

## Fueling the next boom: policies for promoting corporate spinoffs in Korea

### | Summary |

- As the global economic environment is evolving amid the protracted COVID-19 pandemic, minimizing the pandemic's impact on the sluggish economy and boosting economic sustainability will require yet another boom of corporate spinoffs in Korea. This was the case in the early 2000s, when many venture companies were created.
- A survey of 202 spinoff companies conducted by KIET found that most of the founders of those early startups were people in their early 40s who leveraged their past work experience, lacked access to private venture funds, and had limited knowledge of and low utilization of startup support programs.
  - The average age of spinoff founders at the time of the launch of their ventures was 43.4 years old, with the majority of founders holding master's or doctoral degrees (41.6 percent) and tapping into their corporate experience in technology- or research-related fields (58.4 percent) to pursue their ventures outside the incubator organization.
  - Factors that affect founders' decision to start a business include their past work experience (86.6 percent), education (three percent), upbringing (two percent), and vocational training (one percent).
  - In the early days of spinoff enterprises, most funding was sourced from government support (35 percent), followed by bank loans (21.4 percent), financial support from the parent company (20.1 percent), and venture funds such as angel or venture capital (8.9 percent).
  - Respondents rated their awareness of, utilization of, and satisfaction with corporate spinoff support programs with scores of 3.7, 3.8, and 3.7 points, respectively, on a scale of one to five.
  - The survey also found that, when it comes to the operation and utilization of the government's corporate spinoff support scheme, there is still a shortage of programs available for would-be founders and insufficient financial and tax benefits for incubator parent companies.
- Going forward, the promotion of corporate spinoffs and subsequent creation of quality jobs will require careful selection of and focus on the potential beneficiaries of startup support policies (promotion of technology/knowledge-based startups), promotion of positive perception of spinoffs (more mid-caps and SMEs incubating internal spinoffs instead of large corporations being the major incubator organizations), provision of systemized support programs, and improvement of the efficacy of corporate venture incubation programs.

■ **Corporate spinoffs must be encouraged, but independent support programs are in short supply.**

- If we want to minimize negative impacts on the economy (such as massive corporate restructuring) caused by changes in the global economic environment and ongoing COVID-19 pandemic and pursue sustainable economic development, it is crucial to nurture technology- and knowledge-intensive venture companies and create quality jobs.
  - In particular, public interest in technology- and knowledge-oriented spinoffs launched by founders leveraging their past work experience should be encouraged to help drive a corporate spinoff boom similar to the venture boom seen in the early 2000s.
- Launching a corporate spinoff involves establishing a new, independent enterprise and generating added value by building on opportunities identified within the parent company.
  - In Korea, companies operate internal venture teams to incubate and assess new ideas for independent spinoffs.
- The corporate spinoff support scheme began in Korea in earnest when the Korean government announced its plan to create an innovative startup ecosystem. The scheme has not yet established itself as an independent support program, but it is being run as a follow-up mechanism for internal venture incubation programs.
  - The internal venture support program offers two support tracks: a recommendation track and an open track.<sup>1)</sup>
- When an internal venture team spins off as an independent external organization, the parent company allows the team members to either take leave or resign, and if the former employees desire, they have the option of returning to the parent company.
- As of the end of 2020, a total of 101 companies operated internal venture incubation programs.<sup>2)</sup> So far, these companies have supported the creation of 395 spinoffs from their internal venture teams, of which 331 companies were spun off from mid-caps or SMEs rather than large conglomerates.

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1) Internal venture teams recommended by the incubator organization or corporate spinoffs less than three years old are eligible for the recommendation support track, while corporate spinoffs up to three years old that were spun off from companies without an internal venture incubation program are eligible for the open support track.

2) An internal venture incubation program is a startup support program operated through private-public sector collaboration where the government provides support for commercialization efforts to enterprises that organize internal venture teams and nurture corporate spinoffs by tapping into their internal innovation capabilities.

■ **Most founders possess a postsecondary education and were 43.4 years old on average when they started their tech-oriented spinoffs.**

- KIET conducted a survey of 202 corporate spinoffs from January 20 to February 22, 2021. The results of the survey indicated that when founders of corporate spinoffs made the decision to launch a spinoff, they were 40.4 years old on average, and when they actually launched a spinoff, they were an average of 43.4 years old.

Table 1. Age of founders at time of decision to launch spinoff and at time of spinoff launch

Unit: years

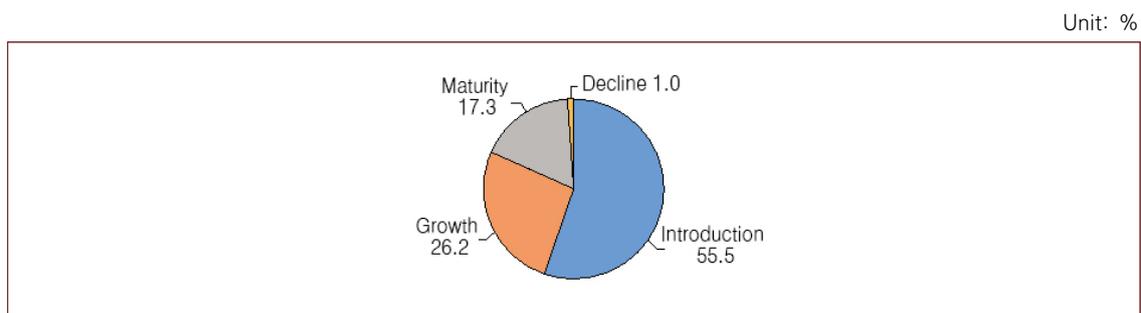
		Age of founder at time of decision to launch spinoff	Age of founder at time of spinoff launch
Total		40.4	43.4
Size of parent company	Large corporation	41.4	45.1
	Mid-cap	43.1	44.8
	SME/venture company	38.4	40.9
Type of spinoff	Single-founder startup	40.0	42.9
	Joint/team startup	40.9	43.9

Number of valid responses: 202

- Regarding the average age of founders at the time they decided to launch a spinoff and the age at which they actually launched the spinoff, those who worked at large corporations were 41.4 years old on average while those at mid-cap companies were an average of 43.1 years old. Meanwhile, founders of spinoffs who used to work at either SMEs or venture companies were relatively younger, at 38.4 years old, when they envisioned their own spinoff enterprises.
- When the spinoffs were finally established, entrepreneurs from large corporations were an average of 45.1 years old, whereas those from midsize firms were 44.8 years old and those from SMEs or venture firms were 40.9 years old. This shows that relatively younger entrepreneurs come from smaller companies.
- Comparing the age of entrepreneurs by type of spinoff, the average age was 42.9 years old for sole founders of enterprises, while it was relatively older at 43.9 years old when a team of people started a spinoff.
- When it comes to the educational background of the entrepreneurs, 41.6 percent held graduate or postgraduate degrees (master's or Ph.D. degrees). Holders of four-year degrees accounted for 53.5 percent of entrepreneurs. Entrepreneurs with a high school education or less made up 4.9 percent of the sample.

- Entrepreneurs with master's or doctoral degrees made up more than 41 percent of respondents, indicating that people with higher levels of education were more likely to aspire to launch a corporate spinoff compared to founders of general startups.<sup>3)</sup>
- When asked about their former duties at work, 58.4 percent of respondents indicated that they had worked in a technology/R&D department, and 41.6 percent said they had worked in marketing/administration/management, showing a higher proportion of entrepreneurs with a technical/research background.
  - This is because corporate spinoffs tend to be more technology-intensive businesses compared to general startups.<sup>4)</sup>
- Entrepreneurs of corporate spinoffs spend an average of 21.9 months preparing to launch their startups, indicating that they spend a sufficient amount of time making preparations for their new enterprise.
  - Reviewing the amount of time spent preparing to launch a spinoff categorized by type of incubator organization, entrepreneurs from SMEs or venture companies spent an average of 19 months preparing, while those from mid-cap companies spent 22.2 months preparing and employees of large conglomerates invested 24.3 months in preparations, suggesting that founders from larger organizations tend to invest more time in realizing their ambitions.<sup>5)</sup>

Figure 1. Market status of products (technologies) of corporate spinoffs



Number of valid responses: 202

3) According to Startup Business Survey 2019, conducted by the Korea Institute of Startup & Entrepreneurship Development (KISED), 5 percent of manufacturing startup founders have completed graduate school (master's/doctoral degree); 37 percent, college/university; and 58 percent, secondary school.

4) Startup Business Survey 2019 found that most manufacturing startup founders have business administration/sales backgrounds (88.5 percent), with some others coming from technology/research departments (11.5 percent).

5) According to KISED, entrepreneurs pursuing manufacturing startups spend an average of 10.6 months preparing to launch their venture.

■ **More spinoffs offer products (technologies) in the introduction/growth stage, hinting at the adventurous spirit of spinoff founders.**

- The majority of the first commercial products/technologies of corporate spinoffs tend to be in the introduction stage (55.5 percent) of the market (product) cycle, followed by those in the growth stage (26.2 percent), maturity stage (17.3 percent), and decline stage (one percent).
  - Products/technologies offered by corporate spinoffs are more likely to be tech-oriented (technology-intensive products) compared to those launched by general SMEs engaged in manufacturing.<sup>6)</sup>

■ **Non-economic factors are more at play in entrepreneurs' motivations to start a business, with former work experience having a major influence on decisions to launch a venture.**

- In the case of corporate spinoffs, non-economic factors were found to have more influence on entrepreneurs' motivation to launch a spinoff.
  - When asked about their motivation for starting a venture, the majority cited self-realization (44.6 percent), followed by independence and freedom (22.8 percent) and social contribution (20.3 percent), with economic factors such as higher income (8.4 percent) and inheritance of family business (0.5 percent) falling far below non-economic factors.
  - The results suggest that broad changes in society, including increases in income and higher educational attainment among the population as well as changing social attitudes, such as an increased emphasis on playing to one's strengths, pursuing self-realization, and seeking independent social activities and more freedom in one's profession may have influenced these noticeable trends in corporate spinoffs.

Table 2. Factors influencing founders' decisions to launch a spinoff

Unit: %

		Work experience	School education	Upbringing	Vocational training	Other	Total
Total		86.6	3.0	2.0	1.0	7.4	100.0
Type of spinoff support	Recommendation type	90.2	1.2	1.8	0.6	6.2	100.0
	Open type	71.8	10.3	2.6	2.6	12.7	100.0

Number of valid responses: 202 (Recommendation type: 163, Open type: 39)

6) According to the SME Survey 2017 conducted by the Korea Federation of Small and Medium Business, 4.1 percent of manufacturing SMEs in Korea were found to be in the introduction stage (market-entry stage), with 41 percent in the growth stage, 50 percent in the maturity stage, and the remaining five percent in the decline stage.

- In this survey, the primary motivation behind entrepreneurs' decisions to launch spinoffs was found to be their work experience (86.6 percent), followed by other minor factors such as school education (three percent) and upbringing (two percent).
  - When motivation was analyzed by type of spinoff support, 10 percent more entrepreneurs who received the recommendation-type support cited work experience as their motivation.
  - This result may be seen as unsurprising since the survey subjects were founders of corporate spinoffs. However, as large companies are encouraging their employees to pursue startups, along with the government's provision of sizable support for corporate spinoffs, work experience seems to play a larger role in the startup process.
  
- **Parent companies operate internal venture incubation programs so as to develop new business models and create favorable environments for new technologies and businesses to flourish.**
  
- When presented with questions on the rationale behind their operation of support programs for internal venture/spinoff incubation, companies cited the development of new business models (45 percent), realization of employee potential through a creative organizational culture (21.5 percent), and creation of a favorable environment for improving the efficiency of new technology and business development (13.7 percent). These answers accounted for 80.2 percent of responses.
  - In contrast, respondents were less intent on operating such programs as a countermeasure to corporate restructuring and brain drain, as only a small percentage cited the following reasons: making the organization lean and flexible (5.3 percent), managing (soon-to-be) retirees (3.8 percent), and preventing skilled workers from leaving the company (3.1 percent).
  - This survey outcome conflicts with the widespread belief that, in general, companies operate internal venture/spinoff support programs as precautionary measures against corporate restructuring or brain drain by making their organization slimmer and more flexible, managing retirement costs, and retaining talented personnel.

Table 3. Reasons for operating an internal venture/spinoff incubation program

Unit : %

Develop new business models	Create favorable environment for and improve efficiency of new tech/business development	Keep talented workers in house	Enhance employee potential by creating creative organizational culture	Make the organization lean and flexible	Manage (soon-to-be) retirees	Other	Total
45.0	13.7	3.1	21.5	5.3	3.8	7.6	100.0

Number of valid responses: 131 (corporate spinoffs receiving recommendation-type support)

Table 4. Reasons for establishing a spinoff

Unit : %

Individual ambition to run own business	Chance to gain financial stability through support from parent company	Expectation for economic success	Low chance of promotion to executive level at parent company	Inefficient operation of parent company	Have been preparing for spinoff even before joining parent company	Other	Total
55.1	16.3	8.4	1.5	6.4	6.4	5.9	100.0

Number of valid responses: 202

■ **Personal ambition, financial stability, and expectation of success are the main reasons for launching a spinoff.**

- When asked about their main reason for launching a spinoff, more than half of the founders reported a personal ambition to run their own business (55.1 percent), followed by financial stability secured through support provided by the parent company (wages, etc.) for a given period (16.3 percent) and the expectation of economic success (accumulation of wealth) (8.4 percent).
  - The responses imply that, in Korea, a majority of corporate spinoffs are created out of the founders' personal aspirations to run their own business with some level of influence from the financial stability secured thanks to wage support or other types of support provided by the parent company in the early days of the spinoff business.

■ **Ideas or technologies for spinoffs are acquired by founders during employment or devised even before joining the parent company.**

- Questions about how the founders obtained the ideas or technologies required for their venture revealed that most got their ideas or received consultation from their

parent companies (42.1 percent), followed by those who had leveraged their own expertise and knowledge before joining a parent company (29.7 percent) and those who tapped into knowledge/technologies of the venture team (24.3 percent) and others (3.9 percent).

- By type of parent company, those who leveraged ideas or technologies developed in consultation with the company or acquired them during their employment were more likely to come from large corporations, while entrepreneurs who built on previous knowledge and/or technology they had even before joining the company were mostly from mid-caps or SMEs/venture companies.

Table 5. How business ideas or technologies for spinoffs were acquired

Unit: %

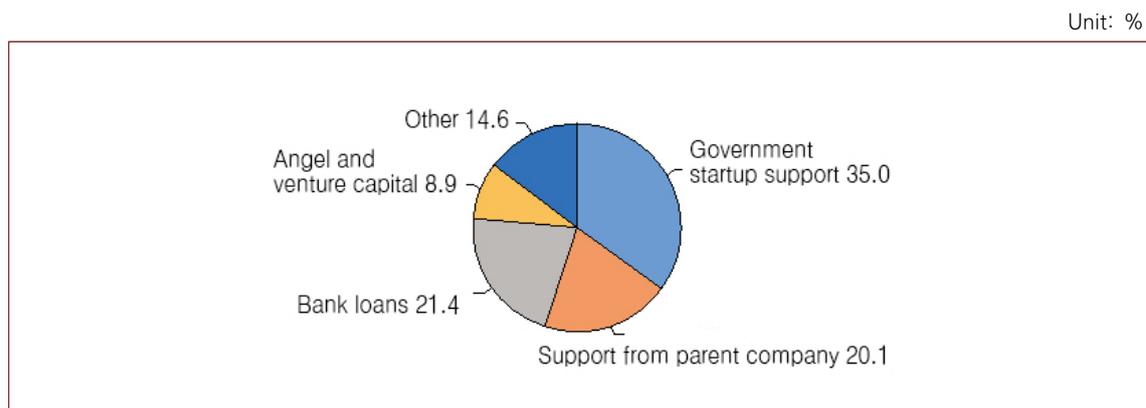
		Had been working on the technology and/or knowledge even before entering parent company	Built on knowledge /technology of venture team	Technology/ideas advised about or acquired during employment	Other	Total
Total		29.7	24.3	42.1	3.9	100.0
Incubator organization	SME/venture company	33.3	22.2	40.7	3.8	100.0
	Mid-cap	34.5	27.6	31.0	6.9	100.0
	Large company	25.0	25.0	46.7	3.3	100.0

Number of valid responses: 202

- Analysis of responses indicates that founders usually obtain consultation on or acquire ideas and/or technologies for spinoffs from the parent company.
- Government support, bank loans, and support from the parent company are the main sources of funding, with private sector venture funds such as angel investment and venture capital taking up a meager 8.9 percent.**
- When it comes to funding for spinoffs at time of launch (first year in business), government support (35 percent), bank loans (21.4 percent), and support from the incubator company (20.1 percent) were the major sources, whereas private venture funds such as angel and venture capital provided only 8.9 percent of the total funds required.
  - The survey suggests that government support constitutes the majority of funding necessary for spinoff businesses, while venture funds sourced from the private sector, such as angel investment and venture capital, are not widely utilized. This

further indicates that measures to vitalize venture fund investment for corporate spinoffs should be devised in order to create a healthy funding ecosystem for startups.

Figure 2. Sources of funding for corporate spinoffs



Number of valid responses: 202

Table 6. Challenges facing corporate spinoffs

Unit: %

	Securing funding for venture	Making ends meet until business settles	Anxiety over securing sales channel and stable profit	Fear of failure and starting over	Other	Total
Responses (%)	26.2	29.7	35.6	6.4	2.1	100.0

Number of valid responses: 202

■ **Finding sales channels, securing money for initial operation and living expenses, and fear of failure and having to start over are major concerns of startup entrepreneurs.**

- Corporate spinoff founders were found to be anxious about securing sales channels and a stable stream of profit (35.6 percent), failing to make ends meet (29.7 percent), gaining sufficient funding for the business (26.2 percent), and failing and having to start over (6.4 percent).
  - With this understanding of the major challenges of corporate spinoffs, it is critical to help these entrepreneurs establish sales channels and achieve solid profits. Along with support for funding, a system to help them get back on their feet and start over when their initial attempts fail is also needed.

■ **Founders have low levels of awareness and utilization of and satisfaction with corporate spinoff support programs.**

- Levels of awareness and utilization of and satisfaction with spinoff programs scored 3.7, 3.8, and 3.7 points respectively on a five-point scale.

Table 7. Awareness and utilization of and satisfaction with corporate spinoff support programs (average score)

Unit: points

	Score on a scale of one to five
Awareness of spinoff support programs	3.7
Funding for commercialization	3.8
Support linked with startup accelerator	3.3
Post-internal venture support (support for demonstration)	3.4
Utilization of spinoff support programs	3.8
Funding for commercialization	3.8
Support linked with startup accelerator	3.2
Post-internal venture support (support for demonstration)	3.4
Satisfaction with spinoff support programs	3.7
Funding for commercialization	3.8
Support linked with startup accelerator	3.1
Post-internal venture support (support for demonstration)	3.3

Number of valid responses: 202

- Scores for the level of awareness of the details of support programs were 3.7 for funding for commercialization, 3.4 for post-internal venture support (support for demonstrations), and 3.3 for support linked with startup accelerators.
- When it comes to the level of utilization of spinoff support programs, funding for commercialization was 3.8, post-internal venture support (support for demonstrations) was 3.4, and support linked with startup accelerators was 3.2.
- The level of satisfaction with support programs was rated at 3.8 for funding for commercialization, 3.3 for post-internal venture (support for demonstrations), and 3.1 for support linked with startup accelerators.

■ **A lack of support programs and insufficient financial/tax benefits for parent companies were cited as issues with the spinoff support scheme.**

- When it comes to the operation and utilization of the government's corporate spinoff support scheme, 30.2 percent of respondents pointed to insufficient support programs, including a lack of financial support from the government, as one of the major issues.
  - Other areas requiring improvement included a lack of financial/tax benefits for parent companies (21.3 percent), parent companies' insufficient understanding of the internal venture/spinoff support program (16.3 percent), and complicated processes for applying and utilizing support programs (12.9 percent).
  - These responses indicate that the government should increase funding support for corporate spinoffs, expand financial/tax benefits for parent companies, bolster promotional activities to improve awareness, and streamline the application and utilization processes of support programs.

■ **An environment conducive to the creation of corporate spinoffs should be established to facilitate tech startups.**

- Future startup policies should focus on assisting corporate spinoffs, which tend to be more knowledge/tech-oriented, so as to build a healthy startup ecosystem and create quality jobs.

Table 8. Issues of the corporate spinoff support scheme in terms of operation and utilization

Unit: %

Insufficient support programs such as government funding for corporate spinoffs	Lack of financial/tax benefits for incubating parent company	Complicated application and utilization processes for support programs	Parent company's limited knowledge of available support	Strict eligibility criteria	Other	Total
30.2	21.3	12.9	16.3	11.4	7.9	100.0

Number of valid responses: 202

- Since the age of founders at the time of launch of their spinoff venture was 43.4 years old on average, the target of startup support policies should be shifted from young adults less than 40 years old to would-be entrepreneurs of any age so as to stimulate the creation of tech startups (i.e., a select and focus strategy).

- Moreover, more corporate spinoffs of SMEs and venture companies and not just large conglomerates should be nurtured.
  - Additional efforts are required to improve awareness of support programs through aggressive promotion activities. Public enthusiasm may be aroused by adding a corporate spinoff category for events such as startup competitions and startup roadshows.
  - At the same time, greater consideration should be given to cash-strapped SMEs and venture companies as opposed to large corporations, and eligibility for the internal venture/spinoff support program should be relaxed for such companies as well.
  
- **Systemized support programs should be put in place, such as a venture startup fund and program for startup infrastructure expansion.**
- To incubate more corporate spinoffs, government startup training programs targeting young adults should also embrace other prospective trainees, such as employees of large companies and SMEs.
  - The Korea Institute of Startup & Entrepreneurship Development (KISED) and Korea Industrial Complex Corporation (KICOX) could sign an agreement to offer entrepreneurship (startup) training to inspire would-be entrepreneurs and vitalize the creation of corporate spinoffs.
- In the longer term, establishing a healthy funding ecosystem to ease the financial burden of corporate spinoffs would require the more active sourcing of funds from the private sector, such as angel investment and venture capital.
  - For example, successful entrepreneurs could serve as angel investors for corporate spinoffs in the early days of business operation so as to boost venture investment. They could also function as mentors or facilitators for new entrepreneurs. The positive atmosphere generated by these activities would help further broaden the reach of angel investment.
- It is also necessary for the government to implement effective mentoring or consulting programs so as to improve the success rate of corporate spinoffs, most of whom experience various challenges due in part to a lack of business management experience.
  - Since the survey showed that the levels of awareness and utilization of and

satisfaction with support programs linked to startup accelerators where mentoring/consulting is provided for spinoffs were rather low, it is important to find ways to refine and strengthen the role of startup accelerators as useful mentors for spinoffs.

- Future endeavors to promote knowledge/technology-oriented corporate spinoffs should include opening additional business incubation centers in areas that would benefit from them. Possible candidates include industrial complexes that often serve as hubs for manufacturing startups.
  - Tech startups that generate high added value and create quality jobs are often incubated by large companies or SMEs located within industrial complexes. Therefore, new business incubation centers should be established in industrial complexes based on the signing of an agreement between KICOX and KISED.

■ **The efficacy of internal venture incubation programs and corporate spinoff support programs should be improved.**

- To improve the performance of internal venture incubation programs, the government began to stimulate the creation of corporate spinoffs in earnest in 2018. It is necessary to expand this funding support, introduce more financial/tax benefits for incubator organizations (especially SMEs and venture companies), and streamline the application and utilization processes.
  - It is critical that the budget provided for internal venture incubation programs be increased; it has been held at around KRW 20 billion since 2020.
- The efficacy of the support provided for corporate spinoffs can be enhanced by relaxing some conditions imposed on parent companies operating internal venture incubation programs (especially SMEs and venture companies), such as the securing of support funds and establishment and operation of dedicated organizations (support organizations), among others.

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## Appendix. Overview of Survey of Corporate spinoffs

- Population and sample
  - Population: 331 corporate spinoffs of large conglomerates, mid-caps, and SMEs/startups out of 395 startups selected for the internal venture incubation programs operated by the Ministry of SMEs and Startups
  - Sample: 202 spinoffs, 61 percent of the 331 companies in the population
- Information on the type of support, age of founder, founders' educational background, type of incubator organization, and founders' duties at his/her previous employer is summarized in the table below.

Table. Status of corporate spinoffs participating in the survey

		Number of respondents	Percentage
Total		202	100.0
Type of support	Recommendation type	163	80.7
	Open type	39	19.3
Age of founder at time of spinoff launch	Less than 40 years old	84	41.6
	40 years or older	118	58.4
Founders' educational background	College/university	118	58.4
	Graduate school or above	84	41.6
Incubator organization	SMEs/venture company	81	40.1
	Mid-cap	29	14.4
	Large conglomerate	92	45.5
Work experience at parent company	Technology/research	118	58.4
	Marketing/management. etc.	84	41.6



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