

Chapter 7

The Role of the Entrepreneur and Government in the Development of Korean Information Technology Firms

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ABSTRACT

This chapter examines how an entrepreneur's strategic choice influences corporate development leading to the initial public offering. The data comes from Korean startups in the information technology industry. The authors consider the dynamic interplay between an entrepreneur's attributes and government's institutional support as key factors. An empirical analysis of 615 listed companies shows that an entrepreneur's attributes play a significant role in market entry, especially in the information technology industry, which tends to have shorter lead time to the initial public offering. Government certification and venture capital investment also facilitate corporate growth toward the public company status.

INTRODUCTION

When there is a paradigm shift in technology, the concept of entrepreneurship becomes exceedingly important because technological innovation starts to lead the market creating chances of generating

new profit. An entrepreneur is an innovator who implements change within markets through the carrying out of new combinations (Schumpeter, 1934). Innovation offers an entrepreneur a chance to pursue profit and to take the chance; an entrepreneur creates an organization as a means to achieve a business goal.

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Many governments around the world have tried to intervene in this innovative process by supporting high technology industries for national competitive advantage (Freeman, 1982). The Korean government was not an exception. In order to fasten the growth of information technology industry, the Korean government created a policy to facilitate venture capital investment. The purpose of this study is to examine the effects of entrepreneurial attributes and this institutional resource support on market entry and corporate development. Specifically, we analyze if the growth of industry itself was positively influenced by the government policy of promoting entrepreneurial efforts.

Information technology industry has been playing an important role in economic development in Korea since the 1990s. Its production volume has grown by an average of 33% per year from 1995 to 2004. The gross out of the industry was over 18.4 trillion Korean won (around 15 billion U.S. dollar) in 2005, and the proportion in the GDP was 4.9% in 1995, and 7.2% in 2004 (Choi & Moon, 2006). In general, the growth of information technology industry has led the growth of all the industry in export and equipment investment in the Korean economy.

THEORETICAL BACKGROUND AND HYPOTHESES

An entrepreneur plays the role of a strategic leader in corporate development (Sharma, Seth & Niyazi, 2012). As we have observed rapid and unpredictable changes in entrepreneurial activities especially from 1990s and on, the personal characteristics and background of entrepreneurs became prominent. Entrepreneurs' attributes and experiences have played critical roles in determining which industry they would choose to enter. Their role is critical not only in the initial development of a business idea, but in their business growth to the initial public offering (IPO).

Although research regarding management team has been ongoing (Child, 1972; Hambrick, & Mason, 1984; Miller, Kets De Vries, & Toulouse, 1982), previous research have centered on the management team as a unit. Hambrick (1989), however, suggested strategic leadership theory, integrating the manager, business strategy, and organizational performance as interrelated factors. Hambrick & Mason (1984) pioneered the concept of the upper echelon, incorporating ideas about the top management team, business strategy and performance. According to the upper echelon perspective (UEP), organizational outcomes such as strategy and financial results are usually determined by the attributes of the chief executive officer (CEO).

In an uncertain and complicated decision making situation, it is difficult for the CEO with bounded rationality to grasp and interpret core information within the environment (Cyert, & March, 1963; Hambrick, & Mason, 1984; March, & Simon, 1958). In these circumstances, CEO reconstructs the decision making situation with a simplified view of the world based on their background (Barr, Stimpert, & Huff, 1992; Duhaime, & Schwenk, 1985; Finkelstein, & Hambrick, 1990; Schwenk, 1984; Walsh, 1988). So, the actual decision tends to be consistent with the attributes of CEO. The attributes reflect cognitive and motivational features as well as objective and observable facts such as age, years of service, and educational and career background.

The need for the introduction of contingency variables in research on strategic leadership theory has emerged as the past research showed inconsistent results. Since introduced the concept of contingency was introduced (Chandler, 1962; Galbraith, 1973; Lawrence and Lorsch, 1967; Thompson, 1967), management scholars have taken for granted external factors such as society, culture, technology, economy, and politics in influencing organizational structure. According to that perspective, we should pay attention to the dynamic interplay among circumstances, organi-

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