Redesigning SME Support Policies for Sustainable, Tangible Growth

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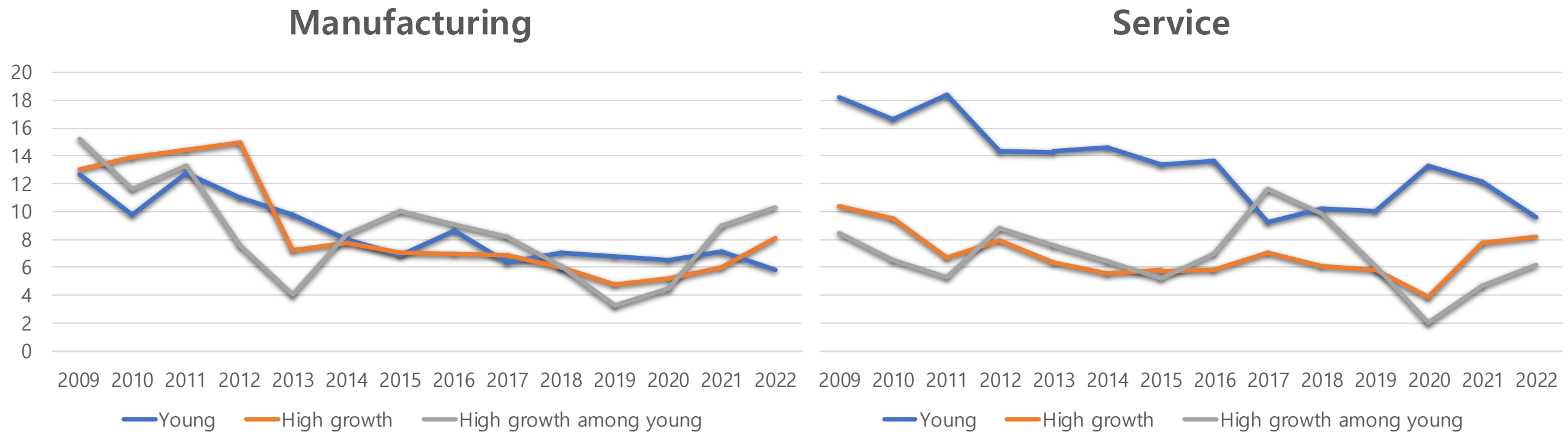
Decline in business growth dynamism

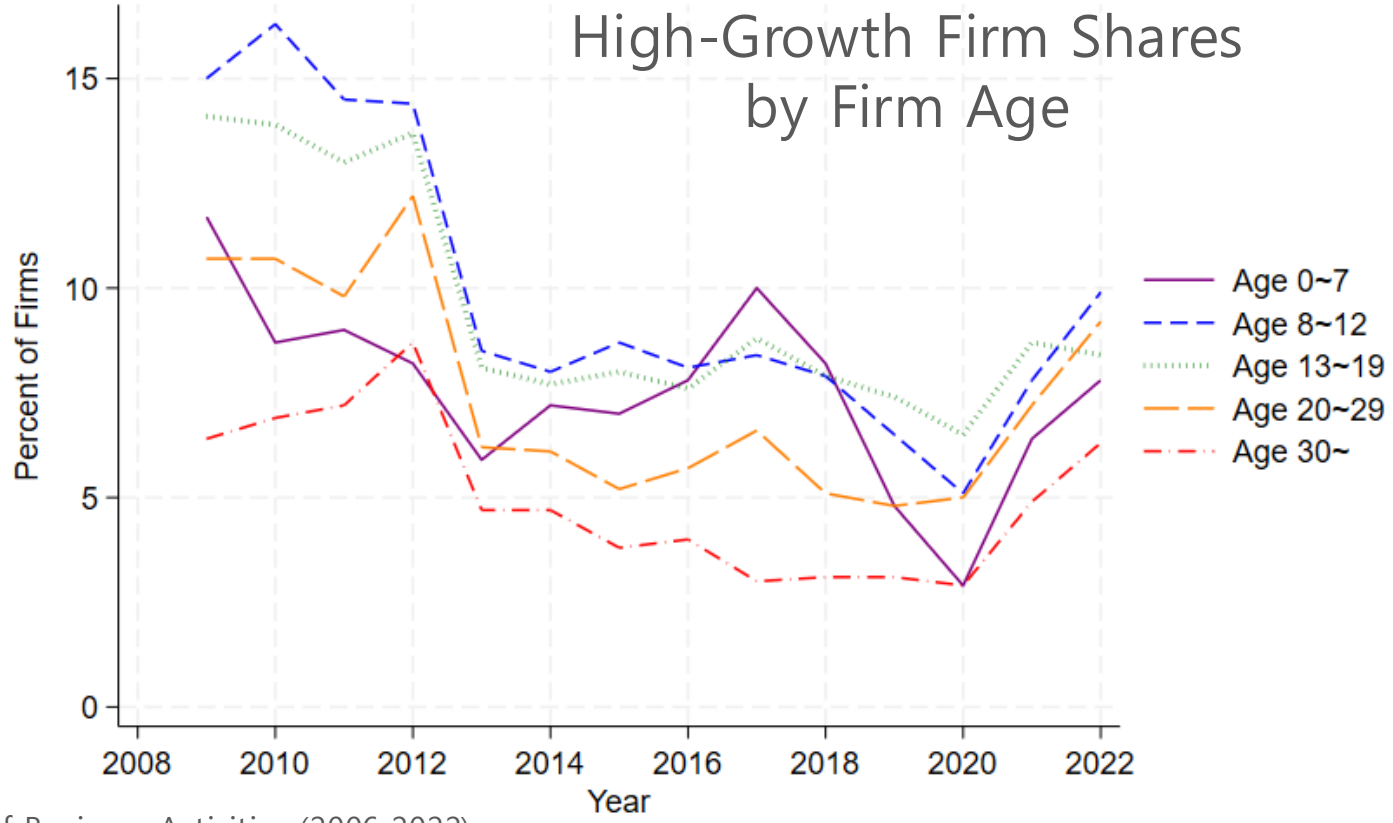
- The entry and expansion of high-potential firms are essential drivers of economic growth.
  - Yet, during the past fifteen years, the shares of high-growth and young firms have markedly decreased.
  - High-growth firms account for 50% of annual sales growth and 38% of job creation.
  - A 1% increase in their sales share within an industry is linked to roughly a 1% rise in the industry's aggregate productivity growth.



Source: Statistics Korea, Survey of Business Activities (2006-2022)

Crisis among mid-aged firms

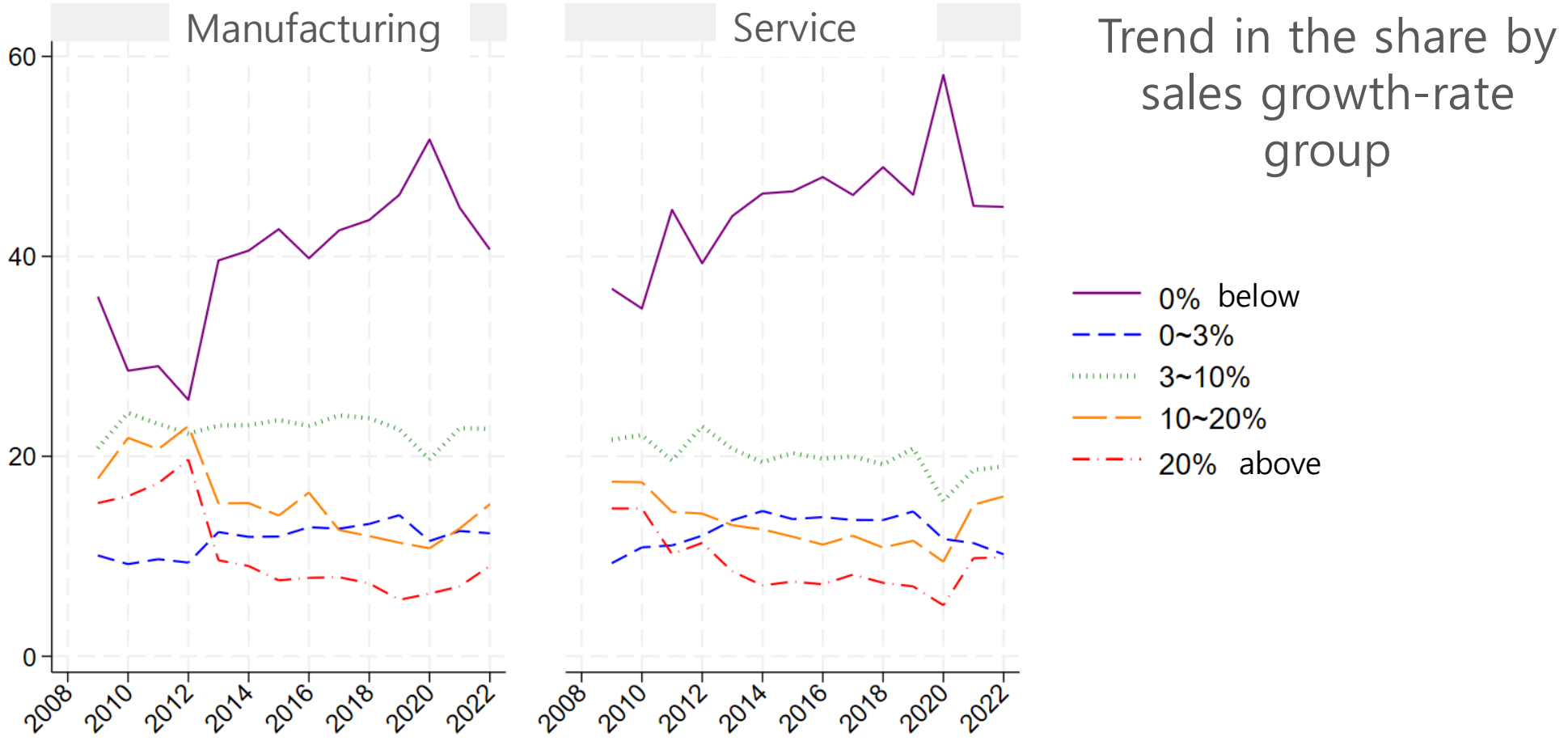
- The overall activity of high-growth firms has weakened, with a pronounced decline among mid-aged firms (8–19 years old).
  - This indicates that many mature firms are struggling to adapt to changing markets and global competition, while failing to secure new sources of growth.



Source: Statistics Korea, Survey of Business Activities (2006-2022)

Decline in firm growth

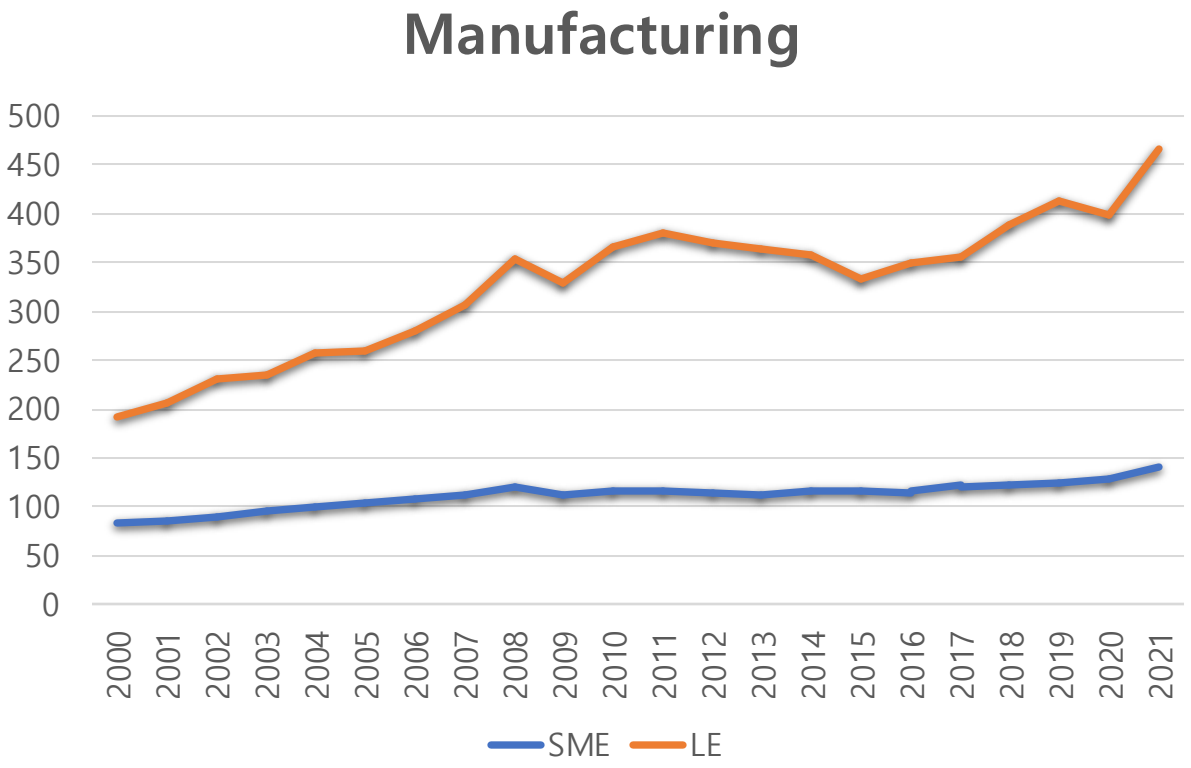
- The proportion of firms showing negative sales growth has exceeded 40%, signaling not only stagnation but also a potential contraction in firm dynamics.

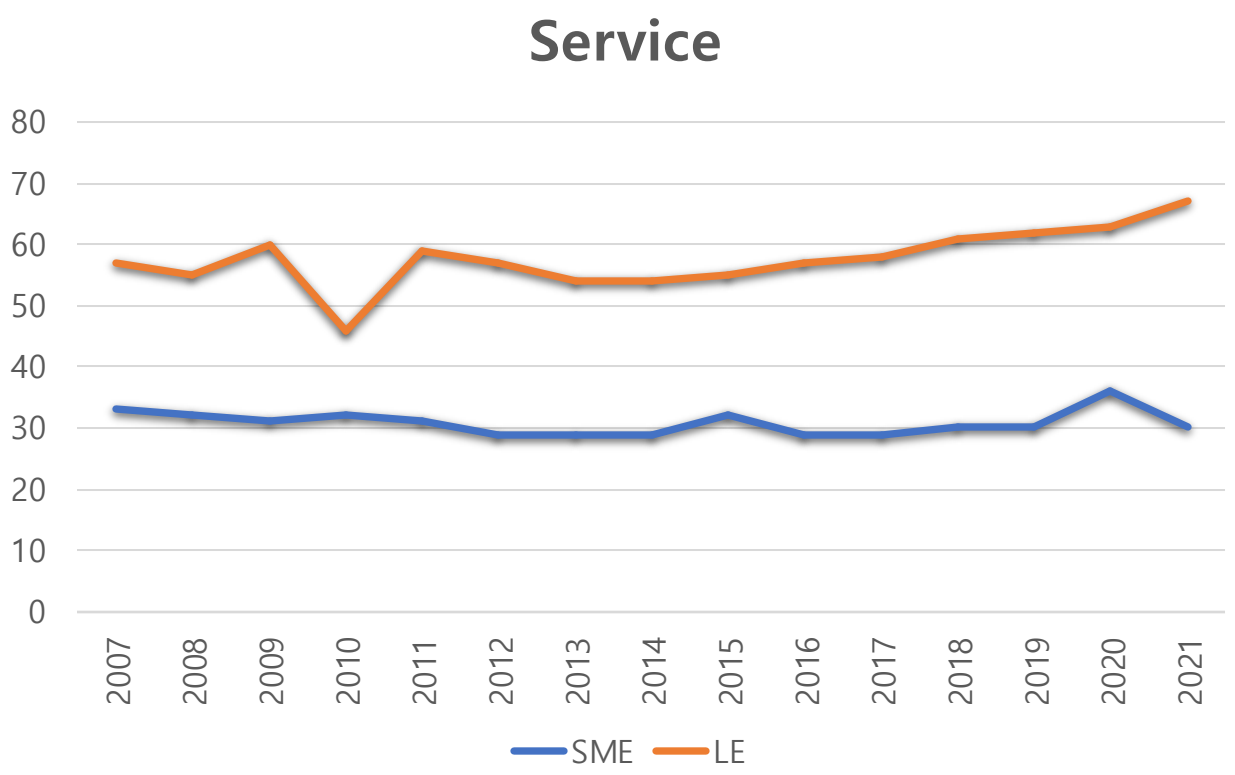


Source: Statistics Korea, Survey of Business Activities (2006-2022)

Stagnation in SMEs' productivity

- Outside of large manufacturing firms, productivity has stagnated,
- and the labor productivity gap between large firms and SMEs has continued to widen.





Note: Labor productivity refers to value added per employed person, measured in million won.
Source: Author's calculation using Productivity Statistics DB (2000–2021), Korea Productivity Center

Challenges of the current SME support policy

- The current support policy faces the following issues:
  - Excessive fragmentation across numerous programs ("department store" approach)
  - Reliance on a limited set of instruments, and
  - an imbalance toward monetary assistance (fiscal policy)

Number of firms and average amount by support programs

Note: Only programs with 60 or fewer beneficiary firms are shown. The bubble size is proportional to the total support amount by program.
Source: Ministry of SMEs and Startups, SIMS DB 2022 Project Management Status

National champions support policy case

- The World Class 300 (WC300) program selects SMEs with the ambition and potential to grow into global companies
  - Objectives: job creation, new growth engines, and narrowing SME–large-firm polarization.
- Eligibility:
  - annual sales between 40 billion and 1 trillion KRW,
  - plus either avg. annual sales growth rate of at least 15% over the past five years,
  - or avg. R&D investment ratio of at least 2% of sales over the past three years.
- Instruments
  - R&D up to KRW 1.5 bn annually per firm for 3–5 years, plus HR, finance, consulting

(Number, 100 million won)

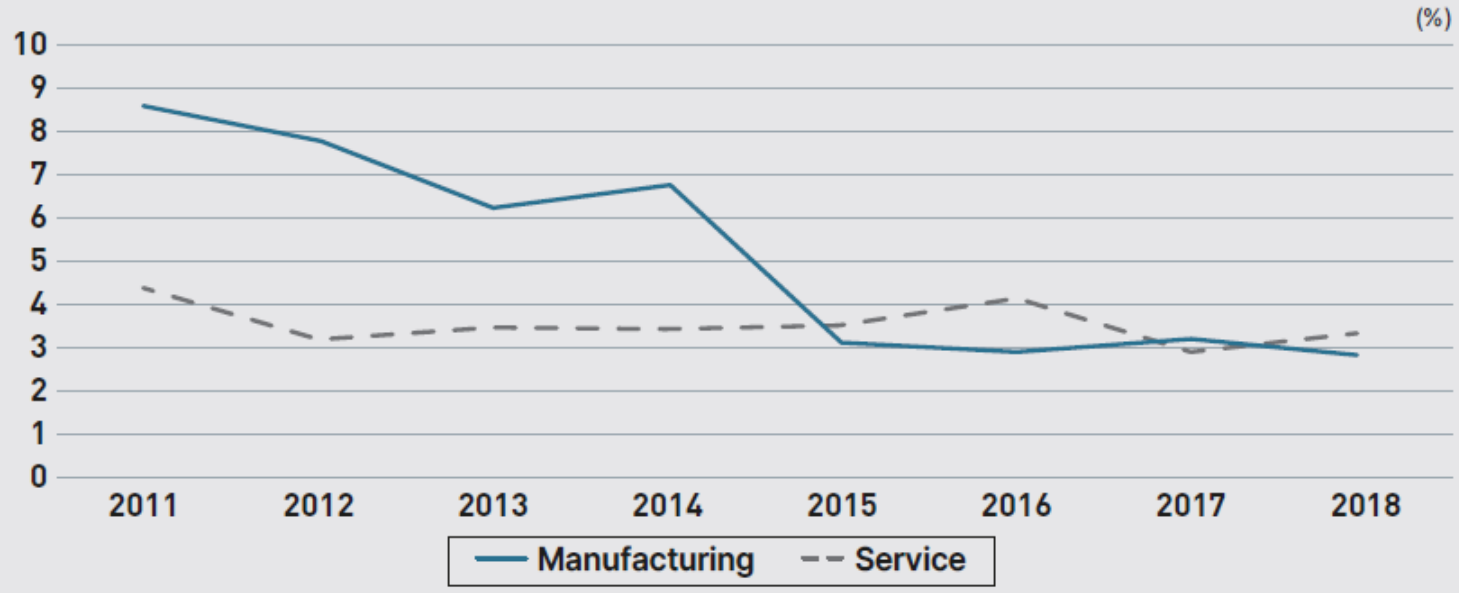
	2011	2012	2013	2014	2015	2016	2017	2018
Selection (Number)	30	37	33	56	30	50	36	41
Revocation (Number)	4	4	6	11	5	6	3	3
Support funding (100 million won)	752	1,060	810	1,518	845	1,601	1,062	1,085

Source: Ministry of Trade, Industry and Energy, "List of Selected Companies for World Class 300," 2011~2018 (in Korean).

Data

- Statistics Korea "Survey on Business Activities" (2007–2021)
  - Economy-wide panel enabling firm-level measures of business activities
  - Sample definition: Firms with ≥50 regular employees or paid-in capital ≥ KRW 300 million
  - Analytical scope: Manufacturing and Services
- Combine with Korea Institute for Advancement of Technology's "World Class 300 List."

- Proportion of Firms Meeting the Sales Growth Criterion by Year



Note: Proportion of firms with 5-year average annual sales growth rate ≥15% in the "Survey of Business Activities."
Source: Author's calculations using Statistics Korea's "Survey of Business Activities" (2006~18).

Method

- Estimate the program effect by comparing treated firms with a comparable control group across multiple outcomes.
- Build a control group similar to treated firms using Propensity Score Matching (PSM), then apply DID method
- Sample rule: Controls must satisfy WC300 eligibility same as applicants
- A diff.-in-diff. estimator to estimate the impact of the policy

$$y_{i,t+2} - y_{i,t-1} = \alpha + \beta\, Treat_{i,t-1} + F_t + F_S + \epsilon_{i,t}$$

  - $y_{i,t} = \log(outcome_{it})$
  - $y_{i,t+2} - y_{i,t-1}$ = 3-year growth for medium-run impacts
  - $Treat_{i,t-1}$: 1 if a firm is selected as WC300 in t−1.
  - Controls: Year fixed effects and industry fixed effects to absorb common shocks and sector trends.

Results

- The effect of the support program was not significant on the sales, value added, tangible assets, and productivity performance

- Scale-up support policies, including WC300, should manifest sales growth in supporting firms
  - Firms with limited need/potential VS Firms with urgent productivity bottlenecks.

	Sales	Value added	Tangible assets	Number of employees	R&D expenses	Number of patents	Exports
Impact of support	0.07 (1.61)	0.08 (0.90)	0.08 (1.51)	0.12*** (2.90)	0.19** (1.97)	0.18*** (2.84)	0.28** (2.16)
Number of observations	322	322	322	322	316	307	300

	R&D intensity	Domestic sales ratio (sales-exports)	TFP	Labor productivity	Per capita labor costs	Overseas affiliate investment	Number of overseas affiliates
Impact of support	0.12 (1.26)	-0.20 (-1.21)	-0.03 (-0.31)	-0.04 (-0.40)	-0.05 (-1.49)	-0.15 (-0.78)	0.05 (0.92)
Number of observations	316	322	322	322	322	196	215

Note: 1) ( ) represent t-statistics; all analyses include industry- and year-fixed effects.
2) ** and *** denote statistical significance at the 5% and 1% levels.
Source: Author's calculation using data from Statistics Korea's "Survey on Business Activities" (2007~21) and the Korea Institute for Advancement of Technology's "World Class 300 List."

Redesigning SME Support policy: Tangible growth

"No two firms grow the same way."

As-Is: R&D-Centered Monetary Support

- Growth policies overly focused on R&D funding.
- Growth driven by diverse factors: productivity, intangibles, globalization, talent, AI.
- Service firms grow more through branding and differentiation than R&D.

To-Be: Relationship-Based Support

- Shift from one-dimensional financial aid(R&D grants) to tailored, firm-specific models.
- Focus on strategy, global expansion, and private collaboration.
- Follow global best practices using consulting and network support.

To-Do: Bespoke Scale-Up Support

- Identify key growth drivers per firm.
- Offer customized package support aligned with firm-specific growth factors.
- Policymakers and support agencies should shift toward a relationship-based and more professional engagement with firms.

Redesigning SME Support policy: Sustainable growth

"Work like a global firm: Data-driven, performance-oriented"

Transparent Support

- Enhance transparency and accountability by **publicly disclosing corporate support information**
  (e.g., usaspending.gov)
- Publish the ratio of indirect costs- **actual corporate support vs. total program budget**
- Introduce a "**One-in, More-out**" system to improve efficiency of support programs.

Data-Driven Policy

- Utilize **AI** to identify and prioritize firms with high policy impact potential.
- Operate **pilot programs** to test and refine policy effectiveness before full implementation.
- Integrate and **streamline growth support programs**, **evaluate outcomes** based on **productivity and capability improvement**

Demand-Driven 1-Stop Support

- Guide and connect firms first to **private-sector services**, and use AI to **recommend the most suitable programs**
- Allow **private financial institutions** to conduct initial screening and lending (or guarantees) (e.g., U.S. SBA loans)