

Korean economy and the role of its SMEs

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Per Stenius

For Korean SMEs, expanding domestically and internationally is vital to the country's economy. To realistically succeed overseas, SMEs need to carefully analyze local markets and seek proper support to surpass cultural and language barriers.

Per Stenius, founder and Client Director at Reddal, was interviewed by Digital Times on the Korean economy and the role of its SMEs. The original interview was published by Digital Times on February 27, 2024 in print. It can also be accessed online from [Digital Times](#). The interview originally appeared in Korean language, an English translation of extracts of the interview is provided below.

[...] "If you look at Korea's management culture and strategy execution method, it is generally established as a 'top-down' system from the executive level to the execution level. Europe is changing towards a 'large-scale participation' method in which various stakeholders participate in strategy development and implementation."

Citing the success stories of European companies as examples, he [Per Stenius] stressed the need to expand the role of small and medium-sized enterprises in the domestic industrial ecosystem by diversifying customer bases for entering overseas markets. "Korean SMEs have excellent technology, processes, and quality. Some of this has been achieved through close cooperation with large conglomerates, but there is still room to improve on international mindset, linguistic and cultural competence for sales and marketing in overseas markets, and the ability to develop and adapt products to meet global customer needs."

[...]

"Korean SMEs are used to competition, but there is a difference in mentality," he [Per Stenius] said, adding, "Korean SMEs are generally focusing on working with one or a few

large Korean chaebols. In Europe, due to the influence of the European Union (EU), many SMEs operate in multiple countries from the beginning."

"For example, most Finnish companies are 'born global' and start their operations in countries such as the Nordics, Northern and Central Europe and North America, and then look to expand into the Asian market," he said.

On the other hand, for Korean SMEs, it may be that the close relationships with large corporations act as an obstacle to overseas markets. In the case of technology development with large companies, legal contracts with other companies, including overseas, may be restricted. As the domestic market itself is large enough to sustain the company, the drive for overseas expansion is weak.

"They tend to work closely with chaebol and provide services mainly to them," he [Per Stenius] said, adding, "Korean SMEs often start their businesses by licensing their original technology from foreign companies, especially Japan, and it is not uncommon that this includes clauses restricting free trade in the international market. It is often seen, for example, in the semiconductor value chain."

In addition, he [Per Stenius] suggested that in order to succeed realistically in overseas markets, it is necessary not only to accurately analyze the local market, but also to receive proper support for social backgrounds such as culture and language. "Even SME companies that supply products to global giants such as Samsung, LG and Hyundai sometimes lack the experience and mindset necessary to build a global business. Many of these SMEs are family-run and are on the threshold of generational change," he said, adding, "The governance tends to rely on the chairman who holds the power to make decisions. There's still a lack of open discussion about strategy and business expansion."

He [Per Stenius] said, "Most of them deal with one or two large corporate clients and have very limited bargaining power, so they have relatively little room to generate profits and invest in research and development (R&D)," and emphasized that "the government needs to support the R&D of small and medium-sized enterprises, encourage and track overseas expansion, and provide education through institutions and individuals who have succeeded in expanding overseas."

"There is an on-going generational shift in SME ownership and management, which is changing how these companies look at global opportunities. Companies are also increasingly applying a more professional governance model from the board of directors to the management and front-line employees, but there is still some way to go. These same changes have been success factors of SMEs in European countries such as Germany and Finland. A successful transition in Korea will play an important role in the national economy and provide an important source of better-paying jobs."

[...]

"For SMEs and growing technology companies in Korea that may lack language skills, experience, and physical presence in overseas strategic markets, we [Reddal] assist with

market and competitor analysis, market entry strategy, regulatory and legal review, localization of products and services, local marketing, selection of suitable channel partners, and establishment of early customer pipelines for B2B customers.