CHAPTER 2

ENTREPRENEURSHIP
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Introduction

• 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
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, 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 growth
- Contribution of entrepreneurs is relied on to attain this
- Entrepreneurs are focused on growing their business
- Current interest in entrepreneurship is understandable
- SA’s rate of entrepreneurial activity is lower than would be expected
The role of entrepreneurs and small-business owners in society

• Entrepreneurs
  o Entrepreneurs mobilise natural, human and financial resources
  o Create wealth for society and themselves
  o Brings other factors of production into motion

• Small-business owners
  o Satisfied with some autonomy
  o Earn reasonable income
  o 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
- Innovation and creativity
- Risk-taking
- 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:
  o Experience
  o Training
  o Education.
Opportunities arising owning to outsourcing

• Organisations are outsourcing many services/components they need
• Services most often outsourced (in order):
  o Architectural design
  o Trash and waste removal
  o Housekeeping
  o Landscape maintenance
  o Property appraisals
  o 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.
The role of small businesses in the economy

• Strategic role of small business:
  o Production of products and services
  o Innovation
  o Aiding of big businesses
  o Job creation.
The entrepreneurial process

- Entrepreneurs must make a bewildering number of choices:
  - Possession of personal characteristics, abilities and skills
  - Access to resources
  - Opportunity 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.
New venture ideas

• Look at trends:
  o Economic trends
  o Political trends
  o Social trends.

• Look at growth industries:
  o Education
  o Health care
  o Tourism
  o Privatisation of government and semi-government services.
New venture opportunities

• The fundamental requirements for a good investment opportunity:
  o A clearly defined market need for the product
  o A sustainable competitive advantage must be attainable
  o Growth potential
  o Should be rewarding to the investor and/or entrepreneur
  o The timing of the opportunity must be right.
Table 2.1: Advantages and disadvantages of buying an existing business

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