SME's Cooperation with Large Enterprises-South Korea's Experience: Policy Focus, Business Reaction, and Implications for Asian Countries

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South Korea government launched "Acts for Promoting Large and Small Business Cooperation" to enhance the competitiveness of both large and small companies by solidifying cooperative relationships between large companies and SMEs, which contribute to sustainable growth of the national economy. Until now, this "win-win growth" policy is being said to be partially successful. First, this policy focuses on only low-context and short-term relationship. Second, large companies selected low-end approach to large and small business cooperation such as pricing and fair trade. Third, open innovation is needed to cover cooperation with innovative SMEs. Finally, this paper provides policy implications for customized cooperative activities.

Key words: Win-win growth policy (Inter-firm cooperation policy between Large Enterprises & SMEs), Innovative, capable or incapable SMEs, Context, Time span.

Economic Crisis and Change of Large Enterprise-SME Relationship

Korea economy has achieved remarkable growth over the past six decades and this rapid growth was largely due to the strong vertical ties between large enterprise and SMEs. Since 1960s, Korean government strategically supported and fostered large enterprises to effectively utilize its scarce resources and these big companies developed and fostered low cost domestic SME suppliers, and maintained "exclusive" long-term relationships with them. These relationships were embedded in the high-context culture that can be characterized as tacit, repetitive, continuous and non-explicit. Thus, the culture of LE-SME inter-firm cooperation was the driving force behind Korea's growth (Kim et al. 2006; Song & Lee 2014).

The LE-SME cooperative relationship, however, suffered when Asian financial crisis hit the Korea economy in 1997. Many large firms went bankrupt and so did their exclusive SME suppliers. Korea government poured money to help these industries in two ways. First, inefficient large companies were kicked out from the market or recommended to sell their uncompetitive businesses (rationalization approach). Second, SMEs in danger were just helped financially to keep on their businesses (protection approach). So big companies became competitive again but SMEs could not restore their competitiveness because they failed to respond to changes. The gap between LEs and SMEs widened. Meanwhile LE-SME cooperative relationship weakened and therefore SMEs were exploited more than before. During the economic crisis, existing inter-firm cooperation model broke down: Long-term inter-firm relationships were forced to be replaced by short-term relationships such as competitive bidding. Tacit and informal contractual relationships led to imbalance in performance due to opportunistic behavior and gaps in bargaining power among firms.

Policy for Large and Small Business Cooperation

To help SMEs and revitalize business ecosystem Korea government chose a cooperation-based model between large enterprises and SMEs (Win-win growth model). Korea government coined "Mutual Growth" or "Collaboration between Large Enterprises and SMEs" into its SME policy. Indeed, in Korea, business-to-business cooperation issues entered into the "public" area.

In March 2006, Korean government announced "Acts for Promoting Large and Small Business Cooperation" to "enhance the competitiveness of both large and small companies by solidifying cooperative relationships between large companies and SMEs, which contribute to sustainable growth of the national economy." In this law (symbiotic) business cooperation is defined as "joint activities in technology, human resources, financial resources, procurement, and sales routes to increase reciprocal welfare between large companies and small and medium companies, between SMEs, and between buyers and sellers." (Article 1 Clause 4)

Specific polices followed the law in 2005, 2008, 2010, and 2013. These policies cover issues such as fair trade, economic/non-economic support for SMEs, LE’s strategic partnership with SMEs, and more radically benefit/profit sharing. Meanwhile large company-SME cooperation became more and more social issue, which brought Win-Win Index (WWI) that “officially” evaluate LE’s cooperative activities for SMEs.

Evaluation

1. Policy

Song and Lee (2014) proposed a framework that explain the action and reaction of LE and SMEs during Asian financial crisis. This model is based on two dimensions: (1) High- vs. low-context culture, (2) Long- vs. short-term relationship. The high- vs. low-context classification, originally developed by Hall (1977), is used to describe the extent to which spoken statements conveyed the sum total of message' s content. In low-context cultures, the message speaks for itself and additional interpretations are not necessary.

This paper argues that current win-win growth policy, which focus on short-term relationship improvement through fair trade and reasonable pricing, is not relevant in the high-context culture. This in-congruency explains why current policies succeeded partially in improving SMEs' performance through the large firm-SME cooperation. (Song 2009)

Figure 1. Relationship Change on Two Dimensions

	High-Context Culture	Low-Context Culture
Long-term Relationship	Cell 1 (Korea, Japan) Before 1997 Economic Crisis. Focused on the strategic suppliers.	Cell 2 (Germany) Opportunism after 1997. Opportunistic response to implicit contract. Risk shift to suppliers. Policy: Formalization

Short-term Relationship	Cell 3 (Philippines) Relationship Crisis after 1997. Frequent change of suppliers; Specific-asset problem. Policy: Fairness	Cell 4 (U.S.A.) Current win-win policy is focused here. Policy: Fairness & formalization

Because of power inequality, implicit and non-comprehensive contracts (Cell 1) were executed opportunistically (Cell 2). On the other hand, due to rapid change in business environments, a business relationship abruptly stopped (Cell 3). To cope with problems in Cell 2 and 3 government made policies to require LEs to prove that all contracts were explicitly completed (Cell 2) and sound in all cases (Cell 3). As a result these policies became to focus mainly on protecting SMEs in Cell 4 situations, which is very unfavorable for SME growth through buyer-supplier relationship (Fujimoto 1994) in South Korea.

2. Business Reaction

Currently LE's reaction to "Acts for Promoting Large and Small Business Cooperation" has two problems. This is because current policy focus on high-context, short-term relationship.

Figure 2. Perception Gap, Action and Culture for SME's competence

Actual state / Perceived state	Innovative	Capable	Incapable
Innovative	(a)	(b)	(c)
Capable	(d)	(e)	(f)

Incapable	(g)	(h)	(i)
Proposed Mode	Open Innovation	High-end App	Low-end App
Favored Culture	Low-context culture & Long-term relationship	High-context culture & Long-term relationship	Low-context culture & Short-term relationship; Low-context culture & Long-term relationship

First, cooperation strategies must be differentiated across SMEs' competencies: (a), (e), (i) in Table 3. But current strategies are lower level than expected. Song (2009) observed that current LE-SME cooperation is negatively related when SME has strong relationship with large enterprises (core supplier case).

Second, deficit of open innovation philosophy blocks opportunity to raise small giant companies and/or middle market firms. Normally, Korean companies consider their domestic suppliers as non-innovative SMEs and inferior to themselves. In this situations it’s extremely difficult for innovative SME to be paid for its innovative efforts.

Policy Implications

To promote customized cooperation program which contributes to long-term growth of SMEs government policy and SME competence must be matched. For this, policy must determine what condition/culture is relevant for each cooperation program and policy maker must build relevant condition/culture to stimulate certain type of cooperation. For this large company must divide suppliers in groups based on their capabilities. Finally, large company must realize that open innovation is needed to

secure innovative suppliers.

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