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**Research Report**

## South Korea needs more big company jobs

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# KDI FOCUS

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For Inquiry KDI Communications Unit

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KDI FOCUS analyzes pressing social and economic issues, aiming to promote public comprehension and offer valuable policy alternatives. The perspectives shared by contributors are their own and may not necessarily align with those of KDI. This document is an English translation of the original Korean text. Unintended discrepancies, if any, defer to the Korean text.



Video Report



South Korea stands out among OECD countries for its lowest proportion of jobs in large enterprises. Good jobs, often synonymous with employment opportunities in large enterprises, are in short supply. This shortage prompts various societal issues: the overheating of college admission competition, a decline in social mobility, decreased birth rates, stagnating employment rates for women, and increased concentration in the capital area. There is a pressing need to identify and address policy barriers to company scale-up.

## South Korea Needs More Big Company Jobs.

Youngsun Koh, Senior Fellow at KDI



## I. Current Job Distribution by Establishment Size

Despite the stronger employment preference among young adults in large enterprises, the majority of available job opportunities are actually in smaller businesses.

In South Korea, young adults show a distinct preference for employment in large corporations over Small and Medium-sized Enterprises (SMEs). A 2023 Korea Chamber of Commerce & Industry (KCCI) survey reveals evident inclinations: just 16% of college students aspire to work for SMEs, whereas 64% favor large corporations, and 44% prefer roles within the public sector. However, such lopsided preference contrasts sharply with the actual job market landscape, where SMEs are the predominant employers. Table 1 shows the distribution of employment by business establishment size in 2021,<sup>1)</sup> indicating that while only 14% of the entire workforce is employed by establishments with 300 or more workers, representing 18% of all wage earners, a substantial portion of the workforce, particularly 46% of all employees and 31% of wage earners, find employment in businesses with fewer than 10 employees.

**Table 1. Job Proportions by Establishment Size (2021)**

Size (Employees)	1~4	5~9	10~29	30~99	100~299	300~499	500+	Total (%)
Total workforce	33.0	12.6	16.0	15.4	9.2	3.2	10.6	100.0
	45.6		40.6			13.8		
Wage earners	15.5	15.2	20.1	19.1	11.8	4.2	14.2	100.1
	30.7		51.0			18.4		

**Note:** Establishment size based on total workforce.

**Source:** Statistics Korea, "Census on Establishments," Microdata.

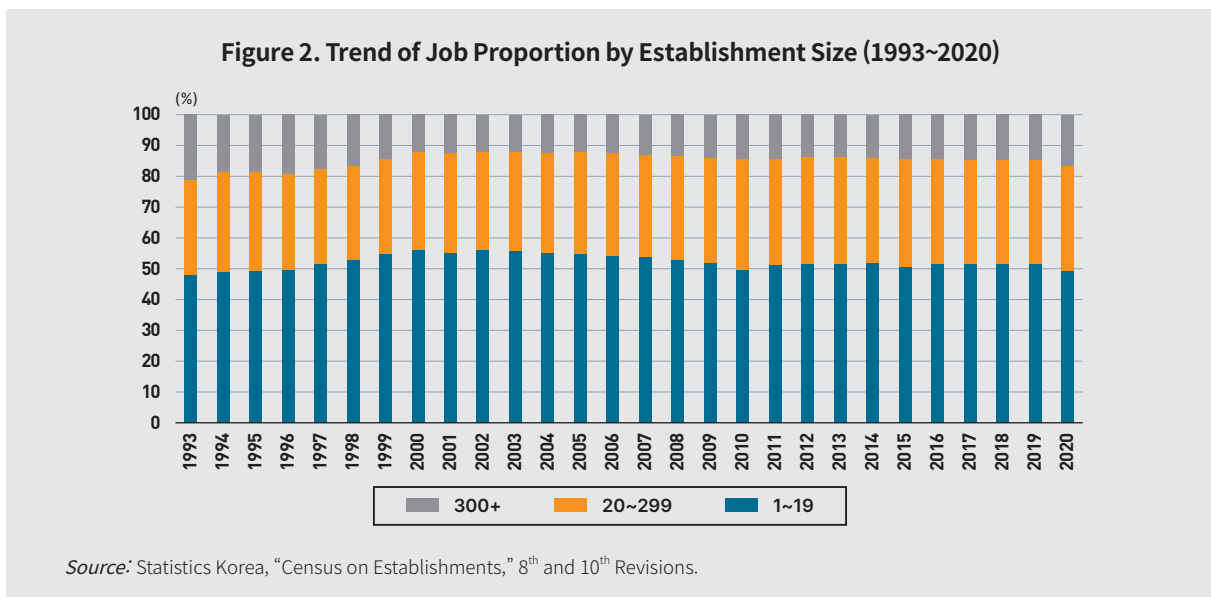
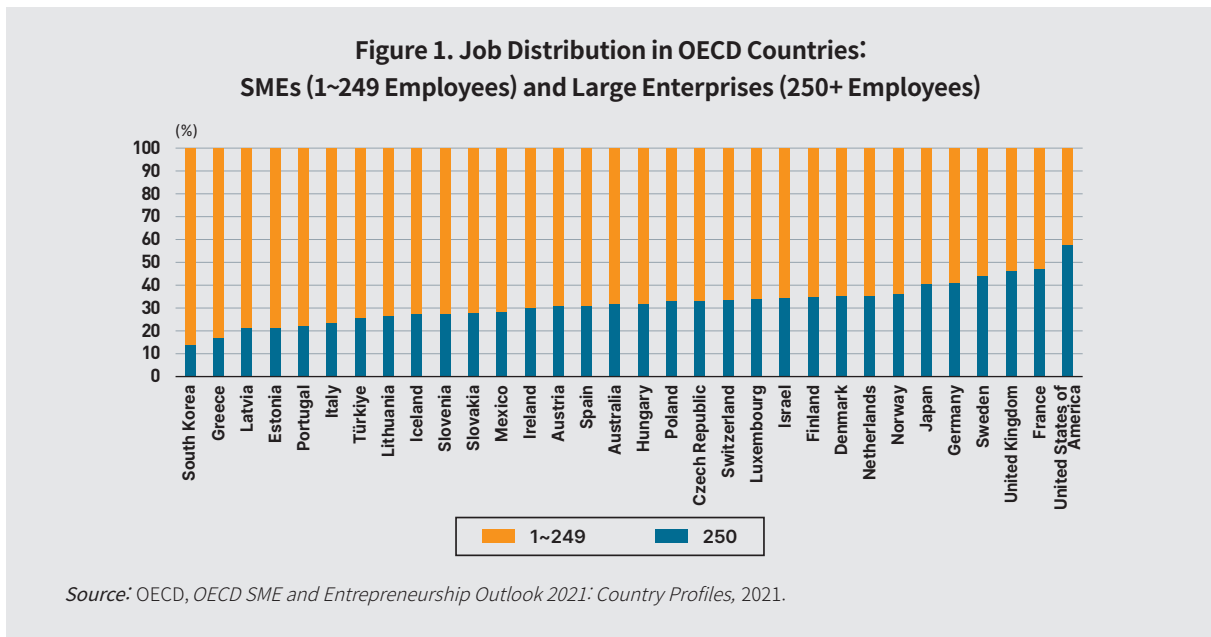
Korea's job distribution is notably skewed towards SMEs on a global scale. This trend stands out when compared with the Organisation for Economic Co-operation and Development (OECD), which sets the threshold between SMEs and large enterprises at 250 employees. As shown in Figure 1, Korea has the lowest share of such businesses in the labor market among OECD member countries. Firms of this scale account for only 14% of total employment in Korea, a substantial contrast to the figures observed in Germany (41%), Sweden (44%), the UK (46%), France (47%), and the US (58%).

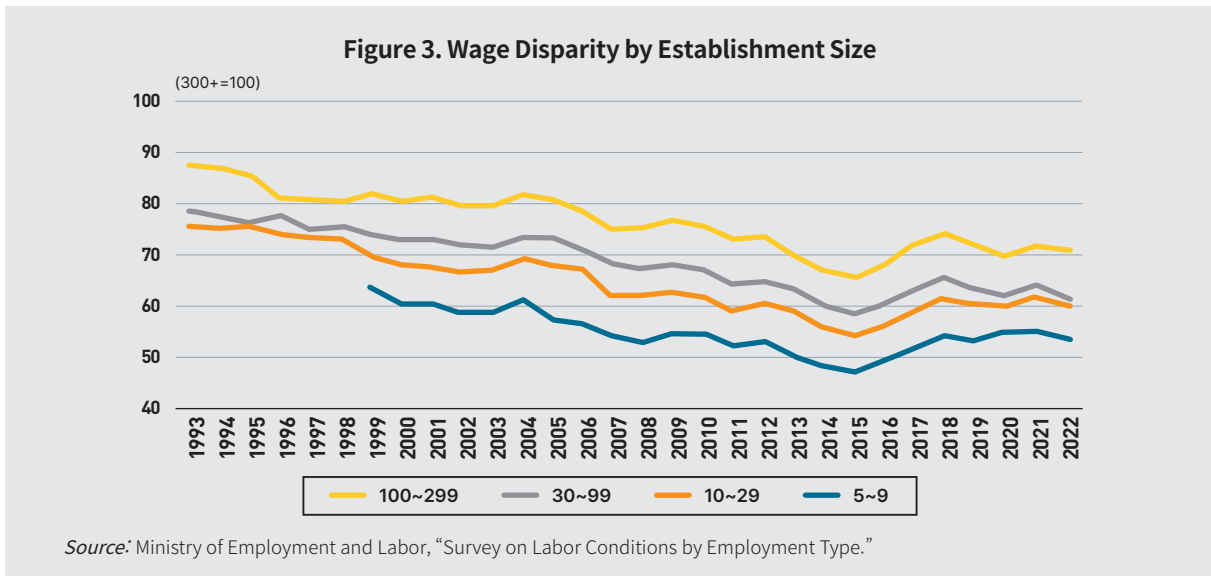
Over time, the employment landscape in Korea shows that the job

1) A unit of establishment is defined as "an enterprise or part thereof that independently engages in a single or main economic activity within a specific location or area." In contrast, a unit of enterprise means "the smallest combination of legal or institutional entities that produces goods or services and has decision-making autonomy regarding resource allocation." Enterprises can encompass multiple establishments, setting them apart (Statistics Korea, 'Korean Statistical Information Service (KOSIS),' last access: Jan. 25, 2024.). Although this study aims to analyze 'enterprises,' it relies on 'establishment' statistics due to the unavailability of enterprise-specific data.

Larger establishments tend to offer higher wages and better working conditions.

share from larger firms has seen limited expansion. Figure 2, which charts the job distribution by establishment size from 1993 to 2020, highlights a contraction in employment within large firms around the 1998 Asian Financial Crisis. Although there was a recovery in the number of jobs, subsequent growth remained stagnant, with no significant upward trajectory observed.





Working conditions significantly vary depending on establishment size. Figure 3 illustrates wage disparities correlated with firm size, using firms with 300+ employees as the basis for comparison. In 2022, individuals at firms staffed with 5~9 workers earned only 54% of what their counterparts at 300+ firms did, while those in 100~299 firms earned 71% of the larger firms' wages. This wage gap has seen steady growth since the early 1990s, and despite narrowing slightly after 2015, remains significantly high.<sup>2)</sup> However, as seen in Table 1, individuals at these larger establishments represent only a minority, or 18%, of the workforce, underscoring the pronounced wage inequality across different business sizes within the Korean labor market.

Other than lower wages, workers in SMEs encounter poorer working conditions. Consider, for instance, the case of maternity leave—both prenatal and postnatal—and childcare. The Labor Standards Act (Article 74(1)) and the Employment Opportunity and Work-Family Balance Assistance Act (Article 19(1)) stipulate legal obligations on employers to provide such leaves and time-offs. Even with legal safeguards in place, in practice, it is chiefly workers at larger firms who benefit from these provisions. Workers at smaller firms often face considerable barriers in accessing these statutory guarantees.

Table 2 reveals that in establishments with fewer than 30 employees, approximately 30% reported that all or some individuals requiring maternity leave were unable to utilize it, and this issue extends to 50% for childcare leave. Given that nearly half of all wage earners are employed in firms of this size, as shown in Table 1, a majority of these workers face challenges in accessing maternity protection benefits.

2) This wage gap trend seems to stem from shifts in the demand and supply of skilled labor (Koh, 2019).

**Table 2. Utilization of Maternity and Parental Leaves by Establishment Size (2022)**

Firm size (Number of employees)	Maternity leave (prenatal and postnatal)					Childcare leave				
	5~9	10~29	30~99	100~299	300+	5~9	10~29	30~99	100~299	300+
Total	100.0	100.0	100	100	100	100	100	100	100	100
All in need can use	66.1	76.9	83	89.8	83.0	47.8	50.8	71.9	88.4	95.1
Only some in need can use	22.3	17.1	11.4	10.0	16.5	29.2	30.0	13.6	0.9	3.0
Inaccessible to those in need	11.6	5.9	5.6	0.2	0.5	23.0	19.2	14.5	10.6	1.9

Source: Ministry of Employment and Labor (2023).

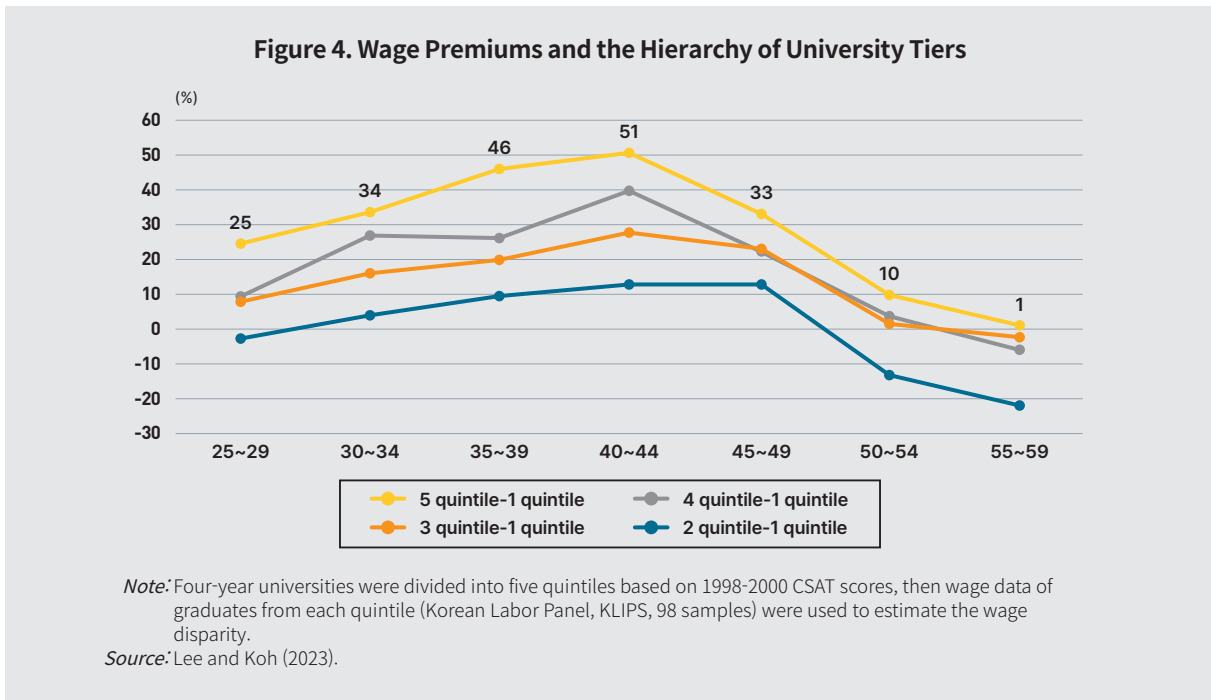
## II. Shortage of Good Jobs and Intensified Competition for University Admissions

The marked wage gap between graduates of top and bottom universities intensifies competition for admission to top-ranking schools.

The shortage of job openings in large enterprises triggers additional problems, and the fierce competition for admissions into top universities is a prime example. Despite extensive efforts to reform the admissions system, the heated pursuit of prestigious university slots continues unabated. It suggests that the crux of this issue might not lie within the admissions process itself but rather in the scarcity of positions at large firms.

Figure 4 presents wage premiums across the hierarchy of university tiers by categorizing four-year universities into five quintiles based on scores from the College Scholastic Ability Test (CSAT), Korea's university entrance exam. This study calculates average wages for graduates from each quintile by age, along with wage gaps by comparing the bottom (first) quintile against the higher ones. The analysis shows that the wage gap between the top and bottom quintiles for individuals aged 40~44 can be as much as 50%. Such a marked wage differential explains the overheated competition for spots in elite universities,<sup>3)</sup> as top-tier university graduates not only secure higher wages but also benefit from more stable employment conditions, better access to large corporations, and longer career tenures.

3) It is unclear whether the wage premium reflects actual differences in human capital or is merely the result of the 'sheepskin effect'—the value of holding a degree. However, the rapid decrease in wage premiums observed among individuals entering their 50s suggests that differences in human capital alone may not fully account for the wage premium. For detailed discussions, see Lee and Koh (2023).



Such intense race for university spots breeds a fertile ground for private education. The Korean government’s exhaustive efforts to limit its growth were met with no success, and this phenomenon is likely rooted in the shortage of desirable jobs. In addition, this hyper-competition muzzles social mobility, as wealthier parents tend to invest heavily in private education, often leading to higher academic outcomes for their children (Min, 2022). Essentially, this dynamic enables the transmission of wealth from one generation to the next through the conduit of education.

### III. Shortage of Good Jobs, Low Birth Rate, and Low Female Employment Rate

The scarcity of good jobs results in both low utilization of maternity protection programs and female underemployment.

The low birth rate, a critical concern in Korean society, is also intricately tied to the limited jobs in large enterprises. As previously shown in Table 2, employees in SMEs face considerable challenges in utilizing maternity protective programs. The divide between smaller and larger firms stresses that, despite supportive policies and regulations in place, their enforcement is fraught with stumbling blocks in the field. This implies the importance of promoting a climate for female workers to enhance access to these maternity benefits on-site by expanding job openings at large corporations.

A survey by the Ministry of Gender Equality and Family shows that, on the whole, job quality tends to decrease for women reentering the workforce after a career break (Table 3). Specifically, there is

a considerable shift away from regular employment by 36.7%p, alongside increases of 9.7%p in temporary positions and 16.4%p in self-employment without employees. This data suggests that women face considerable challenges in finding quality employment when reentering, leading many to either postpone childbirth to remain in the workforce or exit the job market altogether after having children. Consequently, the scarcity of desirable job opportunities is a probable determinant contributing to both low childbirth rates and the underrepresentation of women in the workforce.

**Table 3. Changes in Job Features Before and After a Career Break**

	After vs. Before	
	Decrease	Increase
Industry	Manufacturing (-13.2%p), Education service (-2.6%p)	Food and accommodation (9.0%p), Wholesale and retail trade (5.9%p)
Occupation	Clerical (-23.7%p), Professional (-5.2%p)	Sales (14.0%p), Services (12.5%p)
Status	Regular workers (-36.7%p)	Temporary workers (9.4%p), Self-employed without employees (16.4%p)
Employment type	Full-time jobs (-16.9%p)	-

Source: Ministry of Gender Equality and Family (2023).

In addition, independent of childbirth and childcare, subpar jobs themselves seem to be driving women out of the workforce while deterring their return. According to the Seoul Foundation of Women & Family (2023, Table III-26), the main reasons for women leaving their jobs include pregnancy (21.3%), childbirth (19.8%), and childcare (13.9%), which jointly accounts for 55.0% of the departures. However, unsatisfactory working conditions account for another 26.1% of cases. The impact of employment circumstances is especially pronounced among women aged 25~29 (77.5%) and 30~34 (43.4%), suggesting that poor working conditions contribute to young women's decision to stop working.



#### IV. Shortage of Good Jobs and Balanced National Development

Even at the city and province levels, larger establishments are observed to have higher labor productivity.

Regional development imbalance, particularly the concentrated growth around the capital, presents another pressing concern in Korea. This concentration is thought to stem from a relative scarcity of large-firm employment opportunities outside the capital area. To examine the potential link between the size of firms and labor productivity at the city and province levels, the study undertakes the following regression analysis:

$$(1) \quad LP_{ijt} = \beta_1 SE_{ijt} + \beta_2 LE_{ijt} + \gamma_{it} + \delta_{jt} + \epsilon_{ijt}.$$

Here,  $LP$  represents labor productivity (per worker in constant prices in 2015, in million won),  $SE$  is the employment share (%) of small firms with fewer than 20 employees,  $LE$  is the employment share (%) of large firms with 300 or more employees,  $\gamma$  represents year fixed effects by city/province, and  $\delta$  represents year fixed effects by industry. The subscript  $i$  refers to the city/province,  $j$  to the industry, and  $t$  to the year. This study is interested in  $\beta_1$  and  $\beta_2$ , where if a larger firm size correlates with higher labor productivity, then a relationship of  $\beta_1 < 0$  and  $\beta_2 > 0$  is expected. That is, the higher the employment share of small businesses ( $SE$ ), the lower the labor productivity ( $LP$ ), and the higher the employment share of large businesses ( $LE$ ), the higher the labor productivity ( $LP$ ).

Table 4 presents the regression analysis outcomes for formula (1). Columns (1)~(3) display results for 16 industries, whereas columns (4)~(6) focus on 10 service industries. Given that service jobs constitute 70% of all employment, a separate regression analysis for the service industry was conducted. The findings align with the anticipated  $\beta_1 < 0$  and  $\beta_2 > 0$  relationship, indicating that larger firms tend to have higher labor productivity. Specifically, column (3) reveals that a 1%p decrease in  $SE$  corresponds to an annual increase in  $LP$  of 0.84 million won, while a 1%p increase in  $LE$  results in a 0.41 million won rise in  $LP$ . For instance, if  $LE$  decreases by 10%p while  $SE$  increases by 5%p, and the employment share of medium firms (20~299 employees) also increases by 5%p, then  $LP$  would increase by 10.44 million won.<sup>4)</sup>

4) This interpretation calls for caution. While the firm size can influence productivity, productivity can also determine size. An example discussed in the following section is that superior managerial skills are necessary to increase the size. Therefore, the estimation results presented in Table 4 should be interpreted as indicating correlations, rather than direct causal relationships.

**Table 4. Relationship between Establishment Size and Labor Productivity at City/Province Levels**

	All industries			Services		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>SE</i>	-1.126*** (0.074)		-0.838*** (0.101)	-0.985*** (0.076)		-1.028*** (0.087)
<i>LE</i>		1.025*** (0.088)	0.411*** (0.110)		0.221*** (0.064)	-0.077 (0.069)
NOB	7,214	7,214	7,214	4,961	4,961	4,961
R <sup>2</sup>	0.775	0.772	0.776	0.932	0.927	0.933

**Note:** Estimation of formula (1) is based on the data from 1993-2020, covering industries such as agriculture, forestry and fishery, mining and quarrying, electricity, gas and water supply, construction, manufacturing, and ten services (wholesale and retail trade, accommodation and food services, information and communication, finance and insurance, real estate, business support services, public administration, education, health and social work, other services). The weighted least squares (WLS) regression was performed, using the number of persons employed as weights. Parentheses indicate robust standard errors. The number of observations is 28 years × (16 or 11 industries) × 17 regions' minus missing values. The table excludes trial-by-year or industry-by-year fixed effects.

**Source:** Gross Regional Domestic Product (GRDP) by industry from Statistics Korea's "Regional Income." The number of persons employed by industry and establishment size from Statistics Korea's "Census on Establishments."

The findings suggest that, provided that larger firms tend to have higher labor productivity even at the city/province level, regions with a greater number of large enterprises are likely to enjoy higher wage levels and experience less population outflow to the capital area. The regression analysis in Table 4 indicates that the current trend of population concentration in the capital area can be attributed to the relative scarcity of high-productivity and large-scale enterprises in non-capital regions.

## V. Policy Implications

Identifying and addressing policy barriers that impede company scale-up through targeted policy improvements is a necessary course of action.

The size of business establishments is influenced by a myriad of factors. For example, the technological characteristics of specific industries play a significant role. Industries like manufacturing, construction, and information and communication technology (ICT) naturally require substantial capital and technological investments, predisposing towards larger operations. In contrast, sectors such as wholesale and retail trade, as well as food and accommodation services, may consist of smaller-sized firms. Managerial expertise is another crucial factor. The availability of skilled management capable of efficiently running large organizations significantly impacts the share of large firms in the economy.<sup>5)</sup> Additionally, regional demographics influence establishment size. Densely populated areas,

5) For instance, La Porta and Shleifer (2014) identify a lack of managerial skills as a reason for the widespread presence of micro-enterprises in the informal sector in developing countries.

with high demand for goods and services and a robust labor market, can support larger enterprises, whereas maintaining such enterprises in less populated regions is more challenging.

The advancement of ICT also affects the size of business establishments. As Coase (1937) highlighted, production activities involve transaction costs for participating entities. When these costs are high, firms find it more advantageous to manage production internally within a hierarchical structure, which typically results in scaling up. However, advancements in ICT have shifted this dynamic by reducing transaction costs, thereby encouraging the outsourcing of production activities and consequently leading to scaling down. Additionally, the adoption of automation technologies, such as robots, further contributes to a reduction in the number of employees required, promoting a trend toward scaling down.

While governmental influence on these factors might appear limited, there are substantial opportunities for intervention. Assisting SMEs while imposing regulatory constraints on larger firms could discourage companies from expanding, where retaining SME status is preferred. Moreover, it is necessary for SMEs lagging in productivity to be phased out to allow those with higher productivity to evolve into larger firms, boosting overall industry productivity (Haltiwanger *et al.*, 2013). However, excessive policy support could stifle this dynamic. Furthermore, the relative ease of forming labor unions in larger enterprises might lead them to outsource non-essential operations to subcontractors to avoid workforce expansion. While this approach may mitigate labor union concerns, it could foster hostile and adversarial labor-management relations, posing additional obstacles to growth.

Operating under the premise that job quality improves firm size,<sup>6)</sup> the government is tasked with cultivating an ecosystem conducive to business scaling. South Korea is currently implementing a wide array of SME support policies, necessitating a thorough evaluation of their effectiveness. If any of these policies inadvertently hinder business scaling, they require revisions for improvement. Likewise, policy measures aimed at checking the economic powers of large corporations, including the SME-suitable Industry Designation Scheme and Restrictions on Operating Hours for Large Retailers, need reassessment in this light. At the same time, drawing upon the lessons learned from advanced economies, the labor relations system should be reformed and supplemented to promote productivity and reasonable practices. In undertaking these initiatives, local governments should collaborate with the central government to the extent possible.

The implications of these initiatives will be far-reaching across society. Tackling the intricate challenges of reducing hyper-competitive university admissions, advancing social mobility, boosting female employment and birth rates, and promoting equitable development beyond the capital region requires more than isolated policy efforts. Policymakers and the broader public need to understand that scaling up businesses is essential for driving widespread improvements on all these fronts. ■

6) However, objections to this premise may arise. It is not a given that larger firms always offer higher wages and better working conditions solely due to greater productivity. One alternative explanation is the ease with which larger companies can exert monopolistic power in the goods market, sharing derived rent distributed between shareholders and workers (“rent-sharing”). Another perspective is that large corporations could exploit their monopsony power over smaller subcontractors to reduce supply costs, enabling them to offer higher wages for their employees. These scenarios suggest that high wages at large firms are not inherently linked to productivity. However, attributing the wage disparity entirely to monopolistic or monopsonistic factors oversimplifies the issue. A more organic view would acknowledge the partial contribution of productivity differences. For example, considering the complementarity between high-quality capital and technology and high-quality labor, larger firms may achieve higher productivity by integrating superior capital, technology, and labor, thereby justifying higher wages for highly skilled employees. Moreover, even in the absence of such complementarity and without the workers at large enterprises being exceptionally skillful, simply combining labor with high-quality capital and technology can raise the marginal productivity of labor, which, in turn, can lead to higher wages. Then, despite the homogeneous quality of workers between large enterprises and SMEs, the higher wage level in larger enterprises may be aimed at preventing shirking (Bulow and Summers, 1986). Also, notwithstanding the initially modest quality upon recruitment, employees can improve their competency and productivity by accumulating firm-specific human capital through learning by doing. In any case, wage disparities are considered to mirror differences in worker productivity. Nevertheless, these interpretations assume that large firms possess superior capital and technology. Multiple studies reveal that larger firms are more innovative than smaller firms (Science and Technology Policy Institute, 2022). In this context, capital and technology encompass not only tangible facilities and buildings but also intangible assets, such as brands, supply chains, distribution networks, managerial capabilities, and information acquisition capabilities, which large firms have developed over a long period. Moreover, firms can increase efficiency through internal division and specialization. By diversifying their business and spreading risks, they can enhance their sustainability, thereby safeguarding against the loss of established capabilities. These advantages underscore the merits of scaling up. For a body of literature on firms from the viewpoints of learning, accumulation, and innovation, refer to Fagerberg (1994) and Teece (1993).

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