Main findings

- Young and small firms play a key role in the Korean economy
- Entrants create a significant number of jobs
- Young businesses face difficulties in surviving and scaling up

Small and medium enterprises (SMEs) are a key component of the Korean economy. They account for a large share of both firms and employment. Moreover, they benefit from exceptionally extensive government support. However, this support has not fully translated into enhanced SME performance yet (OECD, 2018).

Within the group of SMEs, young firms play a prominent role across OECD economies. In particular, high-growth entering firms are of primary importance for productivity-enhancing reallocation of resources and aggregate productivity growth. Analysing business dynamism in Korea and understanding the challenges faced by young businesses is thus crucial for designing effective policies.

This note uses novel data from the K-Emp project to document patterns of business dynamism in Korea. The microdata show that the Korean economy appears very dynamic at first sight. For example, start-ups contribute more to job creation than in other countries (Figure 1). However, young firms appear to face more difficulties in surviving and scaling-up, as shown by the relatively high share of young firms that exit the market and low post-entry growth of start-ups (Figures 2 and 3).
The K-Emp project

The K-Emp project provides a unique comprehensive overview of employment and business dynamics in Korea. The project is a collaboration between the Korea Institute for Industrial Economics & Trade (KIET) and the OECD. The main contribution of the project is the creation of a micro-aggregated database with which Korean business and employment dynamics can be analysed and compared with those of other countries in a harmonised way. The results are based on an application of the OECD DynEmp3 statistical code to Korean data from the Statistical Business Register, thanks to the contribution of Eunsun Gil and Jaehan Cho from KIET.

The K-Emp database covers most sectors of the economy, but in order to enhance cross-country comparability the analysis focuses on manufacturing and non-financial market services (or “services” for brevity). Data from other countries are sourced from the DynEmp3 database and based on administrative records with quasi-universal coverage (such as business registers or social security records). See Desnoyers-James, Calligaris and Calvino (2019) for more details on the metadata across countries.

Unless indicated otherwise, all presented numbers rely on averages for the period for which data are available; for Korea, this is 2010-15. To allow an evaluation of Korea’s performance relative to that of other countries, the Korean results on employment and business dynamics are compared to a “benchmark” group of countries for which DynEmp data are available: Austria, Belgium, Brazil, Canada, Costa Rica, Finland, France, Hungary, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden and Turkey. While substantial effort has gone into harmonising data sources across countries, one key remaining difference is that the Korean data is recorded at the establishment level, whereas it is at the firm level for most of the other countries. This may partly explain the differences observed between Korea and the benchmark countries. Units in the 0-1 size class are excluded. Owing to methodological differences, figures may deviate from officially published national statistics. Data for some countries are still preliminary.

Figure 1. Start-ups contribute more to job creation in Korea than in other countries on average

Contribution to net job creation rate by status (entrants, incumbents, exiters)

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Note: This figure reports the average contribution of entering, incumbent and exiting units respectively to the net job creation rate in Korea and the reference group of countries, by macro-sector in the period 2010-15.

Figure 1 focuses on the contributions to net job creation by entering, exiting and incumbent businesses, on average over time by macro-sector. The average contribution of entrants to net job creation has been significantly higher in Korea than in the reference countries, particularly in the services sector. At the same time, exiting firms also destroy more jobs in Korea.¹

The high negative contribution to net job creation of exiting firms can largely be attributed to the exit of young firms. Figure 2 shows the share of young exiting businesses over total young businesses active in the previous year. Young businesses seem to experience more difficulties surviving in Korea than in other countries, as suggested by their relatively high exit share.²

Figure 2. Young Korean businesses face difficulties to survive  

Share of young exiting units over total young units active in t-1

Note: This figure reports the share of young exiting units on average in the period 2010-15 for Korea and the reference group of countries. This is defined as the number of exiting units with age lower than 6 years over the total number of units with age lower than 6 years active in t-1.


Young firms’ growth also seems relatively low in Korea. Figure 3 shows the average employment growth of entrants over the first three and five years after entry. Entrants in Korea grow much less than in other countries, especially in services. Over the period 2010-15, the average employment growth of entrants over the first three years after entry is about 24% in manufacturing and 9% in services in Korea,³ versus 27% in manufacturing and 24% in services in the other countries. Low growth among surviving firms is particularly concerning given the high exit rate of young firms.

¹ Part of the difference with respect to other countries may be due to the data being at the establishment level (see Box 1). Yet, Cho et al. (2017) show that about 90% of businesses are composed by a single establishment and find overall qualitatively similar patterns when comparing job creation and destruction dynamics by firms or establishments.

² Part of the difference with respect to other countries may be due to the data being at the establishment level (see Box 1 and the footnote above). However, from a theoretical point of view, using establishment- rather than firm-level data does not seem to unambiguously overestimate the exit share.

³ I.e., an 8% yearly average employment growth rate conditional on surviving 3 years in manufacturing and 3% in services.
These characteristics of young businesses in Korea (high contribution to net job creation from entrants, but low survival and low average employment growth after entry) hint at the possible existence of barriers to scaling up. These should be explored further, with a view to identifying and addressing the key obstacles faced by young firms. Access to finance, bankruptcy regulations and contract enforcement have been found to play a very important role in explaining cross-country differences in young firms’ employment growth (e.g., Calvino, Criscuolo and Menon, 2016).

References and further reading


