



# Industry Innovation 3.0

## Background and concept

Industry Innovation 3.0 (II 3.0) that focuses on productivity improvement in the manufacturing industry under the current five-year plan (2013–2017) is being implemented in the ROK. Productivity improvement of “root” and small companies is essential for sustainable economic growth. II 3.0 started after Korean companies and industry experts agreed that productivity improvement of SMEs was important for overcoming the current economic crisis (the productivity level of SME manufacturers was 28% of that of large companies in 2011). Figure 1 shows the progression of II projects in the ROK.

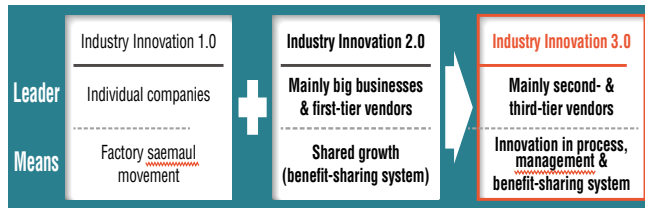


Figure 1. Progression of II projects in the ROK and main focus of each.

## Basic principles

The five basic principles of II 3.0 are: 1) embracing the whole business ecosystem to include lowest-tier vendors; 2) encouraging the voluntary participation of SMEs with innovative spirits; 3) motivating businesses to participate in innovation activities through benefit sharing; 4) ensuring openness in project implementation using standard methodology, with room for flexibility at the industry and corporate levels; and 5) fostering innovative mindsets among participating CEOs for continuation of improvement.

## Funding resources and implementation system

Large, medium-sized, and public companies funded (US\$200 million over five years) II 3.0 to provide consulting on manufacturing process innovation and replace old facilities of SMEs. The main analysis and consulting tool is the Korea Production System (KPS) developed by the Korea Productivity Center (KPC). The target of II 3.0 is establishing an

advanced industrial ecosystem by supporting 2,000 second- and third-tier SME vendors yearly from 2013, reaching 10,000 over five years.

About 75% of the fund is allocated to SMEs supplying their products to large, medium-sized, and public companies that participated fully in II 3.0 funding. The remaining 25% of the fund is allocated to SMEs with no linkage to contributing companies.

The central headquarters directing II 3.0 is the Korea Chamber of Commerce and Industry and substructures of multiple industry association headquarters. A steering committee of large, medium-sized, and public companies assists all activities. The KPC emphasizes three factors for the success of II 3.0: CEOs’ willingness to innovate; ability and contributions of participating consultants; and appropriate service infrastructure.

## Role of the KPC

As the main organization in II 3.0 central headquarters, the KPC not only developed the KPS consulting tool but is also involved in establishing groups responsible for field analysis and consulting, providing innovation consulting and replacing old facilities in SMEs, and offering know-how on project performance management and management for innovation tasks. KPC Chairman and CEO Hong Jin confirmed that II 3.0 would be the main public project for establishing an advanced industrial ecosystem to sustain business growth.

## Results

CEO Kooksoo Kim of Dong-in Engineering stated, “My company got great productivity innovation results by participating in II 3.0. I really appreciate the passion and efforts of central headquarters and consultants.” The first year of II 3.0 ended in June 2014. More SMEs applied for participation in the second year after noting the tangible results of the first and are expected to establish their own productivity management systems.

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Figure 2. Example of improved housekeeping in an SME in the II 3.0 project.