

Entrepreneurship and New Venture Management 5th edition

Solutions to self-assessment questions

Chapter 1: Entrepreneurship defined

1)

Entrepreneurship is the **process of commercialising ideas** (innovations) by committing resources and enduring risk in order to achieve reward.

These products, in turn, do not only lead to **profits for individuals and organisations**, but also **improve the quality of life of all individuals** and **generate further economic opportunities**.

Nieman and Nieuwenhuizen (2009:3) state that:

‘Entrepreneurship ensures **growth in the economy** as entrepreneurs intend to grow their businesses and are responsible for **job creation** in the economy’.

2)

The process steps are listed below:

Step 1: Idea generation

- Idea: concept of a product/service that does not exist or isn't available within a market niche
- Opportunity: idea for a new product/service with a market that is willing to pay for that product/service
- Idea sources: consumers, business associates, channel members, technical people

Step 2: Opportunity evaluation

- Will the investment be worth it?
- Is there a sufficiently attractive market opportunity?
- Is your proposed solution feasible?
- Can we compete (is there sustainable competitive advantage)?
- Do we have a team that can capitalise on the opportunity
- What is the risk/reward profile, and does it justify investment of time and money?

Step 3: Business plan development (Planning the venture)

- Planning of the venture takes place
- Who are target customers and how you will reach them?
- Vision: how venture wants to be known or thought of
- Necessary step to exploit the defined opportunity

Step 4: Determination of required resources

- Appraise present resources
- Do not underestimate amount or variety needed
- Must be done in a timely manner
- Give up as little control as possible – maintain a large ownership position
- Understand resource supplier needs

Step 5: Formation and management of business enterprise

- Use acquired resources to implement the business plan
- Examine operational problems of growing enterprise
- Implement management style and structure
- Establish control systems to address problem areas

Step 6: Growth and harvest

- Ensure business is running efficiently
- Don't neglect existing customer base when choosing growth strategy
- Timing is critical to success of growth strategy
- Harvesting strategy: using profits from mature brands to increase funding for more promising businesses
- Advances in technology
- Changes in consumer behaviour

3)

Micro environment refers to the organisation and everything included within the organisation e.g.

- Entrepreneur him/herself
- Technology or machinery needed
- The employees with the relevant skills
- Necessary input materials
- Strengths and weaknesses are found here as they are internal and can be controlled

4)

Market environment refers to:

- Specific industry in which the venture will function
- Customers (most important factor to buy your product)
- Competitors (both direct such as KFC and Nandos; and indirect such as KFC and other places that sell food like supermarkets, other take-away businesses and restaurants)
- Suppliers (provide input resources such as ingredients to create the final product)
- Distributors (ensure that each outlet has enough stock of the product to sell to customers)
- Labour force (sales rely on friendly, efficient and motivated staff to sell product)

- Each of these impacts directly on the micro environment

5)

- Factors in the macro environment:
- Economic factors: interest rates, petrol price, inflation
- Technological factors: changes in technology
- Political-legal factors: laws on minimum wage, BEE, leave
- International factors: importing and exporting
- Demographic factors: constitution of the nation
- Ecological factors: responsibility towards environment

6)

Strengths and opportunity:

- Strengths refer to the aspects of your organisation that you are very good at and that help build your competitive advantage against competitors.
- Opportunities come from the market and macro environment and create the right kind of environment (market, demand) for your product or services.
- Your strengths allow you to take advantage of the opportunities available.

Weaknesses and threats:

- Weaknesses refer to any shortcomings that can be used by your competitors to gain an advantage such as, lack of technical knowledge or bad customer service.
- Threats refer to areas that show the potential for you to lose your market or miss out on opportunity.
- The key is to build on strengths, and minimise weakness and anticipate changes that could impact your business in a negative way.
- Changes include: economic conditions like interest rate and petrol price increases; not updating when technology; political-legal factors relating to issues such as working conditions; international factors that could related to things such as the cost of raw materials; demographic factors relating to a changing market; and ecological factors to minimise the impact on the environment).

Chapter 2: The entrepreneurial mindset

1)

This requires you to answer the question using your own understanding of the concept.

Some key points:

- Important characteristic for entrepreneurs
- Desire to be in charge of their lives
- Are aware that their actions have consequences
- Are in control of their own behaviour.

2)

The risks are listed below. Refer to the key points below to guide your discussion of the various risks that entrepreneurship involves:

- Financial risk
 - Financial outcome of the new business venture is unknown
 - Good finance decisions
 - Good cash flow management
 - Avoidance of financial pitfalls
- Career risk
 - Removed from the formal employment sector
 - Need to start from the bottom again to build a career
 - Difficult to adjust to being managed again, follow instruction, laid down policies and procedures.
- Family and social risk
 - Family uncertainties
 - Social alienation
 - Money issues
 - Working hours.
- Physical and psychological risks caused by:
 - Eating habits
 - Long working hours
 - Lack of exercise
 - Work related stress

Can be overcome by:

- Networking
- Planned vacations
- Delegations
- Good communication
- Exercise regularly
- Healthy eating habits.

3)

This answer requires you to state *your* opinion and the reasons behind it.

Go to the following passages of text for some guidance on how to answer the questions and what to consider:

- The example box on page 32 of the textbook that speaks about age
- Page 28 that lists the characteristics of successful individuals
- Weigh the above information against the risks that entrepreneurs face.

Chapter 3: Creativity and generating new business ideas

<u>Question</u>	<u>Solution</u>
1	b
2	b
3	c
4	b
5	a
6	b
7	a
8	a
9	c
10	a
11	b
12	a
13	a
14	b
15	a

Chapter 4: Opportunity recognition and evaluation

True or false:

- 1) True
- 2) False

<u>Question</u>	<u>Solution</u>
3	c
4	c
5	b
6	a
7	d While C is correct, even though the option does not list a <u>need</u> for the product or service
8	b
9	d
10	d
11	a

Chapter 5: Information technology for SMEs

<u>Question</u>	<u>Solution</u>
1	d
2	b
3	c
4	b
5	a

Chapter 6: Entrepreneurial strategy

<u>Question</u>	<u>Solution</u>
1	a
2	a
3	c
4	b
5	a

Chapter 7: Business start-up

<u>Question</u>	<u>Solution</u>
1	b
2	c
3	c
4	e
5	e

Chapter 8: Franchising

<u>Question</u>	<u>Solution</u>
1	a
2	c
3	b
4	b
5	d
6	b
7	c

Chapter 9: Business ethics and social responsibility

<u>Question</u>	<u>Solution</u>
1	b
2	c
3	b
4	d
5	d

Chapter 10: Basic financial concepts

<u>Question</u>	<u>Solution</u>
1	c
2	b
3	a
4	d
5	b

Chapter 11: Financial planning and forecasting

<u>Question</u>	<u>Solution</u>
1	c
2	b
3	a
4	b
5	a

Chapter 12: The business plan

<u>Question</u>	<u>Solution</u>
1	d
2	b
3	c
4	b
5	a

Chapter 13: Entrepreneurial management

<u>Question</u>	<u>Solution</u>
1	a
2	b
3	b
4	c
5	c

Chapter 14: Marketing

<u>Question</u>	<u>Solution</u>
1	c
2	d
3	a
4	d
5	c

Chapter 15: Operations

<u>Question</u>	<u>Solution</u>
1	a
2	b
3	b
4	a
5	b
6	a
7	d
8	d

Chapter 16: Managing human resources

<u>Question</u>	<u>Solution</u>
1	b
2	c
3	a
4	b
5	a

Chapter 17: Legal aspects

<u>Question</u>	<u>Solution</u>
1	b
2	c
3	c
4	b
5	a

Chapter 18: Business cycles and the entrepreneur

<u>Question</u>	<u>Solution</u>
1	b
2	c
3	c
4	c
5	a

Chapter 19: Managing growth and harvesting

<u>Question</u>	<u>Solution</u>
1	b
2	c
3	d
4	c
5	d

Chapter 20: Corporate entrepreneurship

True or false questions:

- 1) True
- 2) False
- 3) True
- 4) False
- 5) True

<u>Question</u>	<u>Solution</u>
1	a
2	a
3	d
4	d
5	d
6	b
7	b

Chapter 21: Decline and turnaround

<u>Question</u>	<u>Solution</u>
1	b
2	c
3	c
4	c
5	c

Chapter 22: Contemporary issues

<u>Question</u>	<u>Solution</u>
1	c
2	b
3	a
4	a
5	b