VENTURE CAPITAL MARKET AND ENTREPRENEURSHIP IN KOREA

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Summary

In early 2000, many start-ups based their business on computer and internet technologies emerged in Korea, and they have successfully developed into global companies. In the advance of changing paradigm from personal computer to mobile appliances, new business opportunities have risen. Since 2012, many young entrepreneurs, adept in computer and internet knowledge and technologies, have launched their business ventures in this context. And Korean government, especially by the current administration under new President Park Geun-Hye, commit to support and nurture Venture Companies focused on information and communication technology. However, the venture capital market in Korea comes short in fulfilling the financial need of the young entrepreneurs, due to its structural problem.

In this paper, I analyze Korean venture capital market to identify its structural problem and recommend the solutions to solve it, especially in entrepreneurs’ perspective. This paper is constructed into three chapters. In the first chapter, I investigate Korean venture capital market and identify the growing balance of venture capital sitting on accounts and waiting to be invested, while young Venture Companies are suffering from financial shortage. The reason for the hesitant investment to Venture Companies is because of the slim chance of exiting the capita invested. In the US, the active M&A’s by larger IT corporations, such as Microsoft and Google, functions as an optimal exit channel for angel investors and venture capital firms. However, the data from Korean Venture Capital Association confirms that such M&A’s are rare. In the second chapter, I introduce
two successful entrepreneurs from Korea, Jung Joo Kim, the founder of Nexon Co Ltd, and Hae Jin Lee, the founder of NAVER and Line. Their early business development story reveals their unique strategies to compete against global companies, like Nintendo and Google. Also, I include their unique perspective on innovation, which could be lessons for future entrepreneurs who would face similar obstacles in middle of their business ventures. In the last chapter, I conduct theoretical and empirical studies on entrepreneurship in order to find the relation between entrepreneurship and fund-raising ability of entrepreneurs of young start-ups. First, I define what entrepreneurship is, and describe entrepreneurship orientation by using four concepts, innovativeness, proactiveness, competitive aggressiveness, and risk-taking. By conducting a survey on entrepreneurs and employees of Venture Companies younger than three years, I test the hypothesis that managers’ entrepreneurship and their fund-raising ability is positively related. Through the multi-regression analysis on SPSS, I confirm that entrepreneurship, particularly competitive aggressiveness, is highly correlated to fund-raising ability. Therefore, I conclude that the propensity of being competitively aggressive increase chances for managers of young Venture Companies to secure investment from external investors. Facing the financial shortage in the early stages of their ventures, young entrepreneurs could learn from this finding and act more competitively aggressive to secure capital from external investors within Korean venture capital market.
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Table of Contents

CHAPTER 1. ANALYSIS OF VENTURE CAPITAL MARKET IN KOREA ............... 1
  SECTION 1. THE DEFINITION AND RANGE OF VENTURE COMPANY IN KOREA .......... 1
  SECTION 2. THE OVERVIEW OF VENTURE CAPITAL MARKET IN KOREA.................. 2
  SECTION 3. DIFFERENT TYPES OF VENTURE CAPITAL FOR VENTURE COMPANIES ...... 4
  SECTION 4. THE ANALYSIS OF CURRENT VENTURE CAPITAL MARKET IN KOREA ...... 7
  SECTION 5. THE CORE PROBLEM OF VENTURE CAPITAL MARKET: NO M&A’S ....... 13
  SECTION 6. PROSPECT AND SUGGESTIONS .................................................. 16

REFERENCES ................................................................................................................19

CHAPTER 2. ENTREPRENEURS IN KOREAN VENTURE COMPANIES.............. 1
  SECTION 1. INTRODUCTION .............................................................................. 1
  SECTION 2. JUNG JOO KIM, THE FOUNDER OF NEXON CO LTD....................... 1
  SECTION 3. HAE JIN LEE, THE FOUNDER OF NAVER AND LINE....................... 4
  SECTION 4. FOCUS OF INNOVATION, FULFILLING BASIC HUMAN DESIRES ........... 6

REFERENCES ................................................................................................................. 8

CHAPTER 3. OVERCOMING FINANCIAL SHORTAGE FOR YOUNG VENTURE
  COMPANIES: ENTREPRENEURSHIP ................................................................. 9
  SECTION 1. INTRODUCTION .............................................................................. 9
  SECTION 2. THEORETICAL BACKGROUND ......................................................... 10
    3.2.1. Entrepreneurship Theories and Entrepreneurship Orientation ............... 10
    3.2.2. Entrepreneurship Orientation ............................................................... 11
    3.2.3. Dimensions of Entrepreneurship Orientation ....................................... 12
  SECTION 3. EMPIRICAL STUDY ON THE RELATIONSHIP BETWEEN ENTREPRENEURSHIP
  AND FUND-RAISING ABILITY OF YOUNG VENTURE COMPANIES.................... 16
    3.3.1. Hypothesis ......................................................................................... 16
    3.3.2. Analysis Method ................................................................................ 16
    3.3.3. SPSS Statistics Analysis ...................................................................... 18
    3.3.4. Hypothesis Test .................................................................................. 24
  SECTION 4. CONCLUSION AND RECOMMENDATION ..................................... 24

REFERENCES ................................................................................................................26

APPENDIX ....................................................................................................................27
CHAPTER 1. ANALYSIS OF VENTURE CAPITAL MARKET IN KOREA

Section 1. THE DEFINITION AND RANGE OF VENTURE COMPANY IN KOREA

The Korean government categorizes companies operating in Korea into different company groups in order to distribute the publicly funded resources and build an effective structural system for supporting each of them. Under the government’s declaration, “Venture Company” pursues profits by making products or offering services, which are based on innovative and creative technologies or ideas. A Venture Company is heavily dependent on its unique combination of new technology or idea and its business involves unpredictable risk of estimating consumer demands and of developing new products and/or services. Because its business is based on new technology, the Venture Company generally has a high investment rate for R&D to sales, and emphasizes creativity as a key for business success.

According to “Act on the Special Measures To Nurture Venture Companies”, a business entity must quality one of three requirements to be regarded as a Venture Company. First, a company is funded by Small and Medium Business Venture Capital, New Technology Business Financial Institution, Korea Venture Capital, Korea Finance Corporation, Korea Industrial Bank, common banks, or private equity firms for over 50 million KRW. Second, a company operates a research center affiliated with the company, and its annual investment on R&D is over 50 million KRW, which must be more than 5% of its sales. Third, a company receives a technology loan guarantee from Korea Technology Finance Corporation or a venture start-up fund of over 80 million KRW from Small and Medium Business Corporation. The government has applied the criteria, such as technology level, product superiority, R&D rate, and venture capital investment to define a company as a “Venture Company.”

For this paper, I will use the capital letters for the first letters of “Venture Company” in order specifically represent the subject of the paper, which are companies qualified as Venture Companies in accord with the Korean government’s laws and rules, instead of venture companies in a widely
Section 2. **THE OVERVIEW OF VENTURE CAPITAL MARKET IN KOREA**

South Korea is a small country, and it is not rich in oil or any other natural resources. Its economy development has heavily relied on manufacturing industries, such as steal, semi-conductors and automobile, to drive its economic growth. However, the development of the manufacturing businesses has slowed, as they are facing increasing competitions from foreign companies from emerging economies, such as China, India, and Brazil. The competitiveness of the Korean manufacturing companies is quickly eroding. Both the government and companies have been in search for new growth engines. Technology-centric, internet business meets their interests, because it does not require particular natural resource while necessitate high brain powers, which could be obtainable thanks to the high education fever in science and mathematics in Korea.

There are more new start-ups now than during the era of information technology boom, which was between 2000 and 2001. Most of the new start-ups operate in Internet, Communication, and Technology industry; because the initial costs of starting a software company is lower than those of manufacturing companies (Lee 2012). Since smartphones started to be in wide use by consumers, many computer engineers have restlessly churning out mobile applications, which operates on Apple OS and/or Android OS in smartphones. The costs for developing such mobile applications were no more than labor and cheap rent. The below chart showing the number of Venture Companies in Korea in each year shows that the number of start-ups increased by approximately 30% from 18,893 to 24,645 between 2009 and 2010. The growth has plateaued since 2010 until now, while it is slightly decreasing in 2014.
Despite of the sharp increase in number of Venture Companies, venture capital market has not met the expectations of entrepreneurs. The virtuous cycle of Venture Company ecosystem, 1) business start, 2) investment, 3) growth, 4) exit, 5) re-investment or re-challenge, 1) business start, has not processed properly due to the drawbacks of venture capital market in Korea. As the following analysis will show, most of start-ups in early stages are in short supply of capital, while those on the tract to IPO’s or other exits attract excessive capital.
The focus by the government on nurturing Venture Company has provided the venture capital market with abundant amount of capital. However, the capital has not been efficiently allocated to the diverse stages of start-ups. Investors, investing proprietary capital or investing their clients’ money, tend to avert high-risk by not betting on early stage start-ups. The perception that early stage investments are risker is accentuated by 14 years of the average period from an investment to an exit for a start-up in Korea. Investors, especially those who are obligated to return profits to their clients in shorter term, are not able to commit such a long period of investments. According to the industry pundits, the lack of interim exit channels is one of the most important reasons for the prolonged period from investments to exits. Unlike the venture capital market in the US, M&A activities have not been vigorous in Korea.

For the survival and success of Venture Companies, the issue of financing capital is no less important than entrepreneurship, technology level, and creativity and nobility of business ideas. In this chapter, I investigate the diverse types of venture capital investment on Venture Companies and detect weak points that disrupt the ideal, virtuous cycle of Venture Company ecosystem. And I suggest few recommendations for the government to improve the efficiency of venture capital market and for the investors and entrepreneurs to improve their chance of success.

Section 3. **DIFFERENT TYPES OF VENTURE CAPITAL FOR VENTURE COMPANIES**

The sources of capital for Venture Companies can be categorized by who gives the money: 1) internal capital and 2) external capital.

There are three types of internal capital. A founder, who plans his business and calculates the required starting budget, invests initial capital to launch his business. A founder’s equity capital is advantageous for maximizing the returns if the ventures go success, earning most for his investment. Also, investing his own capital and thus retaining high share of ownership of the company is beneficial to protect the management rights and continue to manage company along with his managerial philosophy. Overly relying on external investors’ capital and losing ownership may cause a loss of ownership and management right over conflict against other shareholders. The second type
of internal capital is through capital surplus. When a Venture Company starts to make profit, it has capital surplus to utilize. This capital could be distributed to stakeholders. But, in general, Venture Companies, which tend to prefer risk over stability, put the capital surplus back in order to expand its business. And the last type of internal money is through family, relatives and friends of founders. Many Venture Company founders in Korea ask them to borrow or to invest money on their start-up businesses. It is more convenient to obtain money from someone they have known and built credibility than external investors. According to the data from Korea Venture Business Association, capital from founders takes 64.4% of investment in the initial phase of all start-ups. Combining all sources of internal capital, it takes around 87.4%. External capital, such as from angel investors and venture capital firms, takes less than 10%, which shows how difficult for a start-up to receive funding when a start-up launches in venture capital market in Korea.

![Source of Initial Capital for Venture Companies](chart2.png)

**Chart 2. Source of Initial Capital for Venture Companies (unit: percentage %)**

External capital is again divided by types of capital providers, Korean government, venture capital firms, and angel investors. Korean government raises capital to support companies’ R&D efforts and to nurture healthy Venture Companies. Publicly funded capital flows into Venture Companies in three ways. It is used as technology support fund to encourage more R&D efforts on
developing new technologies. Also, government independently runs its Venture Capital Matching Fund to directly invest to appropriate Venture Companies. Lastly, it provides publicly funded capital to the third parties like financial institutions and other investment vehicles. The financial institutions, such as common banks and industry banks, are allowed to provide low rate loans to Venture Companies with qualified technologies. Also, the government’s investment institutions, such as Korea Fund of Funds (KFoF) ran by Korea Venture Investment Corporation (KVIC) and Korea Finance Corporation (KFC), invest and distribute capital to private venture capital firms so that they can utilize it to identify and invest to Venture Companies. KVIC is a government agency specialized in Fund-of-Funds management. It provides finance to venture capital firms that invest in small and medium size businesses (SMEs) and venture companies for job creation and growth of them. Korea Fund of Funds (KFoF) was established in 2005 based on the “Special Measures for the Promotion of Venture Businesses Act,” for the purpose of providing a stable capital source for venture investment. KVIC manages KFoF according to the government’s guidelines to maximize its effects through indirect investment. It commits to partnership funds, around 30 of them are created by venture capital firms each year with maturity period of 5 to 7 years. And they directly invest to Venture Companies and share investment profits with KFoF and the government in the end.

In 2014, there are 102 venture capital firms active in Korea. Capital from diverse profit-seeking institutions, such as government branches, financial institutions, and private investors, jointly compose venture capital funds. Among the 102, 51 (50%) have been operating longer than 10 years while 17 (16.7%) have ran for less than 3 years. In terms of the size of the capital, 51 (50%) manages smaller than 10 billion KRW, while 12 large venture capital firms manages larger than 30 billion KRW.

The last source of external capital is from angel investors. Angel investors, according to currently active entrepreneurs, are most helpful and ideal as financial and strategic partners. They not only provide capital in short supply but also actively suggest ideas and strategies by introducing human network and devising marketing strategies. Experienced angel investors, especially those who had past experience of running their own successful tech companies, help young entrepreneurs
make right managerial decisions in the midst of venture adventures.

Section 4. \textbf{The Analysis of Current Venture Capital Market in Korea}

President Park Geun-Hye, who was appointed in 2013, has promised to create a “creative economy” and launched the new Ministry of Science, ICT and Future Planning. The government allocated 5.2691 trillion KRW, a 13.5% increase from the previous year, for 2014 budget to nurture the “creative economy.” In detail, the government committed 210 billion KRW for building and improving Venture Company ecosystem, 730 billion KRW for fostering global creative talents, and 2.58 trillion KRW for investing and supporting new technology oriented companies.

<table>
<thead>
<tr>
<th>Strategy and Objective</th>
<th>Budget for 2013</th>
<th>Budget for 2014</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating the ecosystem for Venture Companies</td>
<td>16</td>
<td>21</td>
<td>30.5%</td>
</tr>
<tr>
<td>Investing in SMEs and Venture Companies</td>
<td>10</td>
<td>12</td>
<td>22.3%</td>
</tr>
<tr>
<td>Creating new technology industry and markets</td>
<td>2,26</td>
<td>2,58</td>
<td>14.3%</td>
</tr>
<tr>
<td>Training creative talents</td>
<td>6,58</td>
<td>7,29</td>
<td>10.8%</td>
</tr>
<tr>
<td>Investing in R&amp;D in science</td>
<td>1,46</td>
<td>1,62</td>
<td>11.0%</td>
</tr>
<tr>
<td>Investing to create “creative economy culture”</td>
<td>0</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>4,64</td>
<td>5,27</td>
<td>13.5%</td>
</tr>
</tbody>
</table>

Chart 3: 2014 Budget by The bureau of ICT and Future Planning (unit: billion in KRW)

The increasing size of publicly funded investments by Korean government to the new-technology industry has contributed largest amount of capital in Korean history to flow into the venture capital market. The total size of FoF increased from 575 million KRW to 1,530 million KRW from 2012 to 2013. And, already by March of 2014, it has reached to 766 million KRW.

<table>
<thead>
<tr>
<th>Category</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Fund</td>
<td>1,421</td>
<td>1,590</td>
<td>2,286</td>
<td>773</td>
<td>1,741</td>
<td>910</td>
</tr>
<tr>
<td>KFoF</td>
<td>1,190</td>
<td>938</td>
<td>1,622</td>
<td>576</td>
<td>1,530</td>
<td>766</td>
</tr>
</tbody>
</table>

Chart 4: 2014, the size of Venture Capital Funds (unit: million in KRW)

Thanks to the government’s focus on new technology industry, mostly information, communication, and technology (ICT) industry, venture capital firms and angel investors have gained more access to the larger pool of capital.

Jimmy Rim, who calls himself as a best friend of start-ups, is the chief execute of K Cube Ventures, South Korean venture capital firm. K Cube Ventures was founded by Bum Soo Kim, a
founder of KaKao, which is famous for its mobile messaging service. Jimmy claims that such external capital from government and investment institutions is essential for nurturing successful Venture Companies. When personal computer and internet were introduced in early 2000, the government and private investors provided, directly and indirectly, capital to many internet start-ups in the beginning phase of their business. The results are the global internet companies like Nexon and Naver. He says that there is increasing interests in investing to technology start-ups by those who have listened to the successful investment stories of Google, Facebook and many other internet and mobile based companies in the US. And those domestic private investors believe the young talents in Korea are competent in computer programming and they can, with some financial support, accomplish something equivalent to success in the US. However, although the government, professional venture capital firms, and private angel investors are seeking for investment opportunities on technology Venture Companies, their strong will for investment has not translated into actual investment activities. WHY?

![Number of Venture Capital Firms](chart.png)

Chart 5. The annual number of Venture Capital Firm (KVCA)
The data from KVCA shows that the number of venture capital firms has decreased since early 2000. Moreover, the total annual amount of new investment by the venture capitals and the associations of investment targeting Venture Companies have not increased much, compared to the total amount of capital flowing into those funds, contributing to the widening gap between the remaining balance and the new investment, as shown in the above chart. Since 2007, the gap of amount between the new investment and the remaining balance has widened. In the end of 2013, only 1.384 trillion KRW was invested, still leaving 4.467 trillion KRW in the balance account. The data proves that venture capital firms and other investment associations targeting Venture Companies are reluctant to invest, despite of increasing size of capital committed to their balance. It implies that investment institutions are sitting on increasing size of funds, which cost them due to expectation of return by their clients and time value of money, because they cannot identify promising investment opportunities.

<table>
<thead>
<tr>
<th>Category</th>
<th>2014 Q1/4 (Korea)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount of</td>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Early Stage (1-3 year)</td>
<td>794</td>
<td>29.5%</td>
<td></td>
</tr>
<tr>
<td>Expansion (3-7 year)</td>
<td>550</td>
<td>20.5%</td>
<td></td>
</tr>
</tbody>
</table>
Also, Korean venture capital firms tend to invest to start-ups in the later stage, the companies which have operated 7 years and more. The 50% of total investment to Venture Companies during the first quarter of 2014 was directed to those in the later stages, while only the 27% of total amount of investment to start-ups in the US was directed to those in the later stages. In fact, many companies in Korea which are categorized in the early stage are companies established by large, parent companies. Thus, capital is biasedly flowing into the latter stage companies, while discriminating those which are most desperate for capital. The overall picture of venture capital market in Korea shows that the publicly funded capital, which is originally raised to support Venture Companies with innovative idea or technology but in early stage, is not fulfilling their financial needs.

Angel Investment is an investment activity focused on early stage start-ups which have innovative business ideas or technology. In Korea, there are number of famous angel investors actively advising and supporting new start-ups. Usually, they were entrepreneurs themselves in the early 2000. They were the founders and managers of now large internet-based, service companies or game companies. After listing or selling their shares of the companies, they have fetch large amount of cash, part of which have been re-invested to new start-ups running by next generations. Unlike professional investment vehicles, they have superior insight on the industry and keen on following changes in technologies and trends. They usually invest smaller amounts of investment than institutional investors, but do in earlier than them. Also, they are actively involved in the management of the companies invested, leveraging their human networks that young managers don’t have. Their involvements are taken more favorable not only to the young entrepreneurs but also to future investors, who can rely on high reputation of the angel investors.
Joon-ho Lee, one of the co-founder and ex-chief technology officer of NAVER, is popular in the Korean venture community for advising and financially supporting early stage start-ups. Because he understands the challenging process of technological advancement and the difficulties of developing business model for internet companies, he has actively invested his private money to some of start-ups in early stages. “Start-ups usually don’t have clear business model in the beginning. If investors only follow the market logic and chase after short-term returns, the young will not be able to develop technology or service they have in minds. As much as the broad vision is needed for entrepreneurs, it is required for investors like us.”

Young-Ha, Ko, another famous angel investor, also understands the challenges of the start-ups in the early phase. “Almost all new businesses go through the phase called “death valley.” It is period before a start-up makes its first profit. As it runs out of cash, it looks more desperate for money, which gives a danger sign for potential investors. But I try to look more detail on these start-ups in “death valley,” because sometimes their good businesses are overlooked by their momentous, unstable financial stance.”

Gilhyun Kim, the CEO of Enswers, contributes his erstwhile success to the investment from a famous angel investor. When Kim and his team were developing proprietary audio-visual recognition technology, they were running out of money. As many new technology development companies, Enswers was not making any profits lacking any clear business model. But Bon Angels Venture Partners, an angel investment group led by Byungkyu Jang, who had made fortunes by selling a search engine to NAVER in 2005, invested 300 million KRW in 2006, and persuaded SoftBank Ventures to invest another 1.6 billion KRW in 2008. When Enswers was acquired to KT, a Korean telecommunication giant, in 2012, Bon Angels reaped 10 times of the capital invested. Jang says, “As there are many active angel investors in Silicon Valley, who have succeeded in their own business and come back as angel investors, here in Seoul Valley we are trying to do equivalent roles, supporting next generations using our own network, capital, knowledge, and know-how. I believe that as I and other angel investors get more sophisticated in searching and accelerating new technology business, we can help the next generations to build something greater than what we had
built.”

<table>
<thead>
<tr>
<th>Country</th>
<th>Venture Capital Investment</th>
<th>Angel Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>USA</td>
<td>55%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Chart 9. Comparison of Size of Investment by Angel Investors and Venture Capital Firms in Korea and USA

However, the report published by Korean government in 2013 indicates that the angel investment in Korea is sharply decreasing and much smaller to that in the US. The total amount of angel investment in Korea has shrunk from 549 billion KRW in 2000 to mere 34 billion KRW in 2011. Also, there were of 1,291 cases of angel investment in 2000, while there were only 39 cases of angel investment in 2011. Comparing with the investment activity in the US, the early stage investment in Korea is out of the balance. Only 2% of early stage investment to Venture Company was executed by angel investors, while in the US 44% of early stage investment to start-ups were executed by angel investors. As the role of angel investors are critical for supplying capital for start-ups in early stages, it shows how difficult it is for entrepreneurs in Korea to get financing in early stages.

Korean government has attempted to encourage more angel investors to invest to Venture Companies. In 2012, the Korea Venture Investment Corporation (KVIC) launched Angel Investment Matching Fund. It objects to foster more angel investors and angel clubs to provide financial support and minimize equity gaps for start-ups. When a registered angel investor or club sources a deal and decides to invest to a start-up, KVIC, after due-diligence by its Investment Committee, approves the deal and co-invest the matching amount to the amount invested by the angel investor. Matching limit is 200 million KRW or less per case, plus one additional investment allowed. Young Ha Ko, the chairman of Korea Angel Investment Committee, says that although Angel Investment Matching Fund will not solve the fundamental problem of venture capital market, it will encourage, to some degree, more private investors to invest by sharing risk with the government.
Section 5. **The Core Problem of Venture Capital Market: No M&A’s**

![Diagram](image)

Figure 2. A missing step in the virtuous cycle of capital in venture capital market in Korea

Although ever more capital is flowing into the venture capital market, the capital is not circulating, leaving Venture Companies in early stages deprived of financial resources to nurture their businesses. Jimmy Rim, the venture capitalist, points that there is slim room for exiting their investment to turn it profit. “Investors are not donators. Every investor, by its definition, invests for profits. Even the government’s Fund of Fund is allocated its publicly funded capital to K Cube Ventures for its future expected returns. There are many potentially promising entrepreneurs and technologies in Korea. But it is not easy to think how to cash out in five or seven years after investing to them. IPO is one option, but for a company to be publicly listed in Korea, the stock exchange market requires the financial record of a five consecutive years of 10 billion KRW annual revenue and 2 billion KRW annual profits. It is impossible for most of technology based start-ups to accomplish such level of financial records. Sometimes, it is inefficient for technology companies to spend time and efforts to build profitable business model rather than to focus on improving its technology. In the US, the active M&A market is playing as good exit channels for start-ups. We hear many successful M&A cases between internet giants and start-ups from the US; most recent one was the match between Facebook and WhatsApp. There are lots of small size M&A’s unheard, sizes
of which range between 5 million USD and 20 million USD. However, such M&A cases are so rare in Korea. Large companies in Korea could play roles of acquiring technology-based Venture Companies in order to circulate capital in venture capital market."

The comparison of exit channels by venture capital firms in Korea and the US shows how small M&A has been used as an exit for venture capital investment in Korea. In 2013, only 0.3% of
exited investment amount by venture capital firms was through M&A’s in Korea. While there were 489 cases of M&A’s in the US, which takes 69.6% of the total exited investments in 2013. Since 2001, Google alone has executed 153 M&A’s, including 18 M&A’s in 2013. Although, in Korea, IPO is more often used as an exit channel than M&A, the number of IPO has been also sliding down. In Korean stock exchange markets, there were only 22 IPO’s in 2012 and 37 IPO’s in 2013; while there were 171 IPO’s in 2000 and 153 IPO’s in 2001.

Jimmy Rim says, “To encourage more talents to launch their own business and more investors to invest to them, more M&A’s must occur. Only then, the virtuous cycle of venture capital market could well function in Seoul Valley.” The average period for a start-up to go IPO is 14 years. This means that angel investors or venture capital firms investing in early stages of Venture Companies should, in average, wait for over 10 years before retrieving their investment. Considering the time value of money and risk involved in such a long period, investors are rational to hesitate before engaging to invest to early stage start-ups. This reality explains the cause for the decreasing number of angel investors, the decreasing number of venture capital firms, and also the increasing amount of remaining balance in venture capital funds. While the number of Venture Companies is increasing, the number of investors is decreasing and the amount of capital being invested is not increasing fast enough to match the need of starting Venture Companies.

The large companies in Korea like Samsung and LG are reluctant to acquire start-ups because of excessive costs. It is economical for them to recruit some of top talents from Venture Companies and develop similar business within their own system. Moreover, while there is tax incentive for a company investing in its R&D while there is no incentive for acquiring a technology based company. Moreover, both of the buyers and sellers, in accordance with Korean tax law, must pay hefty tax for acquiring and selling a company. The complex tax problem regarding M&A aggravates when acquisition cost is paid in securities, instead of cash, because there is no immediate cash to pay for the tax. Furthermore, the patents law has been biasedly favorable to the large corporations, which doesn’t prevent them from taking over some technologies and know-hows of weaker and small companies.
Government can strengthen intellectual property law to protect technology and knowledge of Venture Companies and small and medium size companies. Also, it should penalize those companies which steal technologies of other or illegally recruit top-talents by breaking labor contracts. Strengthening intellectual property law on technology and levying hefty penalty on violators will lead to the right use of technologies developed by Venture Companies. Then, a large company which hopes to use the technology would pay reasonable price to use or acquire the company, thus encouraging more tech M&A’s.

Recently, as the Korean economy matures, the intellectual property law has strengthened. As a result, there are positive signs that the number of the M&A’s of technology Venture Companies. In 2012, KaKao, a mobile messaging service company, acquired Rotiple, a one-year old Venture Company, a developer of a GPS-based mobile service application. And Enswers, an audio-visual recognition technology development company, acquired Revlix, a two-year old mobile application development company. The both of the acquired companies had gathered massive mobile users on their services, but not made any sales yet. The acquirers were not interested in their business and didn’t have plans to expand their acquired applications. In fact, Enswers stop all the services ran by Revlix immediately after Enswers acquired it. The acquirers were purely interested in buying intelligent talents, their programming skill and creative ideas, and demanded them to work for 3 years. They are initial cases of talent acquisition in Korea. In 2012, there was another case of talent acquisition in larger scale. KT acquired Enswers, paying 50 billion KRW to buy the majority shares and management rights. According to the income statement of Enswers in the previous year of the acquisition, it recorded the loss of 800 million KRW. Moreover, it didn’t have a concrete plan to turn it profitable in near future. However, KT evaluated its technology and patents valuable enough to buy them for 50 billion KRW. The talent acquisition was unprecedented in Korea beforehand, because of weak enforcement of intellectual property law. Whether these talent acquisitions would
benefit the acquirers and their shareholders remain to be seen. But, it is an apparently positive signs that technologies and talents are started to be evaluated fairly as they do in the US, where there are many more M&A’s in venture capital market.

Venture capital firms and angel investors can introduce competitive Venture Companies in Korea to foreign potential buyers. If there is not enough number of domestic acquirer, they can find ones from oversea. In 2013, Groupon, an American deal-of-the-day company, acquired Ticket Monster, a Korean deal-of-the day company for 30 million KRW. Recently, Chinese investment institutions teamed up with domestic venture capital firms are advancing into Korean ICT industry. Those fast growing internet giants with deep pockets are engulfing shares of many internet companies in Korea. For example, Tecent Holdings Limited, a Chinese investment holding company, invested 530 billion KRW to CJ Games and bought shares of over thirty, small-sized mobile game developers, such as Red Duck, Lelodi Studio, Top Pick, and Lion Games. In 2013 Alibaba, a Hangzhau internet-based ecommerce company, opened a Seoul-based office and created venture capital funds. It has proclaimed that it would actively buy shares of internet-related start-ups in Korea. Although some worry about losing domestic technology to foreign companies, the interests from Chinese investors on Venture Companies is beneficial for entrepreneurs because they offer new sources of capital and for investors because they offer new channel for exit.

But most importantly, entrepreneurs should pioneer their own ways to success, rather than relying on the government and investors to save them. Starting business based on new idea and technology is a risky venture. They must prepare themselves mentally and expect to counter unexpected obstacles. They should have known that it is very difficult to obtain investment from domestic investors, not because they are inherently risk-averse but because they can’t find many exit opportunities in Korea. Running a technology based start-ups involves not only developing best software matching consumers’ demand but also gathering capital in order to product such software.

I recommend entrepreneurs in Korea to target global market from the start. Many self-claimed internet entrepreneurs are in fact who expect unworked bonanza and become rich one day. They are no candidate for future innovator as they lack hearted creativity and passion. Another
many internet businessmen quickly copy new business model from other advanced economies and paste them in Korea under different brand. I don’t simply claim that technology or business model must be original, but there must be some innovative factors to differentiate their service and to meet consumers’ demand. Ticket Monster, despite of its sameness in business model with Groupon, sorts out products and services that Korean consumers desire and uses different payment methods and delivery service to meet their demands. Daniel Shin, a graduate from Wharton School and the founder of Ticker Monster, says that he had global market in his vision since the very start and decided to partner with Groupon to expand to Southeast Asia countries. Se Joo Jung, the founder of Noom, Inc., is true, global entrepreneurs from Korea. He flied to New York with only 5,000 USD at the age of 22. Although he is not a software engineer, he manages to found and become the chief manager of Noom Inc., Noom Inc., launches health and diet regarding mobile application like Cardio Trainer and Noon Diet Coach, which has been the bestselling application on Google Play Market. In 2008, Kleiner, Perkins, Caufield and Byers, the largest venture capital firm in Silicon Valley, invested 2.8 million USD and another investment association, a consortium of RRE Ventures, Translink Capital, Recruit Group, Qualcomm Ventures, and Scum Venture, invested 70 million USD in 2014.

Tim Draper, the founder Partner of DFJ Ventures is convinced that Koreans are ahead in many technologies, but their communication skill is not good enough to reach the whole world with their innovations. Entrepreneurship is about being courageous and proactive. I suggest them to see far and get close to overseas users and investors.
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Website


CHAPTER 2. ENTREPRENEURS IN KOREAN VENTURE COMPANIES

Section 1. INTRODUCTION

There are common factors among Jung Joo Kim, the president of Nexon Co Ltd (Nexon), Hae Jin Lee, the founder of NAVER, Bum Soo Kim, the founder of KaKao Corp (KaKao), and many other entrepreneurial leaders in the Korean internet-based service industry. Surprisingly, they studied at the same university in the same years, graduating Seoul National University with computer engineering degrees in 1990. Also, most of them attended to the same graduate school, Korea Advanced Institute of Science and Technology (KAIST). In fact, Jung Joo Kim and Hae Jin Lee, two founders of the most highly valued corporations in the industry, were long-time roommates sharing a small dormitory room. It was not coincidental that two students from the same school and in the same year are leading the current trend of future internet technology industry. This year was when the personal computer was first introduced, and KAIST was then the first and only university which had internet connection in Korea. The two students majored in computer engineering were very excited to explore and build new things using personal computers and internet.

Both histories of the business developments of Nexon and NAVER reveal founder’s unique leadership and their different perspective in innovation. Particularly, students and future business leaders can learn how they compete against seemingly invincible established competitors, like Nintendo and Google. What those two founders commonly lack were special technology, human or capital resources. Preliminary entrepreneurs should be aware that two leaders also start their businesses from very shabby positions, but find out ways to bring out innovation through different strategies and eventually build formidable business players in global market.

Section 2. JUNG JOO KIM, THE FOUNDER OF NEXON CO LTD

The father of Jungjoo Kim was a legal attorney. Kim was advantaged, financially and
educationally. He was accepted to the best university in Korea and continued to study computer engineering as a graduate student at KAIST. While experimenting with computers and internet, he, at the age of 26, and his colleagues founded Nexon Co Ltd (Nexon) in end of 1994.

Nexon didn’t start as a game developer. It developed an internet solution called “Web Office” and it produced intranets for other corporations. For example, Nexon developed an air-ticket reservation system to a domestic airline company, Asiana, in 1995. However, such works were only for the way to pile enough cash so that it can ultimately be invested to make online games. Having exposed to personal computer and internet throughout the school, Kim had foreseen that online games would become popular in near future. His proximity to new technologies put him on the vantage point to see the future ahead.

In 1995, Nexon released its first online game, “Kingdom of the Winds”, the first online game with graphic. From today’s view, it is taken as granted that online game has picture graphics, instead of only texts. But, the conditions for running an online game with high computer capacity was unmatched due to past yet undeveloped technologies, such as slow computer graphic processor, primitively slow internet speed, and expensive server expenses. Thus, with such technological environment, it was an unusual and reckless attempt to develop a picture-graphic based online games running on personal computers. But Kim foresaw that personal computers would come in to wide uses, and technological advances in relevant fields would naturally follow. He was seeing a future one step ahead of now, while living on the present moment. He was also convinced that adding picture graphics, instead of just texts, would make online games more enjoyable. So, he, with the assured vision of the increasing popularity of personal computers in future, pursued on developing more exciting online games.
In late 1995, Kim visited Japan and saw people queuing to buy newly released Nintendo game consoles. He was despaired after playing and testing the games made by Nintendo. The overwhelmingly superior qualities of games developed by Nintendo were incomparable to the humble qualities of games developed by a few programmers of Nexon. In poor working environment, Kim became unconfident to continuously compete against the Japanese game developers. However, he mentally recouped himself and tenaciously pushed forward his vision. Nexon published its third game in 1998, and released at least one game every year since then until now, including globally famous online games like MapleStory.

Kim credits his success to his luck of riding a good market trend. While the console games were in the surface dominating the game market, online games played on personal computers was growing rapidly. Nexon focused on PC users who would rather play games on their computers. The Japanese game producers undoubtedly had technological advantages, but didn’t respond to the changes in users’ behavior patterns. As more, younger users spend time on their computers, they find it easy to play games on their computers. Also, as the use of personal computers became wide, the price of them drops and the quality of improved, well enough to run better quality computer games demanding high computer capacity. Through Kim’s precise prediction on future market changes and resulting changes in game users’ behaviors, he could persistently focused on developing online
In 2012, Nexon was publicly listed on Tokyo Stock Exchange. And Nexon’s total revenue for 2013 was 155.3 billion JPY, while Nintendo’s was 572 billion JPY. Yet, the market capitalization of Nexon is around 400 billion JPY and that of Nintendo is 1.3 trillion JPY. The higher value of Earning per Share of Nexon than that of Nintendo represents rosy prospect from the investors. In fact, Nexon’s operating income was 50.7 billion JPY in 2013, while Nintendo’s operating loss was 46 billion JPY. Kim’s judgment that games on personal computer become popular was correct. But now Kim is already cautiously watching and leading new changes in the game and internet industry. Consumers have started abandoning personal computers and use smartphones and tablet PCs. He knows too well from the case of Nintendo that high quality game based on cutting-edge technology will not guarantee success and bring users to the front of their game screens. Now he is facing the similar problem that Nintendo confronted ten years ago. But he knows where he should focus on, not on technology itself but on customers’ behaviors.

Section 3. HAE JIN LEE, THE FOUNDER OF NAVER AND LINE

When Hae Jin, Lee, the founder of NAVER and LINE, met with Sergey Brin, the co-founder of Google, Brin showed him Google Earth, a virtual globe map and geographic information program, at the headquarter of Google in California. Lee, from an open industry conference in Korea, confessed that he was then so shocked about the ambition and goal of Google that it may be better to give up competing against Google now than later. But he eventually overcome such collapsed mentality, and still manages to lead his start-ups until now.

Lee recognizes that new business opportunities do occur from new and innovative technologies. For example, when touch screen was first introduced to market, many services applying touch screen technology, such as mobile games utilizing touch screen technologies, have emerged and profited from it. However, Lee thinks that new and superior technology is not a must recipe for an innovative and profitable service. He differentiates NAVER from other technology companies, and emphasizes that NAVER is not a technology company, but a service company.
leveraging selective new technologies. He focuses on people’s basic desires, desires to communicate, read, write, listen, and share, and helps them to fulfill those desires by utilizing new technologies.

“NAVER is offering services to users. If we know what users want and we deliver what they need, we are a strong organization. If our management team understands what users need, we are a secure organization. No matter how advanced we are in terms of technological level, we are a weak organization, if we don’t know what users think. A service company which knows the users’ need will never go bankrupt. This is the conclusion I have reached after running NAVER for 15 years.”

Lee has a very straightforward method enabling NAVER to thrive and lead the internet-based service market: finding and meeting needs of internet users. Lee says that it is impossible to be ignorant about needs of internet users because he is himself an internet user and he encounters inconveniences every time he uses all sorts of internet services. He didn’t need to pay attention to other people’s ideas yet, because he has continuously encountered inconveniences while using internet services and devised better versions to replace them. Therefore, for him, finding internet users’ desire is an easy step. And the real and serious question is how to most effectively fulfill those internet users’ desires.

Lee’s refrigerator theory reveals his approach to meet others’ demand and his definition of innovation. He once asked randomly selected employees to pack a refrigerator in offices and categorized them into three types by their actions of completing the mission. The first type was who were reluctant to start their duties and became lazy, gradually slowing in filling refrigerators. To Lee, this type of employees is the worst type of employees, because their indolence causes inconvenience to other employees who expect to find drinks and small foods. The second type was ones who mindlessly fill the refrigerator. They lack wills for innovation. They tend to consider packing the refrigerator is such a trivial work that they habitually fill it with the same products. The third type was the innovator who continuously finds ways to fill the refrigerator so that he can maximize the
satisfactions of others who open refrigerators’ doors to find some treatments. The innovators recognize that some drink are more popular than others, and put more of them next time. That is part of Customer Relationship Management and part of customer analysis. When new drink is introduced in market, the innovators bring it to test whether customers would like it or not. They clean the refrigerators and control the temperature in accord to the change in weather, lower temperature in summer and higher temperature in winter.

Innovation of NAVER occurs not from what to do but from how to do. Innovators solve the same problem but in a creative way. His starting point on realizing innovation is quite different from how ordinary people think of it. People often ask about what is next big thing. But for him, there is no next big thing. The thing has always been existed and unchanged, because the thing equals to basic human desires. And only thing that is changing is the way to meet such desire in most effectively way by using new methods, sometimes new technologies. In other words, innovation doesn’t happen by doing something special but by doing ordinary thing in a special way. Lee doesn’t believe in creative innovation, but emphasize disciplined innovation. Innovation in an internet service company doesn’t occur by one employee’s sudden burst of creative idea. All employees should simply sit down and diligently analyze the users’ behaviors, understand their needs, and bring services to meet them.

Section 4. **FOCUS OF INNOVATION, FULFILLING BASIC HUMAN DESIRES**

Leaderships of Kim and Lee were undoubtedly important factors to the successes of Nexon and NAVER. The challenge spirit was a common characteristic they share. When Kim faced the Nintendo and Lee faced Google, their levels of technologies were inferior and obsolete. Ordinary people would have not thought of competing against them. But they saw the competitors in different perspectives. Kim was convinced that when the market for personal computer looms, the market for online games would become larger and that of console games would shrink. And Lee thought he could build an internet search engine for Korean users than Google could. They both were not overwhelmed by the technological and financial advantages of large competitors but seek for their
own competitive advantages.

At some moments of their business journeys, Kim and Lee both thought their technology levels are so coarse and their working environments are so poor that their efforts of developing games or internet services would eventually become reckless ventures. But they didn’t give up or get jobs at other large technology corporations. Their abilities in computer science were outstanding and their chances to be recruited by top class IT companies were high. But they choose not to find comfortable jobs at large firms but pursue their visions. They said they never chased after money nor expect that they would build such large companies as now.

Their entrepreneurship started from the self-conviction that they can build something better than anyone currently do now. Kim advises to future business leaders and entrepreneurs to search for a best product or a best service out in the market, but that you think you can still improve. If you think you can make a bottle of water more tasteful than the best water out in the market, then you should start working to bring that water in your mind to the world. Or if you think you can design a better and faster airplane, you should start doing so. Kim thought that he could make more enjoyable games on personal computers than Nintendo do, and Lee thought that he could make a better internet search engine for Korean than Google does. The web portal site of NAVER, naver.com, is currently answering to billions of queries of Korean internet users. Around the world except for Russia and China, in which internet industries are heavily regulated by the governments, Korea is only country that internet search market is not dominated by Google.

The success story of two internet entrepreneurs in Korea shows that innovation rises not just from invention of new special technology, but from combination of existing technologies and understanding in target customers’ desire. I suggest future entrepreneurs not to complain or become small by their present, incompetent technology. Innovation, according to the stories of Kim and Lee, rises from tenacious research on target market and target customers and realistic solutions to meet their needs.
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CHAPTER 3. OVERCOMING FINANCIAL SHORTAGE FOR YOUNG VENTURE COMPANIES: ENTREPRENEURSHIP

Section 1. INTRODUCTION

As the previous analysis of venture capital market shows, despite of the dramatic increase in both the number of newly starting Venture Companies and the amount of committed capital to nurture new Venture Companies from the government and private investors, the mismatch between the demands of Venture Companies and the supplies of the capital exists, resulting to the growing balance of funds being committed to Venture Companies. Particularly, those Venture Companies in early stages are in short supply of financing. No exit channel for investment, due to lethargic tech M&A markets in Korea, is one of the biggest causes for this mismatch. However, while some start-up founders complain about difficulties of financing, others, though few, still manages to secure funds from angel investors or venture capital firms for a series of times. I wonder whether the entrepreneurship of managers affects the fund-raising ability of Venture Companies in early stages. To find the relation, I attempt to quantify the degree of the entrepreneurship of management teams of Venture Companies and their fund-raising ability.

The primary purpose is to clarify the nature of entrepreneurship and entrepreneurship orientation, and to find the relationship with the entrepreneurship and a firm’s financial performance, especially its financing ability. To accomplish the goal, I first study the previous academic literatures on entrepreneurship orientation. Through this study, I establish the definition of entrepreneurship and the dimensions of entrepreneurship orientation, which will be used as the criteria (innovation, proactiveness, competitive aggressiveness, and risking-taking) to reckon the level of entrepreneurship of Venture Company managers in Korea. Then, I conduct an empirical study, composing a questionnaire distributed to respondents (managers and employees) to estimate the level of entrepreneurship and fund-raising ability. Finally, I conduct multiple regression analysis on SPSS to find the relation between entrepreneurship and financing/funding ability.
Section 2. THEORETICAL BACKGROUND

I investigate academic literatures on entrepreneurship theory, and study the definition of entrepreneurs and their roles to businesses and economies. Then, I summarize the common defining characteristics of entrepreneurship orientations to apply this theoretical knowledge into my planned survey.

3.2.1. Entrepreneurship Theories and Entrepreneurship Orientation

Summaries on Entrepreneurship Theories

The role of founders and managers is critical for the survival and success of businesses. It is especially so in case of young, new technology start-ups. They are required to have technological and managerial knowledge. Also, they are expected to have clear vision and unmatched insight to seize business opportunities in the midst of ever changing business environments. They should be able to think differently or more creatively, and bear innovative results. In short, they should have entrepreneurship. Elusive as it sounds, it is difficult to define what entrepreneurship is.

In the seventeenth century, Richard Cantillon, the western philosopher and economist, describes entrepreneurs as risk-takers, non-fixed income earners who pay fixed costs but earn unfixed incomes, due to the speculative nature of pandering to an unknown demand. In the early 1800s, John Stuart Mill also emphasizes risk-taking as a critical character defining entrepreneurs, who not only take financial risk but also actively participate in managerial risk. Joseph Schumpeter, the twentieth century economist, sees entrepreneurs as destructive force in an economy, wild spirits introducing new goods or methods and implementing changes in an economy. His view on the effect to an economy is opposite to Richard Cantillon’s, who bring equilibrium to a market by correctly meeting consumers’ needs. Peter Druker, the twenty-first century management scholar, says that entrepreneurs sensitively notice changes in a market and acutely adapt to the changes. They also leverage the changes as business opportunities and create new goods or methods in innovative ways. He also makes much of discipline as a criterion for being an entrepreneur.
3.2.2. Entrepreneurship Orientation

Numerous academic scholars and on-site businessmen, inarguably, regard entrepreneurship as essential success factor for both starting and existing companies. The majority of academic literatures I found and reviewed focused on the organizational level of entrepreneurship. As the field of strategic management developed, the emphasis of study shifted from a firm’s business domain, its product-market relationship, and resource deployment to a firm’s entrepreneurial processes: methods, processes, and decision-making styles managers use (Lumpkin & Dess, 1996). In other words, the determinants for being entrepreneurial shift from which new business or market they enter to how they operate regardless of new or existing market. Lumpkin and Dress distinguish entrepreneurship and entrepreneurship orientation. They define entrepreneurship as new entry and describe entrepreneurship orientation as how that new entry is undertaken. Adopting the concept from Lumpkin and Dess, I refer entrepreneurship orientation as the processes, practices, and decision making activities that lead to new entry. Also, Lumpkin and Dess point that “the key dimensions that characterize an entrepreneurship orientation include a propensity to act autonomously, a willingness to innovate and take risks, and a tendency to be aggressive toward competitors and proactive relative to marketplace opportunities (Lumpin & Dess, 1966)”. They perceive that those five dimensions, autonomy, innovativeness, proactiveness, competitive aggressiveness, and risk taking, vary independently, not covarying.

In my research, like the integrative framework for exploring the relationship between entrepreneurship orientation and performance by Lumpkin and Dess, I ignore the external factors, such as networking, business environment, or internal factors, the types of business, and organizational structure, or personal backgrounds, the degree of wealth of managers’ family, dimensions that could affect the successful new entry. In my research, a successful new entry means high level of financial stability due to managers’ fund-raising ability during the early stages of Venture Companies. I knowingly neglect both external and internal factors, which may affect the a successful new entry, because the study objects, the Venture Companies in Seoul, Korea, are in equal or similar business environments (no context contingency issue). And internal factors are also
disregarded as the early stage Venture Companies are less influenced by firm level specifics but more influenced by the managerial styles of top managers of the company. I assume that early stage companies are too premature to have systematic or organizational characters that could affect the success of business. I assume that the leadership and characteristics of managers have more influence on the success of business in the early stage.

3.2.3. Dimensions of Entrepreneurship Orientation

Lumpkin and Dess first adopted the three dimensions of entrepreneurship orientation, “innovativeness,” “risk taking,” and “proactiveness” from the work of Miller (1983). According to Miller (1983), an entrepreneurial firm is one that “engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch (1983).” From this description of an entrepreneurial firm, Lumpkin and Dess include another dimension to a set of entrepreneurship orientation, “competitive aggressiveness.” Although Lumpkin and Dess add another dimension, “autonomy,” I exclude it in my research and empirical study. Because the study object of my research is limited to early stage Venture Companies in Korea, I assume the influence of bureaucracy and organizational tradition on small organization is negligible. Rather the concept of “autonomy” is often used in observing and testing the level of entrepreneurship orientation for the internal corporate venturing within the existing companies.

Innovativeness

Innovativeness is willingness to execute creative and ingenious idea, to invent new goods, services, or methods by drawing on new technological process, to adapt to new, changing business environments. Lumpkin and Dess describe that “innovativeness reflects a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative processes that may result in new products, services, or technological processes.” I assume that individual managers’ innovativeness is equal to his/her firm’s innovativeness, because his/her influence is dominant in small size organization.
Proactiveness

Proactiveness is a propensity to anticipate changes in both markets and consumer demands, grab new future opportunities and make strategic decisions to outpace competitors, resulting in leading new trend of market (Miller, 1987). Entrepreneur with proactiveness are the first-movers, who have high prospects for fetching unusually high profit and for establishing brand recognition ahead of others. According to Higashide of Waseda University, the idea of being the first to introduce a new idea to market is different from the idea of being first to be recognized in market is different. Thus, being the first mover doesn’t necessarily require being the earliest one to introduce new product to new market. Facebook was not the first SNS provider, rather MySpace, whose market share is insignificant now, launch much ahead of Facebook. Therefore, I, as Lumpkin and Bess do, agree with Venkatraman’s idea that “proactiveness refers to processes aimed at anticipating and acting on future needs by seeking new opportunities which may or may not be related to the present line of operations, introduction of new products and brands ahead of competition.”

Competitive Aggressiveness

Competitive Aggressiveness refers to a company’s attitude toward competitors in a market. Its concept is often confusing with proactiveness. While proactiveness describes a firm’s first step and its positions in terms of technology and market trends, competitive aggressiveness describes a firm’s eagerness on competition and its stance against rivals. As a start-up or young company is often a challenger, competitive aggressiveness is considered as an important element of entrepreneurship orientation. Competitive aggressiveness is witnessed in firms’ various strategies. Actively analyzing rivals or a market leader and bringing different and new tactics is one of actions by the firms. By doing things differently and redefining the context, they challenge existing players and take their market share. Lumpkin and Bess refer a comment by Miller and Camp, who found that “most successful aggressive firms were those that did not shy away from broadly defined markets “in terms of the number, sizes, and types of their customers.” As an individual level of competitive aggressiveness, the famous quote by Muhammad Ali. “Impossible is just a big word
thrown around by small men find it easier to live in the world they’ve been given than to explore the
power they have to change it. Impossible is nothing.” His quote describes an individual’s aggressive
and challenging attitude, an ability to overcome the seemingly unchangeable status and change it.

Risk-Taking

Risk-Taking is a propensity to take risk of business over the fear of failure. It encourages
entrepreneurs with positive expectation for success to deliberatively invest their resources in order to
achieve potential higher returns. Entrepreneurs with high risk-taking proclivity tend to weigh the
chances of success over the chances of failure, leading them to enter risky business domains. In
terms of financial analysis, risk-taking behaviors are two-fold, either high leverage from borrowing
and heavy commitment of resources (Lumpkin & Bess 1996). In other words, entrepreneurs can be
viewed as risk-takers, if they borrow heavily from others and/or commit a sheer large amount of
capital to their ventures. Also, entrepreneurs who enter into the undefined or premature business
domain are risk-taker. They commit their resources, regardless of their size, to the uncertain and
unknown process or business with unguaranteed profitable prospects.

Management Performance: Fund-raising Ability of entrepreneurs of Venture Companies in early
stages

A firms’ entrepreneurship orientation determines its’ managerial strategies in the context of
business environment. For a young or start-up company, entrepreneurship orientation of its
management team defines its approaches and strategies toward existing markets. Because the
approaching strategy to market often decides start-up’s survival in the early stages, the
entrepreneurship of the management team becomes a core cause for a success of business.

The management teams of Venture Companies in Korea work not just on making
profitable business. Often times, especially in the beginning of their ventures, the critical mission for
them is to secure enough capital to be used for developing their innovative goods or services. As the
previous data on venture capital market in Korea shows, many newly established companies are in
information communication technology industry, because large amounts of capital are not required to launch in their initial stages. But soon, larger amount of capital is required in order to scale or sophisticate their business, or to simply continue their endeavors.

Many academic literatures acknowledged the importance of entrepreneurship in firms’ ability to make profitable business in long term, but it has not been studied whether individual entrepreneurship affects his or her ability to secure capital in early stages. In the early stage, or during the first one to three years, it is rare to see internet based tech companies become profitable. Rather they focus more on securing capital to expand their business by intentionally delaying profit-seeking activities.

Interviewed venture capitalists confirmed that personal characteristics of entrepreneurs of Venture Companies do affect their investment decisions. When conducting due diligence on a targeted Venture Company, they not only evaluate the innovativeness of its products or services, but also the innovativeness of its leader. They said that a leader’s proactiveness and aggressiveness are construed as positive signals, because such attitudes give higher credibility than a timid and hesitant one does.

The data from the analysis of Venture Companies in Korea indicates that the majority of Venture Companies in the early stage or in “death valley” suffer from capital shortage. Thus, it is a critical mission for a management team to prepare a business presentation for potential investors to raise capital. Employees of Venture Companies are sensitive to financial instability, because their wages are guaranteed only when managers successfully get new capital. An edgy financial stance of a firm and following decrease in employees’ morale is inevitably detrimental to its business development. Therefore, in many cases, a work of raising capital from external investors is more important than a work of turning business profitable itself.

The work of turning business profitable or at least its plan to turn it profitable is in some degree overlapped with the work of raising capital. External investors look into the way a target firm plan to make a profitable business, and managers put significant efforts to describe their future profitable business model to them. Yet, ability to raise capital from external investors and ability to
build profitable business model require apparently two different skill sets. A manager who is good at obtaining capital from external investors is not necessarily good at turning their business profitable. My focus is primarily on the ability of managers in fund-raising from external investors during the early stage of business and the resulting financial stability of the young Venture Companies. I aim to test if entrepreneurship affect, as it does to make profitable business, to improve firms’ financial security in early stages.

Section 3. **EMPIRICAL STUDY ON THE RELATIONSHIP BETWEEN ENTREPRENEURSHIP AND FUND-RAISING ABILITY OF YOUNG VENTURE COMPANIES**

For an empirical study on the relationship between entrepreneurship and funding ability of managers of young Venture Companies, I propose a hypothesis, construct a survey questionnaire, distribute and collect the survey, analyze the collected answers using SPSS, and test the hypothesis.

3.3.1. Hypothesis

According to the theoretical study on the relationship between entrepreneurship orientation and business performance, I hypothesize that the entrepreneurship positively affects the business performance in the early stage of start-up companies. In more detail, Entrepreneurship is determined by innovativeness, proactiveness, competitive aggressiveness, and risk-taking. And business performance in the early stage companies is determined by the financial stability secured by managers with superior fund-raising ability, who attract capital from external investors. I set “entrepreneurship orientation” as a dependent variable and “funding ability” as an independent variable, and hypothesize that high level of individual entrepreneurship predicts high level of individual fund-raising ability, leading to financial stability of a young Venture Company.

3.3.2. Analysis Method

Survey Construction

For this survey, I construct a survey questionnaire targeting founders and employees of
Venture Companies younger than 3 years. The survey asks the respondents to score the degree of entrepreneurship of their firm’s management team and the degree of financial stability. Before their answering the survey, I expose the purpose of my research and ask them to answer as objectively as possible. Through emails and face-to-face meetings, I collected their answers. In total, I collected answers from 41 members and used all 41 answers to test the above hypothesis.

Questionnaire Construction

In the section 1 of the questionnaire, I first ask respondents to answer whether they are in the management team or not. In the section 2, the questionnaire asks respondents to assess the level of entrepreneurship orientation of their management team. There are total 16 statements, 4 statements about innovativeness, 4 statements about proactiveness, 4 statements about competitive aggressiveness, and 4 statements about risk-taking. Respondents read each statement and assess them by using the scale from 1 to 5, where one (1) indicating strong disagreement with statements and five (5) indicating strong agreement. In the section 3, the questionnaire asks respondents about entrepreneurial performance. The first two questions ask whether management team has ever successfully finance from external investors, including angel investors, venture capital firms, or the government. Then, finally, it asks the degree of financial stability of the firm respondent perceive due to the fund-raising ability from external investor of the management team.

Definition of Variables

**Independent Variables:** Level of Entrepreneurship Orientation of a management team

In this survey entrepreneurship orientation of a management team represent the degree of the team thinking and behaving in innovative ways, pursuing businesses in a proactive way, confronting competition aggressively, and taking risks for business opportunities. Briefly, innovativeness is a proclivity for developing new products or services, or new methods. Proactiveness is a proclivity for predicting future demands and moving faster and ahead of competitors. Competitive aggressiveness is a proclivity for relentlessly driving business against
potential competitors. And, lastly, risk-taking is a proclivity for pursuing business against odds of losses.

**Dependent Variables**: Fund-Raising Ability of a management team of a Venture Company younger than 3 years

In this survey financial stability of a Venture Company younger than 3 years is reckoned by how an employee perceive about the financial stability being evaluated. I assume that employees in Venture Companies are sensitive about financial standings, as their wages are dependent on them. Also, because fund-raising are one of the core operational activities in Venture Companies, employees are well aware if their firms successfully raise capitals. And it is often, if not always, publicized when a Venture Company secures capitals from third-party investors, including the details of the amount of investments. Therefore, I assume that employees of young Venture Companies are well aware of the financial status of their firm, and often concern about it, and are able to judge the management teams by their ability of fund-raising.

3.3.3. SPSS Statistics Analysis

To test the hypothesis, I use the SPSS and take following analytical steps.

Step 1: Factor Analysis: Rotated Component Matrix

I conduct a validity test on the survey questionnaire. The purpose of this is to test whether the questions on the survey are well designed to properly represent respective categories. In alignment with the theoretical studies on the elements of entrepreneurship orientation are independent, which means that there should not be any correlations between each criterion of Innovativeness, Proactiveness, Competitive Aggressiveness, and Risk-taking. Therefore, questions from different criteria must not show any correlation.

To test the validity of the questionnaire, I check the rotated component matrix (Table 1). However, from the first trial, I find that the answers from the sixteen (16) questions on the
questionnaire from 41 respondents are divided into five (5) components, instead of four (4) components. The first component is consisted of the answers from the question 5, question 6, question 7, question 9, question 10, question 11, and question 12. It implies that there is some degree of correlation among answers from those seven questions. The second component is consisted of the answers from the question 1, question 2, question 3, and question 4. All the four questions are asking about innovativeness. The third component is consisted of question 13 and question 16. The fourth component is consisted of just question 8. Lastly the fifth component is consisted of question 14 and question 15. I conclude that there are errors in the questionnaire, as each component is not consisted of questions that it was originally designed to be. I modify by excluding some of answers from the questionnaire to make it to four components with right sub-components as originally designed to be.

Table 1. Rotated Component Matrix

<table>
<thead>
<tr>
<th>Component</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>oj12</td>
<td>.855</td>
<td>.011</td>
<td>.124</td>
<td>-.002</td>
<td>.118</td>
</tr>
<tr>
<td>oj11</td>
<td>.853</td>
<td>.176</td>
<td>-.007</td>
<td>-.020</td>
<td>-.072</td>
</tr>
<tr>
<td>oj5</td>
<td>.852</td>
<td>.160</td>
<td>.003</td>
<td>.072</td>
<td>-.060</td>
</tr>
<tr>
<td>oj9</td>
<td>.816</td>
<td>.036</td>
<td>.150</td>
<td>-.125</td>
<td>.065</td>
</tr>
<tr>
<td>oj6</td>
<td>.697</td>
<td>-.206</td>
<td>-.033</td>
<td>.243</td>
<td>.119</td>
</tr>
<tr>
<td>oj7</td>
<td>.684</td>
<td>-.009</td>
<td>.141</td>
<td>-.332</td>
<td>-.186</td>
</tr>
<tr>
<td>oj10</td>
<td>.681</td>
<td>-.445</td>
<td>-.094</td>
<td>.059</td>
<td>-.139</td>
</tr>
<tr>
<td>oj8</td>
<td>.084</td>
<td>.800</td>
<td>-.134</td>
<td>.001</td>
<td>.177</td>
</tr>
<tr>
<td>oj4</td>
<td>.221</td>
<td>.765</td>
<td>.163</td>
<td>.076</td>
<td>-.397</td>
</tr>
<tr>
<td>oj3</td>
<td>-.008</td>
<td>.718</td>
<td>-.026</td>
<td>-.092</td>
<td>.144</td>
</tr>
<tr>
<td>oj2</td>
<td>-.359</td>
<td>.461</td>
<td>.257</td>
<td>-.245</td>
<td>.129</td>
</tr>
<tr>
<td>oj13</td>
<td>.056</td>
<td>.190</td>
<td>.814</td>
<td>.047</td>
<td>-.221</td>
</tr>
<tr>
<td>oj16</td>
<td>.142</td>
<td>-.227</td>
<td>.791</td>
<td>-.014</td>
<td>.243</td>
</tr>
<tr>
<td>oj8</td>
<td>-.163</td>
<td>.054</td>
<td>.031</td>
<td>.894</td>
<td>.078</td>
</tr>
</tbody>
</table>
In order to make four components with sub-components, I exclude several groups of answers from the question sets, the question 5, question 6, question 7, question 8, question 14, and question 15. As a result, I draw four components, first component (oj9, oj10, oj11, and oj12) representing the Competitive Aggressiveness (com), second component (oj1, oj2, oj3, and oj4) representing Innovativeness (innova), third component (oj13 and oj16) representing Risk-taking (Risk), and fourth component (oj8) representing Proactiveness (Pro).

Table 2. Rotated Component Matrix excluding oj5, oj6, oj7, oj8, oj14, and oj15

<table>
<thead>
<tr>
<th></th>
<th>Component</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>oj12</td>
<td>.866</td>
<td>.077</td>
<td>.144</td>
<td>-.101</td>
<td></td>
</tr>
<tr>
<td>oj11</td>
<td>.834</td>
<td>.230</td>
<td>.039</td>
<td>.055</td>
<td></td>
</tr>
<tr>
<td>oj9</td>
<td>.815</td>
<td>.104</td>
<td>.168</td>
<td>-.283</td>
<td></td>
</tr>
<tr>
<td>oj10</td>
<td>.746</td>
<td>-.390</td>
<td>.064</td>
<td>.049</td>
<td></td>
</tr>
<tr>
<td>oj2</td>
<td>-.456</td>
<td>.429</td>
<td>.252</td>
<td>-.370</td>
<td></td>
</tr>
<tr>
<td>oj1</td>
<td>.042</td>
<td>.805</td>
<td>-.130</td>
<td>.056</td>
<td></td>
</tr>
<tr>
<td>oj4</td>
<td>.151</td>
<td>.785</td>
<td>.183</td>
<td>.115</td>
<td></td>
</tr>
<tr>
<td>oj3</td>
<td>-.039</td>
<td>.728</td>
<td>-.049</td>
<td>-.162</td>
<td></td>
</tr>
<tr>
<td>oj13</td>
<td>.053</td>
<td>.196</td>
<td>.811</td>
<td>.034</td>
<td></td>
</tr>
<tr>
<td>oj16</td>
<td>.116</td>
<td>-.229</td>
<td>.798</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>oj8</td>
<td>-.162</td>
<td>.027</td>
<td>.065</td>
<td>.898</td>
<td></td>
</tr>
</tbody>
</table>
Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 5 iterations.

The correlation analysis shows the degree of correlation between each dependent variable. There are four variables, Innovativeness, Proactiveness, Competitive Aggressiveness, and Risk-taking, which together make up Entrepreneurship Orientation. Below Table 3 shows that there is no correlation between any two dependent variables. For example, the value of Pearson Correlation between innova and proa is -0.35, but the significance test value is 0.828. Therefore, the hypothesis that correlation between innova and proa exists is rejected because the significance test value is above 0.05 or 0.1. All the values from the significances tests are above 0.05 or 0.1, implying that there is no correlation between any two dependent variables. This represents each dependent variables forming Entrepreneurship Orientation is independent, not affecting each other, results consistent with the definitions of components of entrepreneurship orientation in the theoretical studies. Therefore, I conclude, the answers set excluding question 5, 6, 7, 8, 14, and 15 is valid to test the main hypothesis that a correlation exists between entrepreneurship and fund-raising ability of a management team.

Table 3. Correlations Analysis on dependent variables

<table>
<thead>
<tr>
<th></th>
<th>innova</th>
<th>Proa</th>
<th>com</th>
<th>risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>innova Pearson Correlation</td>
<td>1</td>
<td>-.035</td>
<td>-.095</td>
<td>.018</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.828</td>
<td>.554</td>
<td>.912</td>
</tr>
<tr>
<td>N</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Proa Pearson Correlation</td>
<td>-.035</td>
<td>1</td>
<td>-.180</td>
<td>.010</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.828</td>
<td>.260</td>
<td>.952</td>
</tr>
<tr>
<td>N</td>
<td>41</td>
<td>41</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>com Pearson Correlation</td>
<td>-.095</td>
<td>-.180</td>
<td>1</td>
<td>.163</td>
</tr>
</tbody>
</table>
Step 2: Factor Analysis: Descriptive Statistics

According to the answers from 41 respondents, the mean of Innovativeness is 3.26, Proactiveness 3.07, Competitive Aggressiveness 3.23, and Risk-taking 3.61. In average, respondents scored Risk-taking dimension highest and Proactiveness lowest.

Table 4 Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>innov</td>
<td>3.2622</td>
<td>.48718</td>
<td>41</td>
</tr>
<tr>
<td>proa</td>
<td>3.0732</td>
<td>.78709</td>
<td>41</td>
</tr>
<tr>
<td>com</td>
<td>3.2317</td>
<td>.87212</td>
<td>41</td>
</tr>
<tr>
<td>Risk</td>
<td>3.6098</td>
<td>.56471</td>
<td>41</td>
</tr>
</tbody>
</table>

Step 3: Regression & Reliability

In this multi-regression analysis, the value of the coefficient of determination, \((\text{Adjusted } R^2)\) indicating the proportion of the variation in the dependent variable accounted for by the independent variable, is 0.844. This high value of coefficient of determination indicates that independent variables and the dependent variable are highly related. In other words, the total scores of Entrepreneurship, consisting of scores of Innovativeness, Proactiveness, Competitive
Aggressiveness, and Risk-taking (four independent variables), is highly related with the scores of
Fund-raising Ability of a management team of a Venture Company younger than 3 years old.

Table 5 Model Summaryb

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.927a</td>
<td>.859</td>
<td>.844</td>
<td>.479</td>
<td>1.595</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), risk, proa, innova, com
b. Dependent Variable: oj17

Step 4: Coefficients

According to the result of the multi-regression analysis, the regression equation is

Funding Ability = 0.63*Innova + (-0.47)*Proa + (0.921)*Com + (0.028)*Risk

Only one dependent variable, Competitive Aggressive, is significant by the t test.
Other variables are not significant by the t test, as the t test statistics are above 0.05 or 0.01. The t test statistics for Innovativeness is 0.322, for Proactiveness 0.462, for Risk-taking 0.978.
The standardized coefficient of Competitive Aggressiveness is (+) 0.921, meaning that there is a positive relationship between level of Competitive Aggressiveness and Fund-raising ability by the magnitude of 0.921.

Table 6. Coefficientsa
### 3.3.4. Hypothesis Test

In this survey research, I attempt to test the hypothesis that Entrepreneurship of a management team of a Venture Company younger than 3 years has a positive relation with the fund-raising ability of the management team. Through the multi-regression analysis based on the answers from 41 respondents, Entrepreneurship has a positive relation with Fund-raising ability. Therefore, the hypothesis is accepted. Among the four components of Entrepreneurship, Competitive Aggressiveness has a valid positive relation (t-test: 0.000 < 0.05, coefficient: +0.921) with fund-raising ability. However, the other independent variables, Innova, Proa, and Risk, do not display a significant relation to the dependent variable (oj17), the fund-raising ability.

### Section 4. CONCLUSION AND RECOMMENDATION

The primary objective of this research is to find a solution of short supplies of capital for Venture Companies in the early stages. The Chapter 1, the analysis of Venture capital market in Korea, shows that the problem of the deficit of capital for young Venture Company is partly caused by the lack of exit strategies for external investors. The vitalization of M&A market by large corporations is one of the solutions. Yet, rather than entrepreneurs passively waiting for structural change in the Venture Company ecosystem, they should actively bringing in changes and solve their own financial shortage problems. Despite of prevalent capital shortage for young Venture Companies, some still manage to allure external investors’ interests and secure capital. I hypothesize
that those successful leaders, managers, or entrepreneurs, are different from others whose companies suffer and go bankrupt in early business stages. Through the academic literature reviews, I find that in general high level of firm’s entrepreneurship leads to better business performance. And I apply this research framework of the relationship between entrepreneurship and business performance to study the relationship between entrepreneurship and financing ability of Korean Venture Companies younger than 3 years. Among many distinctive perspectives on components of Entrepreneurship Orientation by scholars, I adopt four elements of it, innovativeness, proactiveness, competitive aggressiveness, and risk-taking.

The SPSS analysis of the questionnaire survey based on 41 respondents working at Korean Venture Companies shows a strong positive relation between entrepreneurship and fund-raising ability of a management team of Venture Company. However, only one of dimension of entrepreneurship orientation, competitive aggressiveness, shows a significant relation to fund-raising ability. This means that a management teams scored high is also scored high in its fund-raising ability. However, the propensities of innovativeness, proactiveness, and risk-taking do not show any meaningful relationship with fund-raising ability. Thus, it is inconclusive that innovativeness, proactiveness, and risk-taking are related to fund-raising ability.

However, the causality between competitive aggressiveness and fund-raising ability is unclear. Stronger propensity in competitive aggressiveness may lead to better fund-raising ability, but vice versa. It means that a successful fund-raising may lead entrepreneurs more competitive aggressive.

My recommendation for entrepreneurs running Venture Companies, who are yearning for capital from external investors, is to act more aggressively, and sell their ideas and business more aggressively. Interviews with the domestic venture capitalists support my recommendation. They perceive entrepreneurs’ aggressiveness as high confidence and credibility in their business.
REFERENCES


APPENDIX

Questionnaire (Originally in Korea, but translated into English)

Section 1
Are you a member of the management team of your company?

Yes/No

Section 2
To assess the level of Entrepreneurship Orientation of your company’s management team, please read each statement and assess them by using the scale from 1 to 5. Five (5) will indicate strong agreement with the statement, while one (1) will indicate strong disagreement with the statement. Likewise, the numbers in between five to one represent different degrees of agreement with each statement.

Entrepreneurship Orientation

Innovativeness
1. The members of the management team have strong proclivity for innovation and creativity in both personal and work lives

2. The management team emphasizes the innovativeness and creativity as a core corporate culture.

3. The company (the management team) is on its way to provide innovative products or services.

4. The management team strives to be different and innovative in providing products or services (even if the final product/service may not be different from other companies’)

Proactiveness
1. The members of management have strong proclivity for new things and adventures in both personal and work lives.

2. The management team strives to be the first mover in the market.

3. The management team has will and foresight to seize new opportunities.
4. The company is entering into a premature market where there is no clear demand.

**Competitive Aggressiveness**

1. The members of management have strong proclivity for competition in both personal and work lives.

2. The management team often compares and strives to outpace market competitors.

3. The management team tends to become more aggressive when confronting any business obstacles.

4. The management team is energetic and often works until late hours.

**Risk-Taking**

1. The members of management have strong proclivity for risk-taking in both personal and work lives.

2. The management team prefers a project with high risk and high return.

3. The management team emphasizes risk-taking as a core factor for success in venture business.

4. The management team is optimistic about the risk it is taking rather than nervous about the risk

Section 3

**Entrepreneurial Performance**

1. The company has been financed by the Korean government. (please write down the amount of capital, only if you know the exact amount)

   Yes/No (KRW)

2. The company has been financed by the angel investor or venture capital firm (please write down the amount of capital, only if you know the exact amount)

   Yes/No (KRW)
3. The management team excels in fund-raising from external investors, and thus I feel the company is and will be financially stable.