

# NATIONAL UNIVERSITY OF SCIENCE AND TECHNOLOGY



FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS MANAGEMENT

ENTREPRENEURSHIP – CBU 4109

First Semester Examination Paper

December 2014

This examination paper consists of 6 pages

**Time Allowed: 3 hours 30 minutes**

**Total Marks: 100**

**Examiner's Name: Dr G V Nani & Mr R Dlodlo**

## INSTRUCTIONS TO CANDIDATES

1. Answer question **One** and any other **Three** questions from Section B.

## INFORMATION TO CANDIDATES

1. All questions in Section B carry **20 marks**.
2. Questions may be answered in any order.
3. Credit will be given for the use of appropriate examples.
4. This paper contains seven questions.

## MARK ALLOCATION

QUESTION	MARKS
1.	40
2.	20
3.	20
4.	20
5.	20
6.	20
7.	20

## **SECTION A**

### **Question 1**

#### **CASE STUDY: SEOUL'S START-UP GENERATION**

Jay Mok's family were shocked: 29 years old, recently married, a graduate from a top Seoul university with a good job at a global consulting firm, his career was a source of pride. Then he quit to pour his savings into developing a smartphone application.

"The older generation don't understand as much about IT or the mobile business," he says. "They think if I fail, the whole family will fail."

Scattered across Seoul's Gangnam District, with its towering skyscrapers and trendy shoppers, a cohort of young entrepreneurs is seeking to remedy South Korea's lack of innovative start-ups. Gathered in borrowed space or rented offices, they are striking out with ventures in software, an area where initial costs are lower than other fields – and where the country's mighty *chaebol* conglomerates are less dominant.

While South Korean companies such as Samsung Electronics or Hyundai Motor are often portrayed abroad as plucky upstarts, at home they have loomed large over the economy for decades, just like the other *chaebol*. Experts fret that the country's prosperity has sapped the younger generation of the entrepreneurial zeal of men such as Chung Ju-yung, Hyundai's founder, whose rise from agrarian poverty mirrored his nation's.

But Gangnam's software entrepreneurs suggest such worries are misplaced. "Over 95 per cent of our users are outside Korea," Mr Mok says of Step, his app on which users track their daily activities. It is being marketed as a private journal rather than a social tool – recording rather than sharing – which he believes is a gap in the market.

The app has 10,000 users, and its developers expect to reach 200,000 this year. But Mr Mok and co-founder Daniel Cho had to contend with more than just parental scepticism when they set up their company, WePlanet. Funding is tricky for entrepreneurs in South Korea, where the venture capital industry is tiny and the banks are more comfortable with lending to the *chaebol*. The two founders used \$150,000 in savings accumulated from their consulting days.

But they also had outside support. Jimmy Kim, a cheerful 42-year-old entrepreneur, and two friends last year set up Sparklabs to provide new businesses with funding and advice from a global network of advisers. Sparklabs' founders had made fortunes through technology start-ups:

Mr Kim helped build games company Nexon before starting Innotive, which makes management software for big businesses. But they were keenly aware of the barriers facing others.

Bankruptcy laws, for instance, are intimidating, Mr Kim says. “[In the past], if you failed in Korea, you virtually became [seen as] a criminal. There’s a saying in Korea that entrepreneurs are the true patriots because they’re really risking their lives.”

### **Government support for the creative economy**

The administration of Park Geun-hye, which took office in February, has championed start-ups as a vital part of South Korea’s “creative economy”, one of her key policy platforms. This includes increasing the sources of suitable finance for early-stage start-ups.

Her government plans a Won500bn (\$440m) Future Creation Fund, which will take equity stakes in newly formed companies; for older start-ups, there will be a Growth Ladder Fund worth Won2tn, of which 70 per cent will be raised from the private sector.

Hank Morris, an adviser on North Asia at Triple A Partners, an investment advisory firm, says that such steps by the government to encourage VC lending in South Korea “are not what Korea needs at this stage”.

He argues that the expanded public funding may do little more than reward VCs with good government connections. “The sector could jump-start itself if the government would just stay out,” he says.

Sparklabs has nurtured 16 start-ups, offering each \$25,000 in funding and advice from mentors who include executives at foreign companies such as Google, Nike and Deloitte. Their involvement reflects growing foreign interest in the software industry of South Korea, which has exceptionally high smartphone usage and mobile internet speeds. “When I travel in the US, Hong Kong and Singapore, people are very curious about Korean start-ups,” Mr Kim says, citing “the rise of Nexon, KakaoTalk and [software group] NHN, as well as the synergies with having Samsung and LG as global brands . . . And K-pop has done wonders for business,” he adds, referring to the overseas success of South Korea’s music industry.

Another of Mr Kim’s charges is Knowre, set up by three engineering graduates and a management consultant who were inspired by the *hagwon*, after-school tuition centres attended by most South Korean schoolchildren. The founders thought a computer program could provide a more entertaining – and more successful – way to help children learn maths.

“We wanted it to feel like a video game,” says co-founder Simon Kim, showing a screen on which the user progresses across a wooded landscape. While they worked on the program, they set up their own *hagwon* in order to study their target market and raise capital. Ultimately they

concluded that parents' attachment to the *hagwon* system meant their program had little chance of short-term success in South Korea, but they identified stronger prospects in the US.

Their plan attracted \$400,000 from South Korean and US angel investors early last year. A few months later they won an investment of \$1.3m from SoftBank, the Japanese telecoms group, and the app was recently named best instructional app in a New York City education department contest. Knowre expects to record its first profit next year.

Nevertheless, South Korea remains an unforgiving environment for entrepreneurs, warns Lee Kark-bum, head of Future Thinknet, a research institute. Too many backers of start-ups have the mentality of short-term lenders, he says, rather than long-term investors, which means they intimidate entrepreneurs while distracting them from creating sustainable value. Moreover, successive governments have done too little to help start-ups develop international reach, he adds.

As a cautionary tale, Mr Lee points to Cyworld, a social networking site that was popular by 2003. But it lost its independence when the owners sold control to SK Group, one of the big *chaebols*; and although it had 20m or so users in 2006, Cyworld's failure to expand abroad undermined it at home. "They couldn't overcome the barrier of English and the domestic market is too small," Mr Lee says.

The rise of smartphones has opened new opportunities, however. KakaoTalk, an instant messaging service launched in early 2010, is now used by a big majority of South Korean smartphone owners and reached 100m users this week. Lee Sir-goo, joint chief executive, says the climate for start-ups is improving, but still has far to go. "There are more venture capital investors around, but the banks don't lend to start-ups unless you have collateral," he says. "And for IT services like us, there are regulations that make it difficult to offer services . . . payment by credit card is relatively easy in the US, but here the user has to put in their card details every time they make a transaction."

Previous governments' efforts to help have often been flawed, he adds, with assistance for start-ups often loaded with heavy conditions.

Nevertheless, some initiatives promised by the new government look promising, says Mr Mok. "Until last year, the government focused on creating start-ups rather than helping them to keep growing. It seems the new government has learnt from that. "A lot of my friends want to move on to work for start-ups. The younger generation is totally different to the older ones. We have less loyalty to the big companies."

**Adapted from an article by Simon Mundy that appeared on The Financial Times Ltd 2 July 2013.**

**Required:-**

- a) Identify the players in the immediate environment that the generation of entrepreneurs discussed in this case is exposed to. **[10 marks]**
- b) Show how this case illustrates the link between creativity, innovation and entrepreneurship. **[10 marks]**
- c) One of the entrepreneurial qualities exhibited by the young entrepreneurs in South Korea is creativity. What other characteristics typical of entrepreneurs do they portray? **[10 marks]**
- d) What lessons would the Government of Zimbabwe learn from this case regarding the development of young entrepreneurs? **[10 marks]**

**SECTION B**

**Question 2**

‘Many entrepreneurial ventures are dead on arrival.’ Explain what is meant by this statement and then discuss the key causes of start-up business failure in the Zimbabwean context.

**[20 marks]**

**Question 3**

‘Steve Jobs was a college dropout and yet he became one of the most successful entrepreneurs.’

What is your view regarding the argument that the most important aspect to becoming a successful entrepreneur is not educational credentials but ambition and the desire to be great.

**[20 marks]**

**Question 4**

Assess the impact of globalization and technology on the Zimbabwean Small and Medium Enterprises.

**[20 marks]**

**Question 5**

Does the Zimbabwean economy need more **intrapreneurs or entrepreneurs**? Motivate your answer.

**[20 marks]**

**Question 6**

Discuss the Government of Zimbabwe and Zimbabwean higher educational institutions’ approaches to entrepreneurship development.

**[20 marks]**

**Question 7**

‘Entrepreneurs revolutionise and rejuvenate economies.’ Evaluate this statement. **[20 marks]**

**END OF EXAMINATION**