



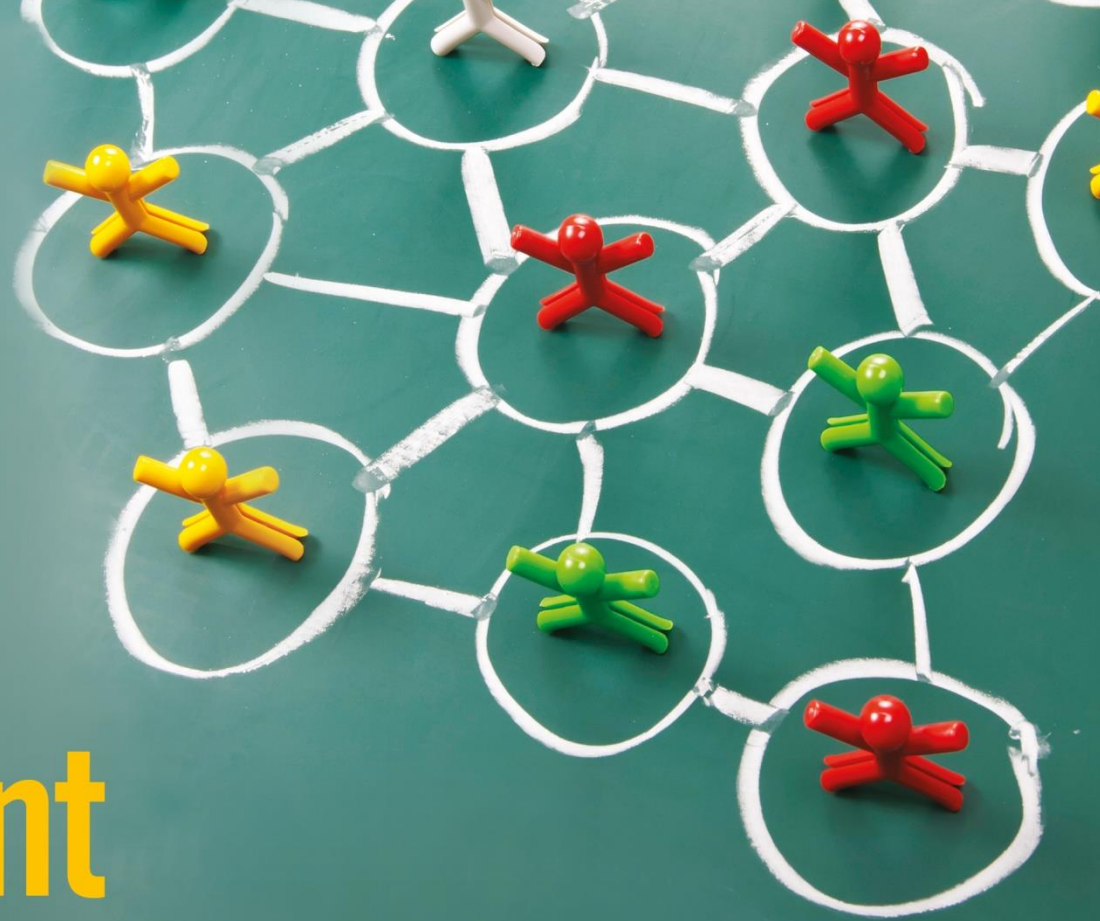
Definitions activity – MG p 17

1. One of the traits of an entrepreneur which refers to a person's higher-than-average need to achieve.
2. A formal plan expressed in financial terms that indicates how resources are to be allocated to different activities.
3. Business environment
4. Business plan
5. Capital (definition + 2 examples)

Introduction to
**Business
Management**

9TH EDITION

CHAPTER 2
ENTREPRENEURSHIP





Chapter content

- Introduction.
- Different concepts on what an entrepreneur is.
- The renaissance of entrepreneurship.
- Entrepreneurship in South Africa.
- The role of entrepreneurs and small-business owners in society.
- Why do entrepreneurs do what they do?
- The small business.
- The entrepreneurial process.
- Summary.




Entrepreneurs

- Entrepreneurs are **driving force** behind business organisation.
- **Decide** what, how, by whom and for whom products and services should be produced.
- Someone who **starts a business** with intention of making **profit**.
- **Assumes risk** of losing resources.
- **Mobilise** land, labour and capital.



Entrepreneurship

Entrepreneurship is the process of creating and building something of value from practically nothing In the midst of uncertainty and risk, and having the determination to succeed against all odds.



Different concepts of what an entrepreneur is


Economists: combine different resources to produce products and services for a profit.

Behaviourists: behaviours and characteristics eg achievement orientated and risk takers.

Marxists – exploiters.

Corporate managers – lack potential.

Proponents of market economy – economic force for prosperity of a country.



Different concepts of what an entrepreneur is

Entrepreneurs have been described as people who:

- Are creative
- Have innovative ideas
- Identify opportunities
- Find resources to pursue opportunities for financial gain
- Take financial risks
- Bring about change, growth and wealth in the economy
- Re-energise economies and create jobs
- Start and manage small businesses.



The renaissance of entrepreneurship

- Entrepreneurial revolution is creating life-changing new businesses
- In SA, it has contributed to a decline in the unemployment figure
- Entrepreneurship is the spark that brings the other production factors into motion



Entrepreneurship in South Africa

- Growth in SA economy has declined over past few decades
- GDP growth rate of 6% needed to improve economic development in SA - entrepreneurs
- Economic growth of 12% required to achieve employment growth of 3% (25% unemployment)
- Entrepreneurs should focus on growing their businesses – into bigger businesses
- Current expectations on entrepreneurship
- SA's rate of entrepreneurial activity is lower than would be expected. Why??



Entrepreneurship in South Africa

- Global Entrepreneurship Monitor (GEM)
- Total Early-stage Entrepreneurship Activity (TEA) index.
 - Percentage of people
 - 18 – 64 years old
 - Actively involved
 - Wholly or partly own
 - Fewer than 3 and half years old.
- 2011 at 9.1% (ave 14.1%) - 29th out of 54
- At SA stage of economic development should be at 13%



The role of entrepreneurs and small-business owners in society

- Entrepreneurs
 - Entrepreneurs mobilise natural, human and financial resources
 - Create wealth for society and themselves
 - Brings other factors of production into motion
- Small-business owners
 - Definitions of small business differ
 - Satisfied with some autonomy
 - Earn reasonable income
 - No intention of growing and developing business




Why do entrepreneurs do what they do?

- The reasons behind individuals initiating ventures:
 - The individual's traits and characteristics
 - Their skills and industry experience
 - The opportunities that outsourcing has to offer.



Entrepreneurs' traits and characteristics

- Achievement motivation
- Internal locus of control (personal ability and hard work)
- Innovation and creativity
- Risk-taking – calculated vs expensive risks
- Other traits (including high levels of energy, confidence and optimism, desire for feedback, high tolerance for ambiguity, flexibility/adaptability, passion, commitment and determination, opportunity orientation and motivation to excel)



Entrepreneurs' skills and industry experience

- Contributes to identifying an opportunity, establishing a business and managing it:
 - Experience
 - Training
 - Education.



Opportunities arising owning to outsourcing

- Organisations are outsourcing many services/components they need eg SAB
- Services most often outsourced (in order):
 - Architectural design
 - Trash and waste removal
 - Housekeeping
 - Landscape maintenance
 - Property appraisals
 - Major moves



Opportunities arising owning to outsourcing (continued)

- Services most often outsourced (in order) (continued):
 - Hazardous-materials removal
 - Major redesigns
 - Furniture moves
 - Food services.



The small business

- Difficult to define
- Defining criteria:
 - Number of employees
 - Sales volume
 - Value of assets
 - Market share.
- Micro-business vs Very small business vs Small business vs Medium-sized business.
- SME and SMME one or more of: < 200 empl, TO < R64 mio, Capital assets < R23 mio or direct managerial involvement by owners.



The role of small businesses in the economy

- Strategic role of small business:
 - Production of products and services
 - Innovation
 - Aiding of big businesses
 - Job creation.



The entrepreneurial process

- Entrepreneurs must make a bewildering number of choices:
 - Possession of personal characteristics, abilities and skills
 - Access to resources
 - Assessment of opportunities and ideas
 - Feasibility study
 - Compilation of a business plan
 - Launch and manage the new business.

A framework for decision-making regarding new ventures

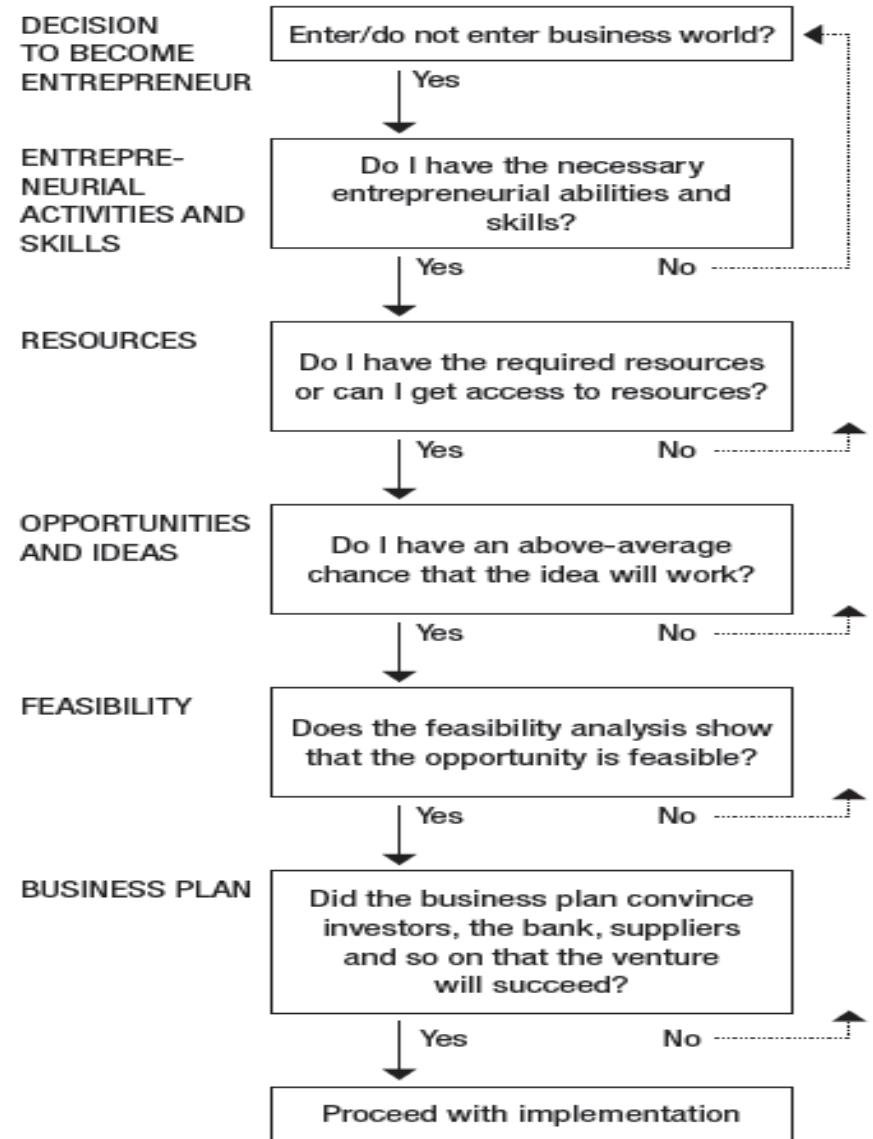


Figure 2.2: The entrepreneurial process: A framework for decision-making about new ventures

The dynamics of the entrepreneurial process

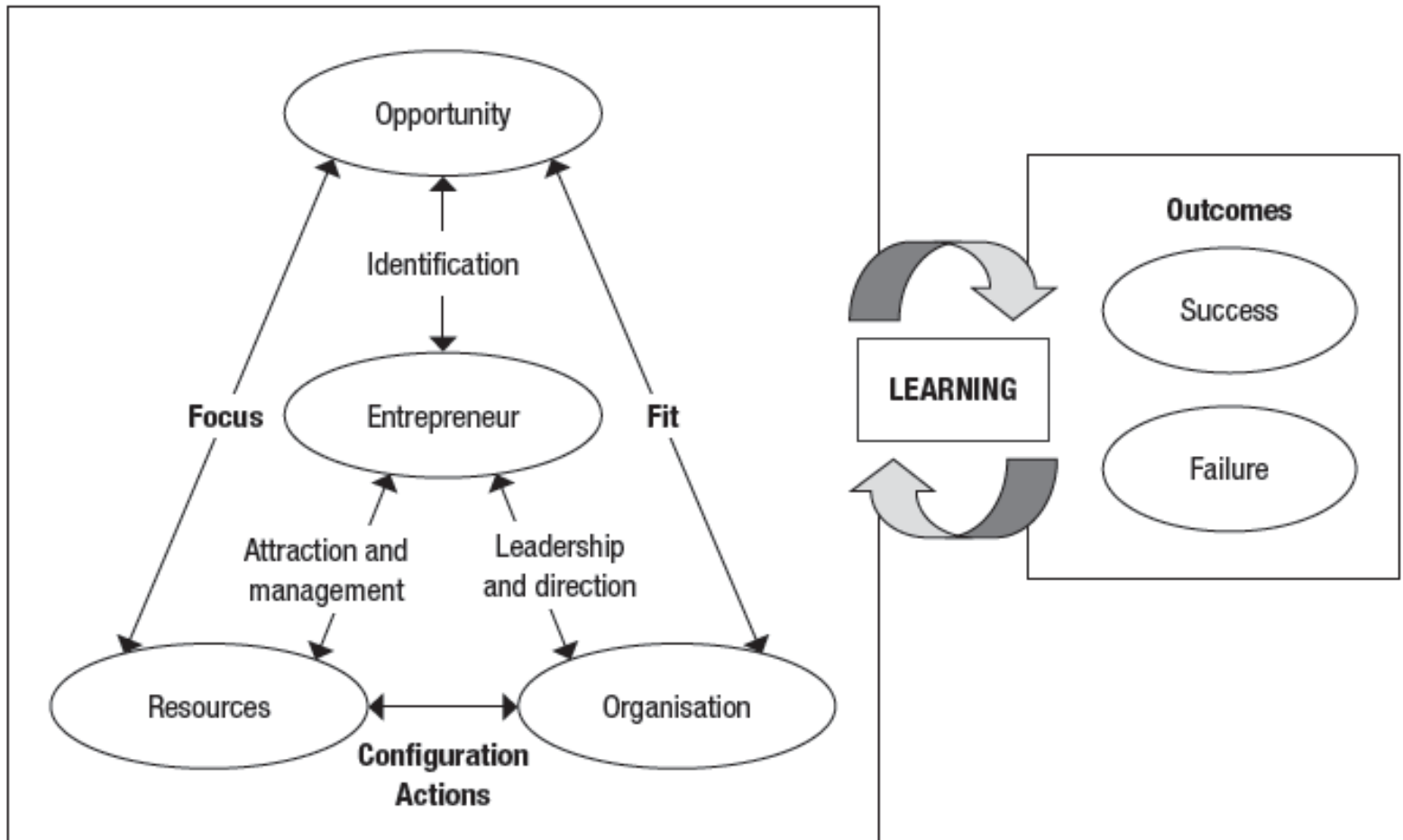



Figure 2.3: The dynamics of the entrepreneurial process



Skills required for entrepreneurship

- Strategy skills
- Planning skills
- Marketing skills
- Financial skills
- Project management skills
- Human relations skills



Resources needed to start a business

- Financial resources
- Human resources
- Operating resources or physical resources

It is important to realise that the acquisition of resources implies a risk



Business opportunities

- New venture ideas
- Look at trends:
 - Economic trends
 - Political trends
 - Social trends.
- Look at growth industries:
 - Education
 - Health care
 - Tourism
 - Privatisation of government and semi-government services.



New venture opportunities

- The fundamental requirements for a good investment opportunity:
 - A clearly defined market need for the product
 - A sustainable competitive advantage must be attainable
 - Growth potential
 - Should be rewarding to the investor and/or entrepreneur
 - The timing of the opportunity must be right.



Buying an existing business

Table 2.1: Advantages and disadvantages of buying an existing business

| Advantages | Disadvantages |
|--|--|
| Customers will be familiar with the business location. | The business location may be undesirable or threatened with becoming undesirable. |
| There will be an established customer base. | The image of the business will be difficult to change. |
| Experienced employees will come with the business. | Employees are inherited rather than chosen. |
| Planning can be based on known historical data. | There may be difficulties in changing the way the business is run. |
| Supplier relationships will already be in place. | There may be liabilities for past business contracts. |
| Inventory and equipment will be in place. | The inventory and equipment may be obsolete. |
| Financing may be available from the owner. | Financing costs could drain the cash flow and threaten the survival of the business. |



Franchising

- Acquisition of franchise
- Opportunity to start business that has been proven in market
- Entrepreneur becomes franchisee
- Franchisor gives franchisee the right to operate a business, using franchise name, products and systems
- Franchisor as entrepreneur
- View franchisee as intrapreneur who initiates ideas in the franchise system



Corporate entrepreneurship (intrapreneurship)

- Entrepreneurship in existing business
- Person develops a new corporate business within a business though identifying a new opportunity
- Method by which a corporation introduces new and diversified products or services
- Done through internal processes and corporation's resources
- Enables investment and profits through establishment of business within business



The feasibility of the idea or opportunity

- Not all ideas can be converted into successful ventures
- Entrepreneurs should conduct a feasibility study to determine if a venture/opportunity will survive
- After feasibility has been established, a business plan can be drawn up



Summary

- Entrepreneurship as the driving force behind business organisation
- Role of the entrepreneur in the economy
- Assessment of the entrepreneur's unique abilities and skills, access to resources, search for opportunities and feasibility study



Activities for 30 May 2015

1. Critically discuss the following in one (1) written page: “Entrepreneurship or SMMEs are SA’s solution to the unemployment problem”
2. Suggest one (1) new business idea that you believe could be a successful business and motivate your choice in not more than half (1/2) page.
3. Definitions – MG page 18
4. Read Chapter 3 (pp 69 – 96)