

Characteristics of Venture Companies in the ROK and Strategies for Regional Innovation System

The Outcomes and Limits of the ROK's Policy for Promoting Venture Companies
(Summary)

Tetsuro Takahashi
Faculty of Regional Science
Toyama University of International Studies

Since the financial crisis of 1997, a strong awareness has developed, concerning the emergence of new companies that will play a leading role in the economy of the ROK in the future and the switch to knowledge-based industries. In particular, policy-based support for venture companies has been enhanced.

Section I focuses on the ROK's policy for promoting venture companies, examining its outcomes and problems. With regard to the government's proactive policy on promoting venture companies, the Law on Special Measures on the Promotion of Venture Companies (hereafter abbreviated to 'the Special Venture Company Law'), which was enacted in August 1997, is important, as it is the basic law governing this field. The main content of this law is reviewed in this paper. This law introduced a "venture company verification system", under which venture companies that qualify for support are accredited (verified) by the government. Generous policy support is provided to venture companies that have been accredited and verified. It is precisely this system that characterizes the ROK's venture companies. This paper examines its merits and demerits.

When the policy for promoting venture companies was first developed, hardly anyone thought that the ROK's society provided an environment in which venture companies could succeed. It is highly praiseworthy that this proactive policy on venture companies has fostered an atmosphere conducive to the establishment of venture companies and that, by means of a diverse range of measures, such as developing institutions and easing regulations, it has made a significant contribution to the establishment and growth of such companies. In addition, it has contributed considerably to a qualitative improvement in the vitality of business creation, changing the social climate from one in which only operating businesses were created to one with more entrepreneurial startups.

However, on the other hand, criticism that the system induces excessive demand for assistance was widespread, including among researchers from government think-tanks, from when the system was first introduced. In response to such criticism, the Special Venture Company Law was amended in 2002 and the standards for checking venture companies were tightened up.

Section II examines the current status of venture companies in the ROK, focusing mainly on the Fiscal 2003 Precise Fact-Finding Survey of Venture Companies. This illustrates the current status of venture companies from a variety of angles, including the number of companies, their distribution among industrial sectors, their distribution by region, the speed of their growth, their technological level, their financial situation and the characteristics of their founders.

Section III considers the role played by the policy for promoting venture companies in regional economic revitalization, examining the buildup of venture companies in provincial areas, principally techno-parks – from the perspective of constructing a "regional innovation system". Focusing on specific examples, it looks at the outcomes of the Daegu Techno-park and the Kyungbuk Techno-park projects over the last six years or so. Both techno-parks have passed through the introductory and developmental phases and are now approaching the independent stage. They have apparently completed the development of the tangible elements of a regional

innovation system.

Two points are made in conclusion. Firstly, an infusion of dynamism into entrepreneurial startups and the development of a venture capital industry will be absolutely imperative in order to revitalize venture companies in the future. In particular, it is necessary to reinforce linkages between technology, startups and capital.

Secondly, a business structure rooted in the actual industrial needs of regions must be created. In order to do this, it is vital to build networks (linkages) that unite the worlds of industry, academia and government, and embrace foreign businesses.