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Growing Korean SMEs and startups amidst its chaebol-centered economy

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Per Stenius

The dominance of conglomerates in the Korean economy is holding back the growth of SMEs and startups, which in turn is slowing future economic development. Structural reforms are, therefore, necessary to unlock the potential of the smaller players in the Korean market.

Per Stenius, founder and Client Director at Reddal, was interviewed by □□□□ (Hankook Ilbo) on how the chaebol system is holding back the development of Korean SMEs. The original interview was published by □□□□ (Hankook Ilbo) on September 27, 2024, and can be accessed online from □□□□ (Hankook Ilbo). The interview originally appeared in Korean language, an English translation of extracts of the interview is provided below.

Chaebols' monopoly on talent and technology poses issues for the economy

Chaebols with their dominating market position absorb the best talent and monopolize technological resources. This power dynamic hinders innovation and limits the opportunities available to SMEs and startups. "In Germany or Finland, SMEs lead the technological growth. Korea's chaebol-centered model, however, prevents this by hoarding talent and technology," Per observes. For Korea to remain globally competitive, SMEs must build a bigger role in driving innovation and economic growth.

These challenges of the Korean economy are also recognized by international media outlets, such as The Wall Street Journal, pointing out the negative impact caused by chaebols on the government's value-up program to increase the value of Korean companies. Furthermore, the current system intensifies income inequality: Employees of large corporations, which only account for 10% of all companies, earn the most income, while employees of SMEs and startups, which account for 90% percent, earn much less.



Photo taken by Hankook Ilbo

Drawing from Finland’s own economic past, the collapse of Nokia, once the world’s top mobile phone producer, dispersed its talents into the Finnish startup ecosystem, leading to the rise of successful companies like Supercell. Per believes Korea could witness a similar positive shift if the chaebols were to decline, allowing talent and technology to fuel new enterprises. “Even if a chaebol fails, the talent will not disappear,” he explains.

Fostering the growth of SMEs and startups is critical to the future of the Korean economy

To overcome the constraints of its chaebol-driven economy, Korea must shift its focus toward nurturing the growth of SMEs and startups. Per highlighted that international venture capitalists often evaluate a startup's potential based on the founder's background, particularly their corporate experience. Startups led by inexperienced founders without industry insights may struggle to scale effectively. Henceforth, supporting founders with deeper market knowledge is crucial to helping them succeed in the long run.

While government investment in startups can provide valuable support, Per warns that excessive government-led venture capital programs often lead companies to chase state funding rather than focus on market-driven growth. Finland faced a similar issue in the 1990s before shifting its approach to foster stronger collaboration between private capital and innovation hubs. He suggests that Korea could adopt a similar strategy, linking private investors with entrepreneurial talent.



Photo taken by Hankook Ilbo

In addition, Per advised both the government and startups to prioritize the global market instead of limiting themselves to domestic opportunities. He emphasizes that the government should see startups as global players, rather than as Korean companies. However, there are a number of challenges foreign entrepreneurs face when entering Korea, such as the conglomerate-dominated market and the language barrier. To address this, the government should aim to create a more welcoming environment for foreign entrepreneurs, offering administrative support in English and reducing barriers to entry.

Per argues that this shift is essential for Korea to stay competitive, reduce income inequality, and foster innovation. “The chaebol system has served Korea well in the past, but now it risks holding back the future. It’s time for smaller players to take the lead,” he concludes.

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Another article published by □□□□ (Hankook Ilbo) on October 15, 2024 discusses a related topic about foreign companies entering the Korean domestic market and there being a growing number of companies that are establishing their Asia-Pacific headquarters in Seoul, rather than in Hong Kong, Singapore, or Tokyo, as in the past. The article picked up on one of the points shared by Per in his earlier interview that offers an explanation to this ongoing trend. “Seoul has a digital environment that is good for working with the world, and universities that produce talent are gathered here, so it is a good place to set up the Asia-Pacific headquarters.” The article can be accessed online from □□□□ (Hankook Ilbo).