targets on a regular basis. Work in policy silos and a lack of co-ordination would endanger the success and implementation of EDA.

3.3.3. The EDA helps address challenges facing youth, women and the elderly in the labour market.

Youth, women, and the elderly face higher barriers to entrepreneurship in a number of areas in Seoul, such as increased difficulties in accessing finance through a lack of collateral, weaker entrepreneurship skills and competences, more negative attitudes to failure, and smaller business networks relative to other entrepreneurs. These are constraints to both social inclusion and economic growth through a more broad-based and inclusive entrepreneurship.

The EDA recognises the need to address barriers that youth face in sustainable business creation and development and addresses them by proposing a range of support measures. These include training, advice on technology development and network building. The importance of supporting women in the labour market is also recognised. Supporting women in creating businesses in higher value-added sectors and supporting

entrepreneurial training for youth and women – particularly in Science, Technology, Engineering, and Mathematics (STEM) fields –will create more sustainable businesses that pay higher wages and promote well-being in the long-run. Measures like the Job Cafés offering employment consultation to youth are important initiatives in this regard. They need to be complemented with further activities to raise the profile of entrepreneurship and solidify support for viable business ideas (Box 3.7). Given the large rate of tertiary university graduates struggling to find employment, more entrepreneurship education at universities and business incubators and accelerators supporting good ideas would also raise the profile of entrepreneurship.

Box 3.7. DreamStart, Belgium

Supporting unemployed youth in business creation

Launched in 2013, DreamStart is an integrated start-up scheme that supports unemployed youth (under 30 years old) in business creation in the Brussels region. It facilitates the acquisition of entrepreneurship skills through formal pre-start-up training as well as informal methods such as coaching and mentoring. Volunteers, experienced business professionals from public and private sector organisations, play a key role in delivering these services. Access to finance is facilitated through microfinance institutions who participate in the programme.

The primary intake mechanism for DreamStart is individual interviews that project managers have with potential clients. Three key criteria are used by project managers to select participants:

- their attitude towards becoming self-employed and their desire to start a business;
- the viability of the business idea and the anticipated results of the proposed product or service;
- the match between the business idea and the participant’s professional and technical expertise and experience in that area.

Support officially ends once participants have developed their business plan and received feedback from an external evaluation panel. However, it is quite common for participants to form informal support groups in which they assist and advise each other.

Approximately 60% of youth who finish the scheme and present their plan to the panel start a business within a year. Monitoring shows that one-third of participants who complete the cycle work full-time in this activity and two-thirds work part-time and combine self-employment with paid employment. This allows them to finance their start-up with their earnings.

Source: OECD (2017f).

3.3.4. At national level, the incoming administration has already shown strong policy support for SMEs and entrepreneurship.

The government has elevated the Small and Medium Business Administration (SMBA) to a cabinet ministry, henceforth the Ministry of SMEs and Start-ups. Other priorities include providing stronger government support for SMEs and start-ups, preventing discrimination against temporary and contract workers, and increasing welfare for

working parents, including childcare. The government has also approved legislation to increase the hourly minimum wage by 16.4% in 2018. Although the government plans to inject KRW 3 trillion to support SMEs in dealing with the financial impact of the minimum wage increase, such a measure could still negatively impact the competitiveness of many SMEs if they do not increase productivity.

Important changes have taken place at national level to support SME development, such as an upgrade of the innovation system to support technology transfer between small businesses, large firms and university collaboration. The government is further improving framework conditions to accelerate the implementation of innovation and strengthen inclusive labour markets. New start-up promotion has advanced at national level and funding support for SMEs in the creative economy has expanded since late 2015 (OECD, 2016a).

Seoul's efforts to level the playing field for SMEs and existing and potential entrepreneurs from disadvantaged groups would benefit from further structural reforms at national level. This could include addressing the structural challenges facing specific groups in the workforce (youth, women; non-regular workers), as well as creating a more level playing field for SMEs vis a vis the *chaebols*. The new national administration has demonstrated support for this agenda.

3.4. Moving forward: Strengthening support for SMEs and entrepreneurs for inclusive growth

To further strengthen the impact of the EDA, SMG could envisage some complementary strategies that aim to boost entrepreneurship among specific populations (such as women and youth); strengthen collaboration and networking for SMEs (with other SMEs, large firms, academia, etc.); and improve coordination at local and national levels to support SMEs and entrepreneurship and, more broadly, create a more inclusive labour market. Proposed recommendations for SMG are grouped into the following four categories: governance, entrepreneurial ecosystem, *skills* and *networks*.

3.4.1. Governance: Align the EDA with the city's overall strategic vision for economic development and inclusive growth and strengthen monitoring and evaluation efforts

Currently, there is limited co-ordination and collaboration across administrative departments in Seoul, although many of them are working on related policy challenges. Even within teams working on similar topics, there is not always strong coordination or shared objectives. These silos are individually undertaking important initiatives, but run the risk of duplication.

The EDA should be strengthened through **improved coordination within and across administrative departments**. While not easy, this process would cut across SMG departments and require strong coordination and collaboration among the different teams charged with designing and implementing individual initiatives. The EDA could have greater impact by ensuring clear alignment with the city's overall strategic vision for economic development and inclusive growth. This requires a clear understanding of how SMG can best align its policies with national policy; identify where it can build on these, and bridge gaps in existing policy efforts at local level to achieve its inclusive growth objectives. In concrete terms, the EDA should clearly complement and link to policy

efforts in other relevant areas (e.g. efforts to expand childcare support for parents, efforts to reduce unemployment).

Finally, SMG could also **strengthen monitoring and evaluation** in order to measure the efficiency and impact of different policy measures of the EDA. A sound monitoring and evaluation system would include a developed logic of change, setting out expected results of the interventions. Intervention impacts should then be measured through key performance indicators (KPIs), which would demonstrate policy effectiveness and the efficiency of the implementation approach (Table 3.8). The evaluation techniques should be guided by the OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes (OECD, 2007).

Table 3.8. Criteria to evaluate inclusive entrepreneurship programmes and policies

Measure	Definition	Sample questions
Relevance	The extent to which the activity is suited to the priorities and policies of the target group, recipient and government (objectives vs. needs).	Is finance still a barrier to female entrepreneurship? Do changes in regulations related to benefits for the disabled make it impossible to start up a business?
Effectiveness	The extent to which the intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance (outcomes vs. objectives).	Was the target number of youth enterprises reached? Did they survive for two years?
Efficiency	Outputs in relation to inputs. This is an economic term signifying that the intervention uses the least costly resources in achieving desired results (inputs vs. outputs).	What was the cost per person advised? What was the cost per person per job created? What percentage of clients was from the target group? Were there more efficient ways of implementing the action?
Impact	The positive and negative changes produced by a policy intervention, directly or indirectly, intended or unintended (objectives vs. outcomes).	Is there now a higher rate of business ownership and self-employment in the target group? Is there now a higher employment rate for the target group? Has social inclusion increased?
Sustainability	Whether the benefits of the activity are likely to continue after funding has been withdrawn.	Will the microcredit scheme established for senior entrepreneurs be self-financing? Is the advice centre capable of retaining the skills it has developed? Is there a need for further public support?

Source: Adapted from OECD (2007).

3.4.2. Entrepreneurial ecosystem: Creating supporting conditions in the business environment

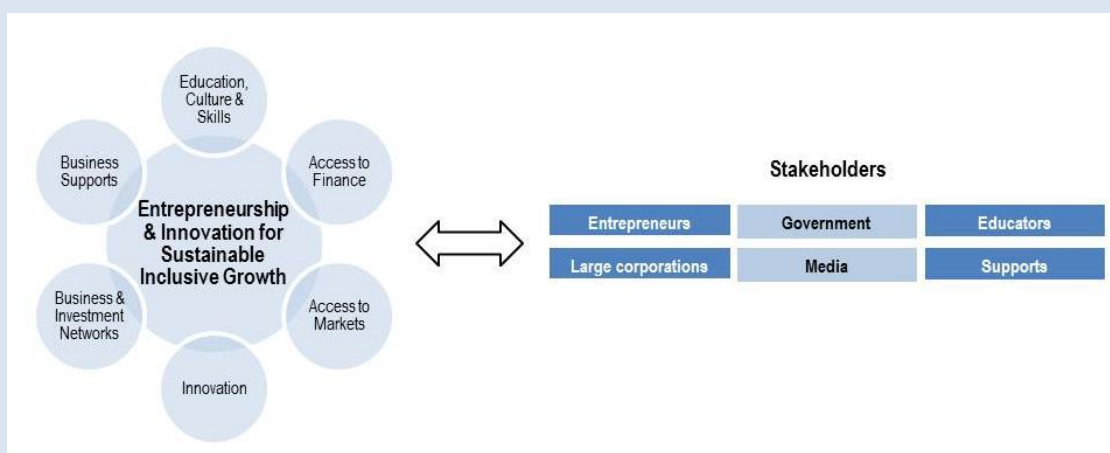
Access to finance, skills, technology and knowledge are essential for innovative SME development and innovative entrepreneurship that will contribute the most to growing employment and income opportunities in the small business sector. The EDA identifies an important range of measures which will help develop more positive city-level business environment conditions.

In the context of inclusive growth, strengthening the city entrepreneurial ecosystem should stress inclusion of all population groups who can participate, including under-represented and disadvantaged groups. To this end, it is proposed to complement the EDA with i) policies that create an enabling business environment for SMEs and entrepreneurship and ii) targeted SME sector policies that aim to increase the competitiveness of SMEs and ultimately their contribution to growth and social inclusion (Box 3.8).

Box 3.8. An inclusive entrepreneurial ecosystem

An inclusive entrepreneurial ecosystem provides a holistic view of sustainable SME and entrepreneurship development. It involves a range of important stakeholders, including the government, the entrepreneurs themselves, large companies, media, and support organizations. The ecosystem begins with education, culture and human capital and the attitude of the local community to entrepreneurship which directly influences an individual's creative approach, attitude to risk and fear of failure. Additionally, the business environment plays a similar role in affecting obstacles likely to be encountered and the rewards to be achieved. Innovation and business development support, access to markets and appropriate affordable finance underpinned with sophisticated and inclusive business and investment networks complete the ecosystem (Figure 3.11).

Figure 3.11. Key elements of an inclusive entrepreneurship ecosystem



Acting in partnership with all key stakeholders, an ecosystem can be developed in Seoul that assists innovative small companies and start-ups from all segments of society. Lessons from the most effective policies and practices across OECD countries can provide the basis for choosing a set of interventions that work.

Source: Adapted from OECD (2015a).

3.4.3. Entrepreneurship skills: Provide entrepreneurship training and develop tailored skills support for disadvantaged and underrepresented groups

The **development of an entrepreneurial culture and mind-set** in society is a crucial element of creating sustainable businesses that contribute to social inclusion. Entrepreneurship and self-employment require a broad set of skills including risk management and opportunity recognition, as well as business management. Women and youth are more likely to lack entrepreneurship skills than men and evidence often points to different types of labour market experiences that offer fewer opportunities for them to obtain business management experience.

Public policy can help women and youth overcome this skills barrier through **entrepreneurship training, coaching and mentoring**. There is a growing trend for policy makers to focus such programmes on developing skills that would support business growth. Start-up training and consulting offered by the Small Business Development Centre could be further targeted towards these groups by either using specific training modules or by setting targets for the numbers of clients drawn from women and youth. The training should also be tailored to the needs and experiences of women and youth entrepreneurs, for example by using experienced female entrepreneurs as trainers or mentors.

SMG could also promote a positive attitude to entrepreneurship by introducing **role models and ambassadors**. Social attitudes and cultural views still tend to exert a negative influence on the local population's desire to start businesses, as well as on their self-confidence in managing a business. The policy goal should be to raise awareness about the potential of entrepreneurship and to increase all citizens' motivation for business creation and development. At the same time, women and youth entrepreneurship particularly needs encouragement to counter traditional career and gender stereotypes about activities of these groups in the labour market.

3.4.4. Networks: Integrate vulnerable groups into business networks and support collaborative projects between businesses to strengthen EDA effectiveness

SMG could consider a range of measures to increase networking by SMEs and entrepreneurs, including those from disadvantaged and under-represented groups. These networks can help small businesses and entrepreneurs gain access to markets, resources, knowledge and advice. This could be done in a variety of ways. For instance, SMG could introduce **policy support for collaborations among networks of SMEs for market access**. SMEs could be encouraged to work together for exporting or to develop partnerships with larger enterprises to enter into their value chains.

SMG could also develop **collaborative R&D projects**. Most business R&D spending happens in large corporations. SMG should consider collaborative research projects among large businesses, SMEs and universities on a competitive funding basis. These projects would target thematic issues around sustainability and inclusiveness. This could include projects in the field of green entrepreneurship and address environmentally-friendly technologies or projects that improve the situation of disadvantaged segments of society. Various instruments could be employed, such as innovation vouchers which have been tested in a number of countries at national and regional level.

There is also great potential to further exploit opportunities for SME participation in **procurement tendering**. Public procurement should be open and transparent and public-sector vendors should be encouraged to break down work packages into smaller tenders to make them more attractive and available to SMEs. Training in tendering processes and requirements by city officials would help open up more potential for procurement tendering to support social and inclusive SME development.

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