Innovation Policies for Inclusiveness – Policy Cases

Commission for Corporate Partnership

Country: Korea

1. Short Description

The ***Commission for Corporate Partnership*** promotes a culture of "shared growth", addressing existing gaps and conflicts between large enterprises and small and medium-sized enterprises (SMEs). The initiatives aim to reduce increasing gaps between large firms and SMEs, address the needs of SME firms, and identify and disseminate best practices and inclusive growth models for corporate partnership.

This policy profile is part of a policy toolkit on innovation policies for inclusiveness. It is relevant for industrial inclusiveness.

2. Policy Characteristics

Basic Information

Country and implementing institution(s):	**Timeline:**
Republic of Korea Commission for Corporate Partnership (a private non-profit organisation). The Commission reports on the progress of works to the Ministry of Trade, Industry and Energy.	Established and initiated in December 2010 The Commission for Corporate Partnership was established according to the "Act on the Promotion of Collaborative Co-operation Between Large Enterprises and Small-Medium Enterprises"
Target group	**Size and budget:**
SMEs and large enterprises	Total budget (in KRW billion): **2011**: 4.451 (a. 0.1, b. 2.203, c. 2.148) (USD 5.2 million) **2012**: 4.188 (a. 0.797, b. 1.286, c. 2.105) (USD 4.9 million) **2013**: 4.59 (a. 1.21, b. 1.280, c. 2.1) (USD 5.3 million) **2014**: 4.459 (a. 1.05, b. 1.309, c. 2.1) (USD 5.1 million) **2015**: 4.929 (a. 1.15, b. 1.679, c. 2.1) (USD 5 million) **2016**: 5.159 (a. 1.06, b. 1.999, c. 2.1) (USD 5.8 million) a. Funds from the Ministry of Trade and Commerce

	b. Funds from the Small and Medium Business Administration c. Funds from the private sector (KRW 2 billion (USD 2.26 million) annually from the Federation of Korean Industries, and the remainder from the Korean Federation of SMEs)
Type of policy instrument(s)	**Inclusiveness focus**
Non-financial support: - Calculation and announcement of the Shared Growth Index (Win-Win Index) - Designation of the types of business suitable for SMEs - Organisation of the "Shared Growth Working Committee" and development of the shared-growth model by sector - Identification and dissemination of norms and practices of corporate partnership	**Industrial inclusiveness**

Policy objectives

The mission and vision of the **"shared growth" promotion measures for SMEs** is to improve the relationship between large enterprises and SMEs, reduce social polarisation and strengthen national competitiveness. The commission aims to:

- Promote a culture of shared growth and innovation across industries and firms.
- Address the needs of small and medium-sized firms.
- Identify and disseminate best practices and inclusive growth models.

In order to achieve the aforementioned objectives, the functions of the commission are to:

- Calculate and announce the Win-Win Index of large enterprises.
- Identify and disseminate successful Win-Win growth models.
- Promote communication between the representatives of large enterprises and SMEs, providing educational programmes for the observation of corporate partnership norms.
- Establish the standards for business types and items suitable for SMEs, and designate and inspect such types of items.
- Identify the causes of conflicts relating to transactions among large enterprises and SMEs, and between different industries, as well as to promote social consensus.

- Disseminate an atmosphere of corporate partnership across industry.

Rationale

The threat to stable growth in Korea has increased due to the rising productivity gap between large enterprises and SMEs – a by-product of rapid growth. During the export recession in the Korean economy, triggered by the global financial crisis in 2008, aggressive business expansion from large firms intruded into the business sectors of SMEs, curtailing their business activities. This led to demands for the creation of a private-led enterprise ecosystem for self-innovation, which in turn resulted in a government policy for sustainable growth, emphasising "win-win co-operation". On 29 September 2010, the government announced the "Measures to Promote Collaborative Co-operation Between Large Enterprises and Small-Medium Enterprises".

Policy target recipient and selection mechanism

The programme targets can be classified into three groups as follows:

- Large enterprises: 200-400 large enterprises assessed on the basis of their profits and the presence of mechanisms for co-operation with SMEs.

- SMEs: subcontractor SMEs (Tier 1 and 2) co-operating with major large enterprises assessed on the basis of the degree of co-operation satisfaction.

- Industry: business sectors consisting mainly of small business.

Policy instrument(s)

The Commission for Corporate Partnership promotes competitive co-operation among firm networks, promotes corporate partnership culture and operates the following programmes:

- Calculation and Announcement of the Shared Growth Index (Win-Win Index)

    - The Win-Win Growth Index aims to evaluate and measure the level of shared growth of large corporations, in order to enhance mutual growth between large and small and medium-sized businesses. The index is produced by combing the evaluation of large companies' implementation of the shared growth policy (including compliance with subcontracting law), with quantitative evaluation based on the level of win-win growth perceived by partner companies (e.g. support from large businesses for developing markets and new technologies). The final evaluation draws on both sources on a 50-50 basis. The following table presents the characteristics of the Win-Win Index.

Classification	***Evaluation of the fulfilment of corporate partnership and fair-trading agreements***	***Research into SMES's feelings about progress in corporate partnerships***
Target	Conglomerates	Contractors and subcontractors of conglomerates (mainly tier1 and 2)
Main agent	The Fair Trade Commission	National Commission for Corporate Partnership
Method	Evaluation of the performances of each conglomerate (quantitative)	Research into SMES's feelings about progress in corporate partnerships (qualitative)
Times	Yearly	Half-yearly
Evaluation items	Fairness of the contract agreement; (e.g. fairness in agreement process, contents, implementation process) Effort to fulfil the law or regulation and to prevent violation of the law Support for shared growth (e.g. financial support, technical support, human resource support, inter-tier co-operation support, etc.) (Cut points) Violation of laws, public criticism (Add points) Participation in shared growth (e.g. result of CP participation, improvement in payment conditions, acquisition of CCM certification, etc.) *CP: Co-operation Programme (enables large enterprises to agree on voluntary compliance with fair trade) *CCM: Consumer Centred Management	Trade connections Unfair trade such as verbal agreements, unfair reductions, technical usurpation, etc. Fairness and appropriation of agreement conditions such as payment means and duration. Corporate partnership system Co-operation with large enterprises in finance, R&D, production, management innovation, human resource development, etc. Operational system Shared vision and implementation system, creation of co-operative environment by large enterprises (Cut points) Non-fulfilment of types of business suitable for SMEs, violation of corporate partnership guidelines (Add points) Participation in types of business suitable for SMEs, benefit sharing, co-operative profit distribution system, investment and support for corporate partnership The cut and add points are also measured by how SMEs feel about the large firms' performances on those conditions.

- Over five years, the number of large firms participating in the programme increased: from 56 firms in 2011, to 73 firms in 2012, 108 firms in 2013, 132 firms in 2014, 149 firms in 2014 and 169 firms in 2016.

- The evaluation is based on a random selection of 20% of the "cooperative SME" lists provided by large firms. Evaluations are made of large enterprises using the categories "excellent", "acceptable", "regular" and "improvement needed" (according to the results of the evaluation from subcontractor SMEs (tier 1 and tier 2)), by business sector, taking into consideration their characteristics,

cooperative relationship with SMEs and impact. Various incentives are provided for companies that attain "acceptable" level or over (e.g. a one-year exemption from the subcontractor audit, granting of additional points for public bidding, etc.).

- Designation of the types of business suitable for SMEs

  - The Commission aims to select the industrial areas in which SMEs can be competitive through social consensus and by forging an equitable role for large enterprises and SMEs to work together. Starting with the manufacturing industry in 2011, the scope of eligible industries has gradually expanded to include the service industry in 2012-2013, and business support and knowledge-based services in 2014.

  - When sectors are designated suitable for SMEs, large enterprises are required/recommended to adjust their business in several ways, including: (i) restrictions on entry into industrial sectors (e.g. large firms are not to enter the flower and alpine retail industries); (ii) restrictions on expansion in output, share and facilities (e.g. large firms froze their assets in the used car industry); (iii) reduction in size, share and output in the market (e.g. bidding by large firms in the public market is prohibited in the car repair industry); (iv) business handover (e.g. large enterprises withdrew from the market altogether in the laundry soap industry); and (v) win-win agreement (e.g. large firms and SMEs voluntarily agreed on co-operative business conditions in the LED lighting industry).

  - The recommendation period is limited to a maximum of six years.

  - The Commission monitors the enforcement of recommendations and compliance with the agreements. If a large enterprise violates the agreement conditions, the Commission can require rectification to the company, announce it publicly or request the adjustment to "the Small and Medium Business Administration".

- Identification and discussion of social issues, and the preparation of guidelines on corporate partnership related to maintenance, repair and operations (MRO)

  - The Commission identifies and discusses social issues relating to corporate partnership between large and small companies, fosters social consensus and prepares best practice guidelines for corporate partnership.

  - After early 2000, large enterprises entered the MRO procurement business and commenced transactions with their affiliates and partner companies. However, reckless expansion increased the need to achieve social consensus through autonomous agreements to secure a suitable business area for SMEs.

- In November 2011, the Commission published the "Guidelines to Corporate Partnership Related to MRO".

- Organisation of the "Shared Growth Working Committee" and the development of the shared-growth model by sector

  - The Commission established the "Shared Growth Working Committee" to expand shared growth initiatives to each sector, and to discuss economic and social issues related to shared growth. The committee is composed of personnel from large enterprises (executive level), SMEs (CEO), public institutions (professor, research centre) and related institutions (association, small and medium-sized co-operatives), taking into consideration the supply and demand structure of each sector.

  - The committee develops policy proposals on shared growth for the government, unearths tentative projects to improve the system and submits them to the Commission to be delivered to the government. It also encourages participating enterprises to jointly respond to important economic and social issues related to shared growth (e.g. joint responses to price rises in raw material, voluntary pledges to rectify unfair practices)

  - The committee develops a shared growth model for each sector (e.g. benefit sharing system, strategies for joint advancement overseas, execution plans for shared growth, etc.). It also finds best practices of shared growth in each sector and disseminates them.

Policy challenges

- **The lack of a legal framework for the Commission and its activities has been a controversial issue since the Commission was established.** The Commission was set up as a civil organisation with the purpose of building private sector consensus on mutual growth between large firms and SMEs. The Commission is composed of 25 civilian members (one Chairman, nine large enterprise representatives, nine SME representatives and six non-partisan representatives). The initial intention was to establish a new legal framework by reaching a consensus among large enterprises and SMEs, in consultation with the Commission, rather than following existing laws or regulations. However, the National Assembly pointed out that agreements made by the Commission are not legally binding, and it is impossible to legally enforce the measures in the marketplace. Although Win-Win law stipulates the requirements for the establishment and operation of the Commission, the Commission has no governing power to guarantee the effectiveness or authority of its decision-making process, because it is not affiliated to a government agency.

- **The Commission's activities have sometimes been considered as interference in the free market mechanism.** The creation of "suitable types of business for SMEs" was received in positive terms for securing stable business opportunities for SMEs,

creating jobs through stable management, and promoting balanced development between SMEs by strengthening their competitiveness. However, the restrictions placed on large firms from entering resulted in problems, such as: (i) controversy over the violation of market economy principles, (ii) bifurcations between large and small firms, (iii) diminished technology competitiveness due to intensified price competition among SMEs, and (iv) less opportunities for growth among SMEs, etc.

Actions undertaken to address challenges

In order to establish a legal basis for the Commission's activities, the National Assembly proposed legislation with the purpose of legalising the appointment of suitable types of business for SMEs. However, since designating a legally eligible sector might conflict with international norms, the Ministry of Foreign Affairs and Trade stated that selection of a suitable business for SMEs must be done by social consensus through the Commission. As a result, the National Assembly passed an alternative bill on 30 December 2011, establishing a legal basis for the Commission's operations and functions and expanding its scope to include service industries.

Evaluation and outcomes of the scheme

- The introduction of the Win-Win Index in 2011 encouraged the voluntary participation of large enterprises and promoted mutual growth activities with co-operative SMEs. A shared growth promotion department has been created in 73% (84 enterprises) of participating large enterprises (115 enterprises in total). The results of the "Fair Trade and Mutual Growth Co-operation Implementation Evaluation" highlight the increased use of standard subcontracting contracts, price per unit, cash settlement ratio, employment and the frequency of education and training.

- At the end of October 2014, the Commission conducted a performance analysis of 82 items approved as suitable for SMEs. The results regarding short-term effects were a 5.3% increase in market share, a 5.3% increase in sales and a 1% increase in operating profit. Regarding long-term effects, the results were a 0.05% increase in research and development fee, and a 1.6% increase in employment rate. By mid-2016, the market share and profits of SMEs in suitable industries increased by 4.1% compared to 2014. The business environment and technological capability of SMEs is expected to receive further attention, in order to secure the role of SMEs in creating a healthy industrial ecosystem.

Sources

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Background

This document is part of a repository of examples of ***innovation policies that have for explicit aim to contribute to territorial, industrial and social inclusiveness.*** *The repository is part of an innovation policy toolkit developed for the* ***Innovation for Inclusive Growth*** *project and gathers national innovation policy programmes that:*

A. *Explicitly target* ***lagging and less innovative regions*** *(outside of regions that are highly innovative) or by design are more likely to support these lagging / less innovative regions.*

B. *Explicitly aim to include in innovation activities* ***individuals and groups that are not usually participating*** *in those activities and in support of broadening the group of innovators.*

C. *Explicitly aim to foster innovation activities in non-innovative firms, in particular by targeting* ***non-innovative sectors and non-innovative Small and Medium-sized Enterprises (SMEs).***

Policies are searchable by inclusiveness type, objective and implementation challenge on: *https://innovationpolicyplatform.org/inclusivetoolkit*