



## Prioritizing Tech Literacy Makes Sweden an Ideal State

### Tech Europe

By BEN ROONEY



STOCKHOLM— It doesn't take long to rattle off a list of startups or tech companies here that are either in or heading toward the billion dollar valuation club: music streaming site **Spotify** AB, payment service **Klarna** AB, games maker **Mojang** AB, voice-over-IP company **Skype**, games maker **King.com** and from earlier Internet times business intelligence service **Qlik Technologies** Inc., Internet marketing company **Tradedoubler** AB and database **MySQL**.

For a country of 9.5 million people, Sweden attracts more than its fair share of venture money. According to data from the European Private Equity and Venture Capital Association, Swedish hi-tech firms attracted €108 million (\$139 million) in venture investment in 2012, behind France (€140 million), Germany (€176 million) and the U.K. (€253 million), but considerably more than Spain (€70 million), Europe's fifth-largest economy. It also dwarfs its Nordic neighbors Denmark (€51 million), Norway (€55 million) or even tech hot spot Finland (€41 million).

Nor is Sweden's success limited to just the technology sector. **Assa Abloy** AB is a world leader in locks (Yale is one of its brands), **Autoliv** Inc. in air bags, and of course **IKEA** was founded in Sweden (although headquartered in the Netherlands).

According to the **OECD** Sweden is the only country apart from Korea to have broadband penetration of more than 100%. It was also the first country in the world to launch a next generation (LTE or Long Term Evolution) mobile network, which went live in Stockholm in 2009.

But isn't Sweden also the great liberal heartland of Europe: a high-tax nation with a smothering welfare state, the antithesis of entrepreneurialism? Bernard-Louis Roques, co-founder of Paris-based private-equity firm **Truffle Capital**, blamed over-comfort for a lack of European entrepreneurial zeal: "There is a welfare state here in Europe and many things are free and available...maybe the sense of emergency isn't here."

But, said Sebastian Siemiatkowski, CEO of Klarna and a first generation Swede, the son of Polish immigrants, it is that very welfare state that has allowed Sweden to become a hi-tech hub. One key government policy "Hem-PC reformen" introduced in 1998, and scrapped in 2006, gave tax breaks for home PCs: "Even kids like myself who didn't come from a rich family had a PC at home."

What this means, said Pär-Jörgen Pärson, general partner at Stockholm based venture capital firm Northzone, was that "you had a computer literate population very early on that then tried different things. Some just did illegal downloading, but many went on to coding. But what it really did was to create a whole generation of people who are at home with computers."

This, says serial entrepreneur Hjalmar Winbladh, CEO of social gifting site Wrapp, makes Sweden the ideal place to build a startup. "A technologically advanced people makes it a good place to see if products will work." He said Swedish startups have to be global from the outset, but can use the local market to perfect their product before pushing it out to the rest of the world, something that both Klarna and Spotify have done.

And while in some countries an overly protective welfare state may be a disincentive to entrepreneurialism, according to Mahesh Kumar from the Stockholm-based TV startup Magine, among Swedes the protection it affords allows people to take bigger risks. "It allows them to swing for the fences, knowing that if it goes wrong, at least you have something to fall back on."

Mr. Siemiatkowski also bristles at this characterization of Sweden as a socialist state. Sweden introduced education vouchers in 1992 and within the hospital system nearly one quarter of primary care facilities in Sweden, and nearly half in Stockholm—are privately run but publicly funded. Even the slick Arlanda Express is a public-private partnership.

But the country isn't all a startup nirvana. Sweden is a high-tax economy for individuals. With a maximum personal tax rate of 56.6%, above the European average of 35.43%, the country has (President François Hollande's ambitions for France not withstanding) the highest marginal tax rate in Europe, according to figures from consultants **KPMG**. That, says Stockholm telecoms consultant Bengt Nordstrom has an impact on angel investment.

There are also issues with Swedish internal investment in venture funds. Mr. Pärson said that all of the money Northzone had raised had come from outside of Sweden. He urged the government to ease regulations regarding the use of pension funds in venture funding, and was strongly opposed to tax plans that would force entrepreneurs to take money as income, liable to those high tax rates, rather than capital gains with a much lower tax rate.



One concept that you will often hear mentioned across the entire Scandinavian area, and strongly in Sweden, is a peculiarly northern cultural concept, known in Sweden as Jantelagen, the Law of Jante. While hard to translate directly, it essentially comes down to “don’t think you are so special.” Mr. Pärson agreed that historically it had had a limiting effect on Swedish entrepreneurialism, but that was changing.

“It is like an exaggerated herd mentality where you cannot change the norms of the herd,” he said. “But if you do, and you are successful, the entire herd will change direction as a consequence.”