

# VENTURE COMPANIES' PERFORMANCE

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## Sharp increase of venture companies' importance

After the financial crisis, the weight of venture companies has been growing explosively in the Korean economy. As a result of policies including the restructuring of chaebols and positive support of venture companies, the number of venture companies recorded 4,934 firms authenticated by the Small & Medium Business Administration(SMBA) by the end of December 1999, which is the second largest figure in the world next to the US. In the same period, 173 of 453 firms listed on the KOSDAQ were venture companies.

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An analysis of venture companies' business achievement will cast light on four recent controversies about venture companies in Korea. The first issue is the difference between venture companies and non-venture companies in management style. The second regards the Korean government's policy to venture companies. The third is the influence of venture companies in the recent recovery of Korean economy. The last issue is the possibility of venture companies replacing chaebols as the engine of the Korean economy.

## Venture firms outperform non-ventures

To compare business achievement between venture companies and non-venture companies, the data is separated, and the results of the analysis are compared. The number of venture companies was 121, non-venture companies was 161, because these firms are listed on the KOSDAQ market, accurate business data was obtainable<sup>1)</sup>. Financial businesses were not included in the analysis, because the concept and calculation of the index are different than for manufacturing firms.

One point that must be carefully noted is that the analysis excluded firms on the 'control list' specified by Korea Securities Dealers Association. These firms didn't satisfy the KOSDAQ market listing requirement, and generally their business status grew worse than listing time. So, the exclusion of controlled firms increased the significance of the analysis.

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1) Refer to [Korea Company Guide](Autumn, 1999) by National Information & Credit Evaluation Inc.

The criteria of analysis were growth, earnings, and balance, which are the representative criteria of business achievement. The proxy index of growth is the net sales growth rate<sup>2)</sup>, the proxy index of earnings is ordinary profit to sales<sup>3)</sup> and financial cost to sales<sup>4)</sup>, and the proxy index of balance is debt ratio<sup>5)</sup>.

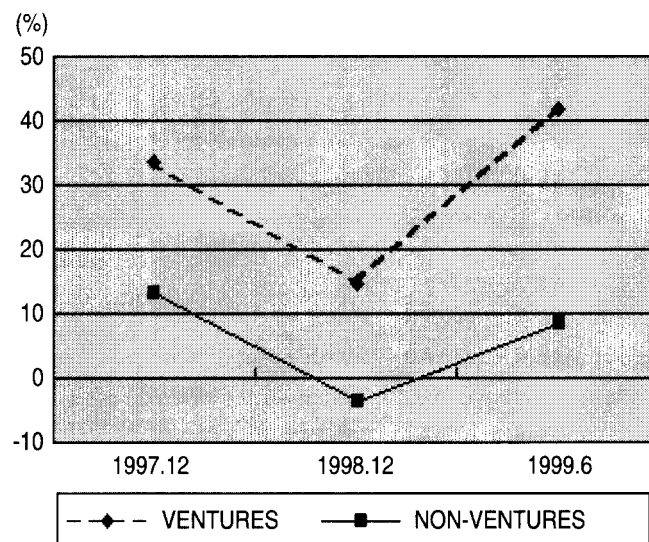
The periods analyzed were December 1997, December 1998 and June 1999. The data of 1997 and 1998 are useful for comparing the situation before and after the IMF bailout and the data of June 1999 is the recent data.

• Growth

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Figure 1. Net Sales Growth Rate



2)  $(\text{current sales} - \text{last sales}) / \text{last sales} \times 100$

3)  $\text{ordinary profit} / \text{sales} \times 100$

4)  $\text{financial cost} / \text{sales} \times 100$

5)  $(\text{current liability} + \text{fixed liability}) / \text{stockholder's equity} \times 100$

• Earnings

In ordinary profit to sales and financial cost to sales, non-venture businesses had better results than venture companies every year. But neither index was statistically significant. In 1998, right after the IMF bailout, both indexes changed for the worse, but they improved in 1999.

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Figure 2. Ordinary Profit to Sales

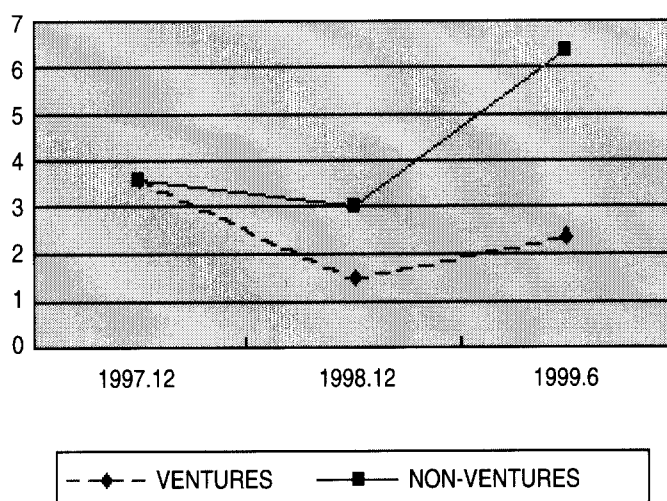
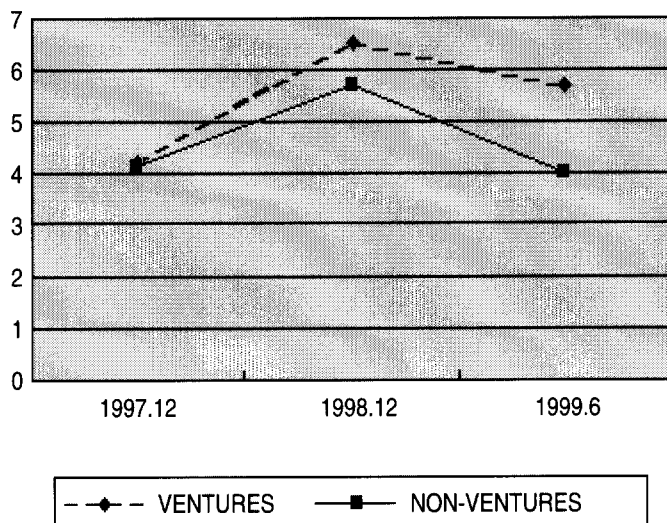


Figure 3. Financial Cost To Sales



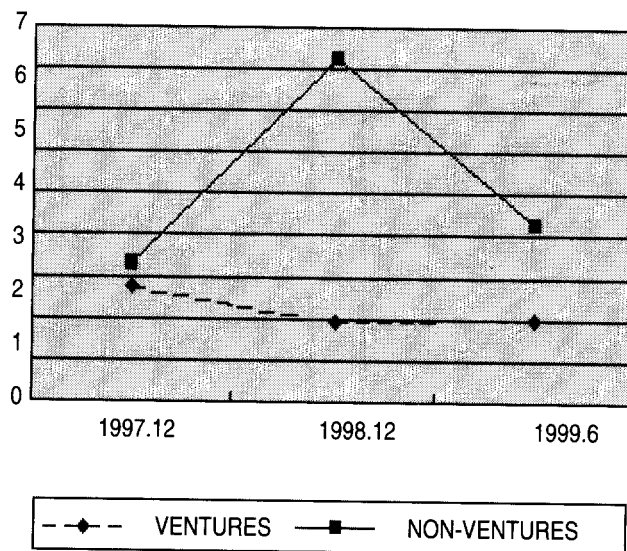
\* The lower, the better index

• Balance

*In debt ratio, venture companies were better than non-venture businesses.*

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Figure 4. Debt Ratio



\* The lower, the better index

Conclusion and outlook

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In conclusion, venture companies had better business performance than non-venture companies. In growth, venture companies were markedly superior. In earnings, non-venture companies were slightly better, but the result was not statistically significant. Finally, in balance, venture companies were superior to non-venture companies.

There are two possible causes of these differences between venture companies and non-venture companies. One is the internal characteristics of venture companies, such as managerial style or organization. The other is the role of government policy to venture companies.

This analysis leads one to predict that the excellent business performance of venture companies will continue for some years. Therefore venture companies offer bright prospects to Korean and foreign venture capitalists and investors. **VIP**