

Government's Skills Development Policies for Small and Medium-Scale Enterprises in Korea

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Special Assistance for HRD of SMEs

- ▶ **Keynote:** For higher living standards of workers,
For higher level of international competitiveness
of an economy,
→ Improve Productivity of SMEs [$Y=A f(K, L)$]
- ▶ **How?**
 - Incite SMEs to carry out HRD voluntarily, efficiently;
 - Provide Special Assistance for HRD of SMEs
- ▶ **Why? → SMEs play important roles**
 - SMEs accounts for 99% of all enterprises;
 - SMEs provide for 86 % all wage & salary earners:
 - Employment
 - Income
 - The most critical problems of SMEs:
Human Resource Constraints

Table 4.2.1 : Employment in SMEs

	1998	2001
SME No.	2,607,710	2,871,951
(% of total firms)	(99.2)	(99.8)
SME employment	7,659,010	9,969,797
(% of total wage earners)	(75.3) ₄	(85.6)

Why Does HRD of SMEs Need Special Assistance?

1. SMEs are inferior to Large Enterprises (LEs) in :

- Productivity (34% in manufacturing)
- wages (55% in manufacturing)
- other working conditions

SMEs have financial weaknesses in providing HRD for workers.

To help SMEs play their important roles in a competitive economy, they need assistance in building up their capacity so that they can compete with Large Enterprises (LEs) on the same play ground.

Table. Working Conditions in SMEs (2002)

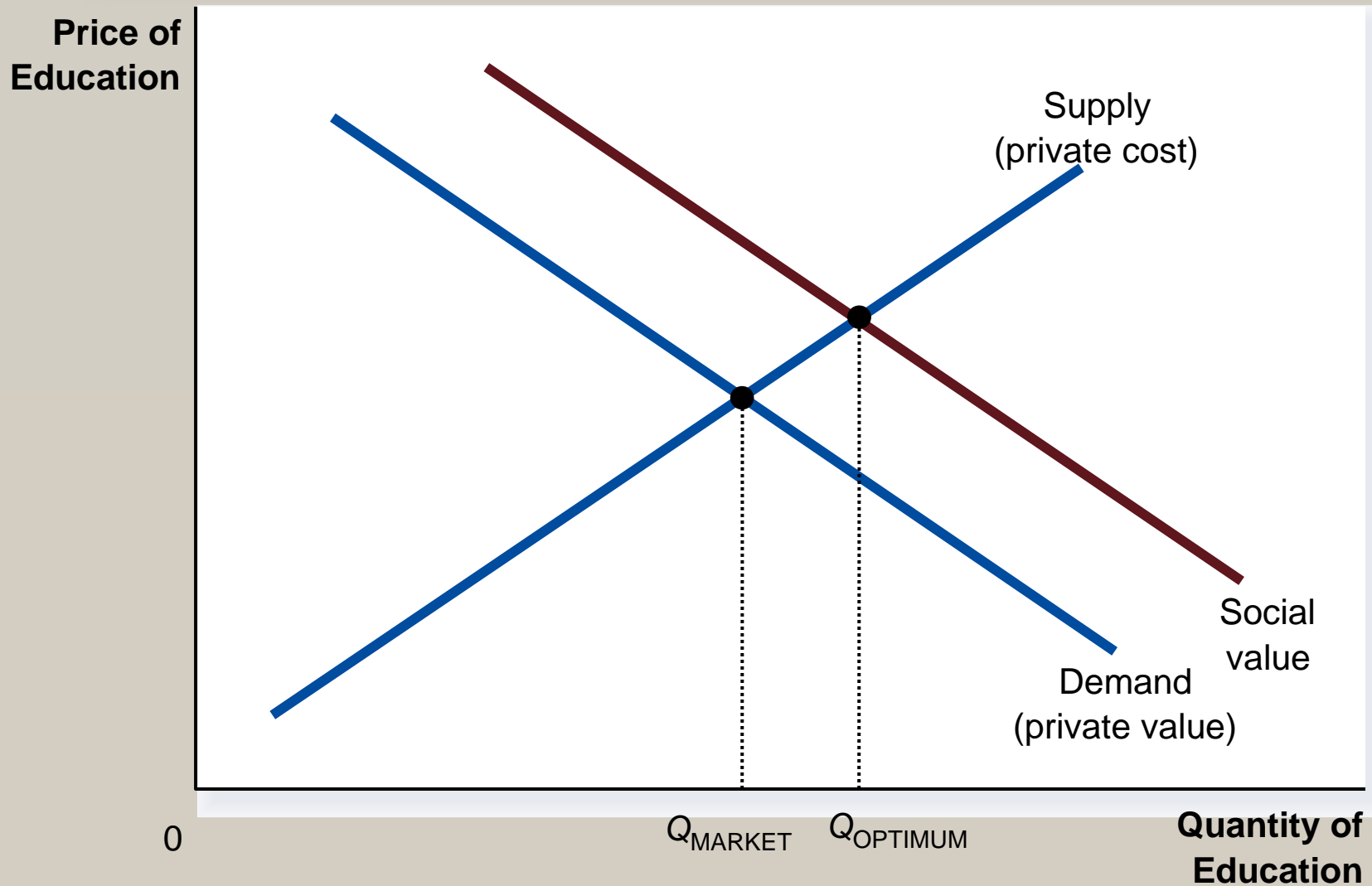
	Wages (‘000)	Working Hours	Legal Benefits	Separation Rate	Accident Rate
Large Enterprises	₩2,630/ month	196.8 hr/m	₩219,000 /m	1.16%	0.34%
SMEs	₩1,770/ month	200.4 hr/m	₩140,000 /m	2.77%	0.94%
(SME as% of LEs)	(67%)	(102%)	(64%)	(240 %)	(280 %)

Why Does HRD of SMEs Need Special Assistance?

2. Vocational & technical Knowledge & Skills are semi-Public Goods

- High degree of positive externality or spilled over benefits (trained workers are mobile and can work for many other enterprises)
- Trained Workers can be poached and scouted by others (free-riders: unfair)
- SMEs are especially reluctant to invest in their HRD
- User-fee principle cannot be applied to HRD
- Training market fails (Market provided training is less than social optimum)
- All stakeholders should take action to increase training
- One of the important roles of Government in market economies:
promote competition among private enterprises by:
 - assisting weak competitors and ensuring a level playing field
 - i.e., Government should finance additional training for SMEs
 - by making all enterprises take a collective action (Tax/ training levy)

Figure : Education and the Social Optimum



Why Does HRD of SMEs Need Special Assistance?

3. Additional factors contributing to Training Market Failures

- capital market imperfection; capital unavailable for training
- asymmetric information on workers' abilities and inadequate compensation for trained workers by current employer

4. Government intervention in training market on equity reason

- The greater Investment in HRD, the higher returns to:

The richer

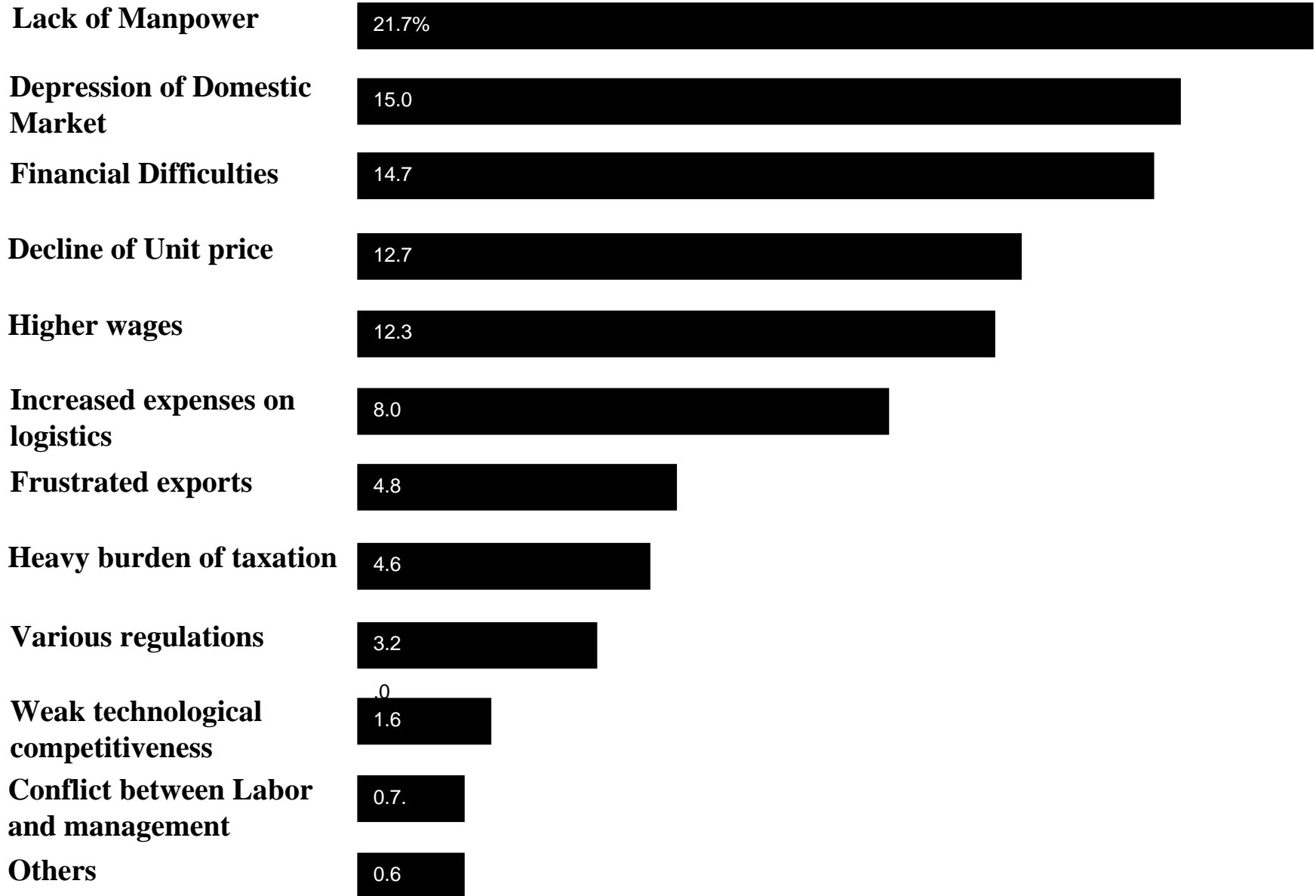
The larger

The more educated

The more invested in physical capital and technology

- Government intervention justified for provision or financing of training of socially disadvantaged groups (the poor, the chronically unemployed, handicapped, old aged, residents in remote and poor areas, and SMEs).

Most Critical Problems of SMEs in Korea (2003)



How to Provide Special Assistance to SMEs for HRD around the World?

1. Direct provision of training through public training centers
2. Training subsidies (instructors, training materials, facilities)
3. Compulsory Training Requirement; Exemptions for SMEs
4. Levy or Training Tax system (LAC, France,
5. Financial Incentives; Often Special favors for SMEs
 - Incentive system
 - Levy-Rebates (Malaysia, South Africa, Netherlands,
 - Tax Credits (Brazil, Chile, Malaysia
 - Paid leave (Sweden,

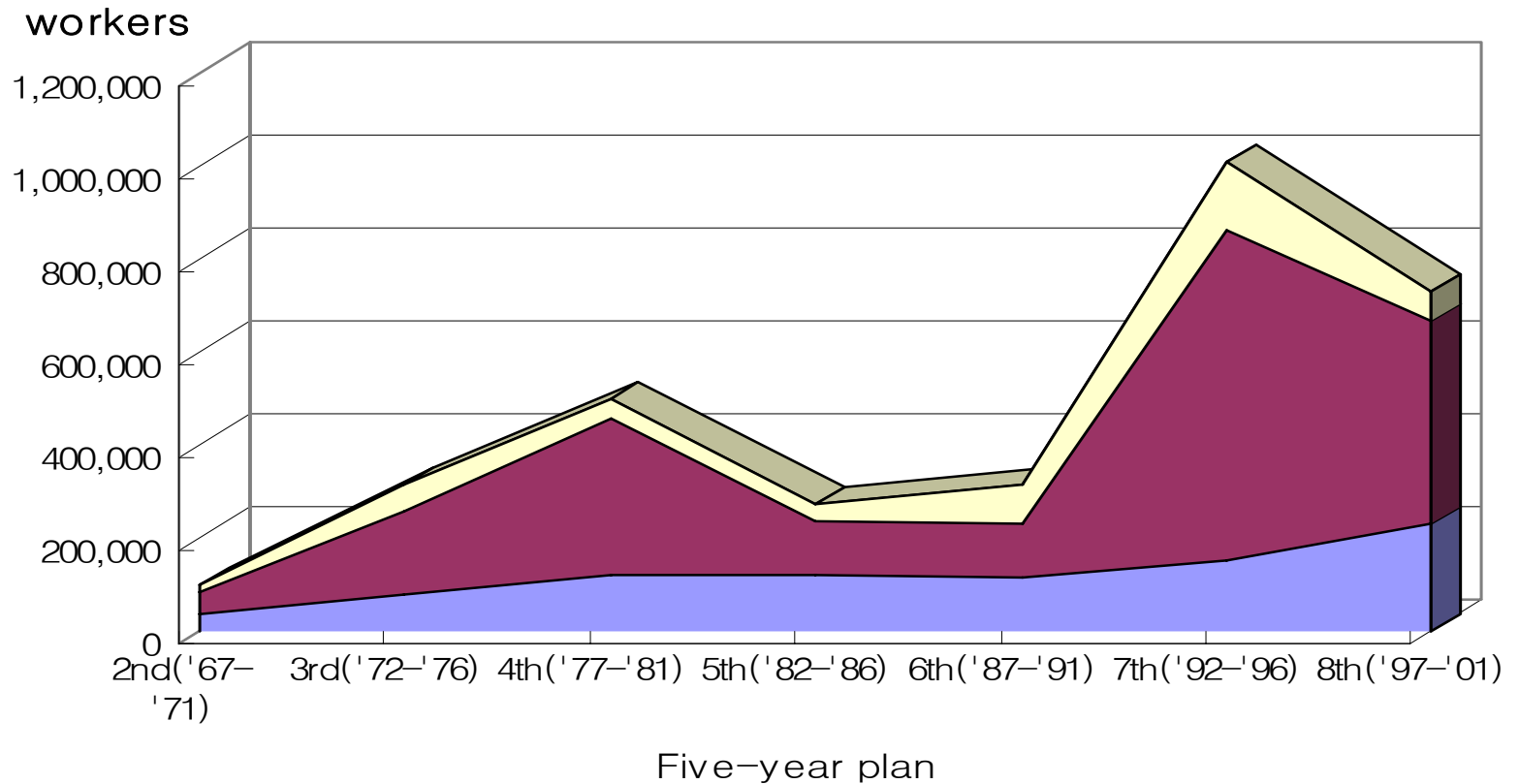
Do they work?

Does the Special Assistance for Enterprises, especially for SME, work?

► Excessive/wrong Government Intervention Failed to incite SMEs training:

- Representative failure: internality of government activities or conflicts between public and private/parochial interest
- Bureaucracy failure: creation of bureaucratic requirements
- Politician failure: pursuit of winning the forthcoming election on visible and short-term results rather than long-gestation projects like HRD
- information failure: unaware of suitability of training amount/course vis-à-vis market or enterprise demands; unaware of relative efficiency of direct provision and financing of training

Training Outputs by Management Authority (1967 – 2001)



Public Training

In-plant Training

Authorized private Training

Does the Korea's Special Assistance for Enterprises, especially for SME, work?

- ▶ Few scientific Evaluation Studies, but the answer is generally NO:
 - Apprenticeship system(1955-66)
 - not a HRD system, protection of apprentices' work condition
 - Direct provision of training or subsidies: (1967-70)
 - to Large enterprises only
 - budget constraints excluded SMEs
 - Mandatory training requirement: (1974-77)
 - pay levies instead of in-plant training
 - levy system (1977-1994)
 - no effective stimulation of SMEs voluntary training
 - Financial incentives (Levy-Rebate system): (1995-)
 - only large enterprises benefit from the rebate
 - no effective incentive for SMEs

	Enterprises	Workers		Rebate Rates
SMEs:	5 %	4 %		15
LEs:	78 %	38 %	14	29

Levy Rebate System under EIL (1993-)

► *From 1995, Training Levy System Changed to Levy-Rebate (Grant) System.*

- the advent of the civilian government in 1993 after 30 years of military governments → democracy
- increasing globalization of the external economic environment, → a private sector-led market economy in Korea.
- the vocational training system also had to undergo a fundamental change in the 1990s → voluntary, flexible choices of training targets/types/courses; financial incentive system, especially for SMEs.

► *Reform:* -All firms of any size have to pay levies (Employment Insurance fees) for training of their workers (job skills development program:JSDP)

- When firms conduct training of their workers, training expenses will be granted or reimbursed
- SMEs will be reimbursed at a highly subsidized rate (100% of training costs; up to 270% of fees paid; large firms get 90%, up to 120%) as a financial incentive

Why SMEs do not actively participate in HRD despite the financial incentives?

**The incentive system must be inadequate for SMEs;
Different types of incentive are needed for SMEs**

What are they?

**An Answer :
SMEs Training Consortium**

Small Enterprises Training Consortium Project

ORIGIN OF THE PROJECT (1)

- ▶ In the aftermath of the 1997 Asian economic crisis:
 - unemployment soared (2% to 8%)
 - SMEs in debt and financial crises
- ▶ A need arose for SMEs to:
 - prevent unemployment
 - promote employability of the jobless
 - improve profitability & workers' productivity
- ▶ SMEs:
 - comprise 86% of national employment,
 - stand at 38% of large firms' productivity

ORIGIN OF THE PROJECT (2)

The Busan Chamber of Commerce & industry (BCCI) proposed a pilot project of SMEs training consortium with the aid of the KCCI.

▶ **Project Period: April 2001 ~ June 2002**

▶ **Financial Resources:**

ASEM Grant (adm. by WB): US\$ 250,000

Korean Government: US\$ 2,500,000

KCCI/3 local chambers: US\$ 155,000

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CONTENT OF THE PROJECT (1)

The project comprises 4 phases:

- Organization of Training Consortiums (TCs)
by training managers (TMs)
- Training Needs Surveys & Program
Development
- Contracting Training Service & Monitoring
- Evaluation

CONTENT OF THE PROJECT (2)

Phase 1: Organization of training consortiums

- ▶ A TC with 50 SMEs in the same areas & trades
- ▶ An Operating Committee with major stakeholders
- ▶ 2 training managers (TMs) hired by each TC and seconded/financed by the local Chamber of Commerce
- ▶ Information network (e.g. Home page, emails, parties, meetings) among TC members

CONTENT OF THE PROJECT (3)

Phase 2: Training Needs Analysis & Program Development

- ▶ TMs carried out surveys of training needs through interviews and job analyses
- ▶ Incumbent workers identified and prioritized
- ▶ Development of training programs to meet priority training needs
- ▶ Selection of the most suitable training institutions

CONTENT OF THE PROJECT (4)

Phase 3: Contracting Provision of Training Services & Monitoring

- ▶ TMs collaborate with the training institutions for development of training programs and materials
- ▶ Refurbishment of training facilities and equipment
- ▶ 3 industrial associations of the member SMEs offered training places and facilities within an industrial zone
- ▶ TMs monitor the progress of training programs by visiting training sites

CONTENT OF THE PROJECT (5)

Phase 4: Evaluation

- ▶ TMs evaluate the results and impacts of training by interviews with supervisors and workers
- ▶ TMs Provide feedbacks to Training Needs Analysis and Training Programs Development

Expansion of the Project Nationwide

- ▶ Replication in Incheon & Gwangju (from Sep. 2001)

RESULTS of the Project (1)
(3 TC areas as of Dec. 2002)
TC Membership Rose Markedly

	Targets	Results
TC Membership	163 SMEs	732 SMEs (450% of target)
Output of Retraining	879 Enrolled	509 certified (58% of target)
Output of In-Service Training	3,087 workers	6,573 workers 25(213% of target)

RESULTS OF THE PROJECT (2)

Output of Employee In-Service Training Increased Sharply

	Total	Busan	Incheon	Gwangju
No. of Actual Trainees	6,573	2,353	1,837	2,383
Target Trainees	3,087	871	1,573	643
Actual/Target	213%	270%	117%	371%

RESULTS OF THE PROJECT (3)

► **Development of training programs, textbooks and teaching aids**

- 65 programs based on the analysis of 140 job categories
- 147 module-type textbooks for 14 jobs
- 13 programmed multimedia learning materials for self-study

RESULTS OF THE PROJECT (4)

► Number of Enterprises Receiving Training Rebates Increased with the Project

Area	Before Project (Jan.~May '01)	After Project (Jan.~Jun. '02)	▲/▼
SMEs (3 TCs)	197	417	▲212 %
All Enterprises Nationwide	27,276	21,686	▼ 20%

RESULTS OF THE PROJECT (4)

Proportion of Member Enterprises Receiving Training Rebates

Rose greater than among all enterprises Nation-wide

Area	Before Project (January-June 2001)	During Project (July-Dec. 2001)	Increases in Percent
Busan TC members (%)	11.2	50.5	▲ 451
All Enterprises Nation-wide (%)	21.0	57.0	▲ 271

Financial Profitability of TC Members Improved

(TC Members recovered their training levies through Training Rebates at a higher rate)

(unit: Korean Won)	2001 (Jan.-Dec.)	2002 (Jan.-Dec.)	Increases
Total fee payments	116,138,630	95,990,480	-20,147,110
Total rebates	28,129,250	46,489.050	28,129,250
% for TC Members	24.2%	48.4%	200%
% for all firms nation-wide	33.0%	24.8%	-25%
% for all SMEs (with <300 workers)	25.5%	14.6%	-43%

RESULTS OF THE PROJECT (6)

► Prevention of unemployment: Comparison of Employment level (6/2001 and 6/2002)

Employment increased among 3-TC members:

doing Training (4,850 → 4,931 persons, 1.7% ▲)

Employment decreased among 3-TC members:

doing No Training (4,960 → 4,524 persons, 9.0% ▼)

WHAT Has It ACHIEVED? (1)

- ▶ Creation of a favorable environment for training by SMEs
 - Active participation in TC and training programs
 - SME associations offer training facilities and are willing to finance TC operational expenses
- ▶ Prevention of SME workers from being jobless through retraining and in-service training
- ▶ Shift in the emphasis of SME training policies
 - From pre-service to in-service training
 - From supply-oriented public institutional training to demand-oriented in-plant and on-the-job training (more cost-effective)

WHAT Has it ACHIEVED? (2)

▶ Enhancement of SME Profitability and Workers'

Productivity by in-service training

- Improvement in workers' job performance, attitudinal changes (81% of SME Responses)
- Increases in machinery utilization factors (88%)
- Savings in maintenance and repair expenses (67%)
- Decline in poaching and scouting practice (60%)
- Reimbursement of training expenses up to 270% of the fees paid to the employment insurance fund (\$2,500,000 in a year)(50%)
- Selection of training institutions on an open and competitive basis

WHAT Has it ACHIEVED? (3)

- ▶ Strong partnership between national and local chambers, with government agencies, training institutions, and academia for training and productivity improvement.
- ▶ Development of Training Markets through competitive selection of training institutions suitable to individual SME's needs.
- ▶ Strengthening Local Chamber Membership despite the membership law change from a Mandatory to Voluntary system. ³⁴

IT CAN BE APPLIED OVERSEAS! (1)

- ▶ The Project has a track record of replication in Korea:
the pilot project in the Busan chamber area was replicated in two other local chamber areas and then was expanded on a national scale, incorporating lessons learned.
- ▶ As in Korea, many developing economies are dominated by SMEs and their productivity is lower than LEs.
- ▶ Many countries have a training levy system

IT CAN BE APPLIED OVERSEAS! (2)

- ▶ The project was conceived in the aftermath of the Asian crisis, and like the Korean economy, all economies are vulnerable to financial crisis with economic opening and liberalization.
- ▶ The Korean chambers and government agencies are willing to provide technical and financial assistance for replication.

The Current Situation of Training Consortiums(1)

Beginning	2001	2002/3	2004	Total
Business Assoc.	KCCI (3); Mech. Industry	—	—	4
Public Trg. Institution	—	Daegu Politechnic College	Hanbaek; Pohang Voc trg. Ins	11
Large Enterprise	Daewoo; Samsung	Hyundai H.; Hanjin; KT; Volvo;Samho H.	Hundae M.;Ssangyo ng;GM;SDI; Yuhan	15
Total	6	13	37 11	30

The Current Situation of TCs (2)

	No. of TCs	No. of SMEs			
		7/2001	7/2002	7/2003	Increase (2003/2002)
1st group	6	442	946	1,595	69%
2nd group	6	–	–	1,840	–
Total	12	442	946	3,435	263%

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The Current Situation of TCs (3)

	No. of TCs	No. of Trainees			
		7/2001	7/2002	7/2003	Increase (2003/2002)
1st group	6	26,520	64,982	103,892	60%
2nd Group	6	—	—	61,436	—
Total	12	26,520	64,982	165,327	154%

WHY Is this project INNOVATIVE? (1)

- ▶ Private sector-led initiative to promote cooperation and self-help among SMEs with support by many partners of national and international society
 - A sustainable project
- ▶ Opening of a new area of chamber services for members
 - HRD service for SMEs' productivity and business enhancement, and local chamber membership strengthening
 - Promotion of Economic and Social Equity

WHY is this project INNOVATIVE? (2)

- ▶ Prudent implementation strategy: It was tested as a pilot project, then was replicated & expanded as a mainstream project on a national scale, incorporating lessons learned.
 - A high level of transferability across borders
- ▶ A high rate of return to SME and the national economy: prevention of unemployment and improvement of workers' productivity through joint training at no extra costs to SMEs by using unemployment insurance fund
 - SME business strengthening and local chamber membership promotion
- ▶ Provide SMEs with Organizational, Staffing, and Technical Assistance
 - Enable them to make use of the financial incentives

Conclusion

SMEs hold a large part of the work force, and most of them belong to a poorer and under-privileged segment of the labor force due to their lower productivity and working conditions. Therefore, assisting SMEs in enhancing their worker's capacity carries a high stake for the development of the whole economy and the welfare of total population.

Traditionally, SMEs were thought that, due to their small scale and the failure of training market, they were inactive in investing in their human resources. In the past, various efforts to make SMEs active in developing their workers' capacity did not work well. Some countries used government regulations or levies to force SMEs to invest in their workers' human resources in-plant or through public training institutions. Others used taxes to finance training externally or publicly. Nothing worked well.

This SME Training Consortium project demonstrated, however, that once SMEs were given adequate organizational/staffing/technical assistance, in addition to the financial incentives, they were willing and able to make adequate investment in their people and were able to improve workers' productivity in an efficient and sustainable manner.

Of course we have to consider strengthening infrastructure for HRD, such as

- employment exchange service,
- skill tests and certification
- linking enterprises, workers, and training institutions,
- promoting employment of female and foreign workers

THANK YOU!