REDDAL

Lessons from the Nordics – perspectives on Korean venture capital and startup ecosystem

Reddal Insights — 29 September 2021
Pyry Paavola, Janne Oksa, Seung Ae Jung, Per Stenius

The Nordic startup ecosystems have grown their significance during the past decades, the development phases and key characteristics of the ecosystems can offer lessons to learn for the Korean startup landscape.

In this interview with Forbes Korea, Reddal Senior Client Director Dr. Per Stenius reflects on the Korean startup landscape, drawing on learnings from the Nordic countries. This article originally appeared in Forbes Korea magazine, print issue 10/2021 in Korean, and is also available online (https://jmagazine.joins.com/forbes/view/334664).

The Korean startup ecosystem has a track record of producing high-quality companies. Seoul is developing as an ecosystem to become one of the largest hubs in Asia, with 15 unicorn companies emerged to the date. Still, there are challenges the Korean ecosystem must overcome. For example, most of the Korean unicorns are strong players only in their local markets, thus limiting the total potential of the companies. The ecosystem's inward-looking nature can be also observed in the talent pool and the state of venture capital.

For the Korean ecosystem, the Nordics is an interesting area. The challenges the ecosystem has shares similar characteristics to the challenges the Nordic ecosystems have struggled with – unique languages, remote locations, attitude towards entrepreneurship. Despite the challenges, the Nordics are receiving around 12% of the total venture capital in Europe with 4% of the population and roughly 7% of the total GDP[1]. Additionally, the Nordics have produced the most unicorns per capita after Silicon Valley[2]. These include for example Spotify, Zendesk, and Supercell, each a leading international player in their industry.

The ecosystems are differentiated by knowledge, market opportunity, capital, culture, and support

A startup ecosystem is the product of knowledge, market opportunity, capital, culture, and support. Strong performance in each makes up a good ecosystem. One of the prementioned domains where the Korean and Nordic ecosystems differ is in the diversity of the talent bases. Although more diverse in comparison to large corporations in Korea, the ecosystem is still hard to access for foreign talent due to language, culture, rigid regulation. Talent diversification is viewed as vital in the Nordic ecosystems from which for example Inklusiiv, a diversity initiative has grown. The Nordic governments have also sought to lure international talent with low education costs, offering study programs in English, and initiatives to network and integrate into the job market. Yousician, a platform for learning and playing musical instruments, for example, was founded by a non-Nordic person who had come to study in the Nordics. Other initiatives seeking to cross-pollinate the Nordic ecosystems to other ecosystems are for example the non-profit initiative Startuplifers which seeks to link companies in Silicon Valley with talent from Finland and Sweden.

Another differentiator comes from the market opportunity. The small total accessible market in each of the Nordic countries has forced the companies to expand cross-nationally very early on. Some companies have found novel ways to push their market reach, such as delivery service platform Wolt or mobility company Bolt had done by first expanding to peripheral markets in Eastern Europe to dodge competition from other large players. In Korea, counterintuitively the large domestic market does not similarly force a go-global mindset for the companies and guides them into a growth limbo where the market is large enough to serve a smaller version of the successful startup lifecycle but often not large enough to produce a global success story only relying on it.

In the Korean ecosystem, the government funds roughly half of the capital invested into the local startups[3][4]. Part of the investments is guided through focus industries to which selection the dominant Korean conglomerates can influence as well. The focus industries receive extensive investments and, in some cases, lighter regulation. Therefore, a large part of the market force is restrained. As a comparison, the long-term average for the funds the government invests into the Finnish ecosystem is approximately one-fifth[5]. Even though governments have a high role in the Nordic countries, the capital landscape is less government-led. Governmental funds are often auxiliary to private capital due to the non-financial support and access to networks and services the private capital can offer better. Though the Korean “fund of funds” relies on other funds and managers, it is still said to emphasize quantity over quality and is not the most straightforward supportive investment vehicle.

A set of cultural norms in the Nordics used to weigh entrepreneurship down. Much like in some form in Korea today, entrepreneurship was not seen as an attractive option, and talent preferred working in well-known companies instead of startups. However, along with the rest of Europe, the culture has been improving noticeably from the dot-com boom to this day. That improvement has in part stemmed from the ecosystem from intensive advocating efforts coming from accelerators, events, and student organizations. In the Nordics, entrepreneurship is now seen as a desirable, viable option for a career. The cultural impact is increased also by the Nordic community-oriented mentality; the members of the ecosystem

want to help the ecosystem voluntarily, especially when succeeding with the help of its lifting force. These cultural aspects have been both the driving force and the result of some material examples such as Slush, 25 000 people attending startup event, gathering people from startup ecosystems all around the world to Helsinki, increasing collective hype, and global exposure of the ecosystem.

The last big differentiator comes from the support the ecosystem receives. Both governmental and non-governmental entities affect the support the ecosystem has. Korean government's influence is significantly larger in relation to the Nordics', which have been aiming to improve their non-governmental entities and the communication between the state and other parties in the ecosystem. For example, Estonia, a neighboring state to the Nordics has reduced the regulatory burden on its ecosystem by increasing the discussion between the governmental and the non-governmental organizations and the startups. Together the parties have sought to create a more flexible regulatory system to combat the restricted amount of capital the market has had overall.

The factors of a good startup ecosystem have been developing in the Nordics through cumulative waves – the Finnish ecosystem offers a good example

Each ecosystem in the Nordics has gone through development stages to reach the status they currently are in. A describing example among the ecosystems is the one in Finland. The development of the ecosystem boils down into four distinctive waves of building, acceleration, institutionalization, and maturation each spanning roughly ten years.

The wave of building the ecosystem started approximately five years before the dot-com bubble. First startups related to gaming and digital security, such as Housemarque and F-Secure, spun off from the Finnish computer hacker community. The dot-com investment craze gave the ecosystem further exposure to foreign capital. The building wave created the initial linkages and people flow between other major ecosystems.

Building wave changed into the acceleration wave sometime before 2010. During that time the first technology native generation learned from Silicon Valley how to develop software and run startups. The fall of the mobile telephone business of Nokia affected the landscape by removing one major former technology frontrunner from it. Simultaneously, efforts to shift attitudes towards entrepreneurship were happening on different fronts. These started gaining traction increasing the number of interested parties in the ecosystem and further generated an ever-increasing voluntary network. Additional non-governmental events and organizations were founded, often with the help of the volunteer base, to link the initial experience with the talent and the capital in the ecosystem. Companies such as Supercell, Wolt, and Smartly.io were the product of this wave. The ecosystem had thus benefitted from the initial lessons learned and network effects of the first wave, it had created supporting entities and additionally produced some internationally successful companies.

During the third wave, which continues to today, the different practices and entities have locked their place in the ecosystem such as startup campus Maria 01 with increased international VC activity. The current wave of institutionalization also saw a new series of

companies that had founders and knowledge from the initial success stories of the second wave. This wave has produced companies like Swappie, a retailer of refurbished iPhones, and ICEYE, a satellite-based imagery service.

After the currently ongoing third wave, the ecosystem will transition into a mature phase where most, if not all, of the necessary building blocks for the ecosystem have been created. The attention of the ecosystem will then shift into holistically further improving the knowledge, market opportunity, capital, culture, and support domains. The key drivers in driving the fourth wave will relate to developing solutions for the AI landscape and provide answers to the global climate crisis.

The Korean ecosystem should cross-pollinate with other startup ecosystems – diversifying talent and venture capital offers a targeted avenue of improvement

By taking the development of the Finnish ecosystem as a point of reference one can consider the key catalysts in tackling the issues of the Korean ecosystem: the diversity of the Korean talent base could be increased. Korean startups' going global skills and mentality could be increased. The ecosystem's private funding could be increased and internationalized. The entrepreneurial culture in Korea could be boosted. Lastly, the non-governmental institutions of Korea could be improved and internationalized. The root causes for some of the improvement points run in some cases extremely deep and are in some cases interconnected. They would be impossible to fix overnight. However, starting to tackle the development needs from talent and capital could be a well-directed way of addressing the issues.

Though there are initiatives in seeking to cross-pollinate the Korean startup ecosystem with other ecosystems, a targeted and significant effort for talent pool diversification will still yield results. The Nordic cross-pollination started from pioneers such as MySQL and Skype which heavily influenced to the globalization of the ecosystems. For example, services, regulation, and support were all set available also in English in the ecosystem. Having these kind of fundamentals supported further diversification during the subsequent development waves. The virtuous cycle continued, and the ecosystems have now both highly experienced tech experts and seasoned VCs, both with global experience. Still, the view in the Nordics is that more needs to be done, and further initiatives in diversification are welcomed.

In Korea, companies such as Coupang and Krafton are the responsible ones, next to governmental efforts, to continue the cross-pollination which pioneers like Naver have started. The companies are a prime example for the ecosystem of how seeking to go global and having a diversified talent base will affect into company's success. The companies need to guide and support the ecosystem while advocating for and initiating practices and policies which ease the entry of foreign talent. The activities will drive an increase in skill level with an increase in go-global mindset in the talent pool. Additionally, it can gradually help in improving the entrepreneurship culture and the attractiveness and prestige of entrepreneurship as a career.

Improving the state of capital is closely linked to increasing the skill of the talent pool, which

among market opportunity, and regulatory and cultural barriers have limited the activity of global VCs in the market. The exceptions are the famed unicorns such as Coupang, Krafton, Toss, and Musinsa. For example, Coupang had sought foreign capital right from the early stages of the company. These companies pave the way also for the internationalization of the capital market by illustrating the opportunity in Korean companies. Such as in the Nordics, these successful companies should seek to provide the ecosystem with lessons and experience in attracting foreign capital. Venture capital is not a one-way street, and companies in somewhat peripheral markets such as in Korea or the Nordics need to be even more active in the direction of global capital for them to get noticed.

Increased knowledge and activity stemming from the ecosystem will assist the development of capital, since the government's efforts via its foreign VC investment fund, which invests through three different proxies into Korean startups, will not support the full development of the ecosystem. The increased flow of foreign capital will reduce the need for future government funds in the ecosystem also increasing the knowledge, support, and culture, for instance starting from something as practical as a requirement of contracts between founders.

These actions and goals can assist the holistic development of the ecosystem by tackling some of the key problems limiting development of virtuous cycles. The Korean ecosystem can lift itself to another level by seeking a more global mindset and returning the learnings into it, much like the Nordics have sought to do.

References

[1] Patel N. (2021) 2020 Annual European Venture Report, PitchBook

[2] Innovation Lab Asia (2021) A Guide to Nordic Innovation

[3] Korea Venture Investment Corporation (2021), retrieved at https://www.kvic.or.kr/en/business/business2_1 on 21 September, 2021

[4] Maeil Economic Daily (2021), retrieved at https://www.mk.co.kr/news/business/view/2021/03/198082/ on 21 September, 2021

[5] Finnish Venture Capital Association (2021) Venture Capital in Finland 2020