



ENTREPRENEURSHIP

Study guide

PROGRAMME: Master of Business Administration

LEVEL: NQF Level 9

CREDITS: 10 credits

NOTIONAL HOURS: 100 hours

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INTRODUCTION TO THE ENTREPRENEURSHIP STUDY GUIDE

1. Introduction

The **ENTREPRENEURSHIP** module is a core part of the *Masters in Business Administration* (MBA) programme. Upon successful completion of this module you will be able to proficiently and adeptly utilise the content offering to embark upon entrepreneurial and management practices in your role as an entrepreneur and as a manager. You will also gain a detailed understanding of how the application of various management tools and business management processes applies to the market. An understanding of entrepreneurship and its effect on society from a socio-economic development point of view, as well as expectations of government, is crucial to the success of a present day MBA student. Entrepreneurship may be viewed as the capacity and willingness to develop, organise and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses. In economics, entrepreneurship combined with land, labor, natural resources and capital can produce profit. (www.businessdictionary.com) Entrepreneurial spirit is characterised by innovation modernisation and risk-taking.

Entrepreneurship is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace. Africa needs to encourage and grow its young entrepreneurs in order to ensure that the continent can compete in a global market and add to the world economy.

1.1. How to use this guide

This guide should be used in conjunction with the recommended textbook(s). You should read about the topic that you intend to study in the appropriate chapter of this study guide before you start reading in detail in the recommended textbooks(s).

1.2. Objectives

At the commencement of each chapter you will find a list of objectives. These objectives outline the main points that you should understand when you have completed the chapter with the accompanying section(s).

2. Structure of this Study Guide

This Study Guide is structured as follows:

Introduction to Entrepreneurship Study Guide		Provides an overview of the Entrepreneurship Study Guide and how to use it.
Overview of Entrepreneurship Curriculum		<p><i>This part of the Study Guide details what you are required to learn.</i></p> <p><i>Each section details:</i></p> <ul style="list-style-type: none">• <i>Specific learning outcomes</i>• <i>Essential reading (textbooks and journal articles)</i>• <i>An overview of relevant theory</i>• <i>Questions for reflection</i>
1.	Introduction to Entrepreneurship	
2.	Organisational Management and Performance	
3.	Integration of Entrepreneurial and Business Management Processes	
4.	The Role of Innovative Entrepreneurship in the National Socio-Economic Development	
5.	Environmental Factors	
6.	Government and Society	
7.	Achieving organisational objectives	
8.	Competitive Advantage	
9	The Nature of Family Business	
10	Business Plans	
Case Studies		<p><i>You are required to prepare and analyse these case studies. All activities must be completed.</i></p>
Activities		

3. Structure of Each Section¹

Each section of this Study Guide is structured as follows:

- Specific Learning Outcomes
- Essential (Prescribed) Reading
- Brief Overview of Relevant Theory
- Questions for Reflection

3.1 Specific Learning Outcomes

The specific learning outcome is listed at the beginning of each section. These detail the specific outcomes that you will be able to competently demonstrate on successful completion of the learning that each particular section requires.

3.2 Essential (Prescribed) Reading

Your essential (prescribed) reading comprises the following:

- ***South African Textbook***

Rwigema, Urban and Venter (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town

- ***Recommended***

Nieman G and Nieuwenhuizen (Editors) (2014) Entrepreneurship A South African Perspective Third edition. Van Schaik. Pretoria

Strydom J. (2012) Entrepreneurship and how to establish your own business. 4th edition Juta. Cape Town

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C, (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town

These textbooks will provide you with an understanding of Entrepreneurship and General Business Management within the South African context.

- ***Journal Articles***

Journal articles on Entrepreneurship are available from the EBSCO, Emerald and Sabinet databases that are accessible through the <http://myregent.com> website. These journal articles will provide you with an understanding of Entrepreneurship and Business Management.

3.3 Brief Overview of Relevant Theory

Each section contains a very brief overview of theory relevant to the particular Entrepreneurship and Management topic. The purpose of the overview is to introduce you to some of the general and emerging market issues regarding each topic. Once you have read the overview, you need to explore the topic further by reading the prescribed textbooks and journal articles listed under “*Essential Reading*” for each section.

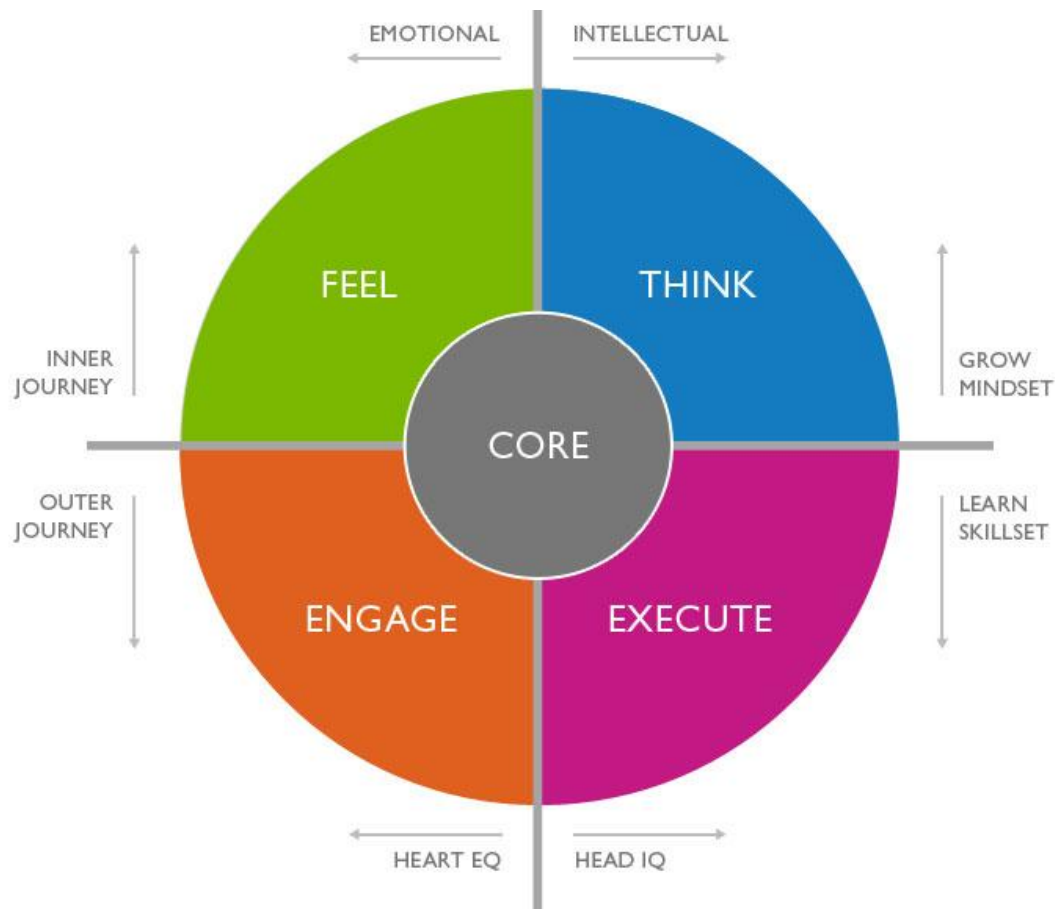
3.4 Questions for Reflection and Case studies

At the end of every section there are questions for reflection. You need to attempt these on completion of your study of the entire section. The questions are designed to enable you to reflect on what you have learnt, and consider how this should be applied in practice.

Case studies form an integral part of developing competence and provides the benefit from exposure in Entrepreneurship. You are required to discuss and analyse these case studies in your study groups.

3.5. Assessments

The formal assessment of Entrepreneurship takes the form of a Capstone Project and an examination.



(www.google.com)

ENTREPRENEURSHIP INTEGRATED EXIT LEVEL OUTCOMES & ASSESSMENT CRITERIA

The exit level outcomes and assessment criteria for the **ENTREPRENEURSHIP** module are listed in the table.

MBA ENTREPRENEURSHIP Module			
NQF Level	NQF 9	Credits	10
Exit Level Outcome 1:	<p><i>The learner will be able to:</i></p> <p>Understand entrepreneurship and evaluate the role of entrepreneurship and entrepreneurial characteristics in organisational management and performance.</p>		
Assessment Criteria:	<p>1.1 Define entrepreneurship.</p> <p>1.2 Outline the characteristics of an entrepreneur.</p> <p>3.1. Discuss popular myths of entrepreneurship.</p> <p>3.2. Evaluate personal factors that impact entrepreneurial direction.</p> <p>3.3. Recognise the skills which enhance entrepreneurial performance.</p> <p>3.4. Evaluate the role of entrepreneurial characteristics in organisation management and performance.</p>		

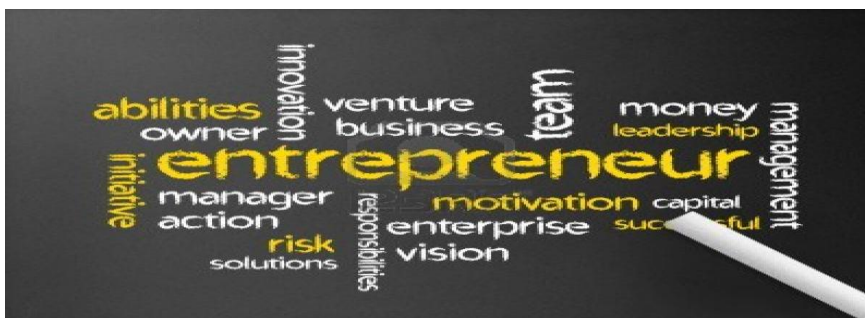
MBA ENTREPRENEURSHIP Module	
Exit Level Outcome 2	<p><i>The learner will be able to:</i></p> <p>Integrate entrepreneurial and business management processes to enhance the performance of the organisation.</p>
Assessment Criteria:	<p>2.1. Explain the concept of entrepreneurial processes.</p> <p>2.2. Identify and discuss business management and business management processes.</p> <p>2.3. Define and critically discuss organisational performance.</p> <p>2.4. Establish how the integration of entrepreneurial and business management processes enhances organisational performance.</p>
Exit Level	<p><i>The learner will be able to:</i></p>
Outcome 3:	<p>Analyse and understand the critical role of innovative entrepreneurship in the development of a country's socio-economic development.</p>

Assessment Criteria:

- 3.1. Define and explain innovative entrepreneurship.
- 3.2. Explain the link between ideas and opportunities.
- 3.3. Evaluate the role of innovation and creativity.
- 3.4. Discuss the approach taken to recognise opportunities.
- 3.5. Discuss the importance of innovation as a dimension of entrepreneurship.
- 3.6. Describe the steps in the creative process.
- 3.7. Explain the components of a feasibility plan.
- 3.8. Establish the socio-economic needs of countries.
- 3.9. Analyse the critical role of innovative entrepreneurship in the development of a country's socio-economic development.

Exit Level Outcome 4:	<p><i>The learner will be able to:</i></p> <p><i>Demonstrate a broad understanding of micro and macro environmental factors and understand the demands of government and society on entrepreneurs.</i></p>
Assessment Criteria:	<ul style="list-style-type: none"> 4.1. Define the micro and macro environment. 4.2. Critically evaluate the impact of micro and macro environmental factors on the management and performance of a business. 4.3. Outline business management processes. 4.4. Explain the expectations of government and society. 4.5. Explain the dimensions of business growth. 4.6. Describe the stages of growth in the business life cycle. 4.7. Distinguish between growth strategies. 4.8. Contrast business decline with business failure. 4.9. Identify early warning signs of pending trouble. 4.10. Explain the causes of business failure. 4.11. Distinguish between different methods of harvesting. 4.12. Conceptualise the importance of aligning business management processes with the requirements and expectations of government and society.

Exit Level Outcome 5:	<p><i>The learner will be able to:</i></p> <p>Demonstrate the ability to manage the company's resources and processes to achieve organisational objectives as well as integrating the company's entrepreneurial processes to achieve competitive advantage.</p>
Assessment Criteria:	<ol style="list-style-type: none"> 5.1. Identify the company's resources and processes 5.2. Describe organisational objectives. 5.3. Identify differences in strategic outlook between small businesses and large organisations. 5.4. Discuss the strategies available to entrepreneurial ventures. 5.5. Demonstrate the ability to manage the company's resources and processes to achieve organisational objectives. 5.6. Discuss the process of opportunity identification. 5.7. Describe the gathering of resources. 5.8. Discuss the establishment and management of ventures in ensuring competitive advantage



(www.google.co.za)

CHAPTER 1 INTRODUCTION TO ENTREPRENEURSHIP

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding of the field of **ENTREPRENEURSHIP** and management from a South African and global perspective. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Define entrepreneurship and intrapreneurship.
2. Discuss the role of entrepreneurs and intrapreneurs.
3. Explain the concept of management and analyse its functions.



ESSENTIAL READING

Learners are required to read **ALL** of the textbook chapters listed below.

Textbooks

Nieman G and Nieuwenhuizen (Editors) (2014) Entrepreneurship A South African Perspective Third edition. Van Schaik. Pretoria Chapter One

Rwigema, Urban and Venter (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapter One

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C, (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapter One

1.1 Introduction to Entrepreneurship

The purpose of this module is to encourage and stir the entrepreneurial spirit in the learners, so that they can go into their communities and form new companies, develop existing businesses and create the much needed jobs for their countries. In this chapter we learn the meaning of the word entrepreneurship and distinguish it from intrapreneurship. We focus on entrepreneur.

We conclude the chapter by posing the question, “Who can be an entrepreneur?” The simple postulation is “Anyone who is willing to be an entrepreneur and make the necessary sacrifices can be an entrepreneur”.

1.2 Entrepreneurship defined

There are many definitions of the word entrepreneurship. The more comprehensive definition by Timmons, Smollen and Dingee (1990:5-6) is that Entrepreneurship is *creating* and *building* something of value from practically nothing. That is, entrepreneurship is the process of creating or seizing an opportunity and pursuing it *regardless* of the resources currently controlled. Entrepreneurship involves the creation and distribution of value and *benefits* to individuals, groups, organisations and society. Entrepreneurship is very rarely a get-rich-quick proposition; rather it is one of building *long-term value* and durable cash flow streams. (Note the key words in the definition, which are in italics for emphasis). Entrepreneurship involves creating and building something of value e.g. a business enterprise or company. Note also that the quantity of resources held has little bearing on entrepreneurship. Whilst resources are important, their absence does not necessarily stop entrepreneurship. Entrepreneurship benefits individuals, groups, organisations and society through the provision of goods and services. Entrepreneurship is about building long-term value and durable cash flow streams. Entrepreneurship can be developed. People can be stimulated and activated to be venturesome, creative and dynamic. The entrepreneurial spirit can be developed. Entrepreneurship is the creation of an innovative economic organisation for the purpose of gain under conditions of risk and uncertainty. (Dollinger.1995:7) Entrepreneurship may be further defined as the capacity and willingness to develop, organise and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses. Entrepreneurial spirit is characterised by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace. (www.businessdictionary.com)

1.3 Entrepreneurs

We have established the concept of entrepreneurship, the next question we have to tackle is, “Who are entrepreneurs?” We will look at two definitions that will help clarify the term. Entrepreneurs are skilled at identifying new products, new methods of production or new ways of marketing existing products. They set up operations to provide new products, market the products and arrange the financing of the operations (Niewenhuizen & Strydom, 2007). This definition emphasises that entrepreneurs are skilled people in the identification

of new products, new methods of production and marketing. Having identified these opportunities, they set up operations to exploit these opportunities. Entrepreneurs find a niche or a gap in the market and take the opportunity to fill that gap by providing that service or product. This skill can be in-born or developed by reading books, magazines and learning from others.

1.3.1. Creation of an enterprise

Entrepreneurs are people with the ability to create an enterprise where none existed before. They produce combinations of ideas, skills, money, equipment and markets that form a successful enterprise. The emphasis on this definition is the creation of an enterprise (Niewenhuizen et al., 2007). An entrepreneur can therefore be described as someone who:

- Starts his/her own enterprise
- Manages his own enterprise
- Buys an existing enterprise
- Identifies new products or opportunities
- Is creative and/or innovative
- Organises and controls resources (like capital, labour, materials) to ensure a profit
- Has the ability and insight to market, produce and finance a service or product;
- Is willing to take calculated risks



entrepreneurship.

The common view is that a person who starts and establishes any enterprise, not necessarily an enterprise that shows high levels of innovation, is an entrepreneur. We pose the question, who can be an entrepreneur? The answer is anyone—regardless of age, race, gender, colour, national origin or any other characteristic can be an entrepreneur. They need the drive, the energy and other characteristics that are valuable to an entrepreneur for success. We will look at these characteristics in Chapter Two of this guide.

1.3.2. Richard Maponya: South African Entrepreneur

It has always been Richard John Pelwana Maponya's dream to see Soweto grow its own flourishing economy. Born in Limpopo Province on 24 December 1926, Maponya is a property developer best known for building a business empire despite the restrictions apartheid imposed on black South Africans. He was fiercely determined to see Soweto develop economically.

Aged 24, Maponya – a teacher at the time – took a job as a stock taker at a clothing manufacturer. The manager sold Maponya soiled clothing and off cuts, which he then resold in Soweto. He eventually saved enough capital to open a clothing retailer in Soweto, despite being denied a licence under apartheid laws restricting business ownership for black South Africans. He had even hired the law firm of Mandela and Tambo to help him obtain the licence.

Undeterred though, he continued his life's journey towards entrepreneurial greatness. In the early 1950s, Maponya and his wife Marina (a cousin of Mandela) established the Dube Hygienic Dairy, which employed boys on bicycles to deliver milk to customers - who didn't have access to electricity or refrigeration - in Soweto.

In the 1960s, Maponya was a founding member and first president of the National African Federated Chamber of Commerce (Nafcoc), and the founder and chairman of the African Chamber of Commerce. By the 70s, his clothing empire had grown, and he had begun to branch out into other areas: general stores, car dealerships and filling stations. His most recognisable development though has been Soweto's Maponya Mall. On 27 September 2007 Nelson Mandela officially opened Maponya Mall, one of the largest shopping centres in the country.

Maponya secured the land on which the mall is situated in 1979, first on a 100-year lease. Then, in 1994, after several attempts, he acquired it outright. Continuing to grow Soweto's economy, Maponya also established Maponya Motor City on Klipspruit Valley Road in Orlando East. The development included a Volkswagen and Toyota dealership respectively. At that time former Deputy President Kgalema Motlanthe said the development was "another milestone for Soweto by the Maponya Group as they continue to build sustainable world-class businesses in Soweto".

Maponya Motor City was the first such business in the south of Johannesburg, and now the Maponya Group's ventures include property development, horse racing and breeding, retail, automotive sales, filling stations and liquor stores. (www.medioclubsouthafrica.com)

1.4. The new face of business leaders

When you think of business leaders, your mind typically conjures up images of people like Microsoft magnate, Bill Gates, American business tycoon and investor, Warren Buffet and successful founder of Amazon.com, Jeff Bezos. But the business landscape is changing and so are the leaders driving that change.

Business leaders are no longer only defined by pedigree university degrees and recognised family lineages. Today, profitable businessmen and women are beginning to emerge as ingenious entrepreneurs who rank in the top 5% of cognitive ability in the world. And these talented individuals are found in the most unlikely of places. This article unveils some inspirational stories from a few of South Africa's most creative entrepreneurs who have identified a need in local markets and have found unique ways to meet those needs.

1.4.1. Uncovering South Africa's hidden entrepreneurial talent

South Africa has witnessed an upsurge in the number of young talented individuals who have considered opportunities in the market and have been successful.

1.4.1.1. Lesika Matlou (27 years old): CEO of Ek Sê Tours

Inspired by a radio interview about the Awethu Project (a South African business incubator that helps develop local entrepreneurs), Lesika packed his belongings and moved from Rustenburg to Johannesburg. When he arrived he didn't have a place to stay or a steady income, but he was determined to succeed. With the support of the Awethu Project, he started Ek Sê Tours in 2011, a tour operator specialising in unique township tour experiences. Today, Lesika is an experienced guide, has seven full-time employees, has secured financing for his first vehicle, and is making more than R40 000 monthly in profit.

1.4.1.2. Ludwick Marishane (22 years old): Founder and Chief of Headboy Industries

According to the Global Business Network, Entrepreneurs' Organization, Ludwick Marishane is the best student entrepreneur in the world. Ludwick started businesses as a teenager in Limpopo. Many failed, like his own brand of biodiesel, healthy cigarettes and a security magazine. In 2009, he started Headboy Industries, a business that designs and commercialises new products and services in South Africa. He is South Africa's youngest patent-holder after having invented DryBath – the world's first bath-substituting solution, which he presented at a TED Conference in Johannesburg in 2012.

1.4.1.3. Colin Thornton (35 years old): Founder and Managing Director of Dial a Nerd

While pursuing a degree in computer science at the University of Witwatersrand, Collin Thornton dropped out of school and began raising funds for what is now known as the million-dollar computer repair company, Dial a Nerd. Colin founded Dial a Nerd in 1998 at the age of 19. His first computer repair room was in the garage of his parent's home and clients were close

friends and family. By focusing on home users and offering a high level of service, he occupied a niche, which helped Dial a Nerd grow into the business it is today. His company has a presence in most major South African cities, with five branches and over 70 staff members countrywide. It has over 40 000 customers consisting of home-based computer users and small to medium-sized businesses.

1.4.1.4. Vuyokazi Ngalo (38): Owner of Wonga Designs

In 2009, Vuyokazi began designing and sewing her own clothes in her spare time. Two years later she started her own business, but her monthly revenue was seldom more than R1 000. Today, with the help of the Awethu Project, she has hired her first full-time employee and is generating revenue of about R20 000 per month. Vuyokazi's progress is set to continue with her designs showcased at the 2013 International Fashion Sale at the Gallagher Conference Centre. She has also recently secured financing from the Small Enterprise Finance Agency (SEFA) to assist with a new marketing campaign.

1.4.1.5. Ashley Uys (29 years old) Founder and Managing Director of Real World Diagnostics

Ashley has a BSc Honours Degree in Biotechnology and a Management Advancement Programme (MAP) certificate from the University of Witwatersrand. He founded Medical Diagnostech in 2010, a company that develops and markets affordable and reliable medical test kits for malaria, pregnancy, syphilis, malaria and HIV/Aids for Africa's rural communities. Each test kit costs R4, effectively bringing reliable diagnosis into the hands of millions of people who face these illnesses every day. Having won the South African Breweries Innovation Award and listed as one of Forbes's 30 Under 30: Africa's Best Young Entrepreneurs in 2011, Ashley continues to research and develop new and affordable products, among them a pre-diabetic test. (www.disovery.co.za)

1.5. Intrapreneurship defined

Intrapreneurship is the same as entrepreneurship except that it is practiced in an existing organisation. Intrapreneurship involves the definition, creation and distribution of value and benefits to individuals, groups, organisations and society by one or more people working within an existing organisation. It is a process in which organisations encourage entrepreneurial characteristics in their own managers.

The intrapreneur is a revolutionary within an organisation – challenging the status quo and fighting to change the system from inside the organisation. Most organisations however require that the intrapreneur should seek for permission before attempting to change anything in the organisation. One advantage of intrapreneurship over entrepreneurship is that there are more resources available to the intrapreneur, which can be applied to the opportunity identified.

1.6. The Importance of intrapreneurship

Changes in organisations are taking place faster than ever before. Organisations are finding it increasingly difficult to compete. They are looking to intrapreneurs to take on their competitors by creating new businesses in new markets. As competition intensifies so does the need for creative thinking. Creativity is needed both at the strategic and operational levels to effect the changes that competition demands.

1.6.1. Factors that discourage intrapreneurship

There are many factors that discourage intrapreneurship.

- **The costs of failure are too high**

There must be some element of tolerance to failure. This is not to say organisations should simply condone failure but rather that organisations must measure and attribute failure to either the intrapreneur's fault or circumstances beyond the intrapreneur's control. Appropriate action can be taken afterwards.

- **The rewards for success are too low**

The rewards for success are usually not enough because very few organisations provide adequate rewards for success. In most cases the rewards are less than those available to entrepreneurs. The incentive systems need to be reviewed upwards.

- **Unwillingness to change**

Most organisations have a culture of resistance to change- afraid of the unknown. This attitude of unwillingness to change or entertain new ideas frustrates intrapreneurs trying to challenge the status quo.

1.6.2. Advice to the intrapreneur

Intrapreneurial employees are advised to be:

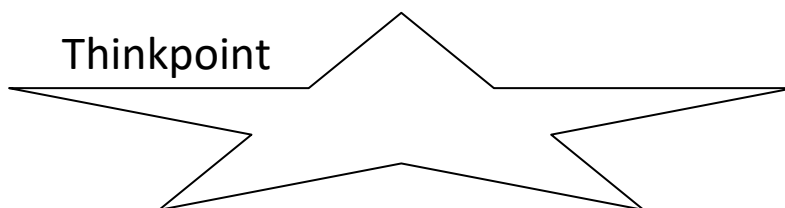
- Courageous
- Modest risk takers
- Flexible
- Creative
- Humble, asking for permission to use company resources.

Entrepreneurship is the process of starting a business, typically a startup company offering an innovative product, process or service. The entrepreneur perceives an opportunity and often exhibits biases in taking the decision to exploit the opportunity.

(www.google.co.za/entrepreneurship)

The South African Institute for Entrepreneurship helps to address poverty and unemployment through entrepreneurially focused initiatives. With over 15 years of experience in developing innovative (experiential-based) training materials, the SA Institute for Entrepreneurship promotes a positive mindset in youth and adults, and assists in the creation of effective entrepreneurs and enterprises.

The SA Institute for Entrepreneurship utilises original, creative methodologies and trains educators, trainers, co-operatives and community-based organisations to convey business skills, uncover entrepreneurship qualities and ensure sustainable economic development and wealth creation. (www.entrepreneurship.co.za/)



Read the article below and argue the contention that publicist extraordinaire Farah Fortune of African Star Communications built her business not by courting big clients, but by backing young up-and-comers, and growing her brand right alongside theirs.

Farah Fortune:-Company: African Star Communications, Established: 2008

The 36-year-old publicist launched her celebrity PR business in 2008, with R1 000 in her pocket — she spent R589 of that on registering a CC and the rest on business cards. From working on her bedroom floor and sharing two-minute noodles with her daughter as she struggled to survive, today African Star Communications represents high-profile rappers such as K.O and Solo, and stand-up comedians Loyiso Gola and Jason Goliath.

She has an office in Nigeria and plans to open two new offices in Botswana and Ghana.

You pulled yourself up by your bootstraps. How did you overcome the hurdles?

I lost my first business to a crooked partner in 2006. I was determined to try again and I went in search of funding, but no-one would give me money. When the last thing I had to feed my child was a mouldy piece of cheese, I went back to work for a PR company, earning R12 000 a month, managing accounts worth millions. I hated every minute of it. In June 2008, when my CC registration came through, I walked out the door.

My first pitch was for a small charity day that AIG hosted for Manchester United in Johannesburg. I was the only woman in the reception area, but my offer to do the job for R10 000 was irresistible and I signed my first client. That was just the beginning of a long struggle. I was broke for the next three years. Friends bought my groceries, and I would feed my daughter and have her leftovers for dinner. I couldn't afford petrol so I walked from my house in Randburg to do pitches in Sandton in my takkies, and then changed my shoes at the client's office. The only thing that kept me going was the belief that I could somehow make it work.

What was your big break?

In year three rapper AKA was about to release his first album. He pursued me for four months. Initially, I didn't want to work with him, but his ambition won me over. I've never regretted the decision. We signed a contract, and shortly after that more clients came my way, mostly for small events. Working with AKA made me realise that my passion was for music and I decided to channel my energies into promoting South Africa hip-hop stars. That's how I ended up specialising and finding my own niche in the crowded PR sector. Our team convinced 8ta/Telkom to look at AKA for their ads and it worked. I branched into corporate PR after the celebrity side took off.

What made your business stand out from other PR companies?

First was affordability. Publicists do not come cheap. I signed up many young artists who had not yet hit the big time, and charged them as little as R4 000 a month to manage their publicity and help make them famous. Taking on lots of small clients meant that I could spread the risk. We still structure our packages according to what clients can afford and I've kept the overheads low. To this day, I've never advertised. Second was my focus on hip-hop. Before 2011, Corporates were not interested in rappers and the scene was very much underground. I convinced Vodacom to sponsor a big hip-hop party with AKA as the star attraction. After that, many other Corporates woke up and took advantage of the popularity of the local rap scene. I like to think I played a part in mainstreaming South African hip-hop.

How have you stayed relevant in a fickle industry?

Once the business was pumping, I built my own brand. I never planned to be in the spotlight, but the more I appeared in the media, the more I was able to build my clients' profiles, and get bigger accounts. I focused only on doing business-related interviews and people started to take me more seriously. I could not believe how many corporate contracts I did not win because I refused to sleep with the client. It's a disappointing reality of this business when you are young and female. Developing my own brand helped me to build a career based on respect and professionalism.

(www.entrepreneurmag.co.za)

1.7. Female Entrepreneurs

Africa is increasingly becoming known as a viable economy to invest in and this is largely due to the success of entrepreneurial ventures. Entrepreneurship is not only about building and running your own business, but it's also about offering a solution to a problem as well as having the passion and perseverance to see it through.

1.7.1 Passion and Perseverance

The following female entrepreneurs have many common characteristics but none more so than the two vital elements of passion and perseverance. Here's a closer look at some of South Africa's top female entrepreneurs. (www.sageone.co.za)

1.7.1.1. Basetsana Khumalo – Executive Chairman & CEO of Basetsana Woman Investment Holdings (Pty) Ltd

Well-known for her string of Beauty Queen titles, Former Miss South Africa and Miss World runner up Basetsana Khumalo has become a household name thanks to her fierce entrepreneurial mind and talents. Starting out by selling sandwiches at local soccer games, it was clear that Basetsana was gifted with a keen eye for business from a young age. During her reign as Miss South Africa in 1990, Basetsana became a TV presenter on a popular local show, Top Billing. It was then that she quickly turned her fame into fortune by beginning to build her brand. In 1995, she became a joint shareholder of Tweselope Productions, the production company that housed Top Billing and later went on to become JSE listed, making Khumalo one of the youngest black female directors in South Africa. Khumalo went from strength to strength when she launched her own clothing, eyewear and cosmetics range that reached over 250 stores on the Sub-Saharan region. She is currently the President of the Business Women's Association of South Africa and has won numerous accolades for her continued efforts and commitment to developing the South African economy. She is also the Executive Chairperson of Tweselope Productions.

1.7.1.2. Lynette Magasa– Founder and chief executive of Boniswa Corporate Solutions

Born in Swaziland, Magasa began her professional career as a receptionist for a leading defence technology corporation. After completing her studies in Human Resources, Magasa was then promoted and found her true calling in telecoms. Together with her husband and funding from the National Empowerment Fund (NEF), Magasa created her telecoms start-up in 2004 and is now the proud owner of one the most successful black-owned telecoms businesses in Africa – Boniswa Corporate Solutions. The business is operational in Gauteng, Mpumalanga, the Eastern Cape, Limpopo, as well as Swaziland, Botswana, Mozambique and Zambia. A BEE-compliant company, Boniswa Corporate Solutions has won several awards, including the BBQ 2013 Trade and Investment KwaZulu-Natal New and Innovative Business award. Magasa's impressive business acumen and perseverance was acknowledged when she won Business Women of the Year in 2013.

1.7.1.3. Shellie Roodt – *Founder and Managing Director of IWESCO, Mpumalanga*

Iwesco was founded in 1997 and has since grown to become one of the leading industrial waste management businesses in the country. Providing its clients with consolidated waste and environmental management solutions, as well as contract cleaning services, Iwesco is

expanding at a rapid pace and is far ahead of its competition. Shellie Roodt created a solution for South Africa's waste management problem. Hesitant at first, mainly because industrial waste management was initially not a widely accepted concept in South Africa, she surged forward and ended up walking away with both the Top Gender Empowered Company and Top Woman Entrepreneur awards at the *Top Women Awards in 2012*.

Roodt piloted her next project, **Adopt- a-Road**, in 2012. This initiative attempts to combine enterprise development with the BEE scorecard. Franchises will be sold to individuals who in turn will be sponsored by the private sector. The businesses who partake in this initiative will earn points towards enterprise development and this allows the franchisee to run a profitable business while simultaneously creating jobs. Currently in collaboration with the Johannesburg Roads Agency and the Tshwane Metro, Roodt believes that in time, this initiative will give municipal workers the time to focus on more important areas of service delivery.

1.7.1.4. Khanyi Dhlomo – Founder and Managing Director of Ndalo Media

Receiving her head start in her media career at the young age of 20, Khanyi Dhlomo is presently the Managing Director of Ndalo Media which she founded in 2007. Collaborating with *Media 24*, she is the head publisher for two of the most successful South African magazines: *Destiny* and *Destiny Man*. Always miles ahead of her competition, Dhlomo has also crossed over to the digital sphere by creating the online media site, *Destiny Connect*. Seen as a media power house on a global scale, Dhlomo was noted as one of Africa's most successful women by *Forbes Magazine* in 2011, and has received awards for Magazine Editor of the Year as well as Most Influential Woman in South African Media. In 2015, *Forbes Magazine* wrote that the key to economic growth lies in supporting and promoting female entrepreneurs. In the meantime, South Africa's economy continues to grow as these female-run businesses expand and flourish. (www.google.com)

1.7.2. A comparison between male and female entrepreneurs

<i>Characteristic</i>	<i>Male entrepreneurs</i>	<i>Female entrepreneurs</i>
Motivation	<ul style="list-style-type: none"> • Achievement – strive to make things happen • Personal independence • Job satisfaction arising from the desire to be in control 	<ul style="list-style-type: none"> • Achievement – the accomplishment of a goal • Independence – to do it alone
Departure point (activities when venture is started)	<ul style="list-style-type: none"> • Dissatisfaction with present job • Discharge or retrenchment • Opportunity for acquisition 	<ul style="list-style-type: none"> • Job frustration • Interest in and recognition of opportunity in the area • Change in personal circumstances

Sources of funds	<ul style="list-style-type: none"> • Personal assets and savings • Bank financing • Investors • Loans from friends and family 	<ul style="list-style-type: none"> • Personal assets and savings • Personal loans
Occupational background	<ul style="list-style-type: none"> • Experience in line of work • Recognized specialist • Competent in a variety of business functions 	<ul style="list-style-type: none"> • Experience in area of business • Middle management or similar level of experience in the field • Service-related occupational background
Personality characteristics	<ul style="list-style-type: none"> • Opinionated and persuasive • Goal oriented • Innovative and idealistic • High level of self-confidence • Enthusiastic and energetic • Must be own boss 	<ul style="list-style-type: none"> • Flexible and tolerant • Goal oriented • Creative and idealistic • Medium level of self-confidence • Ability to deal with social and economic environment
Background	<ul style="list-style-type: none"> • Age when starting venture 25 – 35 • Father was self employed • College educated – degree in business or technical • First born child 	<ul style="list-style-type: none"> • Age when starting venture, usually 35 - 45 • Father was self employed • College educated – degree in liberal arts or similar • First born child
Support groups	<ul style="list-style-type: none"> • Friends and professional colleagues • Business associates • Family and networks 	<ul style="list-style-type: none"> • Close friends • Spouse
Type of business	<ul style="list-style-type: none"> • Manufacturing or construction 	<ul style="list-style-type: none"> • Service – related – educational, consulting or public relations

Source: Hisrich and Peters (1998) in Beaver (2002: 145)

1.8. Management

Management is the process of using organisational resources to achieve organisational goals effectively and efficiently through planning, organising, leading and controlling. An organisation is a collection of people who work together and coordinate their actions to achieve a wide variety of goals. An efficient organisation makes the most productive use of its resources. An effective organisation pursues appropriate goals and achieves these goals by using its resources to create the goods or services that customers want. It is important to understand the relationship between organisation and management.

1. Managers

Managers need to make decisions and the way in which they are made is significant to company success. The nature of communication and its function in an organisation must also be considered. An understanding of motivation and the various motivation theories is crucial to entrepreneurs. Creating an organisational culture and the management thereof is necessary. In South African companies, attention must be paid to workforce diversity and the management thereof. Managers who are entrepreneurs must demonstrate knowledge of groups and teams in organisations and their role in achieving business success.

Another part of management is the negotiation process and identifying the components of political behaviour in organisations. Against this background, the logic of organising and its relationship to other managerial functions must be explained.

2. Management Functions

Within the organisation, management achieves the goals of the enterprise through acting on its human, financial, physical and informational resources by executing the four central management functions of Planning, Organising, Leading and Controlling. These four functions comprise the core management process:

- Planning involves determining which goals and courses of action the organisation and the various departments should pursue;
- Organising involves the structuring and arranging of work, resources, departments and the overall organisation in a manner which will facilitate the achievement of organisational goals;
- Leading involves influencing the organisation's employees so as to ensure that they are motivated to perform actions which are aligned with the organisation's overall goals;
- Control is necessary to determine whether the organisation's performance is in accordance with the predetermined goals, originally devised during the planning process (Smit and Cronjé, 2011)

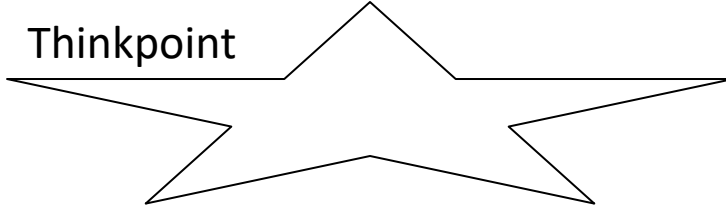
1.9. The SA Landscape

The following points reflect the South African scenario. Each point below must be seriously considered by all relevant stakeholders in order to create and execute any meaningful change to the South African economy.

- Unemployment hit 26.7% in the first quarter of 2016
- Much political noise in the build-up to the 3rd August general elections in South Africa
- Worker's Unions are powerful, politically and economically
 - Mining and other industries are under pressure and are likely to shed jobs further
- The drought in South Africa is starting to bite (food prices ↗)
- The proposed NDP 2030 (National Development Plan) has been slow in its implementation
- There is increasing unrest about a lack of service delivery

- Real GDP growth is expected to be <1.0% in 2016
- Global Economy slow, so reduced commodity prices & exports
- SA has millions of refugees & economic migrants from other African countries

Thinkpoint



By making reference to the article below, in a group, discuss how an entrepreneur can nurture the entrepreneurial spirit by focusing on work life balance.

Doreen Katzen, well-known property broker from Vered estates, explains why work life balance is important.

The making of an entrepreneur

Doreen Katzen, well-known property broker from Vered estates is driven by three factors – her family, her entrepreneurial spirit and her desire to make a difference to others. Somehow she has managed to combine all three principles in her different businesses which have spanned over 4 decades. Doreen's entry into the business world began when she started a nursery school at the Libanon Mine, providing a service to parents and children while being able to be a part of her own children's lives.

Career Moves

Maintaining a leadership role, Doreen then moved to Johannesburg with her husband, Ronnie and their children taking up the position as the principal of a nursery school, continuing her nurturing role through her service to others. After 7 years, not one to let anything stop her, including labour pains, the couple, bought a corporate clothing manufacturing business on the night before Doreen gave birth to their fourth.

However, after being in clothing manufacturing together for 25 years they took a decision to close the business as it was not as viable as it had been in the past.

Determined to still work together as a team while working with people and providing a service, Doreen was drawn to the property industry with Vered, a key player in the residential property market.

Vered Estates and the property game

“What I love about being in the property game is that you can learn something new every day. Every deal is a negotiating and an exciting challenge. You meet so many interesting and lovely people and you have the challenge of mediating between a buyer and a seller to ensure catering to both of the parties’ interests,” says Doreen who believes in a strong work ethic, non-negotiable integrity and creating an equitable result for both buyer and seller. ‘There is often a lot of tension involved before a deal is concluded, but with the back-up and expertise of Vered Estates we have been very happy and successful over the years. Vered has an open door policy and our directors are always available for advice and as a sounding board.”

Lessons Learned

Doreen is among the fortunate few who has loved all of her three careers. *My careers reflect different times in my life and each business has given me important skills from organising, networking, achieving results to assisting others.* “This is the key to my passion and motivation after so many years, together with the fact that I am passionate about selling property.

I love what I do. I love the challenges that I encounter,” says this property dynamo.

Nine (9) Key Tips for entrepreneurial success

- Be very focused in what you want to achieve and prioritise everything in terms of that goal
- Have a clear plan of how to achieve your objectives
- Have systems in place which enable productivity being organised
- Respect the people from whom you are buying and to whom you are selling
- Keep all role players in the business in the loop by giving them feedback
- Always be professional, sincere and ethical in your dealings with people
- Be consistent in your work and persevere until your goal is accomplished

- Be economical with your time – have a constant awareness of where spending your time will be most effective
- Love what you do

These key points need to be factored in as systems in a daily routine. “In our business where 24 hours in a day is not enough, each moment must be maximised. This means keeping to a strict schedule of physical activity, work and most importantly enjoying precious time out with my family at least one night of every week, “concludes Doreen. (www.entrepreneurmag.co.za)



QUESTIONS FOR REFLECTION

ACTIVITY 1.1

Below is a list of 20 personality traits. Consider each carefully – and then rate yourself by placing a tick or cross under the appropriate number with 0 being the lowest and 7 being the highest. Add your score and find out what kind of entrepreneur you would make, using the key below

0 1 2 3 4 5 6 7

- I have the ability to communicate
- I have the ability to motivate others
- I have the ability to organize
- I can accept responsibility
- I can easily adapt to change
- I have decision-making capability
- I have drive and energy
- I am in good health
- I have good human relations skills
- I have initiative
- I am interested in people
- I have good judgment
- I am open minded and receptive to new ideas
- I have planning ability
- I am persistent
- I am resourceful
- I am self confident
- I am a self starter
- I am a good listener
- I am willing to be a risk taker

Key: 110 -140 Very strong

85 – 109 Strong

55 - 84 Fair

54 or below Weak

**Source: Prepared by Sherron Boone and Lisa Aplin of the University of Mobile,
in Megginson, Byrd and Megginson (2006:5)**

1.1.1. Test your potential as an Entrepreneur

ACTIVITY 1.2**About FOOD LOVER'S MARKET**

Fruit and Veg City was started in 1993 by brothers Brian and Mike Coppin. They worked long hours and made many personal sacrifices. Since those humble beginnings the Group has grown exponentially with over 130 stores across South Africa and beyond.

Fruit and Veg. City has always endeavoured to bring customers a wide variety of fresh produce at the best possible price, and in recent years they've included groceries.

The Food Lover's Markets, the latest store-concept evolution in the Fruit and Veg. journey, have already made their mark on the South African food retail landscape with incredible shopping experience they provide.

Fruit and Veg. City have also taken an inevitable step in the direction of service station forecourt retail by partnering with Caltex to bring you Freshstop, the fresher take on convenience

Consider the statements and answer the questions that follow:

1.2.1. They worked long hours and made many personal sacrifices.

Define the term "entrepreneurship" and provide an evaluation on the characteristics of entrepreneurs as they apply to the Coppin brothers.

1.2.2. The Food Lover's Markets, the latest store-concept evolution in the Fruit and Veg. journey, have already made their mark on the South African food retail landscape with incredible shopping experience they provide.

Discuss the functions of management and provide an assessment of what you believe to be the main reasons of success in terms of managerial functions that were executed.

ACTIVITY 1.3.

Read the article below and justify whether you agree that Millennials make for successful entrepreneurs.

Millennials aren't keen on waiting; JUNE 16, 2016

In The Business of Good, serial and social entrepreneur Jason Haber intertwines case studies and anecdotes that show how social entrepreneurship is creating jobs, growing the economy, and ultimately changing the world. In this edited excerpt, Haber explains why the generation born between 1980 and 2000 could be the most entrepreneurial people yet.

The entrepreneurial nature of the Millennial generation - those born between 1980 and 2000 - is stunning. Millennials have disregarded the life and career flowchart that was so formally laid out by the Baby Boomers. But Millennials aren't keen on waiting. It isn't in their DNA. They don't wait for taxis, they take Uber. They don't wait for emails, they text. They don't wait to work up the corporate ladder, they start their own business. So it should come as no surprise that they have no interest in waiting to make a difference. They inherited a flawed world and have a zeal to repair it that's unique to their generation. It's as if the generation has been hardwired to believe in the fierce urgency of now.

Everything is about today. The moment. The instant. The Millennials are an on-demand instant-gratification generation that has become emboldened by technology and molded by world events. So if they don't wait for anything in their lives - why should they wait when it comes to making a difference? They shouldn't. And with social entrepreneurship, they don't have to. A study released in Summer 2014 found that 94 percent of Millennials are interested in putting their skills to work to benefit a cause. More than half wished their employer had more programs engineered for giving back. Millennials are all about engagement. This fact is reflected in their unique brand of activism. In the 1960s, for example, activism was about disengagement -- boycotts. Today, Millennials use the inverse approach -- buycotts. "This generation will use their role as a consumer to make a point," indicated philanthropist and investor Jean Case.

Some say they've become the most prized (and perhaps feared) consumer group of all time, and their habits are surprisingly different from past generations. Consider the findings from the 2015 Millennial Impact Project:

- 84 percent of Millennials made a charitable donation in the past year, and 70 percent volunteered for a cause.

- 48 percent of Millennials have donated to a giving campaign promoted by their employer at some point.
- Millennials are 27 percent more likely to donate to a cause if their manager does, but 46 percent more likely to donate if a coworker asks them to.
- Millennial employees find value in using their pro bono skills for good. Most Millennial employees volunteer between one and ten hours a year.
- 77 percent of Millennial employees are more likely to volunteer if they can leverage their skills or expertise.
- Millennials also want to know that their involvement means something. The Millennial Impact Project found that 79 percent of Millennial employees who volunteered through a company-sponsored initiative felt they made a positive difference.

This generation believes that profit and purpose can go hand-in-hand. Unlike previous generations, whose pursuits of money and excess are well documented, Millennials have far different goals. It's no longer simply about making money, and that's an extraordinary shift in thinking. "I think Millennials realize that money as a be-all and end-all doesn't equal happiness," Scott Harrison, founder of charity: water, has indicated. Scott would know. Almost all of his 80 percent domestic staff members are Millennials. Millennials are known for turning down well-paid internships or jobs in favor of an opportunity that allows them to have a greater impact. Mathew Paisner, CEO of AltruHelp, a website that connects aspiring social entrepreneurs to local opportunities, noticed that 75 percent of his applicants were willing to decline Fortune 500 opportunities to instead join his venture. It's hard to imagine Generation Xers or Baby Boomers following the same course of action. They wouldn't. No other generation would. **But Millennials are different.** The pioneering CEO of Salesforce.com, Marc Benioff, is keenly aware their unique composure. "When you look at the Millennials' value system, what Millennials want, they want to have meaning in work," he said. "They want to understand that the company they're working for is not just building products and selling products." "We have had a chance to truly appreciate the link between the local and the global," says Alex Swallow, previously chief executive of the Small Charities Coalition, and a Millennial himself. "At the global level, we are more likely to have traveled abroad, to have friends from other countries, or simply to have grown up with the internet for a core part of our lives. At the local level, we are more likely to have moved away from our communities. The social enterprise and charity sectors, I think, benefit from having people like this who have an understanding of the larger picture."

Time magazine labeled the Millennials “The Me Me Me Generation.” It sounded like a stinging indictment until you read the subtitle. “They are narcissistic, overconfident, entitled, and lazy, but they just might be the new Greatest Generation.”

Comparing any generation to the members of the Greatest Generation is a tall order. They waited on breadlines during the Great Depression, and held the lines at Omaha and in the Ardennes. The Greatest Generation has always been held up as the generational exemplar. For 70 years they were unmatched in their fortitude and in their achievements. Now, for the first time, a rival generation has emerged. The challenges it faces are completely different, but in many ways they are eerily the same. Both faced an uncertain and violent world, handed to them by their forefathers. Both had a strong faith that the best days for our country and for them lay in the future. And this new generation, the Millennials, has the verve to make an impact on the world larger than any generation that came before it. While accepting his party’s nomination for a second term in office, President Franklin D. Roosevelt looked out at the delegates and declared, “Here is a mysterious cycle in human events. To some generations much is given. Of other generations much is expected. This generation of Americans has a rendezvous with destiny.” So, too, can it be said about Millennials. For this generation has its own rendezvous with destiny. (<https://www.entrepreneur.com/article/271972>)

CHAPTER 2: ORGANISATIONAL MANAGEMENT AND PERFORMANCE

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to evaluate the role of entrepreneurial characteristics in organisational management and performance. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Outline the characteristics of an entrepreneur
2. Discuss popular myths of entrepreneurship
3. Evaluate personal factors that impact upon entrepreneurial direction
4. Recognise the skills which enhance entrepreneurial performance
5. Evaluate the role of entrepreneurial characteristics in organisation management and performance
6. Critically discuss organisational management and performance.



ESSENTIAL READING

Learners are required to read **ALL** of the textbook chapters and journal articles listed below.

Textbooks:

Nieman G and Nieuwenhuizen (Editors) (2014) Entrepreneurship A South African Perspective Third edition. Van Schaik. Pretoria Chapter Two

Rwigema, Urban and Venter (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapters One and Two.

Strydom J. (2012) Entrepreneurship and how to establish your own business. 4th edition Juta. Cape Town Chapter One

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C, (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapter Two

Entrepreneurship is a subject of great importance and relevance to any economy, because it involves the formation of companies, which supply people with goods and services they need and results in the creation of jobs. The South African Institute for Entrepreneurship (SAIE) helps to address poverty and unemployment through entrepreneurially focused initiatives. The institute was born out of the Triple Trust Organisation (TTO) in 1996 in recognition of the critical need for easily accessible business literacy training materials for both the small enterprise sector and for schools. With 19 years of experience in developing innovative, experiential based training materials, the SAIE promotes a positive mindset in youth and adults across South Africa (SA), and assists in the creation of effective entrepreneurs and enterprises. The SAIE promotes a positive mindset in youth and adults across South Africa (SA), and assists in the creation of effective entrepreneurs and enterprises. The SAIE trains educators, trainers, co-operatives and community-based organisations to convey business skills, uncover entrepreneurship qualities and ensure sustainable economic development and wealth creation. The institute currently works in education, agriculture, enterprise development and information technology.

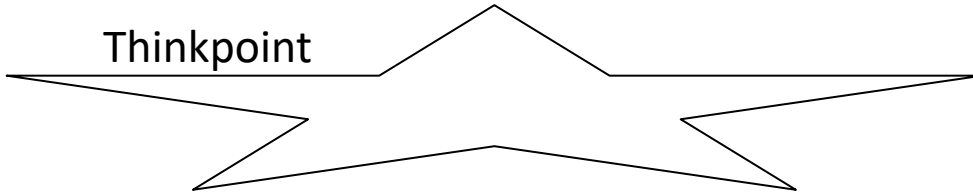
(www.entrepreneurship.co.za)

Entrepreneurs are widely thought to require certain qualities. According to Kuratko and Hodgetts (2001:99) the following are prominent:

- resourcefulness
- creativity
- vision
- independent thought
- energy
- optimism
- innovativeness
- calculated risk taking
- leadership skills
- the ability to recognise and exploit opportunities



Thinkpoint



Read the article below and isolate the key entrepreneurial qualities which you believe contribute to business success.

Entrepreneurial Qualities That Contribute to Success; JUNE 9, 2014

There are entrepreneurs who are extremely successful and everything they touch seems to turn to gold, and there are some that do not see as much success. What are the deciding factors that separate those that crank home run after home run and those that struggle at the plate? While the majority of entrepreneurs have no problem working hard, not all work smart. The following entrepreneurial qualities could be responsible for driving success.

1. Not being afraid of delegating tasks

As entrepreneurs, we tend to always have a full plate and feel that we can take on any task. In reality, if we keep adding to the already-full plate it is eventually going to collapse and create a mess. Don't be afraid to delegate tasks to an experienced member of your company that has the ability to get tasks completed.

2. Managing time effectively

Proper time management is necessary to distinguish between extremely urgent tasks and those that can wait. Use a notebook or whiteboard to prioritize your tasks by writing them down. Mobile devices and tablets have calendars and notepads, but nothing is more effective than actually writing down your "to-do" list. Focus on one task at a time and don't let new "to-do's" disrupt your focus. Knock them out one at a time.

3. Visualizing goals and success

You need to see your goals and success in your mind first if you plan on making them a reality. Not only do you need to visualize the end result, but you also need to visualize every step that it

is going to take to get there. Napoleon Hill said it best: *“What the mind can conceive and believe it can achieve.”*

4. Listening and communicating well

If you aren't a good listener and communicator it will result in miscommunications and wasted time, not to mention added work to correct the miscommunications. Time is one thing that all entrepreneurs would like more of. How often have you wished there was more hours in a day? Avoid wasting priceless time repeating and redoing tasks due to poor communication.

5. Understanding your time is valuable

While it would be great to be able to give everyone the time that they wanted, it would leave you with little to no time to accomplish the things that you need to get done. If a sales representative has a question, they should address it with the sales manager. If a customer has a question they should be speaking with your customer-care representative. While people might demand your time, it doesn't mean that you have to grant them the time. Your time is valuable, so don't waste it on disruptions that should be handled by other members of your organization.

6. Seeking help when you need it

We often let our stubbornness prevent us from asking for help. Have you ever been stumped and someone comes along with the answer and you think, “Why in the world didn't I think of that?” Often times a clear mind and different viewpoint can quickly solve a problem or provide an answer to a question. Don't be afraid to ask for help when you need it, as it can also help to strengthen the communication within your organization.

7. Getting out of the office

As an entrepreneur, you have probably spent several 18-hour days behind your computer or worked through the night late at your office until the sun came back up. It is important to break your day up, for both your physical and mental health. Take a few breaks throughout the day and walk around the office or take a walk outside to clear your head and give your eyes a break from the computer. Leave your office for lunch, even if you bring it -- go eat outside and get some fresh air. Want to jumpstart your day and have healthy energy throughout the day? Go to

the gym bright and early before you hit the office every morning and get a good workout in. You will have a clear mind, abundant energy and improved mental focus.

8. Giving back

It is important to understand how lucky we are, as entrepreneurs, to do what we love. When you are appreciative of what you have accomplished and then take a step back to see what you can do to give back, it gives you a feeling like no other. Helping nonprofits is a great feeling.

Nobody said being an entrepreneur is an easy thing to do, and while these qualities will not translate into automatic success, they sure can help. (www.entrepreneur.com/article/234583)

2.3. The personal characteristics of entrepreneurs

It is not enough to have expertise, skills and aptitude. To enhance chances of success in business, business characteristics and management skills are also needed. The following are personal characteristics of entrepreneurs that deserve our attention:

2.3.1. Persistence

Entrepreneurs have a lot of confidence both in themselves and their enterprises. They press on despite setbacks and difficult situations and problems that may arise. They are not easily discouraged when they make mistakes or fail. They exercise patience until the task at hand has been completed and the goal has been reached.

2.3.2. Commitment to the enterprise

Entrepreneurs dedicate their time, skills, expertise and resources to establish and build the enterprise.

They prove their commitment through the following actions:

- using their own money in the enterprise;
- borrowing and securing the loan against their house;
- putting in long hours to ensure the success of the enterprise;
- accepting a lower standard of living; usually at the beginning;
- earning little or no income from the enterprise until it stabilises.

2.3.3. Involvement in the enterprise

Entrepreneurs are actively involved in all aspects of the enterprise and are aware of what is happening in the enterprise. They communicate with staff, suppliers and clients to ensure the success of the business.

2.3.4. Willingness to take risks

When entrepreneurs take risks, it must be noted that these are calculated risks. These risks must not be excessive, for then the chances of success will be out of the entrepreneur's hands.

On the other hand, the level of risks should not be too small as lower risks are not usually challenging and profitable. However, entrepreneurs should not take gambles.

2.3.5. Sound relationships

Entrepreneurs make an effort to cultivate good relationships with people. This is part of networking. They develop good working relations with their staff, clients, suppliers and other entrepreneurs. Success is difficult to achieve in isolation. This networking is critical to the success of the entrepreneur's business venture.

2.3.6. Creativity

Creativity refers to the entrepreneur's imagination, his ability to think originally or differently. An example would include the recently designed sports shoe washing and drying machine that can wash sports shoes and dry them in ten minutes. This is a good example of creativity.

2.3.7. Positive attitude

Entrepreneurs remain positive despite setbacks and failure. They sometimes get discouraged when situations are not favourable, but they accept this and still remain positive. Difficulties are usually encountered with periods of stress. Whilst rewards do come eventually, not everyone should become an entrepreneur.

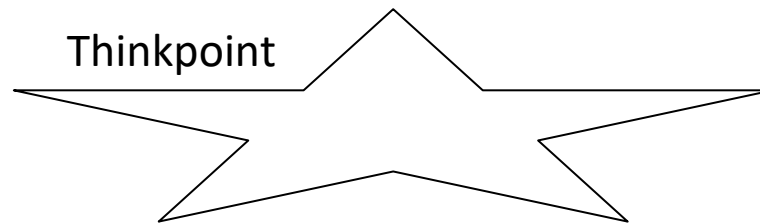
2.4. Characteristics of successful entrepreneurs

Rwigema and Vorster (2004:60) outline the characteristics successful entrepreneurs are broadly thought to exhibit:

- Commitment, self-reliance and tenacity
- A need to achieve
- Opportunity drive
- Initiative
- Responsibility



- Problem-solving abilities
- Team building abilities
- Internal locus of control
- High ambiguity tolerance
- Integrity and consistency
- Creativity and innovation



Read the article below and justify why the amount of people joining the road to entrepreneurship is climbing and indicate their survival techniques.

Lessons on Entrepreneurship: What it Takes to Survive & Thrive in This Fast Paced Hyper Connected World: 06/13/2016

The amount of people joining the road to entrepreneurship is climbing - according to Business News Daily; “the number of Americans involved in early-stage entrepreneurial activity is the highest it has been since The Global Entrepreneurship Monitor (GEM) began back in 1999.” Also according to site, research has found: 13% of Americans are involved in entrepreneurial activity.

Kara Miller, host of WGBH radio’s Innovation Hub credits two main reasons why young adults in particular are becoming entrepreneurs: there’s the fame that follows the founder of the next big thing and the sheer necessity of finding work in a stagnant economy. Approximately 543,000 new businesses get started each month, according to Forbes. Over the course of 10 years, 96% of businesses fail (Inc.).

What does it take to make it as an entrepreneur in this era and why are so many businesses failing? George Otte, Miami-based entrepreneur and technology expert, shared his insight. At the beginning of the interview Otte recalled the first time he felt ‘entrepreneurial.’ “I was just seven at the time. I put a sign in the front yard and sold mangos to neighbors and passing cars. I’ll never forget how good it felt when I had a cup full of quarters by sunset.”

George Otte then moved onto starting a tutoring business as a teen prior. Following, he started a highly successful computer repair and support service. At age 21, he ran it while enrolled in college full time, building a network of more than 100 clients in less than two years. Today, Otte serves as the founder and president of the Miami-based Otte Polo Group, a conglomerate of businesses that serve customers nationwide and operate in a wide-range of industries including: IT support and computer repair, call center and answering services, fulfillment and direct mail, and real estate and property management. The Otte Polo Group's subsidiaries include: Florida-based Geeks on Site, Responsive Call Center, Phase V Fulfillment, and Otte Real Estate. While George attends to this diverse portfolio of companies, he continues to serve as a resource for technology related issues. Throughout the years, he has been acknowledged by Entrepreneur, NBC, PC Mag, and others, including Mashable in a feature on cyber safety.

Back in 2002, it wasn't everyday people in their early 20s who were starting businesses.

What do you think you knew that they didn't? Otte indicated that he knew that people were willing to pay well for a good service. He was in tech support but it could have been any industry. He also knew one could easily incorporate a company in one day and get started - so he did.

Can you recall an 'aha' moment you had when first starting any of your businesses?

My first "aha" was when I was starting Geeks On Site. I realized businesses and individuals were willing to pay good money for reliable tech support. I immediately knew that I could hire and manage techs to perform this work and profit from it.

Why do you think businesses fail?

There are many reasons - sometimes one, sometimes a combination of a few such as poor customer service, mismanagement of resources (employees and capital), or economic downturns.

What does it take to make it as an entrepreneur in this era?

Innovation, adaptability, and having the right pricing strategy are key. Thanks to the Internet, consumers are more savvy now than ever before. They are glued to their smartphones and want what they want when they want it. If a webpage loads too slowly or a company rep fails to respond to an inquiry on social media within 24 hours, that sale could be as good as dead. There are some companies out there that have been doing the same old thing for the past ten years and then they wonder why their revenue is spiraling downward. Become an expert in your industry and get to know your customers and prospects like the back of your hand.

Show them the value of your products and services and deliver it on the channels they communicate on in a language they understand. Also be sure to price what you're selling accordingly. If you go too low or too high you could run your company into the ground. Some companies offer hefty discounts to bring customers in the door, despite in doing so, they decrease their margins. This only goes so far. If what you're selling is innovative enough, people will be more than happy to pay full price.

What can consumers do to keep up with the fast paced, hyper connected world we live in?

Use a customer relationship management tool (CRM) - it has been key for my businesses. Use it to track communications and follow through on requests. I'm also a big fan of surveys. Surveying your customers can quickly show you patterns of strengths and weaknesses in your operation. If being an entrepreneur was easy, everyone would become one.

What can you tell others to do when challenges in business come up?

Learn something new and lean on other successful business owners for support. It's important to have a circle of like-minded people to lean on.

What's something(s) most people don't know about being an entrepreneur but need to in order to survive and thrive?

Don't give up. I've seen a lot of people start businesses but not focus or commit and then they give up. Through the challenges, I wake up every day extremely grateful for how my business career has turned out.

What four things can aspiring entrepreneurs start doing right away to hit the ground running with their business in order to make it successful?

1. Have complete focus and dedication.
2. Regularly review key areas such as operations, sales/marketing, finance, etc.
3. Keep a close eye on the customer experience.
4. Constantly think of ways to grow revenue while keeping costs in check.

(www.huffingtonpost.com)

2.5. Dominant themes of entrepreneurial success

Steyn (in Kroon, 1998:4) contends that consensus exists regarding six dominant themes of entrepreneurial success. Steyn refers to the following as primary characteristics for entrepreneurial success:

- Commitment and determination

Commitment to the opportunity implies sacrifices as far as quality of life, lifestyle and family life are concerned. Determination implies succeeding in spite of set-backs

- Leadership

This implies that entrepreneurs are visionaries as well as executors of plans. Entrepreneurial leadership is dependent on an internal locus of control innate to entrepreneurs and their accompanying ability of self-motivation.

- Opportunity orientation

Entrepreneurs examine and screen ideas to identify opportunities and pursue feasible opportunities relentlessly

- Tolerance of risk, ambiguity and uncertainty

Entrepreneurs take calculated risks and expose themselves to financial and personal risks. They can also tolerate conflict and uncertainty.

- Creativity, self-confidence and adaptability

Successful entrepreneurs are restless initiators who are dissatisfied with the status quo.

- Motivation to excel

Successful entrepreneurs are driven by their own need to attain self-defined goals.

2.6. Secondary characteristics for entrepreneurial success

Steyn (in Kroon, 1998:6) also outlines secondary characteristics for entrepreneurial success, maintaining that they “facilitate the road to entrepreneurial success”:

- Energy, health and emotional stability
- Creativity and inventiveness
- Intelligence
- Ability to inspire
- Values

2.7. Myths

Steyn (in Kroon, 1998:11) points out that researchers find it difficult to understand entrepreneurship because it is difficult to generalise. He lists certain myths which arose in the course of time and have been proved wrong by reality:

- Entrepreneurs are born, not made
- Anyone can establish a successful business
- Entrepreneurs are action-oriented risk takers
- Entrepreneurs are inventors or innovators
- Entrepreneurs want everything for themselves
- Entrepreneurs are academic and social outcasts
- Entrepreneurs are their own bosses and independent
- Entrepreneurs experience unbearable tension
- New businesses fail within five years
- Capital is the most important prerequisite
- Business success is instant
- Too much planning creates problems

Rwigema and Vorster (2004:66) also detail “a plethora of myths and half-truths” about entrepreneurs:

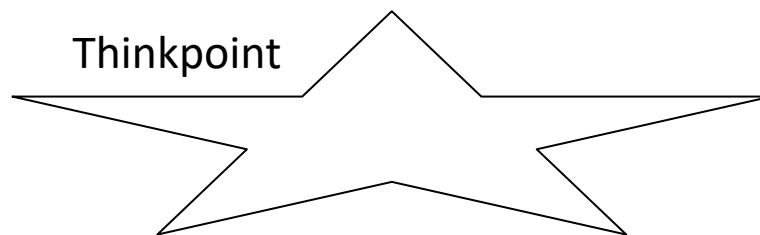
- Entrepreneurs are born, not made
- Entrepreneurs are doers, not thinkers
- Entrepreneurs are inventors
- Entrepreneurs are social misfits
- Money is the decisive resource
- Entrepreneurs depend on luck
- Entrepreneurs are gamblers
- Entrepreneurs seek success but are prone to failure

2.8. Key action roles associated with entrepreneurs

Bolton and Thompson (2000: 21) examine ten key action roles associated with entrepreneurs and entrepreneurship, “regardless of the context”, entrepreneurs:

are creative and innovative	
are individuals who make a significant difference	
put the customer first	
are determined in the face of adversity	
manage risk and create capital	
spot and exploit opportunities	
find the resources required to exploit opportunities	
are good networkers	

Table 2.8.1 Key action roles associated with entrepreneurs



As entrepreneurs the challenge is to manage as well as lead. Read the article below and debate the contentious issue of management versus leadership: what's more important?

13 Jun 2016: The future of most organisations relies on finding a balance between two vital roles, management and leadership writes Nicholas Bradbury of the NHS Leadership Academy

It's not unusual to hear people talking about the importance of having both great managers and leaders inside an organisation. Indeed, Nigel Edwards from the Nuffield Trust published a very interesting blog recently on the subject, which emphasised that, although leadership is important, our obsession with it has obscured the importance of effective management and administration. But when it comes to defining what each role entails, the lines become a little blurred.

Managers must know their subject. So, for example, if you're clinical lead for a hospital and you're also a manager, you need to know what you're talking about – you need clinical expertise in your given area.

Being a leader is all about interpersonal skills; they show you to be open-hearted, generous, warm and caring. If you can do that, even if you're the toughest of managers, known for taking a firm line, you can still be respected, admired and appreciated. A great leader is a developed and evolved human being with empathy, who wants to empower their team and delegate to grow new leaders. Go to any organisation and listen to people talking about their manager and you soon understand what matters to them. Does their manager have genuine leadership skills and authenticity as a human being? Do they welcome them and treat them as a person and not just a role? Do they look them in the eye and listen to them? You can be a fantastically capable manager, but, if you're not also a wonderful leader, you're quickly going to alienate everyone in your team and beyond.

Leadership academies recognises that as soon as you're in a formal 'leadership' role you need management skills as well. So what's stopping those in charge from combining the two elements in everyday roles?

Small-picture thinking

First, we're still prioritising our own organisation rather than the system as a whole. This is short-sighted and not good for patients, staff or citizens.

Lack of ownership

It's ok to admit what we don't know but we feel frightened that 'coming clean' will mean we won't be respected. It's actually the opposite. It's important that we move towards a culture of acceptance, not fear.

Red tape

Regulators are currently a barrier to successful system leadership in the many organisations, as research from The King's Fund recently revealed. Rather than encouraging each organisation to just act independently and compete on its own terms, we need to encourage a whole-system approach with every Trust working towards the same end-goal.

Lack of trust

Leadership works on the fundamental assumption that systems can only move forward where there is complete trust. You can't have system collaboration without everyone coming together and believing and trusting in the same end-goal. It's about overcoming rivalries and fear of giving up power by sharing. (www.cipd.co.uk/pm/peoplemanagement)

2.9. Organisational Management and Performance

In order to understand organisational management and performance it is necessary to draw upon current psychological, management, economic, and entrepreneurship theory. Though there is considerable controversy in the field of psychology concerning the ability of personality traits to explain behavior, it is accepted by many that such traits do exist, that they are stable over time.

2.9.1. Personality Traits

Hollenbeck and Whitener (1988) noted that one of the problems in using personality traits to explain job performance was that such traits are mediated by motivation and moderated by abilities in their underlying connection to performance. Thus, personality traits are somewhat removed from performance in the fundamental chain of events. When studying the entrepreneur, it is necessary to include the mediating role of motivation and the moderating role of entrepreneurial management abilities.



2.9.2. Psychology

In studying the emerging model of “entrepreneurial characteristics” it is incumbent to draw upon literature from the field of psychology. It is further important to consider a psychology-based model of the “characteristics” as the

relationship between entrepreneurial

characteristics and organisational

management is more

comprehensive and realistic than generally understood.

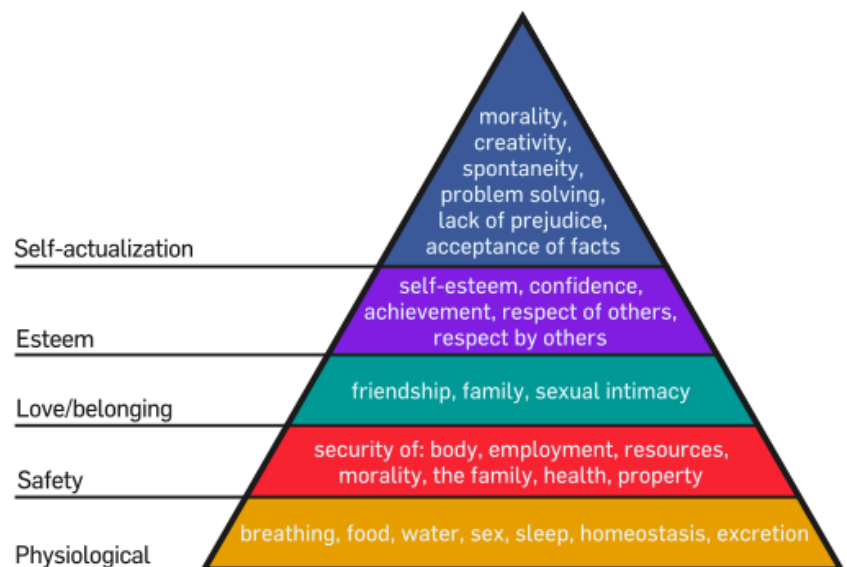


Illustration 2.9.2. Maslow's Hierarchy of Needs Theory

2.9.3. Strategic management

Strategic management, entrepreneurship and economics indicate a connection between entrepreneurial characteristics and organisational development. Strategy and industry structure are “context” variables that interdependently interact with entrepreneurial behaviors to influence growth. Managers could be matched to situations which in turn implies that the effects of entrepreneurial behaviors on organisational management and performance are contingent upon strategy and industry structure. Thus, strategy and industry structure, though ultimately determined by entrepreneurial behavior, are themselves important inputs to the behavioral context of entrepreneurship. Decision-making, skills, aptitudes, and training are components that assist in refining the understanding of the role of motivation within the ambit of the “entrepreneurial characteristics”. The “entrepreneur” is the focus as the factors of motivation, ability, skill, aptitude and training are elements in modeling or creating entrepreneurial behavior along with the need for strategy and industry structure contexts. The entrepreneur must be at the central position of entrepreneurship, as both theory and practitioners concur that’s where he/she belongs.



(<http://www.sciencedirect.com/science/article/pii/S088390269390032Z>)



QUESTIONS FOR REFLECTION

ACTIVITY 2.1

Read the article (<http://www.fin24.com/Entrepreneurs/My-Business/Dbn-entrepreneurs-share-their-road-map-to-success-20151010>) and answer the questions that follow.

Dbn entrepreneurs share their road map to success

Oct 10 2015 08:00

Liziwe Ndalana

Majozi Bros co-owners Simphiwe Majozi and Sihle Ndlela.

Cape Town - Two young Durban entrepreneurs, who "build dreams instead of houses", have been inundated with calls from "aspiring construction entrepreneurs seeking advice and mentorship" after they **shared their success story** with Fin24. With an annual turnover of R5m in their last financial year after just five years in business and a firm intention to go national and up against the likes of Basil Read, Grinaker and JT Ross, 26-year-olds Simphiwe Majozi and Sihle Ndlela are a force to be reckoned with. Ndlela said in an update to Fin24 the response has been overwhelming. Their personal account of how they met and grew Majozi Bros to employ 52 people currently also inspired us to find out more.

Fin24 caught up with Ndlela: How did you grow your business - in terms of funding to expand the business?

We formed a couple of informal businesses which generated a passive income for us. This income allowed us not to take salaries from the construction business. We were able to invest every cent we made back into the business. We invested heavily into marketing because marketing initiates and drives sales and converted sales equal profit.

When we made profit on various projects, we split it into different funds:

A contingency fund - money put aside for unforeseen situations that may even be potentially threatening to our business;

An education fund - for investing in our training and development as well as key staff members who show potential;

An investment fund - for the specific purpose to invest in property so that we can create a continuous flow of work for our employees and business while growing our cash reserves in the long term; and finally

An assets fund - which we used to buy assets that would improve our construction processes and increase our capacity to get the job done.

It was this approach that enabled us to grow our business and carve a footprint in the market.

2. What were your biggest challenges?

One of the problems we faced was our age; people couldn't believe that being as young as we were that we could deliver on what we promised. To overcome that obstacle, we studied a lot of short building courses and we positioned ourselves in the market as experts. Unlike most building contractors in the market we didn't sell a price tag to our clients but rather we educated our potential customers as much as we possibly can so that they could make informed decisions. We got written referrals from our happy clients and we insisted that our potential clients visit our current and completed projects so they can judge our capabilities first hand. We also developed a culture of under-promising but over-delivering. When we got into the industry, the building industry and black building contractors in general had a very bad reputation, they were known for very poor workmanship and extremely high prices. We decided to differentiate ourselves by establishing a strong brand in the market, one that was associated with quality workmanship. We joined quality assurance organisations such as NHBRC (National Home Builders Registration Council) and CIDB (Construction Industry Development Board). We made sure that our tradesmen were highly skilled artisans and that our foremen experienced in construction process and personnel management.

3. How important is marketing for a business?

We invested heavily into branding and marketing - all our staff, including ourselves and our foremen wear branded uniforms. We made sure that our vehicles are branded and that all of our sites have branded sign boards with our details on it. We marketed ourselves extensively on the internet and also in newspapers and billboards. The most important thing in construction is to understand pricing and how to cut and save costs. In the early days we didn't really understand how the pricing model worked - on many occasions we would price ourselves out of business. We would get jobs based on our low price, but the jobs were not profitable. We had a big order book but no money.

We decided to get help from experts. We contracted the services of an accountant to help us manage and monitor costs and help us system up with financial controls. We also got our accountant to sit us down once a week and educate us about different aspects of financial management. We approached various experienced quantity surveyors and asked them to teach us how to effectively calculate quantities and costs. We also invested into costing software. In the early days when we didn't have vehicles, we could get material to site on time, but not our workers and that resulted in a number of inefficiencies. This ultimately comprised our bottom line, because we weren't able to finish projects on time due to delays.

Eventually we managed to buy a vehicle which lead to more vehicles and today we have a fleet of four vans. You can have the best product/service on the market but it won't sell unless your customers know about it. And how you let you customers know that you exist is through marketing. When we started we had no marketing budget at all, we had to do with what little we had and be creative about it. We posted free ads on different online platforms; we relied heavily on referrals so we had to produce top class workmanship for our existing clients to become somewhat of a sales team. We told everyone who was willing to listen about our business and what sets us apart from other businesses.

2. What sacrifices did you have to make as individuals to make your business a success?

We lost our social life and some friends as we both are workaholics. We are also both passionate to the extreme about our business and are always using whatever spare time we can get to strategise on the direction our business should take. Simphiwe sacrificed the comfort of his stable job and I sacrificed an opportunity to get my university degree.

We have sacrificed quality time with family. At times we have sacrificed our money to the last cents to make our business work. Sometimes we were caught in situations where we had to force breakthroughs because we literally had nothing to lose.

3. What did you learn the hard way as an entrepreneur?

Between the two of us we have over eight failed business ventures. The hardest lesson we had to learn as entrepreneurs was to be able to accept failure what it really is. Failing doesn't make someone a failure, failure is an opportunity, an opportunity to start again but more intelligently, there's more to learn from failure than there is to learn from success. We are a product of the lessons we learnt from our failure hence we always make sure to turn our failure into positives no matter how severe they might seem at the time.

6. How helpful is your partnership for your business?

Being in this partnership is the best thing either of us could have done. No one in business has all the required skill sets to start and run a successful business. Simphiwe and I have strengths and weaknesses, my weaknesses are his strengths and his weaknesses are my strengths therefore we are able to bridge each other's weaknesses. Our partnership helps us come up with innovative ways of solving problems that we wouldn't have been able to come up with if we were individuals and it has helped us to bounce ideas off each other and give each other objective and unbiased feedback. Our partnership is not perfect, we have our fair share of problems but our common vision and love for business is what keeps us together and makes us lethal as a pair.

7. How important is cash flow in your type of business? Do clients always pay on time, if not, how do you manage these to ensure the business does not suffer? Also, how do you pay your staff during such instances?

We learnt the hard way that cash is king. Most of our ventures failed due to a poor cash flow management. Inflows of cash need to exceed outflows, so we made a policy of getting payments prior a project and created payment schedules that ensure we are always ahead with payments versus the work. At first we would have staff that would require money at anytime, any day and made up things such as transport money etc. We realised how this was messing up the cash flow, so we created payments for every second week of the month.

8. How important is a cash reserve fund/emergency fund for a business day? Does your business have one?

A cash reserve fund is paramount for any business especially in an industry as volatile as ours. Every business goes through a cycle of ups and downs. We prepare for the downside by saving up reserves during the upward cycles and investing into property development when there is a slowdown. For instance, the industry as a whole is experiencing a downward cycle, but we have managed to buy some cheap pieces of land where we will create our own opportunities and build our own houses to sell. By doing this we would also be able to keep some of our staff employed and grow our reserves during the low cycles of business. We are firm believers in the notion that it is not about how much money you make, but it's how you use it.

In conclusion

One of the ways we try to insure quality and that we grow as business and as entrepreneurs is to approach established construction companies. We don't ask them for BEE deals or handouts but we ask them to visit our sites and premises and to critique our construction processes and business model and suggest ways we can improve. The response has been phenomenal. Here's what some of them have had to say about us:

"I've met hundreds of guys since 1994 starting out like yourselves, I don't know what it is but there is just something different about you guys. I've got a good feeling about you" Graeme Davis, CEO of G2 Construction, R250m company. "You guys are the future of this industry, and that makes me confident about the future of this country" Rodney van der Walt, CEO of GCP, R350m company. "I like you guys, I really like you guys, the passion you've shown me today will make you unstoppable" Craig Jessop, Director of WBHO, R14bn company. "You guys will build an Empire, I honestly don't see anything stopping you" Andre du Plessis, Director of Liviero, R15bn. "I don't have to see any of your sites but I know you guys can deliver, I've been in the game for 50 years, and when you've been in the game for as long as I have you get a feel for these things" Pieter Voogt, owner of Voogt, R700m company.

*** Ndlela answered all the questions via email.**

QUESTIONS

- 2.1.1. Identify the various characteristics of an entrepreneur
- 2.1.2 Did you identify any popular myths of entrepreneurship in the case study? Motivate your answer by making reference to the case study?
- 2.1.2. Evaluate the personal factors that you believe have impacted upon the entrepreneurial direction taken by the Brothers.
- 2.1.3. Identify and discuss the skills which the Brothers have that have enhanced their entrepreneurial performance.
- 2.1.4. Evaluate the role of entrepreneurial characteristics in organisation management and performance as experienced by the Brothers.
- 2.1.5. With reference to the case study, critically discuss organisational management and performance.

ACTIVITY 2.2

Read the article and answer the questions that follow:

JUNE 11, 2015

Starting a new business venture from scratch...

Starting a new business venture from scratch can sometimes feel like jumping out of an airplane and assembling the parachute on the way down. That's because, as is often the case, business success happens largely through trial and error. And that's where a road map comes in handy ... yours should help you so you don't get stuck. If your path is like most peoples', here's how it will proceed:

- You'll start out with a personal road map, and when you find your passion, you'll develop a business road map.
- Your journey will start at point A, but point B will not be linear: There's often no straight line between the two.
- You'll plant seeds to achieve your personal goals and see which ones grow. When you find one that does, you'll chart a course to follow that growth.

- Should that growth become a passion, and a business, you'll then plant more seeds (typically, more calculated ones) within your business, to see which ones work. This is the start of your business road map.

Don't be afraid to aim high. Google wasn't built in a day, and you won't reach your primary goal in a short time, either. In your business, production, marketing, sales and other departments will have to establish their responsibilities. Budgets will need to be created and adjusted. Products and services will need to be developed. Sales will need to be made, and orders fulfilled.

All these incremental activities are necessary to reach your goal. You'll want to focus on the pieces of the journey as you build your road map, not just the end goal or the quickest way to get from point A to B. Of course, not all incremental steps will go as planned. That won't be the end of the world or necessarily a major failure. Instead, the next thing on the horizon will be where you can refocus your attention, within the scheme of the larger goal of building and running a successful company. Each new incremental goal will become your next mountain to climb as you travel the road to your final goal.

So, start by defining your passions and goals, and you'll already have the makings of a definitive plan. And don't be afraid to give it 100 percent. Once you have set an intention and a goal, don't just dream about it, attack it.

(<http://www.entrepreneur.com/article/246888>)

QUESTIONS

- 2.2.1 Evaluate the personal factors that you believe may impact entrepreneurial success.
- 2.2.2. Identify and discuss the skills which are necessary to enhance the entrepreneurial performance.
- 2.2.3. By making reference to the caselet, provide an evaluation on the role of entrepreneurial characteristics in organisational management and performance.

ARTICLE 2.3

Read the article below and critique the statement “Entrepreneurs remain the engine of the global economy.”

President Obama... Entrepreneurship

While the notion that you must be in Silicon Valley to be a successful startup is thankfully less common these days, all eyes were on the region last week, and for a very good reason. U.S. President Barack Obama gathered more than 1000 international entrepreneurs and investors at Stanford University for a landmark summit that included some of the biggest founder brands in the space.

Hosting the Global Entrepreneurship Summit (GES) in Silicon Valley highlighted America’s entrepreneurial spirit and also allowed American investors and entrepreneurs to see the talent, solutions and opportunities that exist around the world – and appreciate that good ideas come from everywhere. It was also timely to demonstrate how globalized the start and scale world is at a time when grassroots political movements are challenging the benefits of globalization at home. As President Obama’s administration comes to an end, it is hard to deny that this administration has carried entrepreneurship as a flag for American diplomacy, making entrepreneurs its best allies in building bridges to other nations. The president sharing the stage with the likes of Mark Zuckerberg, founder and CEO of Facebook, at Stanford last week was reflective of this mindset.

The main message to the world has been that entrepreneurship can flourish in any country, and that efforts towards that goal would yield results for the collective benefit of all economies. With elections on the horizon this November, many thought it would be the White House’s last GES, but it was only the last one hosted by the current president. The legacy will continue. President Obama announced that GES will take place in India next year (2017).

Policy Challenges Ahead

Beyond Zuckerberg, President Obama was joined by a number of well-known founders of other companies like Google, Uber and Airbnb. Appropriately for a government convened event the president and other moderators like Steve Case, co-founder of AOL and chairman of the Case Foundation, asked entrepreneurs directly what policymakers could do to help.

As Case mentioned, while there are comprehensive initiatives working on this like Startup Nations, questioning startups about where they needed help in 2016 from government is now more commonplace as elected officials work to be relevant to the startup revolution in their countries. So what did the entrepreneurs tell the president?

The most important message in my view came from Zuckerberg, someone from whom I would like to have heard more. When the president asked him what he thought was most important for governments to do to enable more “Facebook-like success stories,” Zuckerberg was crystal clear focusing on the importance of connectivity as a basic service, much like healthcare. Making affordable access to basic internet services available to every person is now one of today’s driving motivations for this rock star entrepreneur and ambassador for the American spirit of entrepreneurship.

Internet.org by Facebook is now testing initiatives to overcome issues of accessibility and affordability in internet access around the world. Its “Connectivity Lab” is working on ways to beam the internet to people from the sky via a variety of technologies developed via partnerships, including high-altitude, long-endurance aircraft, satellites and lasers. While the notion of connectivity as a force for positive change is not new (think GrameenPhone), the power of the idea of access to Internet connectivity as a basic service is yet to be fully appreciated.

As Zuckerberg’s team dreams of connecting the world, they invent and deploy new technology that can yield entire new products and industries for a variety of purpose. In fact, the team behind Internet.org has been reported to say that once the technology is built, a lot of it will be open-sourced so that others can commercialize it. Another important implication of this endeavor is that it pushes the frontier for groundbreaking policy thinking.

In the 1990s when South Korea was developing its innovation and entrepreneurship strategy it smartly elected to pick just one of hundreds of goals – broadband connectivity for all of its citizens. South Korea has benefited from this in so many ways and, as Zuckerberg said, getting the remaining 4 billion people on the planet access should be the our primary strategy for accelerating global economic growth.

Beyond internet infrastructure, there were other responses to the president’s question at the GES. A common refrain was that while great ideas are born in the most unexpected corners of the world, as exemplified by delegate entrepreneurs from across the five continents to the GES,

access to capital and opportunity are not the same everywhere, even within the United States where inter and intra-ecosystem disparities persist. As can be expected at a major celebration event for global entrepreneurs, it was also suggested the next administration will be measured against progress beyond raising awareness. For example, the battle to close the gender gap in entrepreneurship opportunities continues. The GES+ Emerging Youth and Women Entrepreneurs organized by the Global Entrepreneurship Network reminded the audience that investing in women entrepreneurs not only fuels economic growth, but also drives innovation to address the critical challenges communities are facing worldwide. Moreover, we know that when women entrepreneurs succeed, they are more likely to move the needle on achieving greater gender balance in their ecosystems, as they then become mentors, investors and role models.

One optimistic message from the Valley last week was the confidence expressed by new firm founders that more of the world's most pressing challenges can be solved by involving entrepreneurs in building solutions and strengthening ecosystems in the process. Many ideas were aired throughout the GES, including by Dell and the Kauffman Foundation who, with support from the U.S. State Department, conducted an interactive policy hackathon that tasked teams of entrepreneurs, investors and policy experts to design solutions to pressing global policy challenges. The winning team proposed the development of an app that would help address current and future refugee crises by providing translation software and bridging the gap between employers and high-skilled refugees. The team argued that refugees should be “seen for their potential, not as a liability,” and that governments “should be investing money in refugees from the beginning, encouraging them to act” in the workforce.

Another session that engaged entrepreneurs in crafting solutions was the Ecosystem Hackathon – brainstorming ways for communities to grow and strengthen their entrepreneurship ecosystem. Guided through a hands-on, interactive process by the Kauffman Foundation along with 8Works Consulting, participants came up with solutions in four categories – connectivity, culture, top-down enabling bottom-up and measurement.

The other silver lining is the increased availability of data that can guide smarter policymaking. Take the Dell Women Entrepreneur Cities Index (WE Cities), released at the summit, which measures a city's ability to attract and support high-potential women entrepreneurs who want to grow their business. When the first rule is to do no harm, we have to provide more reliable data to decision makers in government if we are to enable them to help with issues entrepreneurs have voiced.

The Work Will Continue

As chair of the Spark coalition and president of the Global Entrepreneurship Network, with support from leading partners, including the Kauffman Foundation, I know many remain committed to carrying a vision of one global entrepreneurial ecosystem forward, helping ensure that leaders from the public sector can join efforts with the private and civil sectors in building stronger startup and scale up communities. For example:

- As announced at the GES in Stanford last week, three partner organizations – GEN, UNCTAD and the U.S. State Department – the public-private partnership that is making it easier for startups to register their new businesses all over the world, the Global Enterprise Registration portal, will be expanded. Transparency is a powerful tool in, if necessary, shaming governments to leave what are often oceans of red tape in the history books and adopt on demand conveniences for our new makers and doers of things.
- The Global Business Angels Network, a growing network of early stage investors looking to expand early stage investment beyond developed economy markets are amplifying the angel "voice" in policymaking discussions and ensuring there are new more nimble models being adopted to respond to the call for greater access to capital in underdeveloped economies.
- The network of startup policy advisors mentioned by Steve Case who founded Startup America on which Startup Nations was modeled, is building a compendium of policy levers called the Startup Nations Atlas of Policies (SNAP) and forming working groups on innovative policy levers, such as the new wave of startup visa schemes.

Entrepreneurs remain the engine of the global economy. As fears of declining international collaboration crystalize in political developments like the recent Brexit vote, the perspective of a world of porous borders is even more important than ever. A presidential impeachment in a large economy like Brazil, the unusual presidential elections in the United States, Brexit and the increasing suspicion of refugees and immigrants in all parts of the world are indeed alarming. To entrepreneurs, however, they are nothing short of opportunities.

When someone creates uncertainty and changes the rules, all bets are off and entrepreneurs go to work. They see monoliths to challenge and new opportunities for new business models. Entrepreneurs' voices therefore will carry more weight as political battles lay ahead for our nations.

President Obama should be credited for his extraordinary contribution over the past few years to empowering and preparing those voices to be constructive innovators in the tumultuous times ahead. Movements such as Global Entrepreneurship Week, where people in 160+ countries celebrate their entrepreneurs each November on a global stage, and events like the one we saw last week at Stanford, will be vital to empowering this positive generation that has more answers and fewer complaints than the public at large.

I know for my part, I will put more vigor into enabling the next major global gathering of entrepreneurial minds in March 2017 at the Global Entrepreneurship Congress in Johannesburg, South Africa. Come and help us support those taking a global view to improving the lives of their fellow citizens. (<http://www.kauffman.org/blogs/policy-dialogue/2016/>)

CHAPTER 3: INTEGRATION OF ENTREPRENEURIAL AND BUSINESS MANAGEMENT PROCESSES

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding of entrepreneurial and business management processes. The learner must also be able to establish how the integration of entrepreneurial and business management processes enhances the performance of the organisation. These outcomes will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Explain the concept of entrepreneurial processes.
2. Identify and discuss business management and business management processes.
3. Define and critically discuss organisational performance.
4. Establish how the integration of entrepreneurial and business management processes enhances organisational performance.



ESSENTIAL READING

Learners are required to read **ALL** of the textbook chapters listed below.

Textbooks:

Nieman G and Nieuwenhuizen (Editors) (2014) Entrepreneurship A South African Perspective Third edition. Van Schaik. Pretoria Chapter Three

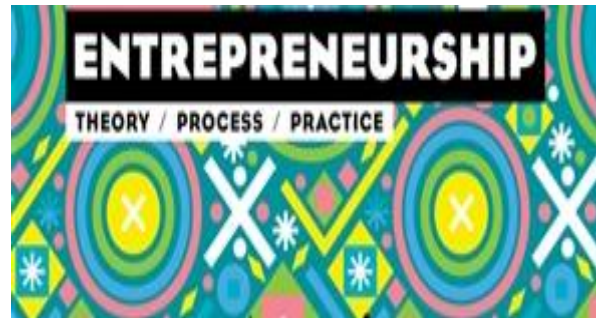
Venter, Urban and Rwigema (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapter One

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C, (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapter One

3.1. INTRODUCTION

According to Rwigema and Venter (2004:25), the **elements of entrepreneurship** are:

- an opportunity focus
- a business plan
- an appropriate structure and a motivated team,
- a founder or lead entrepreneur



3.2. ENTREPRENEURIAL PROCESS

The **entrepreneurial process** involves founding (or reinventing) a business venture and growing it into a thriving, agile enterprise. Specific steps include:

- identifying, measuring and refining an opportunity from multiple ideas
- formulating a business plan
- marshalling the resources
- organising and mobilising the entrepreneurial team
- overseeing new venture creation and growth

Human (Kroon, 1998:85) examines the entrepreneurial process in terms of a framework based on the “driving forces of entrepreneurship.” The three driving forces are the entrepreneur, the opportunity and the resources. This ultimately involves the decision making processes.

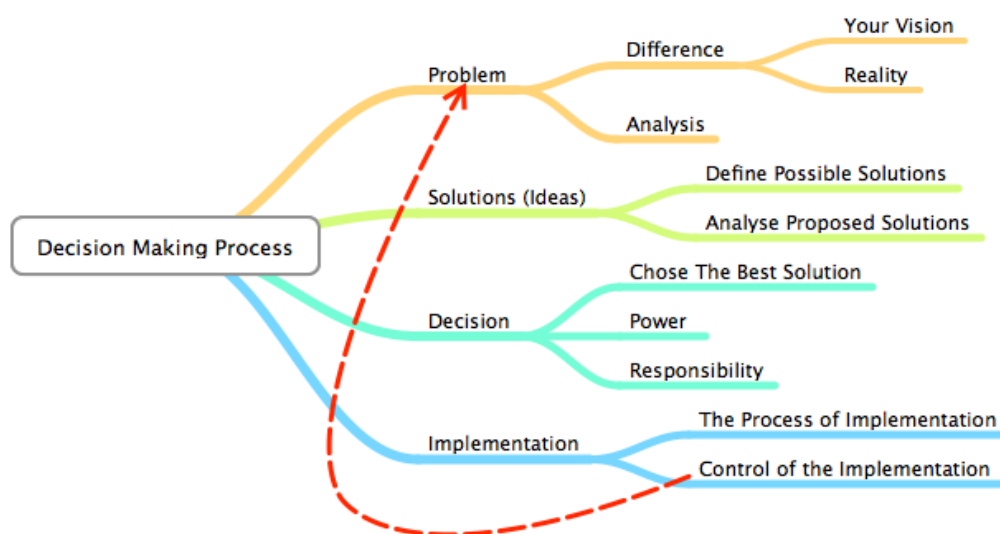


Figure 3.2.1 The Decision Making Process

The entrepreneurial process is illustrated in the following diagram, adapted from Timmons (1994:17):

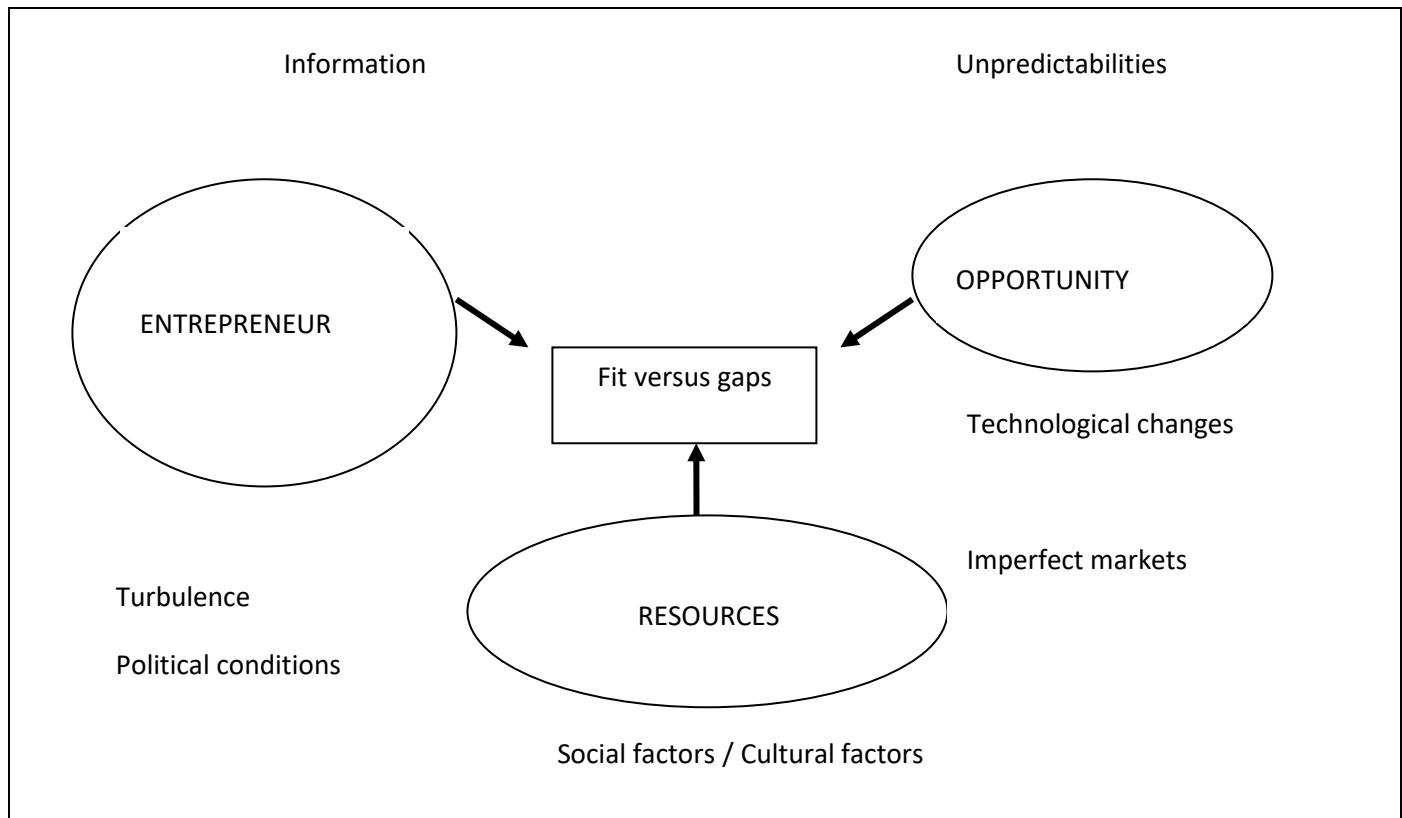


Figure 3.2.2 The Entrepreneurial Process

The degree of fit between the driving forces and the timing of the venture are two important elements of the process. Fit refers to the degree to which the three driving forces are compatible. Opportunities in business are always related to timing so that timing is crucial in any entrepreneurial activity. Of the three forces, the entrepreneur is the most critical factor; the characteristics of entrepreneurs have been outlined in the previous chapters. The opportunity or the market potential is the next extremely important factor. A good opportunity is attractive, sustainable, timely, and anchored in a product or service that adds value to the customer

The third driving force in the entrepreneurial process is identifying, obtaining and managing the resources necessary to utilise the opportunity. The entrepreneur uses a variety of resources such as capital, human resources, equipment and knowledge. The emphasis is on control over resources rather than the ownership thereof. (Human, Kroon 1998:28)

Kaplan (2004:7) describes the five-stage **entrepreneurial process** as follows:

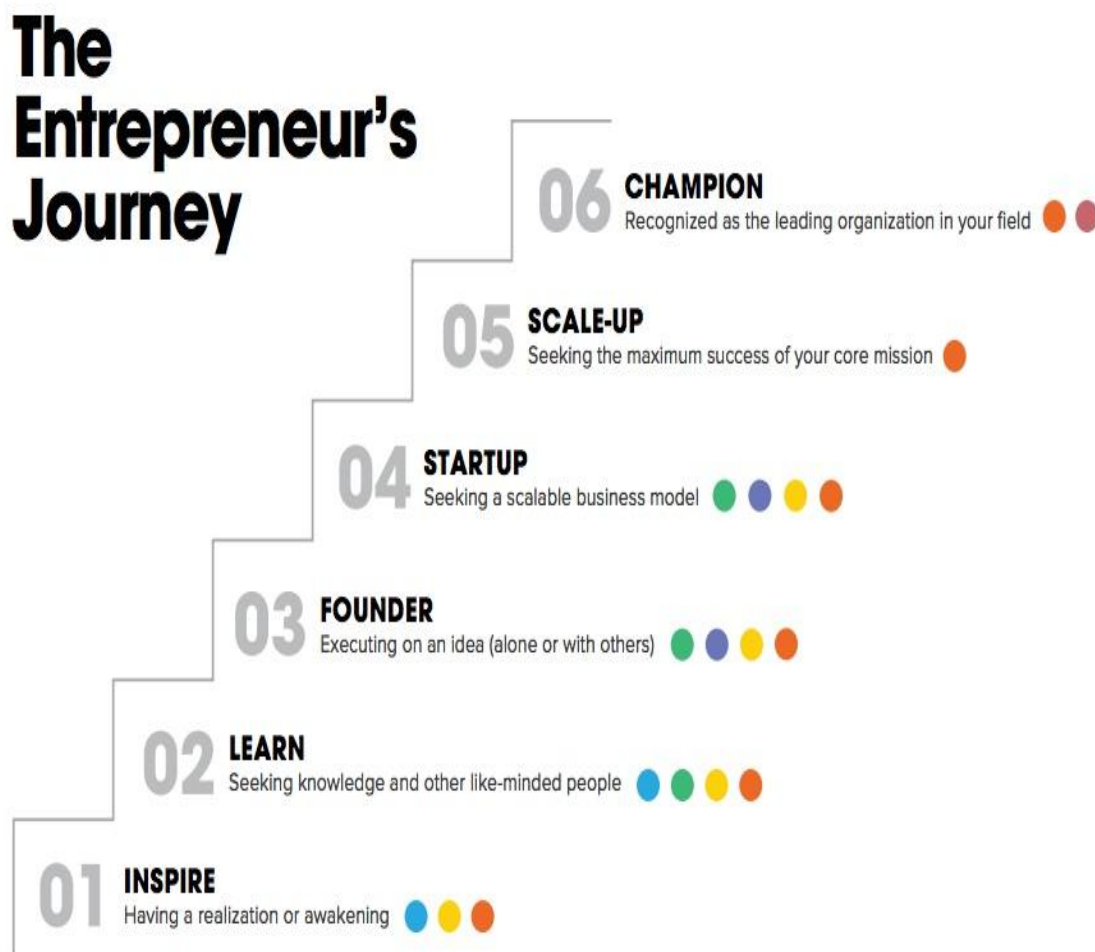
Stage 1: Conducting opportunity analysis – the opportunity is identified and a vision is created.

Stage 2: Developing the plan and setting up the company – strategies are documented and converted to a business plan.

Stage 3: Acquiring financial partners/sources of funding – acquiring financial investors and partners

Stage 4: Determining the resources required and implementing the plan

Stage 5: Scaling and harvesting the venture



The Entrepreneur's Journey (www.google.co.za)

Wickham's (2001:37) approach to the **entrepreneurial process** is based on four interacting contingencies. The entrepreneur is responsible for bringing these together to create new value. A contingency is defined as something which must be present in the process but can make its appearance in a variety of ways. The four contingencies in the entrepreneurial process are the entrepreneur, a market opportunity, a business organisation and resources to be invested. This is illustrated in the following diagram.

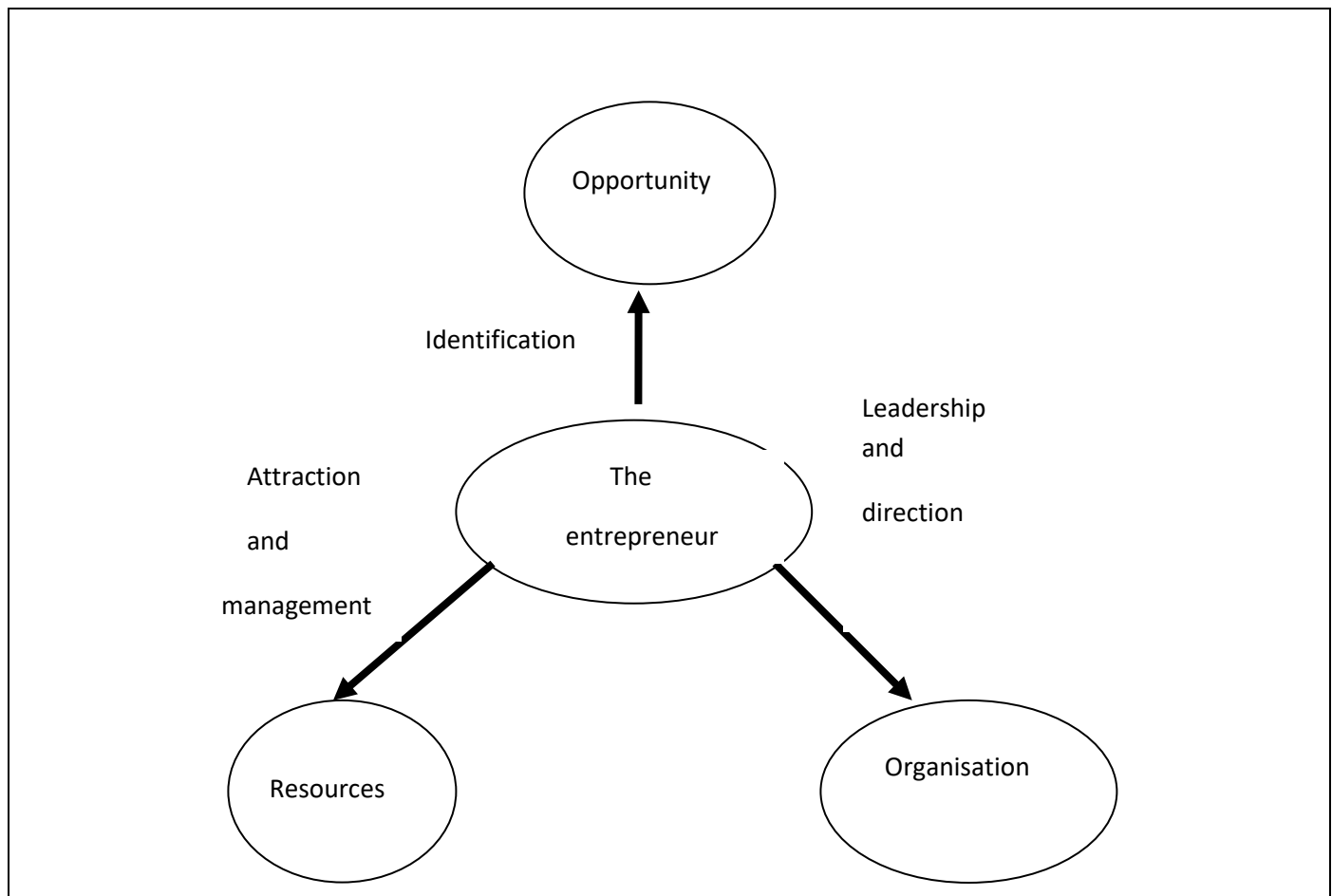


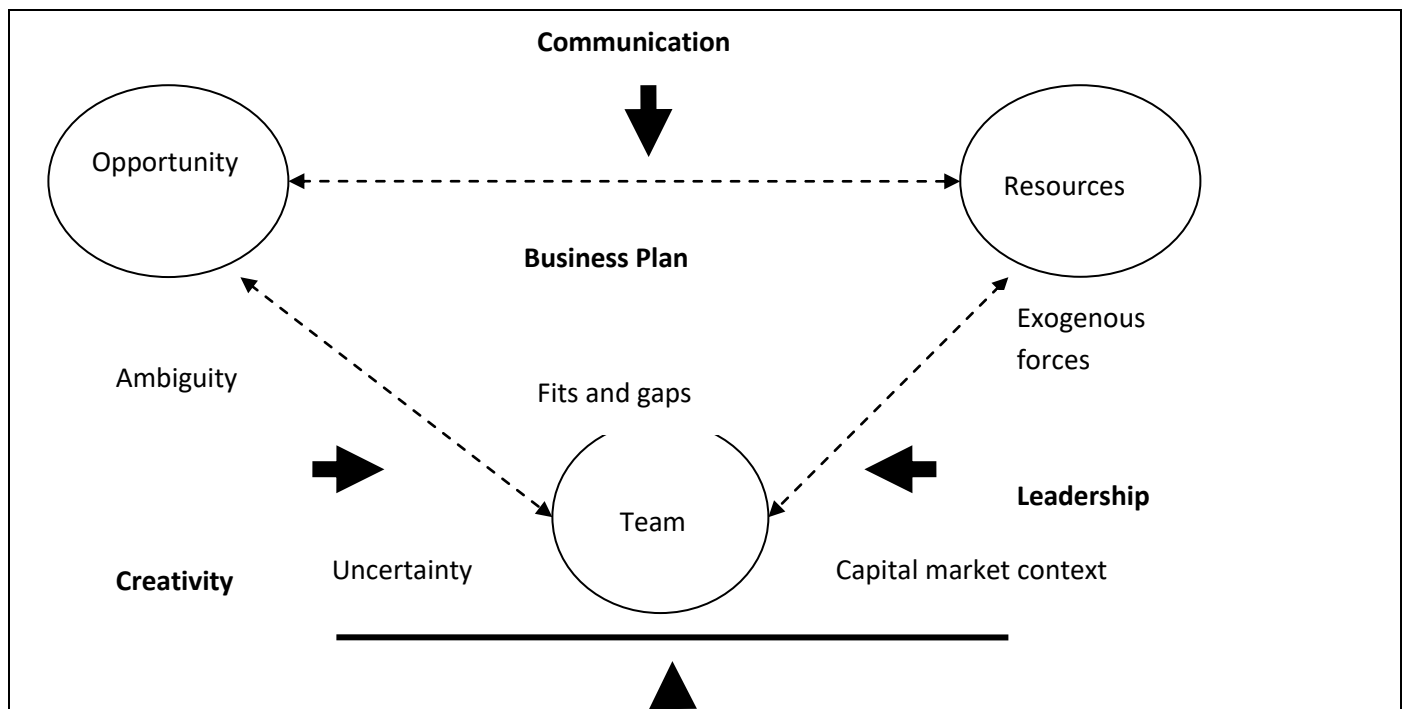
Diagram 3.2.1 Wickham's 4 Contingencies

The **entrepreneurial process is dynamic**. Success comes from the four contingencies coming together and supporting each other over time. The *entrepreneur* lies at the heart of the entrepreneurial process. An *opportunity* is the gap left in a market by those who currently serve it. It represents the potential to serve customers better than they are being served at present.

The entrepreneur scans the business landscape for unexploited opportunities or possibilities that something can be done both differently from the way it is currently being done, and better than it is at the moment. The improvement is the innovation the entrepreneur presents to the market. In order to supply the innovation to the market, the activities of a number of people must

be coordinated. This is the function of the *organisation*. Entrepreneurial organisations are characterised by strong, often charismatic leadership.

The final contingency in the entrepreneurial process is *resources*. This includes money invested, the people who contribute efforts, knowledge and skills, physical assets (equipment and machinery) and intangible assets (brand names, company reputation and customer goodwill). Timmons and Spinelli (2207:89) depict the **entrepreneurial process** in terms of the Timmons Model, which has three key elements:



The Entrepreneurial Process (Timmons And Spinelli.2207:89)

Timmons et al (2007:89) points to the following with regards to the entrepreneurial process

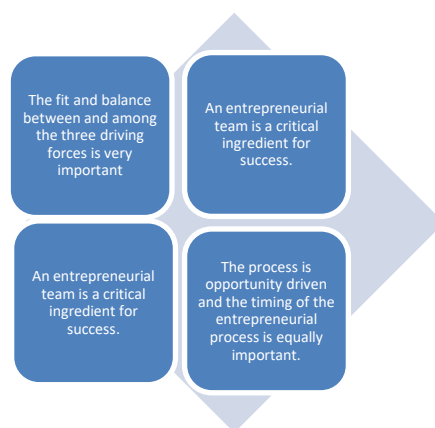
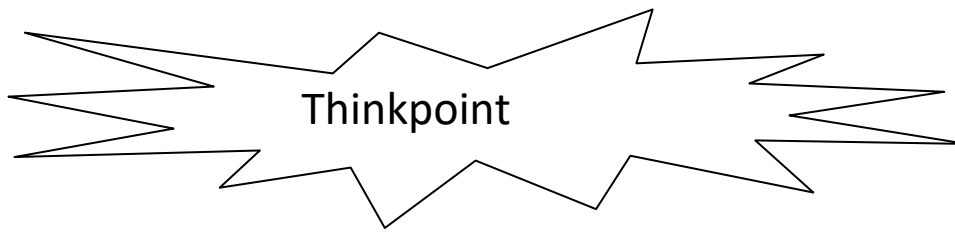
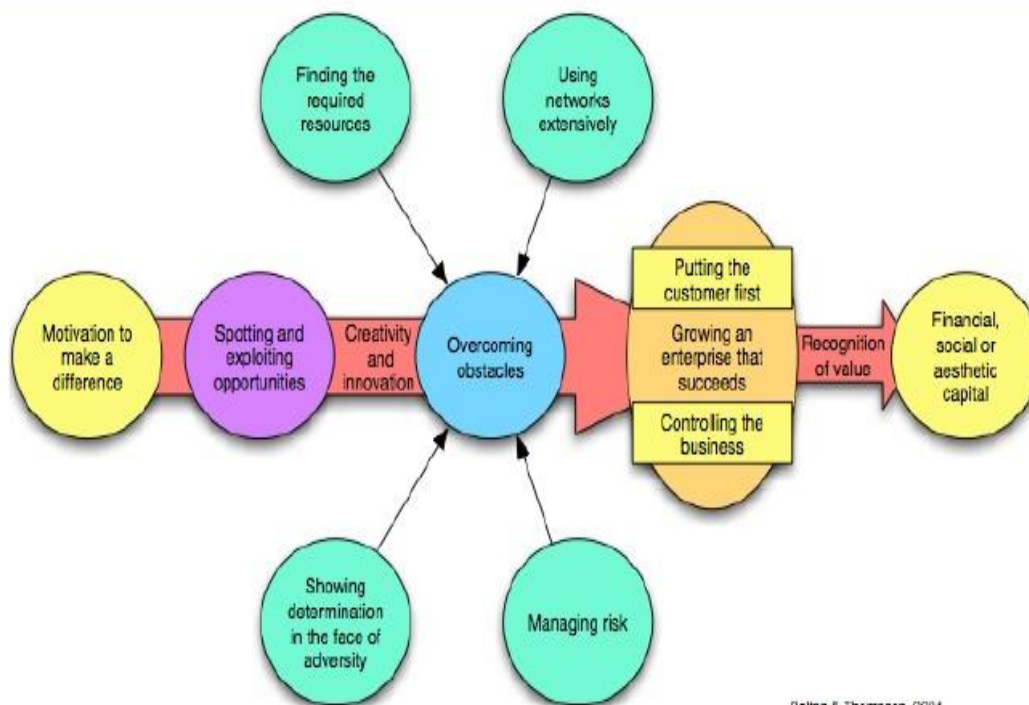


Diagram 3.2.2. The entrepreneurial process (Timmons and Spinelli (2007:89)



Consider the following illustration and argue the contention that creativity and innovation is more critical to a firm's success as compare to recognition of value.

The entrepreneurial process: the complete model



Bolton & Thompson, 2001

3.3. Management

The following excerpts provide an insight into management.

What is Management

"Management is the art of getting things done through and with people in formally organised groups."

Harold Koontz, *The Management Theory Jungle*

"Management is a multi-purpose organ that manages business and manages managers and manages workers and work."

Peter Drucker, Principles of Management

"To manage is to forecast and to plan, to organise, to command, to co-ordinate and to control."

Henri Fayol, *Industrial and General Administration*

"Management is the art of getting things done through people."

Mary Parker Follet

(www.google.co.za)

Contemporary organisation are continually needing to grapple with new challenges.

Management and leading styles need to adapt to the changing labour force, the market complexities and dynamic micro- environmental factors.

The word cloud below focuses on key concepts relating to management.



(www.google.co.za)

The illustration below indicates the key managerial components of business management

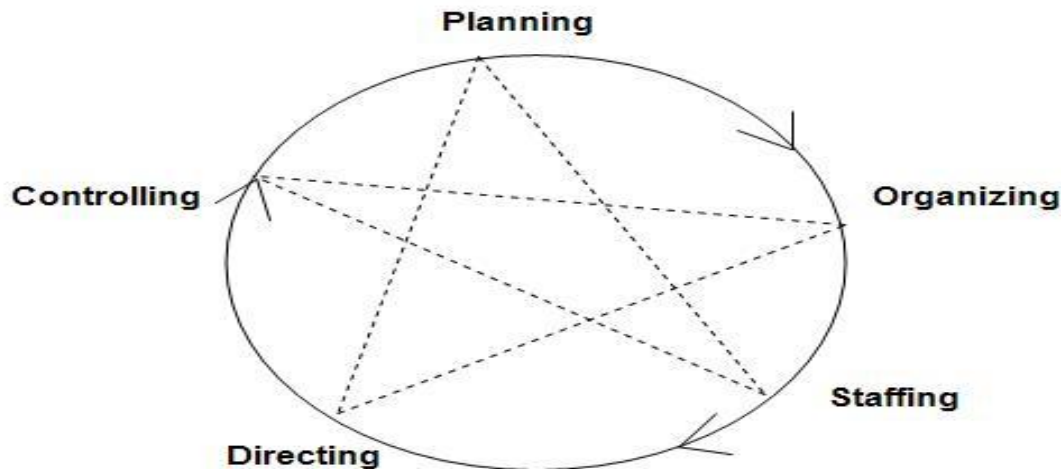
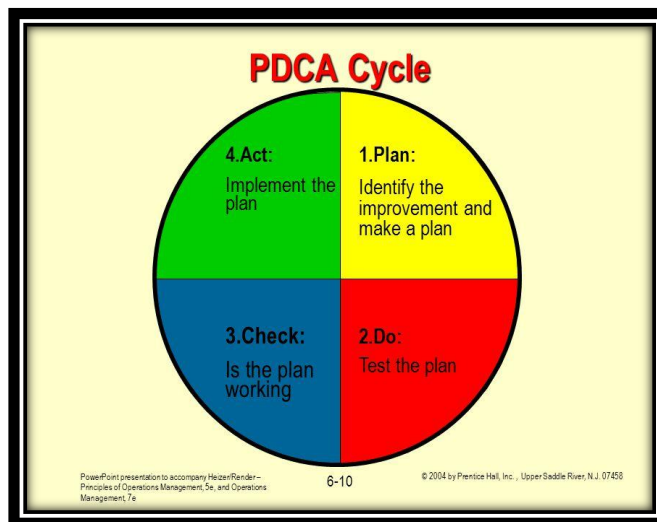


Diagram 3.3.1 Business Management

3.4. Business Processes

Deming (1950) recommended that business processes be placed in a continuous feedback loop so that managers can identify and change the parts of the process that need improvements. As a teacher, Deming created a (rather oversimplified) diagram to illustrate this continuous process, commonly known as the PDCA cycle for Plan, Do, Check, Act:

- **PLAN:** Design or revise business process components to improve results
- **DO:** Implement the plan and measure its performance
- **CHECK:** Assess the measurements and report the results to decision makers
- **ACT:** Decide on changes needed to improve the process



(Source: Heizer & Render (2014:248))

3.5. Business Management Skills

To run a successful business entrepreneurs need a diverse range of business management skills. When a business is started it is likely that the following responsibilities will result:

- sales and marketing;
- accounts;
- human resources; and
- information technology (IT).

It is a good idea to plan ahead of time how each area will be managed as this may include delegating various functions to a business partner, undertaking additional training or contracting a specialist advisor such as a bookkeeper, graphic designer or merchandiser.

3.6. Key Responsibilities of Management

It is important to remember that managers need to understand, manage and take responsibility for every aspect of the business. What is significant is that managers do not have to do everything themselves. Some of the key areas are outlined below.

3.6.1. Marketing, sales and promotion

Marketing is more than just selling and promoting a business. It's about identifying customers and working out how to get them to purchase your product or service.

3.6.2. Human resources

Human resources is about managing and looking after staff. If an existing business is taken over or a franchise is purchased, it may emerge that employees are inherited and need to be managed before the business can be started.

3.6.3. Understanding business financials

The primary objective of any business is to make a profit. Good financial management is essential to ensure business goals are achieved. The first step involves understanding financial statements which is crucial to running a successful business.

3.6.4. Communication and negotiation skills

Business is all about people regardless of the industry or the product or service that is being

offered. On a daily basis a range of people including customers, suppliers, employees and business associates will be encountered. Developing communication and negotiation skills will be invaluable in a range of situations from negotiating a supplier contract to dealing with a difficult customer.

3.6.5. Knowledge of business legal issues

Starting a business can be full of legal potholes for the unwary, whether its industry regulation, tax requirements, industrial relations, business structures, negotiating a commercial tenancy lease or contracts with suppliers. There are many legal issues to be aware of, so before commencing with a business, it is a good idea to engage a lawyer to advise in these areas.

3.6.6. Logistics

Logistics is about managing the procurement, supply and maintenance of products and operational goods. One of the major concerns for a business owner is stock control and there are many different approaches and programs to stock management. Before a business is started, one should think about how you'll ensure you have the right amount of stock at the right place and at the right time. Efficiently managing stock is important and will ensure your capital isn't tied up, and protects production if problems arise in the supply chain.

3.7. Organisational Performance

Organisational performance management is the process of making sure that your company resources are being properly used in pursuit of company goals. The concept of performance management is commonly applied to employee development. The managerial and executive staff also needs to develop a monitoring system that charts the progress of the company and determine when changes in policy or procedure need to be made.

When seeking to improve the performance of an organisation, it is very helpful to regularly conduct assessments of the current performance of the organisation. Assessments might be planned, systematic and explicit or unplanned and implicit. Well-done assessments typically use tools, such as comprehensive questionnaires, SWOT analyses, diagnostic models etc, along with comparison of results to various "best practices" or industry standards.



(www.google.co.za)



What makes SWOT particularly powerful is that, with a little thought, it can help you uncover opportunities that you are well-placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares. More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

Critically analyse why this is important to entrepreneurs.

3.8. Business Plans

A **business plan** is a formal statement of **business** goals, reasons they are attainable, and **plans** for reaching them. It may also contain background information about the organisation or team attempting to reach those goals. (www.google.co.za) A business plan is a written description of your business's future, a document that tells what you plan to do and how you plan to do it. If you jot down a paragraph on the back of an envelope describing your business strategy, you've written a plan, or at least the germ of a plan. Business plans are inherently strategic. You start here, today, with certain resources and abilities. You want to get to a there, a point in the future (usually three to five years out) at which time your business will have a different set of resources and abilities as well as greater profitability and increased assets. Your plan shows how you will get from here to there. According to www.entrepreneur.com/article/247574, the following questions must be answered when working on business plans.

Before Writing Your Plan

- How Long Should Your Plan Be?
- When Should You Write It?
- Who Needs A Business Plan?
- Why Should You Write A Business Plan?
- Determine Your Goals and Objectives
- Outline Your Financing Needs
- Plan What You'll Do With Your Plan
- Don't Forget About Marketing

Writing Your Business Plan

- How To Write A Business Plan
- The Ingredients of a Marketing Plan
- Updating Your Business Plan
- Enhancing Your Business Plan

Business Plan Tools

- Business Plan Software
- Books and How-to Manuals
- Business Plan Templates
- Sample Business Plans

There are good as well as bad business plans. Whether a plan is good or bad depends on how well the business plan has been written. A business plan is a written summary of an entrepreneur's proposed business venture, its operational and financial details, its marketing opportunities and strategy and its managers' skills and abilities. It acts as a roadmap of the business and an insurance against launching a business destined to fail or mismanaging a potentially successful company.

The aim of the business plan is to communicate to the stakeholders of the business (a stakeholder is someone with an interest in the business). It communicates to investors, employees, suppliers, financiers and other groups with an interest in the business. But why communicate through a business plan? This is necessary in order to sell the idea that the business venture will succeed and to persuade people to invest in the enterprise. The business plan aims to convince readers that a sustainable demand for a product/service exists, that the risk have been identified but are manageable, that the enterprise is profitable and that the entrepreneurial team is experienced.

Broadly, a business plan serves two essential functions:

- It guides the company's operations by explaining its future direction and crafting a strategy for success.
- It attracts lenders and investors.

Depending on their circumstances, the entrepreneurial team may require to bring on board investors or borrow some money for the business. A good business plan can help attract lenders and investors.

3.8.1. Elements of a business plan

There are no fixed rules on making a business plan. However, it requires sound knowledge of such aspects as taxation, financial management, the product to be sold or service to be offered, marketing, etc. It is advisable to bring in experts on any of these aspects which an entrepreneur may not be familiar with. This may help in making the business plan look more professional and convincing. To be attractive, the business plan should be well written, attractive in appearance, concise yet comprehensive, logical, simple and easy to read and based on facts and evidence as far as possible. It must be informative and interesting to the reader. The better the business plan, the better its ability to articulate the issues effectively and the better the chances of securing financial support. It must factor in the effect of the external environment and the risk reward trade-offs. Generally a business plan will:

3.8.1.1. Contain the following key elements

- Description of the enterprise
- Name of the enterprise
- Address and telephone number of the business
- Details of bankers, attorneys and auditors
- Type of enterprise, primary activities
- Logo and emblem
- Mission statement
- Goals and objectives

The business opportunity must be clearly explained in terms of its primary activities of the business and its history if the business is already operational for example.

- the type of ownership e.g. private company,
- the organisational structure and
- staffing (future staffing requirements, etc)

3.8.1.2. Indicate the need for staff

Indicate the present need for staff (whether full-time or part-time) and the staffing requirements for the next three years. Clearly specify the skills required and the staff costs.

3.8.1.3. Indicate strategies on specific targets and the means to reach them.

Strategies are significant as they plot the way forward. Focus is on the targets and this provides direction in terms of moving forward.

3.8.2. The Marketing Plan

A marketing plan is a comprehensive document or blueprint that outlines a company's advertising and marketing efforts for the coming year. It describes business activities involved in accomplishing specific marketing objectives within a set time frame. (www.google.co.za). The following are key issues that must be considered in the marketing plan.

- A description of your specific target market. Who are your customers?
- The percentage of the market you intend capturing e.g. 10% in the first year.
- Sales forecasts for the first year of business
- A description of key customers e.g. Banking institutions
- A description of your key competitors, their marketing strategies and potential effects on your business
- A description of your marketing mix- Promotion, Pricing, Place and Products.

3.8.3. The Financial Plan

The financial part of a business plan includes various financial statements that show where your company currently is financially, and where it intends to be. This information helps you determine how much financing your business needs and helps financiers determine whether lending you money or investing in your business is a prudent use of funds. While the financial statements are helpful in and of themselves, the data they contain can also be used to calculate financial ratios such as gross profit margin, return on investment and return on owner's equity. Ratios provide helpful information about a company's liquidity, profitability, debt, operating performance, cash flow and investment valuation. (www.investopedia.com). The following must be considered.

- Start-up cost
- Calculation of your break- even point
- A cash-flow statement that captures the cash position on a monthly basis
- Detailed income statement for the first year showing projected income and expenditure on a monthly basis.
- External financing required and any securities that you have.

3.8.4. The Entrepreneurial Team

The business plan must have comprehensive Curriculum Vitae (CVs) for the entrepreneurial team. The skills and the experiences of the management team together represent a major risk factor. It is important to describe the skills of the entrepreneurial or management team, paying special attention to each member's knowledge of the product or service.

3.8.5. Manufacturing Plan

If the business is in the manufacturing sector, then there is a need to include a manufacturing plan as follows:

- Description of manufacturing facilities
- Capital investment in the manufacturing process and how much will be needed in the next 3 years.
- The source of raw materials and their prices. How much will they cost and where will they be stored?
- A list of suppliers and the level of dependence on each.



Illustration 3.8.5. The manufacturing plan (www.google.com)

3.8.6. An example of a BUSINESS PLAN

BUSINESS PLAN FOR KWIK CAR WASH

DETAILS OF ENTERPRISE:TYPE OF ENTERPRISE:

Providing customers with exterior and interior car washing.

ADDRESS OF ENTERPRISE: 30 Primrose Drive, Lenasia

Tel: 041 2611 1965

Fax: 041 26 11 1966

OWNER: Mr Jabu Ndlovu

BANK: MoneyTec

ATTORNEYS: AJ Maponya & Associates

AUDITORS: KMGP

DATE: 11 August 2016

PURPOSE OF ENTERPRISE

The purpose of the enterprise is to provide the following services to its customers:

- *Car washing (exterior)*
- *Car cleaning (interior)*

EXECUTIVE SUMMARY

The name of the company is KWIK Car Wash. The business will be located in Lenasia. It will be a close corporation. Jabu Ndlovu solely owns the company. KWIK Car Wash will be funded by an initial investment of R 250 000. Jabu Ndlovu will manage the business.

MISSION

The mission of KWIK Car Wash is to provide top quality washing service for luxury car owners in Lenasia. Jabu Ndlovu will work to keep employees satisfied in order to maintain impeccable customer service.

OBJECTIVES

The objectives for KWIK Car Wash:

- To be viewed as a premium car wash service in Lenasia.
- To make a turnover of R500 000 in the second year of operations.
- To achieve a net profit margin of 20-25%.

The business requires total capital of R205 405. All of the capital will be financed by means of borrowed funds using personal insurance policies as collateral.

The loan will be used to:

- pay staff for three months.
- pay initial deposit and rental for three months.
- acquire assets (truck, washing equipment and cleaning chemicals).
- pay for initial advertising costs.

BUSINESS INFORMATION

KWIK Car Wash will be providing customers with two services: exterior and interior car washing. It is a close corporation. It is envisaged to start operations on the 1 November 2015.

Business description

The office hours will be from 7:00 to 17:30. The business will be busiest on Friday afternoons and on the weekends and also just before major public holidays when motorists wash their cars before travelling. Pricing will be set at a mark-up of 50% on cost.

PERSONNEL AND ORGANISATION

In addition to the manager, there will be six people working for the enterprise:

Driver/messenger

Cashier

3 Cleaners

Bookkeeper

- Driver with code 10 license and at a least two years experience.
- Bookkeeper will be responsible for accounting purpose and will come in thrice a week.
- Cashier will handle all cash and issue receipts. S/he will also answer all telephones.
- The cleaners are responsible for cleaning the various cars, eg. washing exteriors, vacuuming interiors and polishing of vehicles.

MARKETING INFORMATION

The surrounding area is quite affluent, 50% of the residents earn over R150, 000 a year. There are three different car dealerships within a four - km radius which will require car washing services for the various fleets.

MARKET ANALYSIS

KWIK Car Wash will target three main groups of customers: individual car owner and leasers, car dealerships, and local businesses.

The car wash will be based in Lenasia. This area has a number of benefits in terms of the market that it will provide for the business. Many people in the neighbourhood own and/or lease new cars and place great value on their cars and how the cars look.

MARKET RESEARCH

KWIK Car Wash is positioning itself as the premier hand car wash serving the Lenasia area. Jabu Ndlovu has forecasted a 20% market share.

COMPETITORS

KWIK Car Wash has no true competitors that are trying to offer a high quality service for a reasonable rate. Most are trying to compete on price alone. KWIK Car Wash's ability to provide a high quality service, both in regards to the actual washing as well as customer service is all based on their ability to find the best employees.

Competitors' strengths

- Financially sound
- Good reputation

Competitors' weaknesses

- Long queues
- Lower end of the market

The enterprise's business strengths

- Providing high quality services.
- Aggressive advertising strategy
- Advanced washing technology

The enterprise's business strengths

- Inexperience
- Cannot attend to a few cars at any given time.

Advantages of location

Spacious with plenty of shops so people can be shopping whilst their cars are being washed.

MARKET

KWIK Car Wash will target three main groups of customers: individual car owner and leasers, car dealerships and local businesses.

Market Segmentation

KWIK Car Wash segments its customers by type of car ownership. The strategy behind KWIK Car Wash target segmentation is to attract customers who will be repeat users and will frequent the business in the typically quiet times for a car wash business.

The belief is that the type of car that a person owns says volumes about their driving, and, therefore their car washing requirements.

New car owners

Owners of newer cars are most likely to use a car washing service. These owners take great pride in their cars and will bring them often to the wash and detail service.

The aim is to inform these customers that KWIK Car Wash will keep their car looking as good as it did the first day they drove it.

Older luxury car owners

These people have either owned their high-end luxury cars for several years or are unable to afford the expense of a new luxury car but want the feel of relaxed driving. Both of these groups want to keep their cars in the best shape possible. These owners will bring their cars in for regular washes and occasional details.

Sports car owners

These people are often younger or middle-aged men and will regard the look of their car as important. They will also pride themselves on the look of their car and will have their car hand washed (at least) weekly.

Lifetime owners

Many of these people have owned their cars for more than four or five years and are more likely to be women. They like their cars to look presentable, and want to keep it in good shape but are not tied up in the look of their car.

Dealerships

There are five new and used car dealerships within three km of the proposed location of KWIK Car Wash. These dealerships often use outside car wash services to clean their vehicles before the cars are put up for sale.

Local businesses

Some local businesses have fleets of cars and small vans that must be kept clean to maintain their company image. These businesses will be looking for a cost effective, efficient car washing service to perform this service, and will prefer to use a car wash service during the week rather than during weekends, like the general public.



QUESTIONS FOR REFLECTION

ARTICLE 3.1

SOURCE: Paul Burns (2005) Corporate Entrepreneurship

Richard Branson comes from a well-off background. His father was a barrister and he went to a leading private school. However, he was never academic and suffered from dyslexia. Nevertheless this did not dent his self-confidence. His mother encouraged this, commenting that “bringing him up was like riding a thorough bred horse. He needed guiding but you were afraid to pull the reins too hard in case you stamped out the adventure and wildness.”

He left school at the age of 16 to launch his first business – Connaught Publications – and publish *Student* magazine. This was based in his parents’ house in Bayswater, London. He wrote to well-known personalities and celebrities – pop and film stars and politicians – and persuaded many to contribute articles or agree to interviews.

He persuaded a designer to work for no fee, negotiated a printing contract for 50 000 copies and got a well-known designer to draw the cover picture.

The venture was not a success, so in 1970 he set up Virgin Records, originally selling records by mail order, at discount prices in order to undercut the competition. But this was also beset by problems, not least some allegedly ‘dubious’ dealings with the tax authorities.

He decided he needed to move to a retail site and persuaded the owners of his first store, above a shoe shop in London’s Oxford Street, to let him have it rent free because it would generate more customers for the shoe shop.

Richard Branson may have been lucky to find someone willing to let him have the premises for his first Oxford Street record shop rent-free, but when he launched Virgin Atlantic he showed that he understood that high capital costs lead to high risks.

Branson minimized these risks by leasing everything and then being able to offer a good quality service at attractive prices.

Richard Branson's main skills are said to be networking, finding opportunities and securing the resources necessary for their exploitation. His network of personal influence and contacts is legendary.

Equally important is his ability to bring out the best and motivate people. He does this with an informal style and system of communication, facilitated by the company being structured into many relatively independent smaller companies, although all under the Virgin umbrella.

Branson hates formal meetings and has no central headquarters, not even a boardroom, as the company does not hold regular board meetings. Instead he prefers to make decisions on a face-to-face basis, albeit sometimes over the phone, but always developing and testing his personal relationships.

"I have always lived my life by thriving on opportunity and adventure. Some of the best ideas come out of the blue, and you have to keep an open mind to see their virtue."

- 3.1.1. Consider the personality and behavioural characteristics of Richard Branson and discuss whether or not they are similar to the characteristics and approach of an entrepreneur.
- 3.1.2. Evaluate Branson's approach to the entrepreneurial process from the information supplied in the excerpt.
- 3.1.3. By making reference to the case study, discuss how strategic business management has led to competitive advantage.
- 3.1.4. Define and critically discuss organisational performance.
- 3.1.5. Establish how the integration of entrepreneurial processes and business management enhances organisational performance.

ACTIVITY 3.2

Read the article below and explain why low-income entrepreneurs fail to sustain their new ventures.

Why low-income entrepreneurs fail to sustain their new ventures by JOSH O’KANE: The Globe and Mail Published Wednesday, Jun. 08, 2016

New research from the University of Toronto gives insight into why low-income areas can breed strong entrepreneurship, but often lack the time and capital to make new, novel businesses sustainable. A forthcoming paper by Laura Doering, an assistant professor of strategic management at the university’s Rotman School of Management, attempts to peruse two seemingly conflicting themes in entrepreneurship literature: that poverty has the ability to help market creativity, and that it has the power to do just the opposite. By combining extensive survey data with on-the-ground interviews in Panama, her research suggests that both these themes are at play – but at different stages of a novel product’s life cycle. She found that, in the face of personal financial crises or a need to migrate elsewhere, people can be compelled to create novel business ideas, but have difficulty keeping them going long enough to sustainably profit.

The research indicates that poverty “limits entrepreneurs’ capacity to profit from the creativity they bring to the marketplace,” as creative ideas get stifled by a lack of funding and slow uptake by local consumers, who also tend to be poor, and reluctant to try new things. In clarifying the gap between two disparate schools of thought, Dr. Doering examines the reasons low-income entrepreneurs’ prospects change over the course of business development, and offers an opportunity to governments and funding bodies in impoverished markets to create more effective policies and programs to support novel businesses. “In an ideal world, I think it would be great if we could support low-income entrepreneurs in vetting and developing ideas, because so many are under this real-time economic crunch to get businesses started,” she says of her research’s implications. The paper will be published in *Sociology of Development* in the coming months. Dr. Doering is perhaps uniquely equipped to examine low-income entrepreneurship. Literature on creativity in the marketplace, she says, is generally published in the management world; research on poverty and social constraints tends to fall into the realm of sociology. Coincidentally, she has a joint doctorate in both sociology and business administration. “Those two lines of research don’t often connect with each other,” she says.

She was in Panama on a Fulbright Scholarship in 2011 when she began interviewing local small-business owners. “The more I talked with people, the more I was puzzled by the fact that everyone seemed to be doing the same thing,” she says. Over time, she realized that these entrepreneurs had started with more creative ventures, “but over time, had regressed back to the mean, and were doing what everyone around them was doing.” After interviewing 41 low-income entrepreneurs, she decided to compare that research with a 2009 survey of 2,000 Panamanian adults conducted for the Global Entrepreneurship Monitor (GEM). The survey offered her a national-level snapshot of the country’s small-business world. It found that low-income individuals were regularly able to start novel businesses but weren’t always able to follow through and establish them in the long-term. The survey alone couldn’t explain exactly how this happened. This is where Dr. Doering’s qualitative interviews came into play, helping to clarify “the processes through which poverty facilitates and then constrains market creativity.” Her interviews – with people whose businesses ranged from Internet cafes to organic agriculture consultancies – gave her a much better sense of why so many low-income Panamanians’ endeavours failed to take off. First, it turned out, there was a rush: The urgency to profit actually hindered the ability to profit.

Since many businesses were started in the advent of personal financial strain, there was little time to vet the business models’ sustainability. And there wasn’t much access to capital to help out – Panama’s financial system doesn’t have the infrastructure to easily facilitate money transfers between friends and family, for instance. Plus, “It takes a long time for consumers, poor consumers in particular, to be willing to try something different,” Dr. Doering says. “One of the reasons why poor entrepreneurs weren’t able to sustain the businesses they brought to market was because they didn’t have the funds to keep the novel products around while consumers were becoming familiar with them.” According to GEM figures cited in the research, entrepreneurs account for 17 per cent of low-income persons in developing countries. The research, then, could create opportunities for many in the developing world. One, she says would be to provide cash grants, rather than loans, to entrepreneurs who are able to show that their idea is both novel and strong. And adding to that, she says, countries such as Panama could develop targeted incubator or accelerator programs to help new firms can be more sustainable. “People can show they have the initial good idea,” she says, “then they could get the capital to start, and work with mentors and business development experts to help them refine that idea.” (www.google.com)

ACTIVITY 3.3

Critique the information provided below in light of the chapter outcomes.

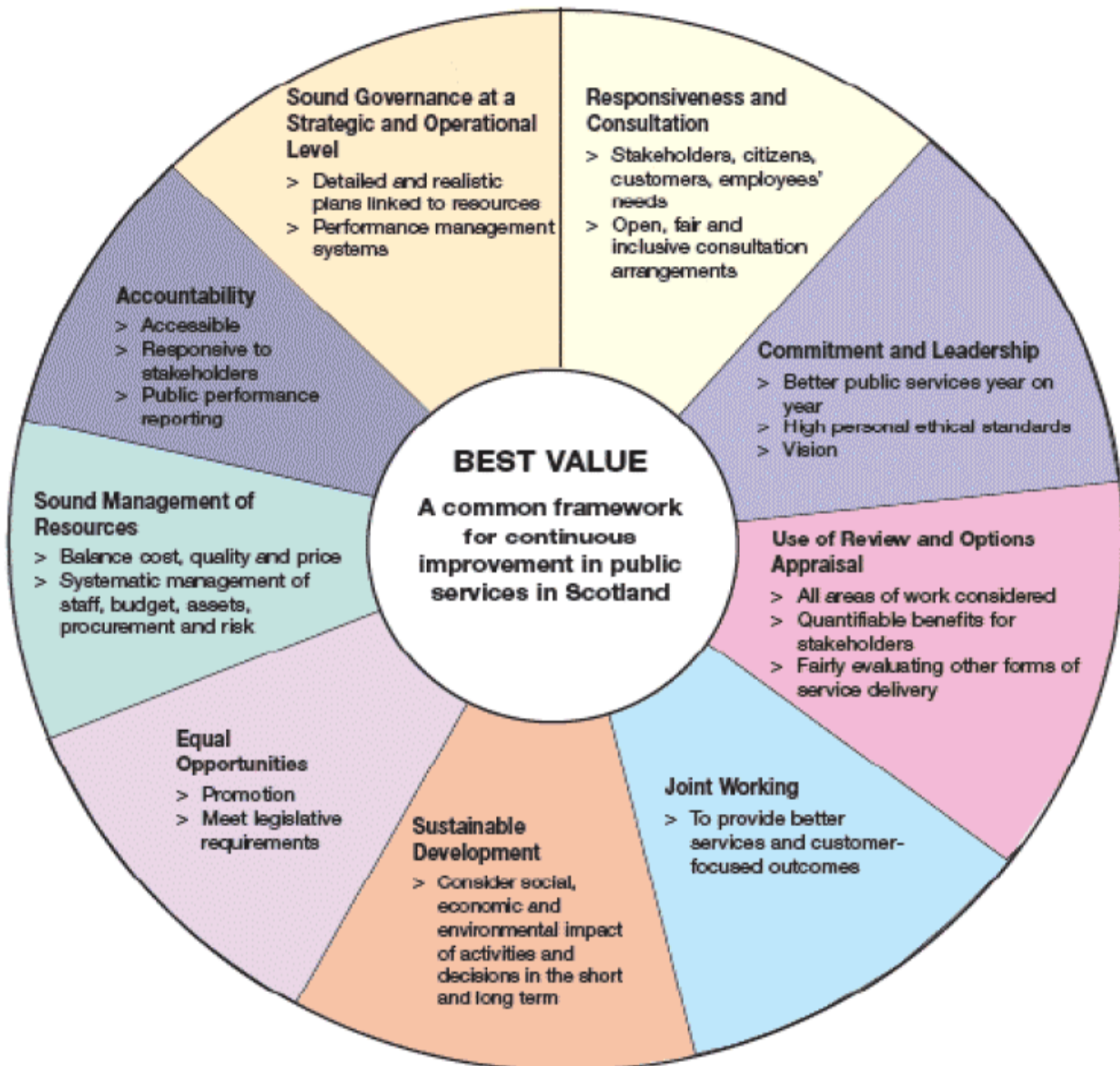


Illustration 3.3.1. (www.google.com)

CHAPTER 4: THE ROLE OF INNOVATIVE ENTREPRENEURSHIP IN THE NATIONAL SOCIO-ECONOMIC DEVELOPMENT

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding of innovative entrepreneurship in the development of a country's socio-economic development.

This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Define and explain innovative entrepreneurship.
2. Explain the link between ideas and opportunities
3. Evaluate the role of innovation and creativity
4. Discuss the approach taken to recognise opportunities
5. Discuss the importance of innovation as a dimension of entrepreneurship
6. Describe the steps in the creative process
7. Explain the components of a feasibility plan
8. Establish the socio-economic needs of countries.
9. Analyse the critical role of innovative entrepreneurship in the development of a country's socio-economic development.

ESSENTIAL READING



Learners are required to read **ALL** of the textbook chapters listed below.

Nieman G and Nieuwenhuizen (Editors) (2014) Entrepreneurship A South African Perspective Third edition. Van Schaik. Pretoria Chapters Three and Four

Rwigema, Urban and Venter (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapter Two

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapter One

4.1. Introduction

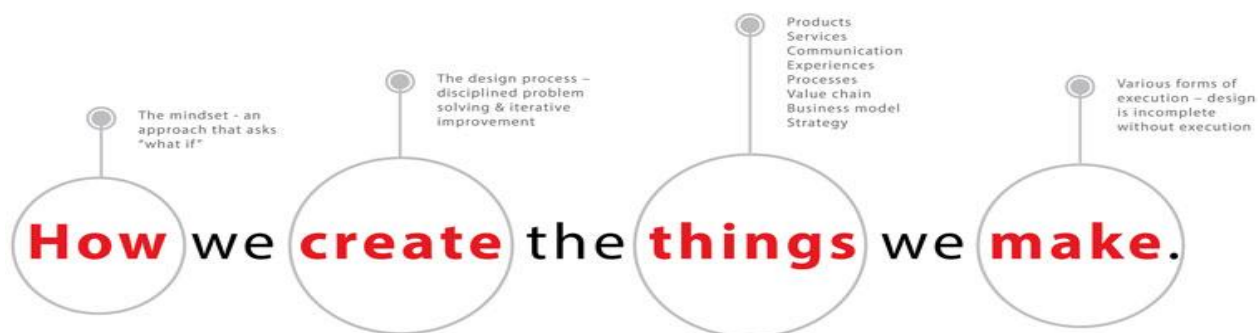
Entrepreneurship and economic development are intimately related. The entrepreneurial process is a major factor in economic development and the entrepreneur is the key to economic growth. Whatever form of economic and political set-up a country has, entrepreneurship is indispensable for economic development. Entrepreneurship is an approach to management that can be applied in start-up situations as well as within more established businesses. The growing interest, in the area of entrepreneurship has developed alongside interest in the changing role of small businesses.

Small business entrepreneurship has a fabulous potential in a developing countries. Statistical data and its analyses of several countries show that small industries have grown faster than large industries over the last couple of decades. Large industries first lost jobs when small industries created new workplaces. Small scale industries lead to the main source of employment in the country.

(<https://ideas.repec.org/a/icf/icfjme/v03y2005i4p39-45.html>)

4.2. Innovative entrepreneurship.

According to Burns (2007:56), the ability to spot opportunities arising from change and to innovate are the two most important distinguishing features of entrepreneurs. Innovation is regarded as the prime tool used to create or exploit opportunity and organizations that grow do so because they innovate in some way. Creativity is linked to innovation; creativity may contribute to innovation and is part of the process of innovation.



GOOD DESIGN PRODUCES THINGS WHICH ARE APPROPRIATE FOR THEIR PURPOSE.

(www.google.co.za)

4.2.1. Innovation defined

Burns (2007:56) provides three definitions of innovation as quoted by other authors:

- Kanter (1983) – “the generation, acceptance and implementation of new ideas, processes, products and services(which) involve creative use as well as original invention”
- Mintzberg (1983) – “the means to break away from established patterns”
- Mellor (2005) – “creativity + application” or “invention + application”

Thus, innovation is more than just invention and is not necessarily just the product of research. Bolton and Thompson (2000:239) stress the importance of creativity in the process of invention and innovation. They contend that creativity is the starting point whether it is associated with invention or opportunity spotting. Creativity and invention, however, need the entrepreneurial context in order to become a business reality. The links between creativity, invention and innovation, opportunity perception and entrepreneurship can be represented in the following diagram:

Creativity, invention and innovation

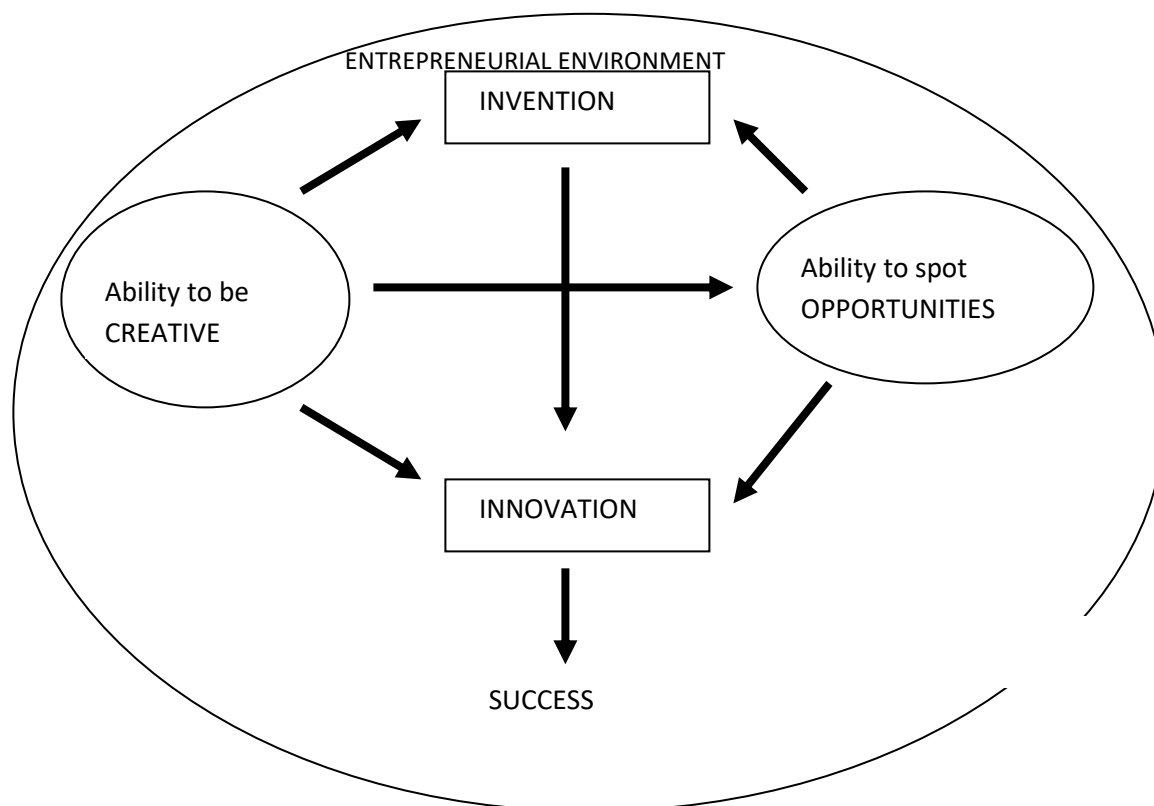


Diagram 4.2.1 The Entrepreneurial Environment (Burns, 2007:63)

4.2.2. Creativity

Zimmerer and Scarborough (2005:35) define creativity as the ability to develop new ideas and to discover new ways of looking at problems and opportunities. They define innovation as the ability to apply creative solutions to those problems and opportunities to enhance or enrich people's lives. Thus creativity is thinking new things, and innovation is doing new things.

Entrepreneurs succeed by thinking and doing new things or old things in new ways. Having an idea is not enough; transforming the idea into a tangible product, service or business venture is the essential next step. Successful entrepreneurship is a constant process that relies on creativity, innovation, and application in the marketplace (Zimmerer and Scarborough, 2005:35). Zimmerer and Scarborough (2005:36) stress that innovation must be a constant process because "most ideas don't work and most innovations fail". Burns (2007:64) cites Drucker (1985) who believes that innovation can be systematically practiced through a creative analysis of change in the environment and the opportunities generated by this.

4.2.3 Opportunity for businesses

Drucker (1985), quoted in Burns (2007:64) listed seven sources of opportunity for businesses:

- The unexpected – the ability to react quickly to changes is a commercial advantage and information and knowledge are invaluable.
- The incongruity – unexpected outcomes produce opportunities for businesses who are able to spot them
- The inadequacy in underlying processes – can be improved upon and changed (process engineering)
- Changes in industry or market structure – unexpected change can create an advantage for the 'first-mover'.
- Demographic changes
- Changes in perception, mood and meaning
- New knowledge

4.2.4. Approaches to Innovation

Bolton and Thompson (2000:240) suggest three basic approaches to innovation:

- Have a problem and seek a solution
- Have a solution and seek a problem
- Identify a need and develop a solution

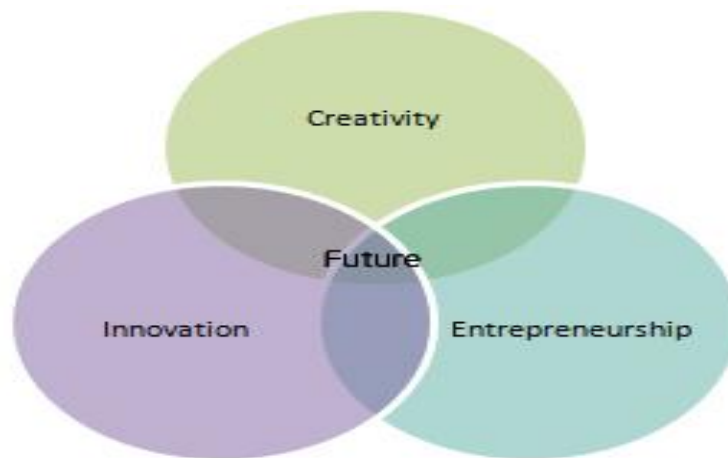
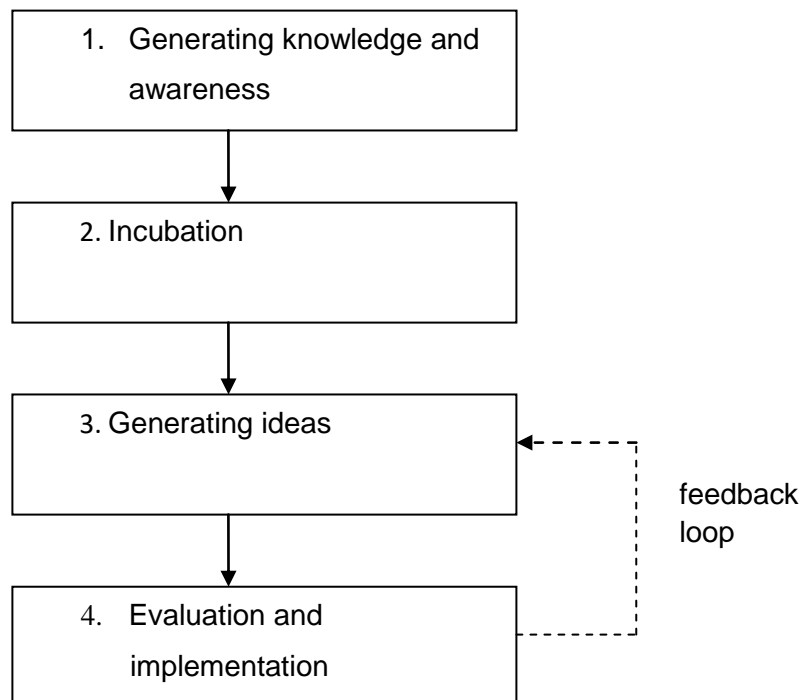


Illustration 4.2.4. Approaches to Innovation (www.google.co.za)

According to Burns (2007:91), creativity is a right brain activity that involves lateral as opposed to vertical thinking. It is intuitive, imaginative and rule breaking. It requires interpersonal and emotional skills and is people focused.

The creative process involves four steps and can be represented as follows:



Burns (2007:81)

4.2.5 Barriers to Thinking

Antonites (in Nieman, Hough and Nieuwenhuizen, 2005:51) also list the following barriers to thinking and acting creatively:

- Environmental barriers – from the social, economic and physical environments
- Cultural barriers
- Perceptual barriers
- Intellectual barriers
- Emotional barriers
- Time barriers

4.2.5. Stages in the Creative Process

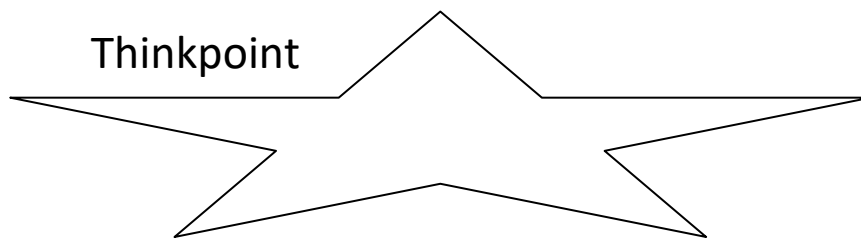
Antonites (in Nieman, Hough and Nieuwenhuizen, 2005:53) outlines the following stages in the creative process (adapted from Williams, 1990 and Nystrom, 1979):

Stages	Requirements
1. Awareness and interest	<ul style="list-style-type: none"> • Recognition of a problem or situation • Curiosity
2. Preparation	<ul style="list-style-type: none"> • Openness to experience • Analysis of how the task might be approached • Tolerance of ambiguity • Willingness to redefine concepts • Divergent thought processes (explore many possibilities) • Intuitive ability
3. Incubation	<ul style="list-style-type: none"> • Imagination • Absorption • Seeking ideas, possible answers and solutions • Independence • Psychological freedom
4. Illumination (insight)	<ul style="list-style-type: none"> • Ability to switch from intuitive to analytical patterns of thought • Eureka! • A-ha!
5. Verification	<ul style="list-style-type: none"> • Critical attitude • Analytical ability • Testing

4.2.6. Barriers to Creativity

Burns (2007:83) cites the work of Van Oech (1998) relating to the blocks or barriers to creativity. These are:

- The fallacy that there is only one correct solution to a problem
- The fallacy that logic is important in creativity
- The tendency to be practical
- The tendency to follow established rules unquestioningly
- The tendency to avoid ambiguity in viewing a situation
- The tendency to assign blame for failure
- The unwillingness to recognise the creative power of play
- The tendency to think too narrowly and with too much focus
- The unwillingness to think unconventionally because of the fear of appearing foolish
- The lack of belief that you can be creative



Get Great Ideas

Aubrey Daniels says that creativity is the key to business and offers ways to motivate employees to share their ideas

An important thing that employees can be taught is that creativity is behaviour. It's not a brain thing. It's not a mysterious process. It's not something that only some people have. And being weird and eccentric doesn't necessarily mean you possess it.

Creativity as an output of human behaviour follows the same laws of behaviour as other accomplishments. If this is understood, managers will be able to increase the creativity of employees in the organization who are responsible for creative products and services. Managers will also be able to increase the number of employees who contribute to creativity in the organization. Here are a few things managers can do to increase

creativity and motivate people who need to be innovative on the job:

- Positively reinforce all ideas
- Make it easy for employees to get new ideas into the system
- React to ideas as soon as possible
- Look to unlikely people as a source of fresh ideas – invite ideas from the widest range of experience, education, social status and age.
- Give employees experiences that are far removed from their usual activities – variation is the mother of creativity
- Don't discount chance – when an environment is created using techniques that favour innovation and creativity, things 'just happen' to come along at the right time.

ENTREPRENEUR MAGAZINE APRIL 2007 ISSUE

4.2.7. Process of Creative Thinking

Antonites (in Nieman, Hough and Nieuwenhuizen, 2005:52) illustrates the process of creative thinking (from Couger, 1995) as follows:

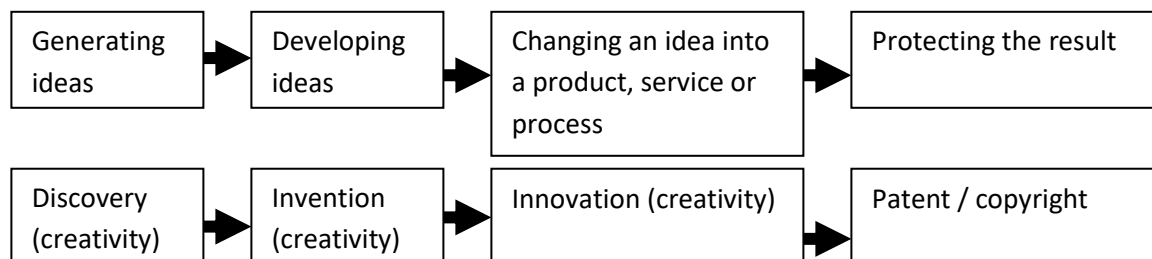


Diagram 4.2.7 Process of Creative Thinking

4.2.8. Techniques for Improving the Creative Process

Zimmerer and Scarborough (2005:63) provide three techniques that are useful for improving the creative process:

- Brainstorming is a process in which a small group of people interact with very little structure with the goal of producing a large quantity of novel and imaginative ideas.

- Mind-mapping is a graphical technique that encourages thinking on both sides of the brain, visually displays the various relationships among ideas, and improves the ability to view a problem from many sides.
- Rapid prototyping is based on the premise that transforming an idea into an actual model will point out flaws in the original idea and will lead to improvements in its design.

4.2.9. Ideas vs. Opportunities

Antonites (in Nieman, Hough and Nieuwenhuizen, 2005:52) stresses that it is important to distinguish between an idea and an opportunity. Resources may be wasted when an idea is incorrectly perceived to be an opportunity.

Opportunities occur in real time and their duration is called the window of opportunity. In order to seize an opportunity and achieve market-required returns, the window must be open and remain open long enough (Timmons and Spinelli, 2007:125)

4.2.10. Evaluating Opportunities

Pretorius (in Kroon, 1998:115) lists the following questions that can be asked to evaluate or screen opportunities:

- What is the scope of the window of opportunity?
- Is the profit potential adequate to provide a satisfactory return on investment, time and opportunity costs?
- Does the opportunity open up additional options for expansion, diversification or integration?
- Will the profit stream be durable in spite of possible obstacles?
- Does the product or service satisfy a real need?

A start-up can be prevented not by a lack of ideas but the inability to convert an idea into a workable sustainable plan.



(www.google.com)

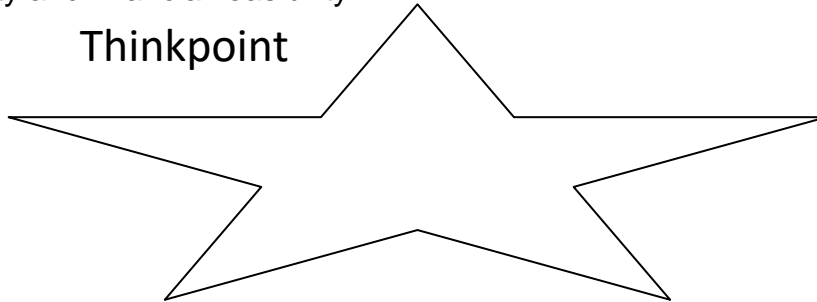
A good feasibility plan will identify the essential information needed by funders to make decisions about financing. The feasibility plan is meant to be an initial effort to show that a business idea can be realised and to give reasons why it will succeed. The plan will describe the crucial assumptions underpinning projections for success.

4.2.11. Feasibility Study

O'Neill (in O'Neill, Terblanche and Keyter, 1997:163) says that all business ideas must pass a crucial test called the feasibility study before they are implemented in practice.

The feasibility study determines whether a business idea has the potential to exist as an independent economic entity in the market and the potential to achieve the desired profitability level in the long term. The total feasibility study can be broken down into five areas of investigation:-namely technical feasibility, organisational feasibility, analysis of competition, market feasibility and financial feasibility.

Thinkpoint

**ENTREPRENEUR MAGAZINE SPECIAL FEATURE: JANUARY 2007 ISSUE****Driving Innovation for Business Growth by Greg Fisher**

In 2005 and 2006, Apple Computer was identified as the world's most innovative company through research conducted by Boston Consulting Group, piping other innovative organizations such as Google, 3M and Toyota at the post. Innovation is playing a hugely important role in value creation and success in business.

The question is how business owners and CEOs embrace the concept of innovation in a meaningful and practical way in order to drive profit and growth?

Types of innovation

There are different types of innovation and different opportunities for innovation within an organisation's sphere of activities. Traditionally, new ideas have been classified as product innovation, process innovation or business model innovation. Two additional types of innovation are branding innovation and management innovation. Innovations can also be classified as radical or incremental.

Product innovation – focuses on the creation of new products or services, or on improving the features of a current product or service.

Process innovation – is the creation or improvement of a process by which a product or service is produced or delivered.

Business model innovation – is the creation of new business models or the successful change in an element of a business model that substantially enhances a company's ongoing performance in delivering benefits to customers and shareholders.

Branding innovation – is the creation of value within a business through the development of a powerful brand; where an organization differentiates itself or its offerings by building a unique brand.

Management innovation – is the discovery and implementation of new ways of organizing, leading, co-ordinating and motivating employees; where managers use a range of new and different practices to enhance the performance of people working under them.

Making innovation part of the business DNA

There are some distinctive practices that are common to all businesses that seem to be getting innovation right. These provide a guide for making a innovation a core competency:

Leadership – leaders are blatant and clear in their commitment to innovation. Innovation is openly stated as a priority. Resources and time are committed to driving innovation in the organization.

Teamwork – innovative organizations consistently create opportunities for small groups of people to work together. Most teams are multi-skilled and are fairly free to determine their direction and process for addressing problems and challenges.

Values – innovation is stated as one of the organizational values. This sends a clear message to employees that innovation is important and a key part of their job.

Stimulation – people need prompting in order to be innovative. A stimulating environment can encourage people to innovate.

Recruitment – getting the right people is fundamental to an innovative culture.

How to make innovation happen

A disciplined strategic management process is required to ensure a positive outcome from an innovative idea. Canic's four-phase process of making strategy work can be applied to turning innovation into reality:

Assessment phase – leaders create the time and environment to make innovation happen.

Positioning phase – establish what the objective(s) is/are in the commitment to innovate.

Planning phase – an information-driven phase that resources the team to achieve the innovation

Implementation phase – an important phase that ensures that the factors that impact people (skills, authority, resources and incentives to processes and structure) are all aligned with the key objective. This phase includes commitment building and execution management.

ENTREPRENEUR MAGAZINE JUNE 2007 ISSUE

4.3. The socio-economic needs of countries.

South Africa: Economic Policy and Development: Compiled by Richard Knight, July 2001

"The need to create employment and a better life for our people is the central objective of the economic policy of this government. The Reconstruction and Development Program (RDP) remains the basic policy framework to achieve this objective. The Growth, Employment and Redistribution (GEAR) program is the associated macroeconomic strategy used. At the beginning of 2001 the President announced an Action Plan to Accelerate Growth. This action plan marked an increased emphasis on macroeconomic reform to further increase investment..." Alec Erwin, Minister of Trade and Industry, May 2001

"In contrast to this political progress, in socio-economic terms the legacy of apartheid remains entrenched and, with the massive loss of jobs in the past decade, even appears to be worsening. Wealth is still concentrated in a white minority. The nature of capital remains largely the same - concentrated in the mining-finance complex, which continue to dominate the commanding heights of the South African economy.

Serious inequalities persist, with signs of worsening particularly among the formerly oppressed. The number of people living in poverty is staggering. Almost half of the population lives in poverty, including many of the employed - the "working poor." Unemployment and underemployment are on the rise as more jobs are shed and people rely on survivalist activities to make ends meet. The complex nature of the transition emerged in deeply contradictory government policies." COSATU policy statement, July 2001

If one reflects on the South African Bill of Rights, then this dialogue must address the social and economic problems of poverty, deprivation, racism, xenophobia, discrimination, crime, lack of access to health services, education and justice. The aforementioned factors must be identified as a remaining blemish and a debilitating obstacle to the future well-being of the people they affect.

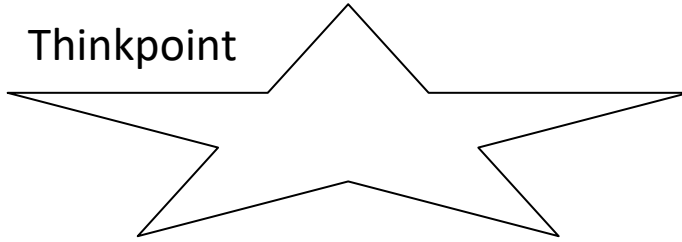
The inference is made as it stems from the present situation in South Africa, representing a clear indication of South Africa's struggle with embracing values, spirit and meaning of the South African Bill of Rights. The focus must be on equality, dignity and the right to life.

4.5. The Importance of entrepreneurs

Entrepreneurs occupy a central position in an economy. It is the entrepreneurs who serve as the spark plug in the economy's engine, activating and stimulating different economic activities. Most nations worldwide can trace their economic success to efforts at encouraging and rewarding the entrepreneurial spirit. A society is prosperous only to the degree to which it rewards and encourages entrepreneurial activity because it is the entrepreneurs and their activities that are the critical determinant of the level of success, prosperity, growth and opportunity in any economy. The most dynamic societies in the world are the ones that have the most entrepreneurs, plus the economic and legal structure to encourage and motivate entrepreneurs to greater activities (Tracy, 2005).

The South African economy is experiencing a high unemployment problem. In such an economy entrepreneurship is critical both in creating the much needed job opportunities for its citizens and producing products and services. The trend around the world is that small businesses especially the informal sector creates more jobs than large companies.

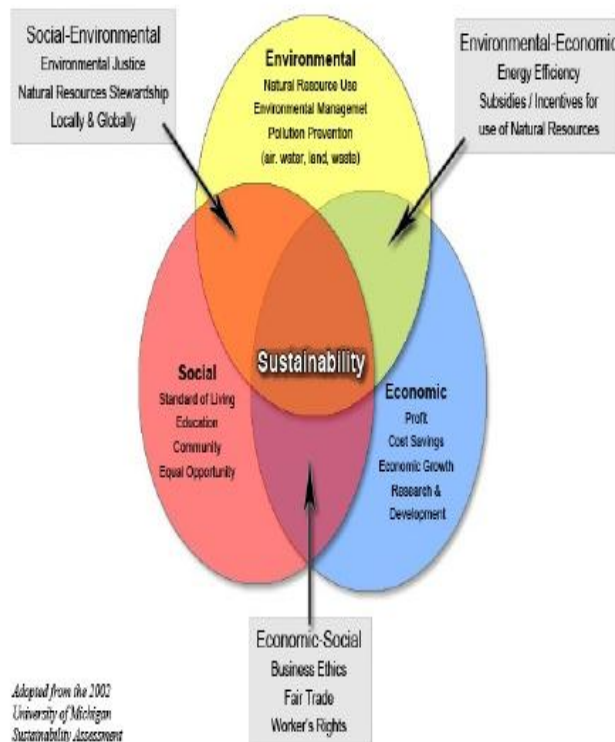
Thinkpoint



Consider the illustration below and discuss the spheres of sustainability by focusing on the various environments that exist within the business world.

Lets Define...

The Three Spheres of Sustainability



• Sustainability

- Meeting the needs of the present without compromising the ability of future generations to meet their own needs

• Triple-bottom-line (TBL)

- Considers, measures and refers to achieving a balance between integrated (economical) financial, social and environmental contributions and performance to society

www.deloitte.uk



QUESTIONS FOR REFLECTION

ACTIVITY 4.1.

READ THE CASE STUDY AND ANSWER THE QUESTIONS THAT FOLLOW:

Alert Shipping Company: A Dream that turned into a Nightmare

Jabu Khumalo was an excellent team player at Safmarine in Durban, where he was employed as a shipping team leader. He was diligent with an excellent work ethic. He was at his desk early each morning and left after 16H30 on each workday. His offices overlooked the Durban Bay. He was married and had two young children.

One morning he asked himself, “Can I render this same service to my clients, if I owned an operation like this?” In essence companies who needed to export or import goods merely needed to get in touch with the shipper and let them know that they had goods to ship or clear at the local harbour. At this time the shipping company proved their value to the importer/exporter, “by swinging into action” and taking control of all shipping and logistical tasks, thereby freeing the shipper to pursue his real aim: marketing.

So early in the spring of 1982, Jabu tendered his resignation with the mandatory one calendar months notice. His team leader persuaded Jabu to stay but could see that his mind was already made up. But the moment Jabu communicated his intentions to his manager; the manager asked him to leave the plant immediately but agreed to pay him a full salary for his notice period. Jabu felt disappointed but left.

A week later he rented a suite of offices in Smith Street, Durban and started Alert Shipping Company. Within a month the agency turned over R180 000. This business started out as a one man business with a secretary. The secretary was the wife of his friend, Pilani Nkosi. Pilani was persuaded to leave his position at a print shop as an accountant and take over the accounting functions for Alert Shipping Company. This he did, but as the order book grew with many of Jabu’s clients from Safmarine preferring to deal with him rather than Safmarine, Jabu hired Ram Poorun an old friend from his neighbourhood. His task was to monitor clearing and forwarding at the dock.

The fact that Ram was a binge drinker did not matter to Jabu as he felt that Ram was competent and “they went back a long way”. Soon Jabu’s dad, granddad and wife assumed positions at the agency. They had vague job titles but always seemed to be busy at the office. Julian purchased four trucks from Olympic Toyota and paid in cash. His dad and granddad were both asked to drive them and ferry goods to and from clients’ premises. Two other drivers were hired. Many clients preferred to pay cash to the drivers and Jabu didn’t seem to mind as he trusted his “hand - picked “staff as he referred to them. One afternoon Jabu confided in Roy Conradie, another close friend that despite his order book looking healthy, there just never seemed to be cash available and as a result his (Jabu’s) salary was always delayed. Trucks were breaking down due to maintenance not being timeously carried out. This resulted in Alert Shipping Company hiring trucks on a day to day basis.

Overdrafts were not serviced on time and this led to meetings with his bank manager that Jabu did not relish. Jabu confronted his accountant Pilani about the cash flow crisis and was told to speak with his grand dad and dad. Jabu did not want to do this but eventually felt that this was something that he had to do. But when he did, both men flew into a rage and asked:

“How dare you question our honesty..... “. “After all we have done for you.....” They resigned with immediate effect and sued Jabu. Both men had no contracts. Three months later, Alert Shipping Company closed its doors for the last time.

- 4.1.1. Decide whether Jabu was an innovative entrepreneur or not by motivating your answer with reference to innovative entrepreneurship.
- 4.1.2 Define and explain innovative entrepreneurship.
- 4.1.3. Consider Jabu’s actions and explain the link between ideas and opportunities.
- 4.1.4. Evaluate the role of innovation and creativity.
- 4.1.5. Discuss the approach taken by Jabu to recognise opportunities.
- 4.1.6. Argue the importance of innovation as a dimension of entrepreneurship.
- 4.1.7. Elucidate the steps in the creative process.
- 4.1.8. Explain the components of a feasibility plan.
- 4.1.9. Do you believe that companies like Alert Shipping are able to respond to the socio-economic needs of countries? Motivate your answer by making reference to specific socio-economic needs.
- 4.1.10. Analyse the critical role of innovative entrepreneurship in the development of a country’s socio-economic development.

ACTIVITY 4.2

Read the article below and answer the questions that follow.

KZN and the 4th Revolution

THE MERCURY / 22 Jun '16

We are ready to steer the province through a time of technological and other change that will fundamentally alter the way we live, work and relate to one another, writes Sihle Zikalala.

Durban - Early this year (2016), world leaders gathered in Davos, Switzerland, at the World Economic Forum to discuss the topic “The Fourth Industrial Revolution”, and how countries globally needed to respond to this revolution brought about by the rapid change of technology.

Durban's local government is committed to opening doors to economic opportunities for small, medium and micro-enterprises, such as street vendors, says the writer. These enterprises are critical for economic growth and development. Picture: Gcina Ndwane. *Credit: INDEPENDENT MEDIA*

The topic, according to the World Economic Forum, was inspired by the fact that the “world stands on the brink of a technological revolution that will fundamentally alter the way we live, work and relate to another. In its scale, scope and complexity, the transformation will be unlike anything humankind has experienced, with the potential to raise global income and improve the quality of life for populations around the world”.

Spurred on by the technological advancements of the 21st century, the architecture of the global economy is rapidly changing at a pace no one could have anticipated.

The biggest company in the world today by market capitalisation is no longer a company that extracts commodities from the belly of the earth, but Apple - a multinational technological giant.

Technology has also given rise to the concept of the “disrupters”, companies which are fast altering the global economic landscape by introducing new and innovative business ideas. These companies, such as Uber, are heeding what Henry Ford said: “If I had asked customers what they wanted, they would have said a faster horse.”

It is against this backdrop that we have assumed the responsibility to lead the Department of Economic Development, Tourism and Environmental Affairs in KwaZulu-Natal.

We have taken the stewardship of this department at a time when emerging markets in the world are increasingly playing a key role in altering the global economic landscape, with the emergence of Brics, notwithstanding the economic challenges they are facing.

Africa is emerging as the continent of the future, with the narrative of its rising having gained currency in global markets.

Critically, we have used these difficult economic times to rally all stakeholders for a common goal to grow the economy, in line with the old African saying that a boat can only go forward if all stakeholders are rowing in sync.

In this regard, since we were accorded this responsibility by the premier of the province, Willies Mchunu, the question that has been uppermost in the minds of many people is: What are our immediate priorities? The first thing we want to underscore is that we do not come to the department with a magic wand, seeking to deconstruct that which has been neatly stitched together as part of the province's economic patchwork quilt.

We wish to thank our predecessors, including Michael Mabuyakhulu, who have worked with tenacity to put in place the foundation for all of us.

In the ANC we have always believed that leadership is no different to a relay race. Now that the baton has been handed to us, we pledge to run with it, working in tandem with all stakeholders in the province. We will be embarking on stakeholder engagement exercises to ensure this.

We have always subscribed to the idea that the challenges facing KwaZulu-Natal require all stakeholders, including business, labour, community and civil society, to work together. However, the reality is that it cannot be business as usual if we want to create an inclusive economy in which everyone has a stake.

We believe that radical economic transformation is a prerequisite for all stakeholders if we want to create a globally competitive province, anchored on unlocking the potential of all the citizens of the province.

In this regard, we will be focusing on ensuring that our people who were previously relegated to the fringes of the economy are brought into the mainstream. This we will do by using, among other instruments, co-operatives and small, medium and micro enterprises (SMMEs) to drive the agenda of radical economic transformation.

We want all government departments, as a starting point, to put set-asides for co-operatives, youth- and women-owned businesses in line with the resolutions of the procurement indaba which was held last year.

And we want to go a step further and monitor the practical implementation of this resolution. This does not mean that we are promoting protectionism in the economy. The reality is that this government cannot fold its arms and watch from the sidelines as our people become economic spectators in their own country.

However, in implementing these measures we want to ensure that we do not unwittingly promote economic distortions and inefficiencies. As the ANC, we have always subscribed to the mixed economy, and our view is that, given the challenges of our times, markets cannot be left to their own devices. As the government, we will continue to unashamedly use our economic leverage to prise open the doors of economic opportunities for our people.

This is borne out of the fact that even globally, the notion of a laissez-faire economy anchored in the belief that markets are the only avenue for the efficient and equitable allocation of resources, has become an anathema since the 2008 global economic meltdown.

We will also spare no effort in assisting SMMEs so they can play a key role in the economy. Research all over the world has shown that they are critical for economic growth and development. Critically, we want to rally all stakeholders in the economy to work in tandem to stimulate the economy in the province.

Growing the economy and at the same time creating employment remain our top priority. For our province to become globally competitive, we need to harness the collective human potential of the people. It is for this reason that we have identified the cutting of red tape as one of the key areas of focus to ensure ease of doing business in the province.

The fact of the matter is that the province is competing with other economic destinations globally to attract the shrinking pie of net global investment. If we don't up our game and make our province an investment-friendly destination of choice, investors will simply take their money and invest it elsewhere, leaving our people wallowing in despair.

We cannot afford that. We have committed ourselves to ensuring that we create one-stop-shop centres for investors even in secondary towns such as Port Shepstone, Richards Bay, Ladysmith and Newcastle.

This will ensure that investment opportunities are spread evenly throughout the province. We will also be focusing with much vigour on stimulating manufacturing, particularly in the textile sector, throughout the province.

And we will work hard to identify and support black industrialists in the province, in partnership with national government. For our economy to grow rapidly, we need to ensure that as government we create the environment for the previously disadvantaged to play a role, especially in sectors where the barriers to entry are high.

The need to completely change the structure of the apartheid economy, which produces inequality skewed along racial lines, also means that we need to focus on building township and rural economies. But most importantly, we will also work flat out to increase tourist arrivals to the province of KwaZulu-Natal.

According to the UN World Tourism Organisation, the international tourist arrivals were up by 4% to reach a record of 1.2 billion in 2015. We are committed to work hard to get a slice of these global tourism arrivals, attracting even more international airlines to KwaZulu-Natal.

Last year the province added another feather to its aviation cap when it attracted Qatar Airways, Ethiopian Airlines and Turkish Airlines, which all fly directly to the King Shaka International Airport. We need to sustain this momentum by attracting even more airlines to the province, while helping the existing ones to sustain their operations.

We will also see to it that the tourism catalytic projects such as the Drakensberg Cable Car are given renewed impetus. The transformation of the tourism industry will be at the summit of our list of priorities. It cannot be correct that our people interface with the tourism industry as waitresses and front line staff only. Working in tandem with the development finance institutions, we want to see more hotels and tourism establishments that will be owned by black people.

The attraction of more investments to the two special economic zones, the Dube Trade Port and the Richards Bay Industrial Zone, will also be of critical importance. But for KwaZulu-Natal to be part of the fourth industrial revolution, we need to intensify our efforts at internet connectivity. As we said earlier, the biggest inventions in the world today are technologically driven.

For us to ride on this wave of the technological evolution, we need to ensure the speedy roll-out of broadband throughout the province. Our vision is to create a province where you can get connection whether you are at a taxi rank or in a hotel.

Lastly, by its very nature the change of leadership can be unsettling at times. But we want to assure all stakeholders, including business, labour, communities and civil society, that in them we see partners who will work with us to take this province to another economic level.

At times we will have differences about our approaches to how we need to upscale investment in the province. But, those differences should not distract all of us from our singularity of purpose: to make this province a great place for the generations to come.

In this regard, we want the people of our province to make a critical evaluation of our work.

However, that criticism must be tempered by the reality that we are in this together. We stand on the cusp of greatness only if we can harness the collective strength of everyone in the province of KwaZulu-Natal.

This will ensure that, in the fullness of time, we will be counted among men and women who made their humble contribution to making this province great.

(<http://www.iol.co.za/mercury/kzn-and-the-4th-revolution>)

4.2.1. With the aid of suitable examples from the case study, explain innovative entrepreneurship.

4.2.2. Explain the link between ideas and opportunities by quoting relevant examples from the case study.

4.2.3. Evaluate the role of innovation and creativity as espoused by the author.

4.2.4. Isolate the approach taken to recognise opportunities as indicated in the article.

4.2.5. Discuss the importance of innovation as a dimension of entrepreneurship, with special emphasis on technology.

4.2.6. Comment on the socio-economic needs of South Africa as reflected in the article.

4.2.7. Analyse the critical role of innovative entrepreneurship in the development of a country's socio-economic development.

CHAPTER 5: ENVIRONMENTAL FACTORS

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding of how micro and macro environmental factors impact on the management and performance of a business. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Define the micro environment
2. Define the macro environment.
3. Evaluate the impact of micro and macro environmental factors on the management and performance of a business.



ESSENTIAL READING

*Learners are required to read **ALL** of the textbook chapters listed below.*

Venter, Urban and Rwigema (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapter

Strydom J. (2012) Entrepreneurship and how to establish your own business. Fourth edition Juta. Cape Town Chapter Two

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapter One

5.1. Introduction

Micro and macro environments have a significant impact on the success of marketing campaigns, and thus, the factors of these environments should be considered in-depth during the decision making process of a strategic entrepreneur and manager. Considering these factors will improve the success of the organisation's strategic campaign in the long term.

5.2. The Micro Environment

The micro environment consists of the suppliers, the resellers, the customers, the competition and the general public. Culture, diversity and health and safety are also included in the micro environment.

5.3. The suppliers

Suppliers can control the success of the business when they hold the power. The supplier holds the power when they are the only or the largest supplier of their goods; the buyer is not vital to the supplier's business; the supplier's product is a core part of the buyer's finished product and/or business.

5.3.1. The resellers

If the product the organisation produces is taken to market by 3rd party resellers or market intermediaries such as retailers, wholesalers, etc. then the marketing success is impacted by those 3rd party resellers. For example, if a retail seller is a reputable name then this reputation can be leveraged in the marketing of the product.

5.3.2. The customers

Who the customers are (B2B or B2C, local or international, etc.) and their reasons for buying the product will play a large role in how you approach the marketing of your products and services to them.

5.3.3. The competition

Those who sell same or similar products and services as your organisation are your market competition, and the way they sell needs to be taken into account. How does their price and product differentiation impact you? How can you leverage this to reap better results and get ahead of them?

5.3.4. The general public

Organisations have a duty to satisfy the public. Any actions on the part of the company must be considered from the angle of the general public and how they are affected. The public have the power to help you reach your goals; just as they can also prevent you from achieving them.

5.2.6. Occupational health and safety

There are other internal influences that affect labour relations in the organisation such as occupational health and safety as well as culture and diversity. Organisations need to develop policies and procedures with regard to health and safety in the workplace. With reference to this, employees need to be educated in:

- Chemical, physical and psychological stresses on employees prevention of accidents
- Performance expectations with regard to health.
- Hygiene regarding transfer of bacterial and viral infection; for example food industries accidents resulting in fatalities;
- Employee's responsibilities in terms of the Act.

5.2.7. Cultural Diversity

Issues arise in organisations that create barriers between employees and employers. Organisations need to engage in cultural diversity training to enlighten people by making them more culturally aware and this will encourage relationship building,

5.3. The Macro Environment.

The macro environmental variables that must be considered are political, legal, economic, social, technological and internationalisation (or globalisation).

5.3.1. Political and Legal Environment

Business managers must be aware of political and legal forces. Sound marketing decisions should always take into account political and/or legal developments relating to the organisation and its markets. This refers to the dominant political and legal frameworks within which people are living and surviving in a country. In South Africa these frameworks could be said to be dominated by the politics of democracy and the legal frameworks that encourage and support the democratisation of the working environment.

As a result of how democracy was created in this country people are extremely conscious of their rights and maybe less conscious of their obligations and duties as South Africans. This leads to a specific political environment within business that is 'rights' oriented and often focuses on the legal solutions to problems as opposed to the social and psychological solutions. A new Constitution was adopted in 1994 which underpins the rights of people in South Africa to human dignity, equality and freedom. The Bill of Rights chapter in the Constitution extends the rights of people. Government is required to meet the basic needs of people through political pressure of various political organisations

5.3.2. Social Environment

Entrepreneurs and managers must take social and cultural forces into account. The impact the products and services your organisations brings to market have on society must be considered. Any element or elements of the production process or any products/services that are harmful to society should be eliminated to indicate that your organisation is taking social responsibility seriously.

A recent example of this is the environment and how many sectors are being forced to review their products and services in order to become more environmentally friendly. Demographic forces must also be considered. Different market segments are typically impacted by common demographic forces, including country/region; age; ethnicity; education level; household lifestyle; cultural characteristics and movements. This refers to the social realities that human beings experience every day. These issues are dominated by concerns such as crime and transport and housing and infrastructure. They impact enormously on people's ability to be motivated and productive. People who travel long distances to get to work are not able to work at the same productivity levels as people who can jump in a car and be at work in 30 minutes.

Demographic changes have a huge impact on the labour market and therefore affect labour relations. The population growth rate in South Africa is now declining but this is not due to the decrease in the birth rate. Rather from an increase in AIDS related deaths which cost the country and organisations millions of Rand. This has also contributed to loss of skills and placed social pressure on employees. Through recession many jobs were lost in the formal sector and on the other hand employment in the public sector has grown having adverse effects on taxation.

Huge differences in education have created an imbalance in the economically active population and the unemployment rates remain very high. Huge gaps between the education level of workers have led to employers having to undertake additional training to address these imbalances. There has been a rapid increase in the number of women entering the workplace, especially in skilled positions, demanding equality in status and pay, maternity leave, childcare facilities and freedom from harassment. Due to drought, lack of facilities, poor education, job availability, housing and water supplies, more people are moving to cities and urbanised areas. This has resulted in an extremely high unemployment rate in cities and crime has grown to new heights.

From previous racial policies, inequality between races exists, many people live in shack dwellings without the basics of water and electricity and many exist without sufficient income for maintaining basic living standards.

Unemployment figures are relatively high and this is one of the biggest challenges for government, organised labour and organised business. Because workers often support many people on one salary this leads to a demand for higher wages. Because of higher wages few jobs exist and employees fear retrenchment, and often seek job protection. As inflation increased, the demand for labour decreased and the workers who are employed demand higher wages as they have less pay to take home. Productivity levels have not grown as salaries have grown over the past 10 years, which places a great strain on relationships between employees and employers.

5.3.3 Economic Environment

Economic factors refers to the fact that the economic environment can impact both the organisation's production and the consumer's decision making process. This refers to the economic realities that people experience in their day to day lives. In South Africa this is dominated by the issues of the gap between the rich and poor that leave the majority of the workforce at an extreme disadvantage in terms of being able to survive. Economic realities are influenced by national economic choices such as whether or not to follow a free market capitalist economic system. Economic decisions made by the Reserve Bank, the Ministry for Economic Affairs and the Department of Trade and Industry have an impact on how organisations will survive and ultimately how the people who work in organisations are going to be able to manage their own economic affairs.

5.3.4. The technological environment

Technological advances have produced a revolution in micro-electronics, computer science, materials science, energy, telecommunication and so on. Product innovation and design add to the technical requirements of skilled employees and often semi-skilled employees require some form of technical training. Technological advancement requires changes in the skills needed in organisations as well as specialised multi-skilled employees. In certain industries technology has streamlined or taken over many manual processes thereby reducing job availability. Technological advancement has affected labour relations in the workplace usually through legislation introduced to protect employees.

The Labour Relations Act (66/1995) makes provision for the implementation of workplace forums where workers need to be consulted on changes of jobs, work methods and technology in the workplace. Trade unions, in an attempt to safeguard their member's interests have negotiated collective agreements with many organisations, these agreements include:

- Clauses protecting workers from technological change whereby management must consult with workers prior to implementation;
- The maintenance of employees' status in organisations where grading changes take place through technological advancement.

Technological factors focus on the skills and knowledge applied to production. The technology and materials needed for production of products and services also impacts the smooth running of the business and must be considered. (<http://oxfordcollegeofmarketing.com>)

5.3.5 Internationalisation (Globalisation)

With South Africa entering into global markets, companies need to remain competitive, especially since other countries competing are able to pay much lower wages and have higher levels of productivity. These countries produce goods at much lower prices and products often superior to South African products. The need to improve productivity is critical to international or global competitiveness.



QUESTIONS FOR REFLECTION

ACTIVITY 5.1

Read the case study and answer the questions that follow:

EAT OUT ISN'T ONLY SA'S BEST GUIDE TO SA'S BEST FOOD IN NAME, WE'RE ALSO TOP IN THE GAME.

Eat Out Awards: We have two huge awards ceremonies – with lots of bells and whistles around them – twice a year. Their names suggests that one recognises restaurants and chefs, and the other acknowledges small producers.

The Eat Out Restaurant Awards: The annual Eat Out Restaurant Awards, held in November, celebrate the South African restaurant industry with accolades including the Top 10 Restaurants, Chef of the Year, Restaurant of the Year, Service Excellence and awards for Best Bistro, Steakhouse, Italian, Asian and Country-style restaurants.

Our People: People skills, management and leadership are critical to restaurant success. Our chefs are creative individuals. They source the best products. Our managers lead with passion for people, food and excellence. They have a plan. A food plan. A business plan. A fun plan.

The Eat Out Produce Awards: The Annual Eat Out Produce Awards celebrate outstanding, independent South African producers for their integrity, passion and innovation. Winners are those who deliver a consistently high quality product that is South African grown or developed using primary produce from South Africa. Due care and consideration for both the environment and workforce are essential criteria. In addition to small producers, we also recognize stores and markets for their vital role in the process. The awards were established in 2007 and were previously known as the Eat In DSTV Food Network Produce Awards and pay tribute to entrepreneurs by recognising SMMEs.

(Source: <http://www.eatout.co.za/awards/>)

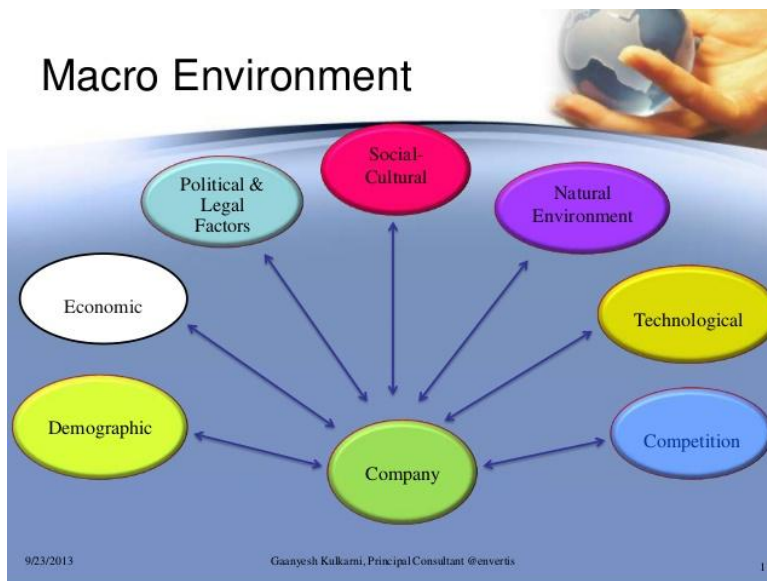
5.1.1. 'People skills, management and leadership is critical to our success.' The management system in an organisation can be conceptualised on two levels. With reference to this statement, explain the micro.

5.1.2. With reference to the caselet, fully evaluate the macro environment within which the organisation operates.

5.1.3. 'Winners are those who deliver a consistently high quality product that is South African grown or developed using primary produce from South Africa. Due care and consideration for both the environment and workforce are essential criteria. In addition to small producers, we also recognize stores and markets for their vital role in the process. Critique this view.

ACTIVITY 5.2

With reference to the illustration below, fully evaluate the impact of micro and macro environmental factors on the management and performance of a business.



(www.google.com)

ACTIVITY 5.3

Comment on the article below by focusing on the macro-environmental factors that affect local and international industries.

Getting around the city: why electric rickshaws are the tuk of the town

An electric, zero-emission version of the three-wheeled tuk-tuk is being billed as a short-distance rival to Uber and taxis in Europe, Africa and Asia. E-tuks are being sold in cities in the US, South Africa, Europe and south-east Asia.

Friday 3 June 2016

Anyone who has been in Bangkok, Delhi or Cairo will be familiar with the lawnmower whirr of the mighty tuk-tuk. Nimble enough to weave through traffic jams and narrow streets, the three-wheeled auto rickshaw is one of the most convenient ways of getting around congested cities in the developing world. For residents, they tend to be cheaper than taxis. For tourists, they offer the novelty of an open-air view.

Unfortunately, they are also noisy and highly polluting, black smoke spewing from the exhaust. A handful of companies believe they have a solution: an electric, zero-emission version of the three-wheeled vehicle. And they hope the clean (and quiet) technology can help popularise the tuk-tuk on the more ordered roads of the western world. Tuk-Tuk Factory is a Dutch company manufacturing a range of “e-tuks” in Thailand. All powered by battery, the basic three-seater can go for more than 60 miles after a five-hour boost with the on-board charger. “My team and I all loved tuk-tuks but we wanted to make sure they were environmentally sustainable as well as fun,” explains company director Roland Vos.

The company has sold 800 e-tuks across 30 countries since 2011, mostly countries with no history of using the diesel and gasoline-guzzling tuk-tuks. The biggest market so far has been Portugal, where they have sold 90 of their electric tuk tuks. Although the novelty factor has played a role in raising interest, Vos believes the market is ready to take off beyond rides in tourist resorts and quiet historical districts.

“We have a lot of resorts and hotels excited about them, and the market among food truck vendors is really big,” he explains. “But the use of tuk-tuks as a daily taxi service is also getting bigger.”

Transport for London moves to clamp down on rickshaw riders

Michael Fox is sales director at the e-Tuk USA, a Denver-based company licensing the design of the Tuk Tuk Factory's vehicles and manufacturing them in the US.

Fox has sold just under 40 of them in the first 12 months in the US and is excited by the idea of tuk-tuks filling the so-called "last mile" gap, the distance between a station and a traveller's final destination. As well as ferrying people short distances in downtown areas, he thinks they could work well alongside America's growing public transport system.

"There's a lot of competition out there – Uber, taxis and limo services," Fox says. "But an Uber or taxi driver doesn't want to drive someone four or five blocks, they want to go four or five miles. We want to go those short distances, picking people up from a train station and dropping them at the stadium, or taking them from the ball game to the bar afterwards."

Fox says at a typical rate of \$2 per person (£1.50), the e-tuk offers a quick, cheap and eco-friendly way of making those journeys.

Businesses hope to persuade transport authorities that e-tuk-tuks could also help ease congestion on the roads. "Smaller vehicles carrying a few passengers at a time – it's a very efficient way to get people around," says South African e-tuk entrepreneur Neil du Preez.

Yet regulation remains a big barrier, as does the competition. Even if you convince the relevant high-level authority to permit tuk-tuks on the road, as e-Tuk USA has with the US Department of Transportation, three-wheeler drivers are likely to come up against taxi unions defending their precious territory.

"Every change comes with friction," says Vos. "The existing taxi world has not been known for its flexibility. At the moment this is complementary to the taxi market because last mile and touristic transport aren't always what the taxis are doing. But as the market evolves, I think tuk-tuks can take a slice of the taxi market in many places." At \$2 per person (£1.50), the e-tuk offers a quick, cheap and eco-friendly way of making short journeys.

In South Africa, Mellowcabs is ready to roll out 50 of its new three-wheeled electric mini cabs in Cape Town and Johannesburg over the next few months. Du Preez, who is the company's chief executive, says typical journeys will cost around 30 rand (£1.50), making them around 15% to 25% cheaper than taxis. "We want them to be used as a real taxi, not as a gimmick," says du Preez.

Mellowcabs has struck an agreement with Uber to have its own three-wheeler drivers feature on the ride-sharing app within South Africa. Yet du Preez has had to tread carefully to avoid conflict with the country's powerful minibus industry.

"We've engaged with the operators to make sure we're complementing what they're doing and not interfering with their routes into residential areas," he explains. "But the meter taxi cab industry isn't too big in South Africa – we're okay with seeing them as the competition."

Meanwhile, Japanese company Terra Motors is enjoying some success selling its three-wheeler electric rickshaws in Asian countries where fossil fuel-burning auto rickshaws still dominate. Terra has sold more than 5,000 of them in the Philippines and another 5,000 in India. "The authorities in India have big concerns about the environment," explains Teppei Seki, one of Terra's directors. "Legality is no longer such an issue. Prime minister (Narendra) Modi has promoted electric rickshaws in many cities."

Electric tuk-tuk businesses may find their most important audience is in replacing old vehicles in India and south east Asia. Yet the fundamental strength of the tuk-tuk, its nimble flexibility, means it may also have a role to play on the roads of cities all over the world.

(<http://www.theguardian.com/sustainable-business/2016/jun/03/electric-rickshaws>)

CHAPTER 6: GOVERNMENT AND SOCIETY

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding and conceptualise the importance of aligning business management processes with the requirements and expectations of government and society. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Outline business management processes.
2. Explain the expectations of government and society.
3. Explain the dimensions of business growth
4. Describe the stages of growth in the business life cycle
5. Distinguish between growth strategies
6. Contrast business decline with business failure
7. Identify early warning signs of pending trouble
8. Explain the causes of business failure
9. Distinguish between different methods of harvesting
10. Conceptualise the importance of aligning business management processes with the requirements and expectations of government and society.



ESSENTIAL READING

*Learners are required to read **ALL** of the textbook chapters listed below.*

Van Aardt, Hewitt, Bendeman, Bezuidenhout, Janse van Rensburg, Naidoo, Van Aardt, Van Der Bank and Visser (2011) Entrepreneurship and New Venture Management Fourth edition. Oxford Chapters Seven and Seventeen

Rwigema, Henry and Venter, Robert. (2004). Advanced Entrepreneurship. Cape Town. Oxford University Press – Chapter Fifteen

Nieman, Gideon., Hough, Johan and Nieuwenhuizen, Cecile (Editors). (2003).

Entrepreneurship: A South African Perspective .Pretoria. Van Schaik – Chapter Thirteen

Wickham, Philip A. (2001). Strategic Entrepreneurship. A Decision Making approach to New Venture Creation and Management. Second edition Harlow. Prentice-Hall – Chapter Twenty

Nieman G and Nieuwenhuizen (Editors) (2014) Entrepreneurship A South African Perspective Third edition. Van Schaik. Pretoria Chapter Fifteen

Venter, Urban and Rwigema (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapter Five

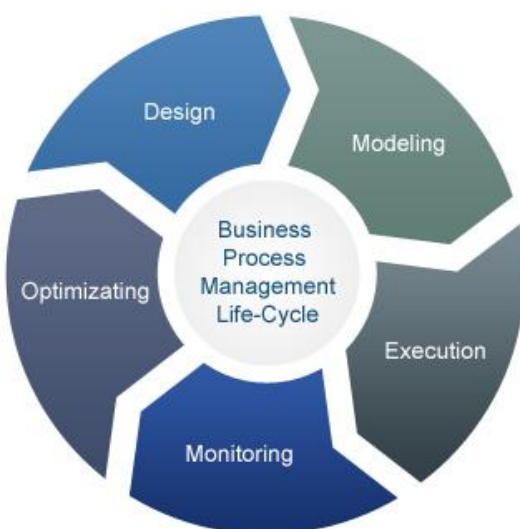
Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapter Nineteen

6.1. Introduction

As entrepreneurs and managers, it is critical to conceptualise the importance of aligning business management processes with the requirements and expectations of government and society. This can be achieved through your mastery of specific issues such as business management processes, the expectations of government and society and being able to align business management processes with the requirements and expectations of government and society. It is also crucial to understand business processes management.

6.2. Business process management

The following pictorials depict the business process management. The goal of Business Process Management is to reduce human error and miscommunication and focus stakeholders on the requirements of their roles.



(www.google.com)



Business Process Management is a subset of infrastructure management, an administrative area concerned with maintaining and optimising an organisation's equipment and core operations. Business Process Management is often a point of connection within a company between the line-of-business and the information technology department. When studying Business Process Management, there is an adherence to the basic rules of programming, so that processes designed in either language are easy for developers to translate into hard code. There are three different kinds of BPM frameworks available in the market today. Horizontal frameworks deal with design and development of business processes and are generally focused on technology and reuse. Vertical BPM frameworks focus on a specific set of coordinated tasks and have pre-built templates that can be readily configured and deployed. Full-service BPM suites have five basic components:

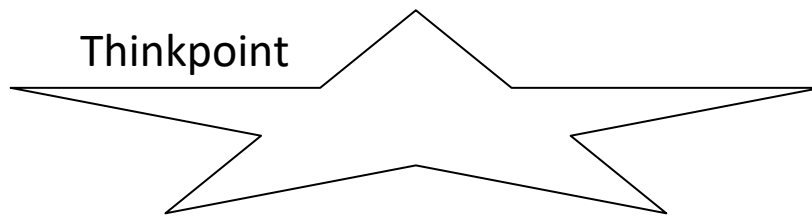
- Process discovery and project scoping
- Process modeling and design
- Business rules engine
- Workflow engine
- Simulation and testing

While on-premise business process management (BPM) has been the norm for most enterprises, advances in cloud computing have lead to increased interest in on-demand, software as a service offerings.

6.3. Expectations of government and society.

Entrepreneurship has benefits for the economy, society and the entrepreneur. Benefits to the economy and society and entrepreneur include:

- The establishment and management of small businesses.
- The sale of products and services and the creation of employment.
- Benefits to the entrepreneur from self-fulfilment by doing what they enjoy, reaping profits, contribution to society to recognition for his/her efforts.



Read the article below and explain why entrepreneurial support is extremely crucial and critical to growth in Africa.

ENTREPRENEURSHIP SUPPORT IS PIVOTAL TO AFRICA'S ECONOMIC GROWTH

BY RAPHAEL OBONYO, MAY 31 2016

With most African countries diversifying from traditional sources of income, entrepreneurship is increasingly seen as a key to economic growth. So far, it has yielded huge returns for entrepreneurs, and experts say there is great untapped potential to drive the African continent into its next phase of development. A June 2015 study by UK-based Approved Index ranked African countries among those at the top of the entrepreneurship charts. The Entrepreneurship around the World report listed Uganda, Angola, Cameroon, and Botswana among the top 10 countries.

The group regards entrepreneurship as a "necessity", saying in its report: "When unemployment is high and the economy is weaker, people are forced to start small businesses to provide for themselves and their families."

Today, entrepreneurship is seen as one of the most sustainable job-generation tools in Africa. A 2013 study by Brookings Institution, a Washington DC-based think-tank, found that African youth (15-24 years) constitute about 37% of the working-age population.

At the Global Entrepreneurship Summit held in Nairobi in 2015, and attended by US President Barack Obama, entrepreneurs from more than 100 countries and a group of US investors discussed the role entrepreneurs could play to tackle youth unemployment in Africa.

According to Evans Wadongo, listed by Forbes Africa as one of the most promising young African entrepreneurs, many African governments have not been keen on developing policies to deal with youth unemployment. "Governments are not doing enough. The private sector is trying, but most goods brought into the African market are from China. This denies the youth much-needed manufacturing jobs, which are more labour intensive," he says.

Kenya's cabinet secretary in the Ministry of Industrialisation and Enterprise Development, Adan Mohammed, however, defends the policies of most African governments, saying that their efforts have been spurring confidence in the continent, and are enabling more young people to turn towards entrepreneurship. "Success breeds success — as many entrepreneurs make headway, others get on board. Also, technology-based inventions are pulling entrepreneurs," he says.

Ugandan Prime Minister Ruhakana Rugunda says his government's efforts to promote entrepreneurial culture have produced "remarkable results". For instance, the state-run Youth Venture Capital Fund trains and provides money to young people with good business ideas. Most importantly, with youth comprising more than 75% of its population, and 83% of its unemployed, Uganda has remodelled its education system to include entrepreneurship as one of the subjects in secondary schools and colleges.

With the help of the private sector and development agencies, the Ugandan government has established information, communication, and technology innovation hubs that help entrepreneurs to launch start-ups. Lack of access to working capital has hampered entrepreneurship in Kenya. Even though the government has created the Youth Enterprise Development Fund and Uwezo Fund to support youth entrepreneurship, budgetary constraints limit their effects. Andrew Wujung, an economics lecturer at the University of Bamenda in Cameroon, attributes the country's entrepreneurship effort to its unique poverty-reduction strategy. Unlike other countries in Africa, Cameroon's poverty-alleviation strategy is linked to entrepreneurship. The government is organising robust skills-acquisition and training programmes for entrepreneurs, and making credit facilities easily accessible to people with innovative technological and business ideas.

For entrepreneurship to boost Africa's economy, governments must tackle some of the greatest challenges that impede its progress, including lack of funds, mentorship, and poor government policies. African governments should consider giving the private sector incentives to create more jobs through tax relief. Laws and regulations should favour entrepreneurs, and effective strategies and policies are required to create more employment within small and medium enterprises.

- Obonyo is Africa's representative to the World Bank's global co-ordination body and a Ford Foundation fellow. This article first appeared in Africa Renewal, published by the UN. (www.bdlive.co.za)

6.3.1. Business growth

Business growth is critical to entrepreneurial success. The potential for growth is a defining feature of the entrepreneurial venture. Growth is a dynamic process. It involves development and change within the organisation, and changes in the way the organisation interacts with the environment (Wickham, 2001:303). Rwigema and Venter (2004:437) cite Wickham (1998) who says that three factors distinguish an entrepreneurial venture from conventional small business – the extent of innovative practice, the potential for growth and the presence of strategic objectives. The dynamics of growth for the entrepreneurial venture can be viewed from four perspectives:

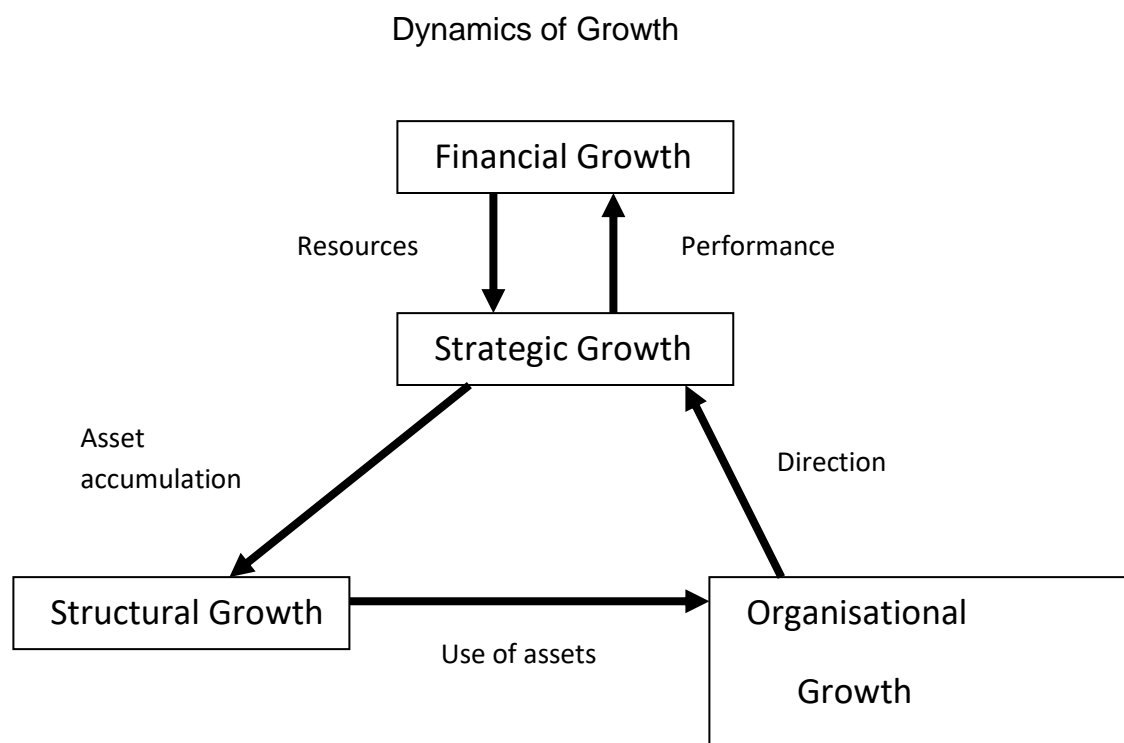


Figure 6.3.1. Dynamics of Growth (Wickham, 2001:304)

6.3.2. Types of growth

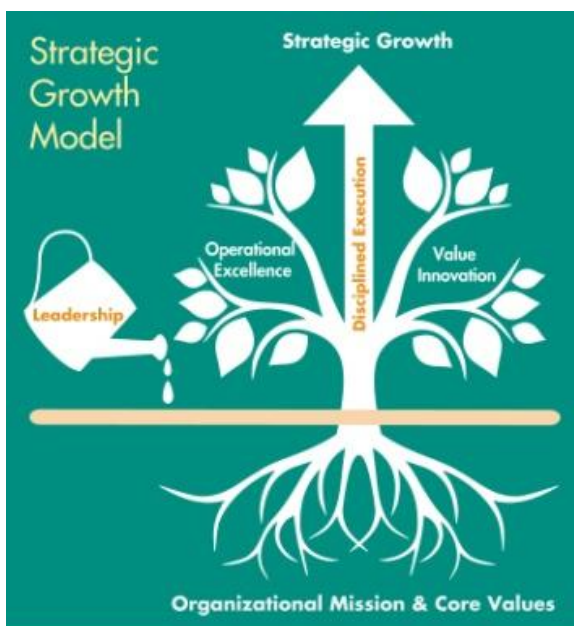
Wickham (2001:304) explains that the four types of growth are not independent of each other. The four perspectives are financial growth, strategic growth, structural growth and organisational growth.



Financial growth

This relates to the development of the business as a commercial entity and the increases in turnover and resulting profits, and the assets of the business.

Financial growth measures the value created by the business and is an important measure of success



Strategic Growth

This relates to the changes that take place as the business interacts with its environment and the way capabilities are developed in exploiting opportunities and acquiring assets to create sustainable competitive advantage.

It may further be defined as strategy aimed at winning larger market share, even at the expense of short term earnings.

Four broad growth strategies are diversification, product development, market

penetration, and market development. (www.businessdictionary.com/)



Structural growth

This relates to the changes in which managerial roles and responsibilities, reporting relationships, communication links and control

systems are organised (internal systems). Structural growth considers the structure of an organisation as dependent on five 'contingencies' or types of factors. The structure of an organisation could be viewed as being dependent on five 'contingencies' or types of factors:-

- Organisation's size
- Operational technology it uses to create value
- The strategy it adopts
- The environment it is in
- The way power is utilised within it



Organisational growth

This relates to changes in the organisation's processes, culture and attitudes as it develops. According to Rwigema and Venter (2004:438), organisational growth refers to 'improvement in processes, learning and knowledge; and prevailing belief systems'.

An adaptation of the four major perspectives of growth and development is presented by Nieman below. (Nieman, Hough and Nieuwenhuizen, 2003:236):

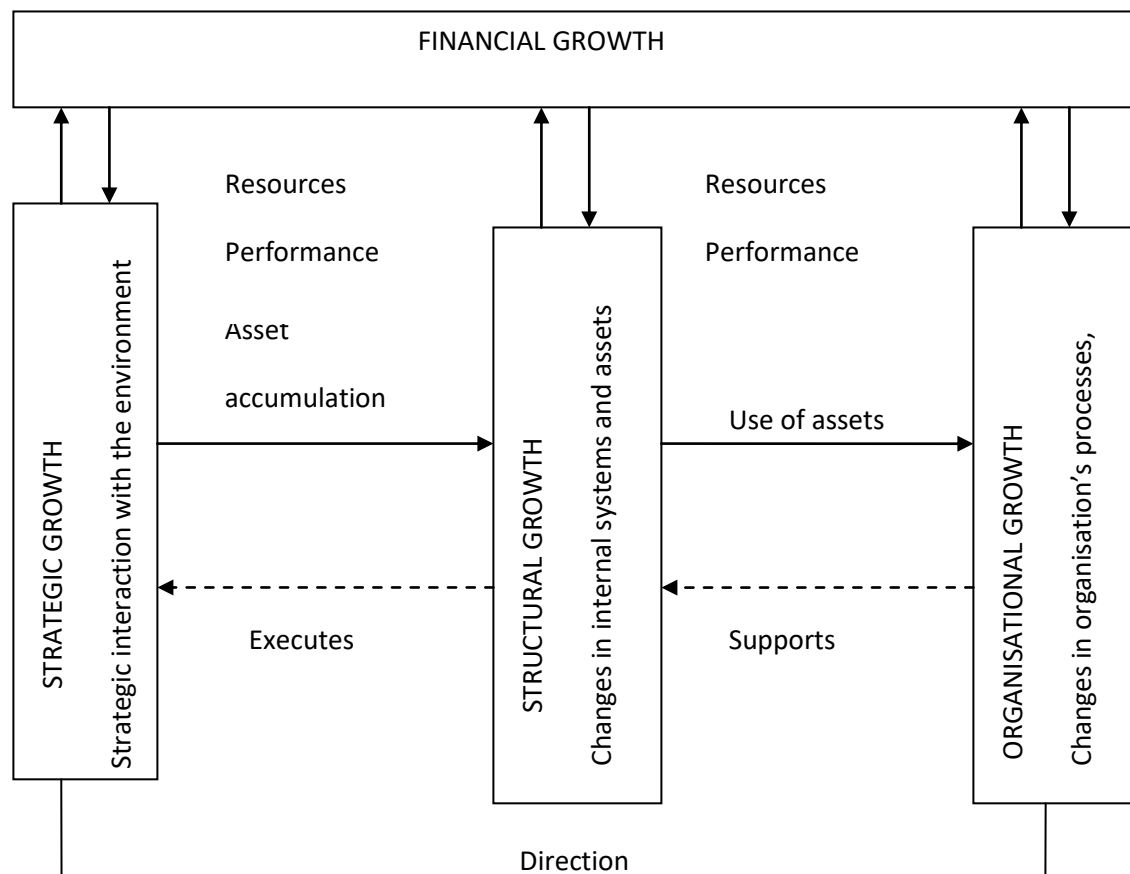


Figure 6.3.2 Four major perspectives of growth and development

6.3.3. Strategic characteristics of organisations

Nieman (in Nieman, Hough and Nieuwenhuizen, 2003:235) list eight characteristics of growing organisations according to Crijns and Ogle (1997:56). These strategic characteristics are:

- Market domination – measured in terms of relative market share in a niche market, it differentiates between good and poor performance
- Differentiation – uniqueness through being different from competitors
- Product leadership
- Flexibility – the speed and ability to gain advantage from new opportunities
- Innovation
- Future orientated
- Export
- Related growth – successful businesses strive for active cognisant growth as opposed to uncontrolled growth.

Nieman also cites Vinturella (1998) who refers to the critical success factors for growth as:

- *Market intelligence* – to be able to perceive and adapt to market changes, including future trends, competition and customer feedback
- *Strategic leadership* – to provide clear direction, delegation and decision-making.
- *Clarity of purpose and direction* – to have vision and a shared understanding of the uniqueness and identity of the business
- *Strategic planning*
- *Internal infrastructure* – to be able to support the business through internal systems and structures.

6.4. Business Life Cycle

Rwigema and Venter (2004: 444) contend that it is useful to conceptualise the process by which a business grows as a series of phases following a timeline. This 'life cycle' approach illustrates the growth phases that a business traverses.

Nieman (in Nieman, Hough and Nieuwenhuizen, 2003:238) cautions that life cycle models must be used as a guide. 'Although they provide an indication of what *can* happen at a certain stage, they have little power to predict what *will* happen. The defining line and time frames of each stage are not clear'.

Other limitations are:

- It is difficult to say at a particular time exactly what stage a venture has reached and when it can be expected to move on to the next stage
- Individual businesses will move through different stages at different rates and may miss out some stages altogether
- Not all businesses begin at the first stage and move to the last stage
- Very few businesses experience smooth and linear stages of growth. The smooth S-shape curve is rarely replicated. The progress of most businesses will actually be a ragged and jagged line with many ups and downs as companies experience periods of rapid progress followed by setbacks and accompanying crisis.

6.5. Forms of business ownership

One of the first decisions that you will have to make as a business owner is how the company should be structured. This decision will have long-term implications, so an accountant and attorney should be consulted to help select the form of ownership that is right for you. In making a choice, you will want to take into account the following:

- Your vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of structure you are willing to deal with.
- The business' vulnerability to lawsuits.
- Tax implications of the different ownership structures.
- Expected profit (or loss) of the business.
- Whether or not you need to reinvest earnings into the business.
- Your need for access to cash out of the business for yourself.

6.5.1. Sole Proprietor

The sole proprietor (also called the sole trader) is without question, the simplest and most popular form of ownership. This form of business is also called the sole trader. The sole proprietorship, as its name implies, is a business owned and managed by one individual and in most cases where the owner also manages the business. Examples include flea-market stalls, laundries, butcheries and hairdressers. A sole proprietor can conduct business under his/her name or under a trade name. For example, let's say that Slindile Sandile is a plumber. She can conduct his business under her name, Slindile Sandile Plumbers. Alternatively, he can conduct the business under a trade name such as ***Very Efficient Plumbers***.

6.5.1.1. Advantages

- It is the least regulated form of business ownership and therefore the easiest to start, operate and terminate.
- It is the least expensive form of ownership to establish. There is no need to create and file legal documents that are recommended for partnerships and required for corporations.
- The main advantage of this type of business is that the owner gets all the profits (less taxes, of course) should the business prosper, so this is an incentive to work hard.
- The owner is in total control of operations, so he/she can respond quickly to changes, which is an asset in a rapidly changing environment.

6.5.1.2. Disadvantages

The disadvantages to the sole proprietorship include:

- The sole proprietor has to take responsibility for the running of the business including losing everything should the business fail and being personally liable for all the businesses debts.
- A sole proprietor may not have the wide range of skills required in running a successful business.
- The business could lack sufficient capital because the owner has to rely on his or her own savings or take a loan.
- If the proprietor dies, retires, or becomes incapacitated, the business may terminate, unless a family member or employee can take over, the business could be in trouble.

6.5.2. Partnership

When two or more people agree (whether verbally or in writing) to become co-owners of a business, the organization is called a partnership. The contract can be between a minimum of two and a maximum of twenty persons, who contribute capital, goods or expertise to the lawful business with the purpose of making a profit. A partnership is not a legal person and therefore all partners are jointly liable for the debts and obligations of the business.

6.5.2.1. The advantages of choosing the partnership as a form of ownership include:

- Like the sole proprietorship, the partnership is easy and inexpensive to form because less regulated.
- The parties' skills and abilities usually complement one another, strengthening the company's managerial foundation.
- There are no restrictions on how partners distribute the company's profits as long as the method is consistent with the partnership agreement and does not violate the rights of any partner.
- The partnership can significantly broaden the pool of capital available to a business.

6.5.2.2. The disadvantages of a partnership

- Partners have unlimited liability for the partnership's debts and usually take an active role in managing the business.
- The partnership is dissolved if there is a change in its membership composition. the duration of a partnership is therefore uncertain.

- It is not easy to find suitable partners.
- Partners are jointly liable for the debts incurred by other partners.

6.5.3. Private Company

The private company has a minimum of one and a maximum of fifty shareholders. The transfer of shares is restricted which means that shares cannot be sold to the public. Shareholders have limited liability for the debts of the business. The name of the company must end in 'Proprietary Limited' or the letters '(Pty) Ltd', for example Archer Bank (Pty) Ltd. This means that the number of shareholders is limited. A private company's shares cannot be sold to the public to raise capital. Therefore the shares cannot be listed on the stock exchange (the JSE, for example).

6.5.3.1. Advantages

- Private companies form a separate legal entity with limited liability for to the shareholders.
- Business continuity is assured since shares can be passed without affecting the company.
- Private companies are suitable as family businesses.
- The company and its members are taxed separately.

6.5.3.2. Disadvantages

- It is a complex process to establish and manage a private company.
- A private company must meet such costs as incorporation costs, annual subscriptions and the cost of issuing shares.
- As a result of the compulsory publication of its statement, everyone including its competitors knows the company's information.

6.5.4. Public Company

A public company is the form of business that has seven or more shareholders and where the shares are sold to the public. Such large, publicly owned companies might have thousands of shareholders. Absa, listed on the Johannesburg Stock Exchange (JSE) is an example of a public company. A public company can raise a large amount of capital from the general public. Investors with small amounts of money are also able to invest in this type of ownership. However, the costs of becoming a public company are high and the procedure of establishing the business is complicated.

6.6. Venture Growth



(www.google.com)

If you want to start a business today, it seems or appears to be uncomplicated or even easy. The internet gives you access to business ideas, information about the market and areas that you want to operate in. Information about potential suppliers that you can use is also available. Information on advertisers to promote businesses and their products and services can also be obtained. A business is established to succeed and not to fail. However, thousands of businesses still fail due to a lack of knowledge about the legal aspects regarding the continuous operation of the business, dealing with staff and signing contracts.

Timmons and Spinelli (2007:260) illustrate the stages of venture growth as follows:

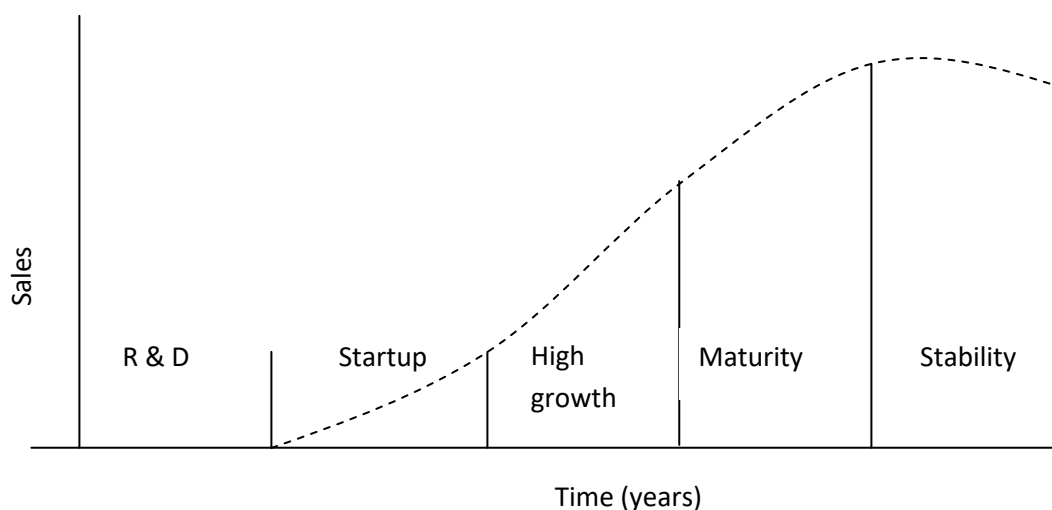
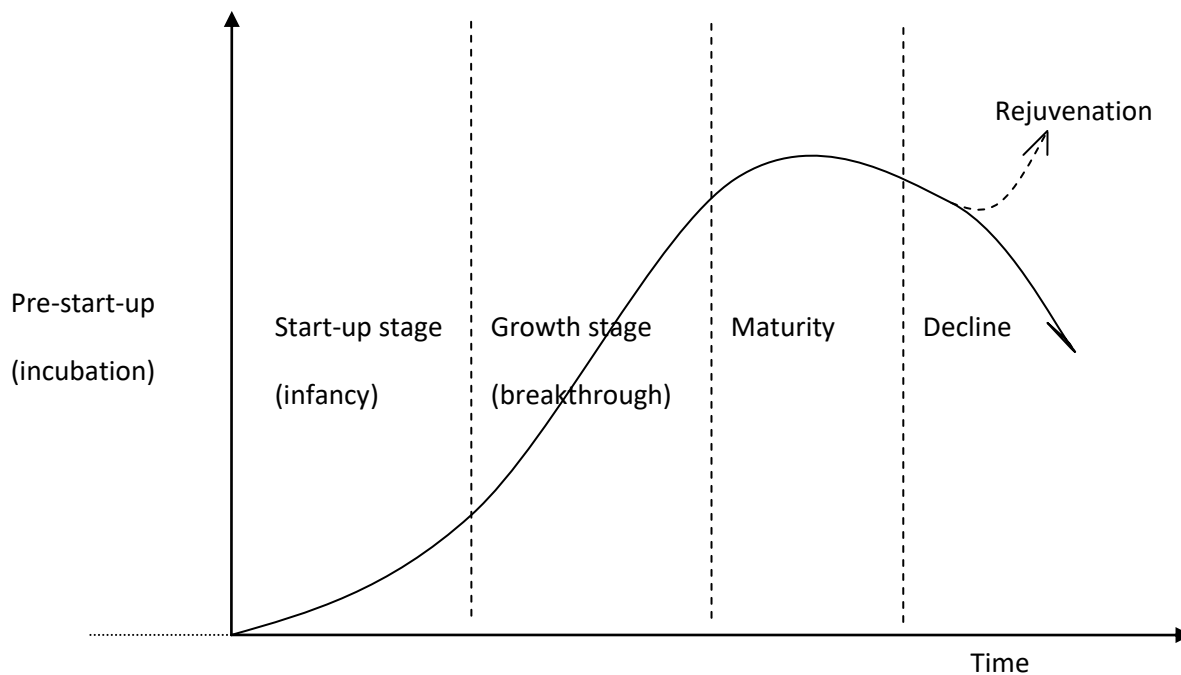


Figure 6.6.1 Stages of venture growth

Nieman (in Nieman, Hough and Nieuwenhuizen, 2003:238) presents a similar illustration of the model:



Nieman (in Nieman, Hough and Nieuwenhuizen, 2003:241) cites Crijns and Ooghe (1997) relating to the actions and changes taking place in the different stages of the growth process. These changes are referred to as the 'professionalisation' of the entrepreneur and are indicated.

Professionalisation of the entrepreneur

Aspect	Start-up	Early growth	Later growth (expansion)	Maturity
<i>Strategic objectives</i>	Survival	Maintenance of profitability and acquiring resources	Growth via expansion	Return on investment and market value
<i>Structure</i>	Informal	Functional	Decentralized	Matrix or product groups
<i>Control Systems</i>	Direct market feedback	Standards and cost centers	Profit centres and formal reporting	Planning and investment centres
<i>Management Style</i>	Creative	Leading	Delegating	Coordinating
<i>Role of the entrepreneur</i>	Owner-worker	Owner-manager	General manager	Controller
<i>Function of the entrepreneur</i>	Direct supervision	Overall supervision	Indirect control	Controlling interest
<i>Focus of the entrepreneur</i>	Make and sell	Efficient operations	Market expansion	Consolidation and innovation

Table 6.6.2 : Professionalisation of the entrepreneur

6.6.1. Growth Stages

The growth stages are conception, survival, profitability/stabilisation, profitability/growth, take off and maturity.

6.7. Challenges to the organisation

Rwigema and Venter (2004:456) acknowledge that while growth is a process that enhances value (from both a societal and individual perspective) it also poses challenges to the organisation:

- *Financial implications of growth* – the act of conducting business requires cash, so that the financing requirement must be recognised.
- *Management and control issues* – a growing organisation places a burden on functional capacity. There must be formality, consistency and routine.
- *Marketing and operations implications* – growth often occurs through either a production orientation or a marketing orientation. As the business grows, conflict between these two functions becomes likely.
- *Biological implications* - the advance of years raises issues of succession
- *Organizational implications* – a growing business requires more people and more managers and has to be flexible and adaptable.

6.8. Managerial actions

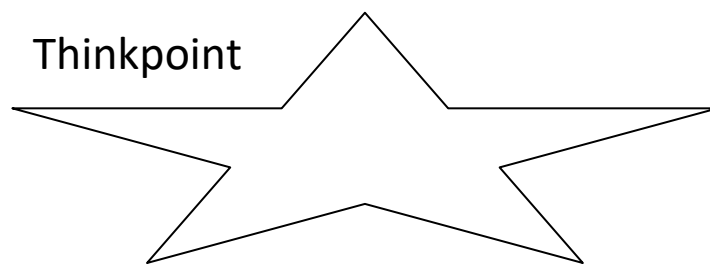
Kuratko and Hodgetts (1998:504) outline four key factors about the specific managerial actions necessary during the growth stage. These factors are listed as control, responsibility, tolerance of failure, and change.

They amplify these factors as follows:

- Control – growth creates problems in command and control.
- Responsibility – as the business grows, the distinction between authority and responsibility becomes more apparent. This is because authority can be delegated, but is important for

there to be a sense of responsibility. This action establishes flexibility, innovation and a supportive environment.

- Tolerance of failure – in continually innovating and growing, a business should tolerate a certain degree of failure. Three forms of failure can be distinguished – *moral failure*, resulting from a violation of internal trust, *personal failure*, brought about by a lack of skill or application, and *uncontrollable failure*, caused by external factors.
- Change – planning, operations and implementation are all subject to continual change. Flexibility regarding change allows for faster managerial response to environmental conditions. (Kuratko and Hodgetts.1998:504)



Read the article below and highlight the key points that you believe entrepreneurs should be aware of.

Serial entrepreneur Sivadas Raghava offers practical wisdom for wanna-be entrepreneurs: May 29, 2016

B-school graduates are generally not successful entrepreneurs, they are taught to manage and not to take risks, or so goes the adage. Of late, a slew of entrepreneurs with MBAs from top B-schools have been proving this maxim wrong by spawning successful ventures. Sivadas Raghava, a 1983 batch MBA from IIM-Ahmedabad, one of the top B-schools in the country, and also a batch mate of the present IIM-A director, Ashish Nanda, is one, but, as he says himself, it took him 17 years to be an 'overnight' success. In his book, *Failure to Millionaire*, published by Sage India, Sivadas catalogues his trials and tribulations, his hard luck stories, his mistakes, the grind of entrepreneurship, trying out venture after venture till he and his partners hit pay dirt.

Falls and more

Nine startups, six failures, a couple of moderate take-offs and one complete success which finally proved to him that quitting a plum job to plunge into entrepreneurship was the right choice he had made.

Raghava writes, warts and all, on his failures, the mistakes he made along the way, the imprudent, in retrospect, projects he embarked on, the hard luck stories, and the frugal early years. When Raghava struck out as an entrepreneur in the mid-1980s, the business environment wasn't conducive for the professional manager wanting to set up shop on his own; you were either from a business family or thrived on the Licence Raj regime.

Getting funding for a good idea wasn't easy; there were no venture capitalists, no angel investors, no incubator cells, no entrepreneur eco system as it is today. You either had the cash or raised it from family and friends; even banks would look at you suspiciously.

And, as he writes, his family had an apoplectic fit. "At that time, there was a huge price tag to becoming entrepreneurs, especially for professionals with my kind of background," he writes. Looking back, he says he was a bit foolish, "chucking up a good job with a leading private sector company, with no business background or support, and just an all-consuming desire to make a success of being an entrepreneur."

But stay the course he did. And, there is no guarantee of success, but the fire in your belly must drive you, he writes. Becoming an entrepreneur requires arduous work and there is no organisation supporting you; you are your own man, which struck Raghava forcefully when he set out on his own.

Many learnings

Raghava meticulously catalogues his entrepreneurial journey and the takeaways at each stage of his entrepreneurial life cycle. For an aspiring entrepreneur it will be a useful read to avoid the missteps he made. A burning desire to be an entrepreneur is all very well, but that by itself is not enough. One needs a good business idea, validation of the concept and preferably a beta customer, he advocates. Raghava writes that he learnt a valuable lesson in his very first venture: making motor pumps. He invested 50 per cent of his savings and the project turned out to be a disaster. It started with the fanciful name they gave themselves: the Flamingo Group, which, in his own words, sounded like the name for a night club. Coimbatore was the land of perhaps over 100 motor pump makers and their product was not unique. "The first lesson we learnt was the importance of making ourselves unique and differentiating ourselves. We learnt about USP in case studies at business school, but our experience taught us to translate this to marketplace realities. It's simple and obvious but many people make this basic mistake of not defining the USP of a product or service," Raghava notes.

From this disastrous first venture, which didn't douse his passion luckily for him, Raghava transitioned through many other ventures, winding down the unsuccessful ones, or selling the moderately successful ones, till he and partner (also his classmate at IIM-A), Chandu Nair, founded Scope eknowledge Centre, and rode the KPO boom. In between, to keep some funds coming, in their early years, Raghava and his partners even structured and taught courses to MBA students of Bharathiar University in Coimbatore. Scope was among the first in the knowledge process outsourcing space to several key clients overseas. They ran the company for 10 years before selling it to Raman Roy of Quattro.

Social being

Raghava's style is anecdotal and conversational, dipping into his long entrepreneurial career to illustrate the points he makes. The book is interspersed with fables and stories which were key the learnings for Raghava in his formative years as a young entrepreneur.

They are useful reading for aspiring entrepreneurs as well. The book offers key takeaways from each stage of Raghava's growth as an entrepreneur; each of these is different at different stages of the entrepreneurial life cycle and Raghava has been through that not once, but several times. The book offers practical advice on various business issues one could face: marketing to business development and managing operations to fund raising and managing finances.

Lastly, Raghava stresses the importance of not being troubled by just that: stress. He talks of the importance of a work-life balance. As he says: "After all, you have only one life. Do you want to spend nearly all of your 24 hours at work? I think it's important to have a holistic life and enjoy the process of entrepreneurship..." His advice is to include physical exercise as part of one's day, partake of a healthy diet, meditate, and make social contributions, for "small acts of social service go a long way in improving one's general well-being." An MBA from a top B-school can indeed succeed as an entrepreneur and Raghava shows how. About the Author: Sivadas Raghava is the director and global head of services at RSI Content Solutions, USA. He is an innovative entrepreneur and a serial entrepreneur. He has a post graduate degree in management from IIM-Ahmedabad. (<http://www.thehindubusinessline.com>)

6.9. Business decline

Rwigema and Venter (2004:464) offer definitions of business decline contending that the reality of business practice is that many businesses fail:

- Business decline – occurs when a business experiences a successive decline for a period of not less than two years
- Business failure – either the inability of the business to meet its financial obligations or the discontinuation of the business (lack of managerial capacity or desire to continue operating)
- Turnaround situation – a period during which the business is engaged in efforts to restore profitability

Pretorius (in Nieman, Hough and Nieuwenhuizen, 2003:262) refers to levels of failure on a continuum of success and failure:

Trouble or difficulty in the business

The business that is performing well

The underperforming business

The business that failed

The business in crisis

These levels of failure is depicted in the following illustration.

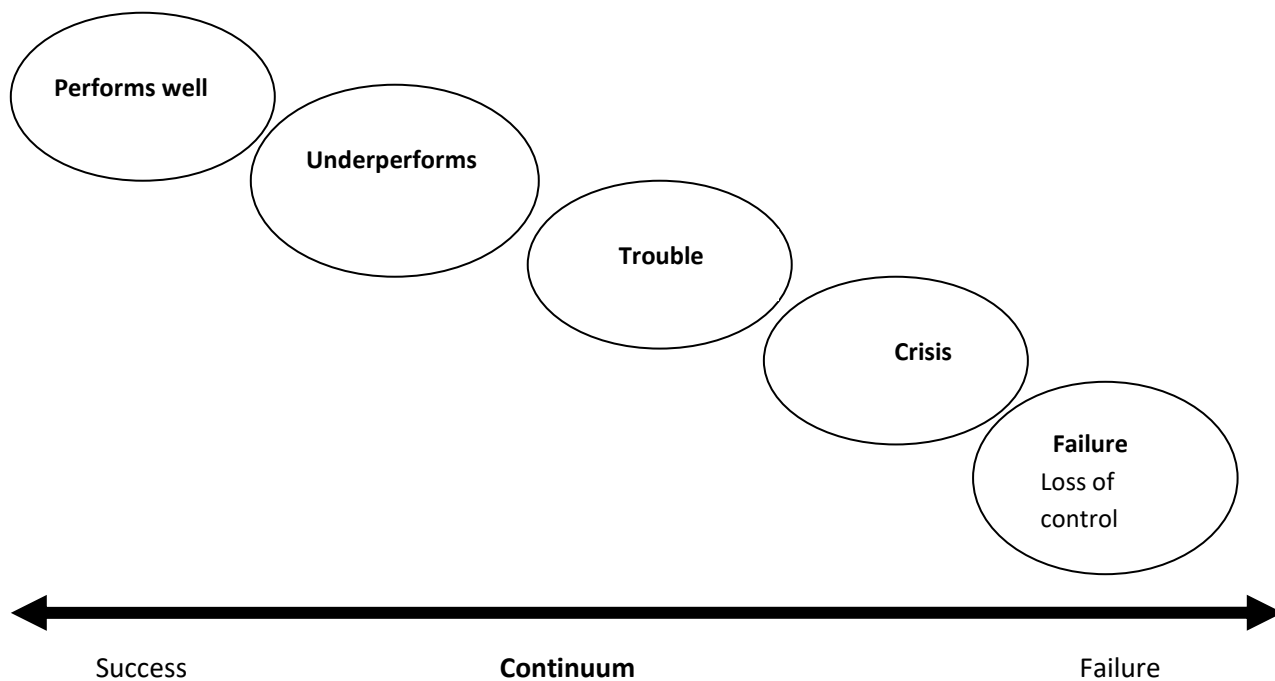


Figure 6.9.1. The levels of failure on a continuum of success and failure

The 'signs of trouble' or the symptoms of business decline are:

- Declining profitability – decline in gross and net margins
- Decreasing sales volumes
- Declining market share
- Decline in working capital
- Rapid management turnover
- Top management fear
- Irregular cash flows
- Confidence levels drop
- Core employees leave

(Rwigema and Venter, 2004: 464; Pretorius in Nieman, Hough and Nieuwenhuizen, 2003:262)

6.9.1. Causes of business failure

Rwigema and Venter (2004: 466) outline the causes of business failure as:

- Poor management
- Inadequate financial control
- Competition
- Relatively high cost structure
- Changes in market demand
- Marketing problems
- Capital projects
- Acquisitions
- Overtrading

Pretorius (in Nieman, Hough and Nieuwenhuizen, 2003:272) examines four issues that underlie signs of trouble:

- Strategic issues – relating to the effectiveness of the business within its environment.
Strategic issues include misunderstood positioning, mismanaged relationships with suppliers and customers, diversification into an unrelated business area, being idea driven instead of opportunity driven, having no contingency planning, lack of specific sectoral experience and unrealistic expectations of the market potential.
- Management issues include loss of interest by the owner, underestimating the importance of financial aspects, turnover in key personnel, a wrong management focus and a lack of a proper management structure.
- Poor planning and financial systems, practices and controls – this refers to incorrect pricing, poor credit-granting policies, poor use of leverage (debt), the lack of cash budgets, poor management reporting, lack of standard costing and poorly understood cost behaviour.
- Environmental issues – include customers, suppliers, competitors and intermediaries from the market environment of the business.

6.9.2. Harvesting

Harvesting refers to an exit plan for the entrepreneur. Pretorius (in Nieman, Hough and Nieuwenhuizen, 2003:272) categorises four reasons for harvesting – personal reasons, financial reasons, failure and outside forces.

The alternative harvest options can be summarised as follows:

Harvest options		Advantages	Disadvantages
Outright sale Business is sold to a willing buyer	Selling to a firm looking for acquisitions	<ul style="list-style-type: none"> • Potential buyer has information of potential of business • Owner can negotiate a quick exit 	<ul style="list-style-type: none"> • Owner is required to stay on for a period to train new management • There could be rumours if the deal does not go through • New owner might not have conceptual grasp of business
	Selling to a competitor	<ul style="list-style-type: none"> • Prospective client has information about the potential of business • Owner can make a quick exit 	<ul style="list-style-type: none"> • There could be rumours in the market • The owner is at risk when there is a structured payment
Management buyout Selling the business to the existing management		<ul style="list-style-type: none"> • Management already knows the business • Owner can make a quick exit • Payment could be structured over a period of time 	<ul style="list-style-type: none"> • Access to capital is a problem • The owner is at risk with a structured payment • Managers may not be entrepreneurial
Employee share option plan Employees take ownership through shareholding		<ul style="list-style-type: none"> • Ownership for employees may be positive for job motivation • Owner can be phased out • Management can stay on and participate in plan 	<ul style="list-style-type: none"> • Entrepreneurial drive may be lost • Structuring the deal can be complex • Share option plans are only for relatively large businesses

Forming an alliance with another venture An interim step that leads to a takeover and the owner's withdrawal after a period of time	<ul style="list-style-type: none"> • A long-term relationship develops • Additional doors may open • If the alliance does not work, ending the relationship is easy 	<ul style="list-style-type: none"> • Timing is crucial • There is often no legal agreement • Differing management styles may lead to conflict • If the alliance does not work, it could have a negative impact on business
Harvest options	Advantages	Disadvantages
Merging with another venture (offensive merger) Formal combination occurs through forming a new business or taking up shares in each others business	<ul style="list-style-type: none"> • Relationship is stronger • Merger is more formal and cannot be easily reversed 	<ul style="list-style-type: none"> • A minority owner can be somewhat exposed • Differing management styles may lead to conflict • No harvesting occurs until one party leaves
Proceed with a professional manager A manager operates the business while the owner withdraws	<ul style="list-style-type: none"> • Works well when the owner has health problems 	<ul style="list-style-type: none"> • Clashes in management styles can occur • Owner may feel loss of control • There is no 'big' harvest
Capital cow Owner proceeds with business but uses cash it generates as capital for establishment of another venture	<ul style="list-style-type: none"> • Serves as source of capital • Offers a different route to harvesting • It enables exploitation of other windows of opportunity 	<ul style="list-style-type: none"> • Harvesting takes longer • There is no 'big' harvest • The owner cannot leave easily • Growth is not possible in the existing business • Cash withdrawals might lead to cash flow problems
Public offering	<ul style="list-style-type: none"> • Harvesting is quick and normally good • Prestige is gained 	<ul style="list-style-type: none"> • Mostly for big business • It is expensive • There is loss of control • Requires specialist advice and experience

6.9.2 Alternate harvest options (Pretorius in Nieman, Hough and Nieuwenhuizen, 2003:296-299)

6.10. The Life Cycle Stage

The life cycle stage of the business is of crucial importance to the harvest decision. During the incubation or start up stage, there is very little opportunity for harvesting because the business venture is conceptual and there is not much to harvest (except an idea or opportunity).

During the start up (infancy) stage, the ability to harvest is not attractive in view of the uncertainties of the market demand. This stage is associated with greater risk and potential for failure.

The growth stage presents the best opportunity to harvest, based on future potential through sale, merger or alliance. The maturity stage is characterised by more competition. Harvesting options are driven by a defensive position (sale, merger, alliance).

During the decline stage, the options to harvest decrease drastically and harvesting can occur through a defensive merger or selling of assets (Pretorius, in Nieman, Hough and Nieuwenhuizen, 2003:294).

Pretorius (in Nieman, Hough and Nieuwenhuizen, 2003:299) also indicates the principles that govern a harvest strategy as:

- Timing and Patience
- Vision to plan ahead and Realistic evaluation
- Contractual agreement and Mentoring agreement
- Structured deal

Each of these elements can contribute to a better harvest.



QUESTIONS FOR REFLECTION

ACTIVITY 6.1

READ THE FOLLOWING CASELET AND ANSWER THE QUESTIONS THAT FOLLOW

The Little Cake Company

Our Story....

Once upon a time in a little city called Durban Leanne and Khety started whipping up cupcakes for a little spar in Glenashley called, Glenore Kwikspar. 4 years down the road from a little kitchen with a little oven to a big factory with some big ovens. The Little Cake Company has grown into something quite amazing and because of this we have been able to train and provide jobs to the unemployed. We are in the business of doing good business and making a difference so let us amaze your taste buds with some of our delicious cupcakes and cakes. The Little Cake Company's cupcakes are the perfect little bite that pleasantly surprises the palate and delights the eye. We specialise in offering a delicious and tantalising assortment of decadent chocolate and vanilla cupcakes freshly home baked with goodness complete with elegance for any occasion.

Basic vanilla cupcakes are decorated with handmade sugar craft decorations, lovingly made by us. Price is determined by the amount of work involved in making the decorations. You are able to have some cupcakes more detailed than others which will make your order more cost effective. Eggless cupcakes are available on request. Personal preferences and desires are taken into account when creating the perfect cake to compliment your special occasion. There is no better way to mark this extra special occasion than by having a luxury custom made cake designed exclusively for you. Each cake is the result of detailed discussions with yourself to ensure it meets your exact requirements. We will work closely with you, to ensure the cake you choose perfectly enhances your special day. Our cakes are baked "fresh to order" with the finest quality ingredients and eggless on request.

(SOURCE: www.littlecakecompany.co.za/)

- 6.1.1. The Little Cake Company has grown into something quite amazing and because of this we have been able to train and provide jobs to the unemployed. Entrepreneurship has benefits for the economy, society and the entrepreneur. With reference to this statement identify the benefits of entrepreneurship.
- 6.1.2. Identify and discuss personal characteristics of an entrepreneur by making reference to the case study.
- 6.1.3. Identify and discuss the factors of production that The Little Cake Company needed in order to establish The Little Cake Company.
- 6.1.4. Once upon a time in a little city called Durban, Leanne and Khety started whipping up cupcakes for a little spar in Glenashley called, Glenore Kwikspar. With reference to this statement, indicate the factors affecting the choice of business enterprise for Leanne and Khethy.
- 6.1.5. Outline and discuss the business management processes that were strategically used by the entrepreneurs in the case study.
- 6.1.6. Outline the expectations of government and society and point out whether The Little Cake Company fulfils that expectation.
- 6.1.7. Conceptualise the importance of aligning business management processes with the requirements and expectations of government and society.

ACTIVITY 6.2

After reading the case study follow construct an argument that considers the importance of aligning business process management with the requirements and expectations of government and society by paying particular attention to business failure.

Key Reasons for Business failure

Start up businesses have a very high failure rate in the United Kingdom with as many as 1 in 2 failing in their first two years. The reverse side of the coin is that almost half survive and go on to prosper. Key reasons for business failure include:

Poor marketing.

Successful modern businesses are ones that understand and meet the requirements of their customers. Detailed market research is therefore an essential for new businesses, to find out details such as the potential size of the market, the extent of competition, as well as consumer preferences and tastes.

Cash flow problems.

Many businesses struggle through poor cash flow management. It is all very well having a good idea and a good product but it is also necessary to be able to meet short term outflows. Many businesses try to grow too quickly, and end up borrowing too much money externally, resulting in crippling interest repayment charges.

Poor business planning.

A business plan should cover aspects such as marketing, finance, sales and promotional plans, as well as detailed breakdowns of costing and profit predictions. It is often said that 'failing to plan, is planning to fail'.

Lack of finance.

Insufficient finance often means that businesses are unable to take opportunities that are available to them, or have to compromise - going for high cost solutions to problems, rather than lower cost ones that would yield greater competitive advantage.

Failure to embrace new technologies and new developments.

In a fast changing world leading businesses are ones that make best use of advanced modern technologies in an appropriate way. Firms that operate with outdated technologies and methods frequently find themselves at a cost disadvantage over more dynamic rivals.

Poor choice of location.

Location is a very important business decision. A good location is one that appeals to large numbers of customers, while at the same time minimising costs.

For example in retailing it is often a mistake to choose a low cost location, that is not visible to customers. However, conversely there are considerable cost advantages to out-of-town retailers that customers are prepared to travel to visit.

Poor management.

Weak and inexperienced management is one of the major causes of business failure. Managers have to work extremely hard, and to understand their customer's needs, and the business that they are in if they are to be successful.

Human resource relations

Poor human resource relations are often a cause of failure. Successful businesses motivate their employees to work hard to help the business to succeed.

Lack of clear objectives

Successful organisations have clearly focused and communicated objectives that enable everyone in the organisation to pull in the same direction. At the turn of the millennium a host of new .com businesses were launched in this country based on the hype associated with having an 'online presence'. A large number of these businesses were based on good ideas - e.g. retailing wine, clothes and financial services on the Internet. However, what many of these businesses lacked was an established trade name, which the general public was familiar with. The major companies that we are familiar with - Coca-Cola, Cadbury Schweppes, Nestle have taken years to build their brand names. Many of the new .coms were seeking to build brand awareness very quickly. These companies were able to raise relatively large sums of capital to set up. However, advertising and promotional costs were substantial, and the pool of capital they started up with rapidly began to run out before they could make the breakthrough to profitability. What we then saw was a high level of business failure in 2000 and 2001 among the new .coms. Although many of their ideas were good they ran into cash flow problems. In the end the prime beneficiaries of the .com revolution were existing companies with well established brand names that were able to embrace the new technologies. (Source: www.times100.com)

CHAPTER 7: ACHIEVING ORGANISATIONAL OBJECTIVES

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate the ability to manage the company's resources and processes to achieve organisational objectives. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Identify the company's resources and processes
2. Describe organisational objectives.
3. Identify differences in strategic outlook between small businesses and large organisations
4. Discuss the strategies available to entrepreneurial ventures
5. Demonstrate the ability to manage the company's resources and processes to achieve organisational objectives



ESSENTIAL READING

Learners are required to read **ALL** of the textbook chapters listed below.

Textbooks:

Venter, Urban and Rwigema (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapter Eleven

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapters Six and Nineteen

7.1. Introduction

Entrepreneurs and managers must demonstrate the ability to manage the company's resources and processes to achieve organisational objectives. This may be achieved through the identification of the company's resources and processes, by further identifying the organisational objectives and by isolating the differences in strategic outlook between small businesses and large organisations.

Entrepreneurs must know the strategies available to entrepreneurial ventures finally they must be able to demonstrate the ability to manage the company's resources and processes to achieve organisational objectives. 'Entrepreneurial' refers to starting up a venture based on a business opportunity. The entrepreneurial phases of the life cycle of a business venture cover the pre-start-up, start-up and early growth phases of the cycle. Entrepreneurial strategies thus relate more to the circumstances and environment of the small venture in its early life cycle than to those found in the managerial phases of late growth, maturity and decline.

7.2. Strategy

Strategy is defined as an integrated and co-ordinated set of commitments and actions designed to exploit core competencies and gain competitive advantage. Strategy refers to the way in which all resources are applied in the business to gain advantage over competitors. The resources include finance, human resources and innovation assets, and their application. The principles of strategy are as relevant for the small business venture as for larger organisations. The key differences between small ventures and large organisations relate to resources, growth stage, competitive environment and structure.

7.3. Strategic issues

The strategic issues that confront the small venture flow from its differences from large organisations and include:

- Opportunity or threat? – a perceived opportunity can become a threat if it lures the business into taking risks greater than it can afford to take. This is referred to as 'overtrading'.
- Less information available – the small business has less exposure to and contact with important sources of information.
- To start-up or acquire? – the issue is whether to start up a new business or acquire an existing business.
- Flexibility – small businesses are more flexible than large organisations and can react faster to environmental changes and trends.

7.4. Competitive Advantage

A business has a competitive advantage whenever it has an edge over rivals in attracting customers and defending itself against competitive forces. The positioning of a business relates to how the business is perceived (by existing and potential customers) in relation to the competition. The most basic competitive advantage is to provide customers with what they perceive as superior value, such as:

- A good product at a low price
- A superior product that is worth paying extra for
- A best-value offering that offers a combination of price, features, quality, service or other attributes that customers may find attractive.

A sustainable competitive advantage can be found within the list of strengths, competencies and capabilities of a business. Some attributes used as competitive advantage include:

- Control over a resource
- Patents
- Access to a distribution channel
- Contractual agreements
- Innovative responsiveness
- Contacts and networks
- Franchising
- Location
- Brand

The five generic competitive strategies available to large organisations in order to position themselves relative to the competition (Overall low-cost producer strategy, focused low-cost strategy, broad differentiation strategy, focused differentiation strategy and best cost provider strategy) are available to small business ventures, but may have limited application value as a result of the limited access of small businesses to certain resources.

7.5. Positioning and Growth Strategies

The broad positioning growth strategies available to the entrepreneurial venture include: Product leadership; Customer intimacy; Operational excellence and Follower (“also ran”) strategy



and

(www.google.com)

7.5.1. Product leadership

This is a small venture may develop a new leading positioning if it has patent protection and can grow in a short space of time. Product leadership, however, is generally not available to the small business because of its general lack of research and development capacity and the resources required to sustain the new product development process.

7.5.2. Customer intimacy

This refers to the development of close relationships with one's customers by marketing activities or becoming involved in customers' operations. The strategy is successful if the customers become dependent on the service(s) supplied to them.

7.5.3. Operational excellence

This refers to the efficiency with which inputs are converted to outputs. Applying this strategy entails directing resources towards infrastructure, equipment and systems.

7.5.4. Follower (“also ran”) strategy

This is the distinction between the entrepreneur (who comes up with new opportunities and growth) and the small business owner (who follows the market).

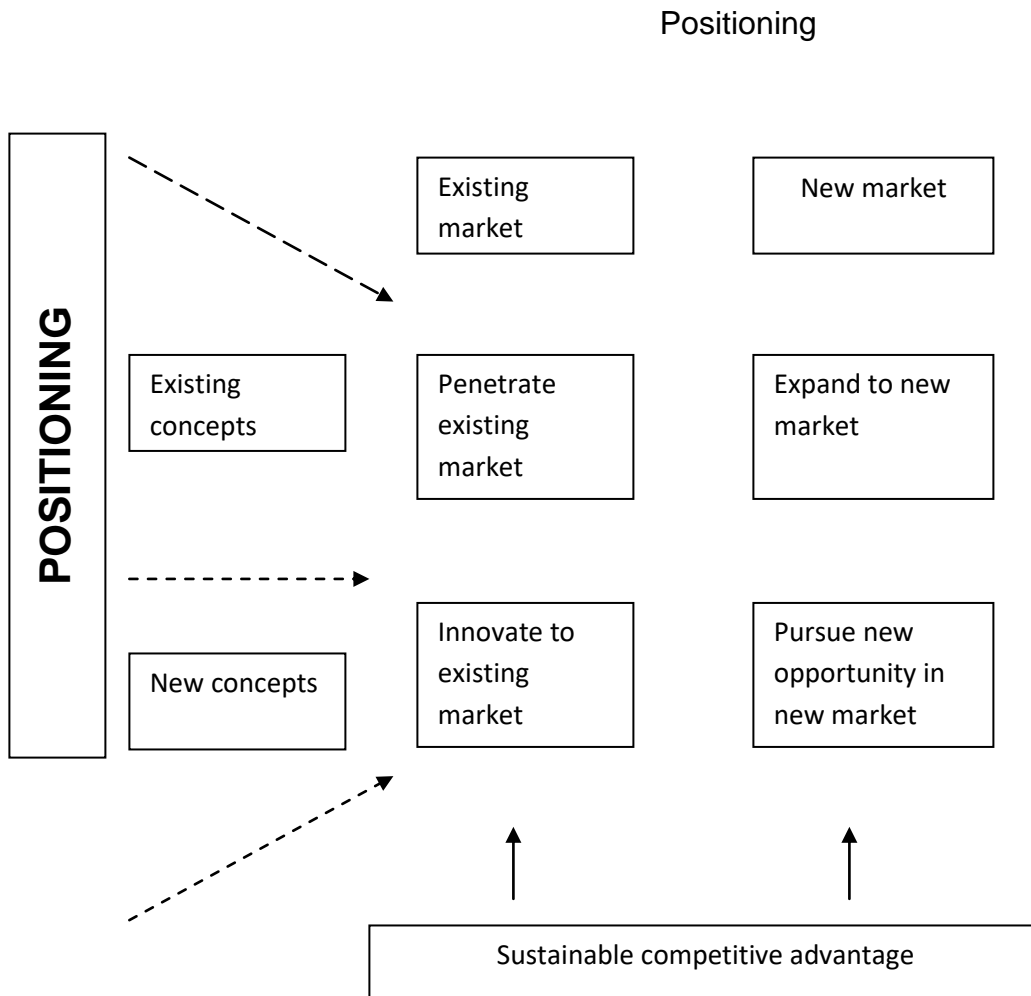


Figure 7.5.1. Positioning

7.6. Strategic Options for Growth

There are two basic strategic options for growth:

- Growing the business internally in size (organic growth) – requires expansion through increased market share. The options available are
 - penetrating the existing market
 - finding new customers
 - adding new products and services to service existing customers better
 - adding new products and starting to serve new markets
- Growing the business through the acquisition of additional businesses (external growth) – refers to buying related or unrelated ventures in order to enlarge the business operations.

A retrenchment strategy is the opposite of a growth strategy – requiring certain operations to be scaled down or eliminated.

Other strategic options are:

- Stability – a stability strategy is followed when the owner of a venture does not want to grow the total operation. Growth requires capital investment.
- Combination – a combination strategy could be any combination of the growth, retrenchment and stability strategies.

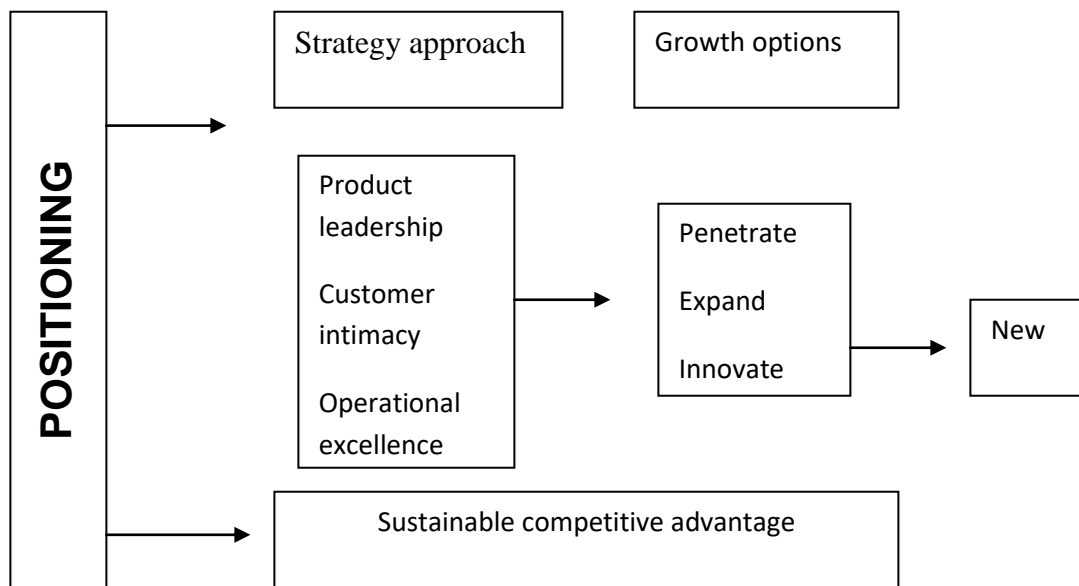


Figure 7.6.1 Strategic options

7.7. Positioning and Growth Strategies

The following issues will influence the choice of an initial strategy for a business venture aimed at growth and competitiveness.

7.7.1. Economies of scale

Although the small venture does not normally have the resources to establish economies of scale early in the life cycle, if any economies of scale can be achieved, the business venture will benefit significantly from them.

7.7.2. Learning-curve effects

Experience-based cost savings occur as a result of staff learning to perform their tasks more efficiently and from the debugging of new technology.

7.7.3. Linkages

Interactions with other businesses to co-operate and share costs can benefit small ventures.

7.7.4. Alliances

Alliances with some of its suppliers, distributors or customers can allow a small venture to integrate its operations either forward or backward. In addition, other service providers can be used as 'partners' in bigger contracts.

7.7.5. Environmental changes

Environmental issues include customers, suppliers, competitors and intermediaries from the market environment of the business venture. In addition are the political, economic, social, technological, global and physical factors from the macro environment that govern the market environment.

7.8. The life-cycle stage of the venture

The life-cycle stage of the venture is important to the choice of strategy.

- Incubation stage (pre-start-up) – during this stage there are few options. The venture is conceptual and the positioning that is envisaged is chosen.
- Start-up stage – focuses on acquiring resources (determined by the positioning and strategy chosen), gaining customer awareness and getting the product or service distributed.
- Growth stage – the focus changes towards market expansion, retaining existing customers and gaining new customers.
- Maturity stage – characterised by more and tougher competition, with pressure on the price and distribution elements.
- Decline stage – sales, profitability and future potential decrease rapidly.

During both the maturity and decline stages, it will be necessary for the business venture to make some strategic decisions. An opportunity analysis should be done (preferably at the late growth phase) to determine what options potentially exist for the business.

Understanding the impact of positioning on the choice of strategy brings insight to the entrepreneur, helping to anticipate, plan and execute a successful strategy and implement it.

The chosen strategy must be monitored and adapted accordingly to the changing environment.

Entrepreneurs can adapt many strategies used by large organisations. However, a key difference between the small business venture and larger organisations is the impact of limited resources and access to resources, which both restrict the choices available to small business ventures. Ideally the venture should first determine its strategy, and then apply its resources to support this strategy. Unfortunately, the limitations on resources often force the selection of a strategy based on available resources.



QUESTIONS FOR REFLECTION

ACTIVITY 7.1

READ THE EXTRACT AND ANSWER THE QUESTIONS THAT FOLLOW



A recent new national offering by KFC South Africa called KFC Delivery currently sees 42 stores delivering KFC in Gauteng, Eastern Cape, Western Cape, Kwazulu-Natal, Limpopo and the North West provinces. With its steady footprint growth, one can expect KFC to double its offering bringing to total 80 stores in its delivery stable by the end of 2012. The new business layer is part of an important long term growth strategy for KFC. The introduction of delivery will see customers have Finger Lickin Good KFC more often and more conveniently as well as increase employment opportunities as more staff members, such as drivers, are employed to deliver within local areas. “The motivation for not outsourcing the delivery portion of the business was a simple one. We want to ensure a true KFC experience by directly delivering food and by personally being able to control the quality of the food we deliver to our customers,” says Keith Warren Managing Director of KFC Africa. With each order freshly prepared and transported in heated bag technology that is able to maintain temperatures greater than 60 degrees for the short period it takes to get to the customer, one can expect a hot serving of KFC. KFC Delivery branded vehicles can be seen either in the form of scooter motorbikes or cars. “KFC South Africa has taken learning’s and best practice from other global KFC markets within the Yum! network and customised the offering accordingly. We find that using scooter motorbikes, for example, are a lot easier than cars in highly built up areas. Some of the most creative delivery methods I have seen have come from KFC China, where the teams have equipped bicycles with baskets, to overcome the high volumes of traffic there to ensure quality standards,” concludes Warren. (Source: <http://www.kfc.co.za>)

- 7.1.1. Identify differences in strategic outlook between small businesses and large organisations.
- 7.1.2. Discuss the strategies available to entrepreneurial ventures.
- 7.1.3. Identify the company’s resources, processes and describe organisational objectives.
- 7.1.4. Demonstrate the ability to manage the company’s resources and processes to achieve organisational objectives.

ACTIVITY 7.2**READ THE EXTRACT AND ANSWER THE QUESTIONS THAT FOLLOW**

Pakco Pty Limited 1947 – 1980: The Pillay Brothers – Pakkiri Pakkiry Pillay and Soobramoney Pakkiry Pillay

The two Pillay brothers - Pakkiri Pakkiry Pillay (Senior) and Soobramoney Pakkiry Pillay (Junior) - founded Pakco. The history of Pakco reads like a



storybook success; right from its humble beginnings in 1942 to its current position, a South African market leader of manufactured spices and bottled pickles. The name Pakco was coined by joining the initials of the elder founder Pakkiri and Kaveri (his wife) and adding 'co' (company) to it. Pakco was, and still is, one of the prominent landmarks in Verulam.

The Pillay brothers were born and grew up in Clairwood, Durban. In 1942, whilst in their thirty's, the Pillay brothers experimented, creating different spices, pickles and chutneys in their kitchen. Samples were tasted and reviewed by neighbours, friends and relatives. They received overwhelming comments about their foods. Five years later, the Pillay's sold their home in Durban and moved with their young families to Verulam with the intention of buying land and building a spice and pickle factory on a plot in Garland Street in Temple Valley, Verulam. The Pillay brothers faced many challenges from the Verulam Town Board, which at that time did not agree to grant a licence for the building of the factory. This did not deter the Pillay brothers who took the matter to the Durban High Court and were successful in attaining the license. Pakco was officially opened in 1948.

On the completion of the factory, the operations started with packing of pickles and whole spices, which were roasted and then ground. Pakco Roasted Masala and Pakco Pickles became household names. Also manufactured, at a later stage, were syrups, squashes, jams, sweet coconut crunchies and peanut brittle, which sold very quickly.

At the heart of all Pakco recipes was the Production Director, Mr. S.P Pillay (Junior), whose creativity for cooking up new recipes was a recipe for success. Pakco boasted a very modern and fully equipped laboratory, which strengthened Pakco's research and development department as well as the close links with the South African Bureau of Standards, which conducted a daily inspection of the factory during production.

Each Pakco can carries a SABS mark – an indication that it is consistently manufactured in accordance with SABS standards. The factory, which covers 1800 square metres, was specially designed to provide a smooth workflow, from production to distribution, and the entire building met rigid hygiene specifications essential for a food company. In 1955 the Pillay brothers experimented with canned food, and pioneered South Africa's first pre-cooked canned curried foods. Some of the products included mutton breyani, mutton and kidney beans, and chicken breyani. Under the guidance of the Production Director, Mr. S. P. Pillay (Junior), the public's demand for Pakco products boomed and the business thrived. Simultaneously, Mr. P.P Pillay (Senior) travelled extensively to keep abreast with developments in the canned food trade internationally.

Marketing of Pakco products was a critical success factor in growing the business. Sales representatives were employed to take orders at the Durban morning market stalls, tearooms, shops and business houses. There was a huge demand for these products and as a result Pakco became very popular in a short space of time. Shortly thereafter, Mr. AR Naidoo was appointed as the Marketing Director who promoted Pakco products on a national and international level.

Pakco provided employment to hundreds of people in the Verulam and surrounding areas. Mr. P.P Pillay (Senior), Managing Director of the Company, grew the company from its humble beginnings of 20 employees. As the business grew, further investments were made in expanding Pakco's production capacity. This expansion also included further automation and improvements in the manufacturing process.

In 1961, at the Royal Agricultural Show in Pietermaritzburg, Pakco won a 'Gold Medal Certificate' for its Canned Mutton Breyani. Customers were in awe of the innovative creation leading to the product being a public favourite. Pakco products could be found on the shelves of a number of overseas food stores. Its popularity also resulted in its canned foods being served in-flight by international airlines. Pakco has undoubtedly excelled in the food industry having won many accolades locally, nationally and internationally.

Pakco was established during one of the most difficult and challenging times within the South African environment. The business developed during the Apartheid regime and as such the Pillay brothers faced a number of obstacles on their journey. There can be no doubt that despite all of these challenges, they were able to overcome these obstacles through their hard work, patience and determination to succeed.

It is apt that adorning the factory office wall hung a frame with words, which read, “Everyone has big ideas, but the one who masters the details can translate the idea into reality.” The Pillay brothers, in their 70’s retired from the business in December 1980.

(Researched by Mrs. Maggie Pillay- Achary for inclusion in a brochure on the History of Verulam 2016)

PAKCO ARE RENOWNED FOR THEIR DELIVERY OF FLAVOUR THROUGH THEIR FOOD-ENHANCING PRODUCT LINES

Writer Emily Jarvis

Project manager James Mitchell

As a world class food manufacturer with proudly South African roots, Pakco has been adding flavour and quality to consumers’ lives since 1948 and is a market leader in the manufacture of spices, condiments, instant meals and complementary products. The company manufactures 9 brands, represented in more than 10 categories in-store. Pakco’s family of brands is renowned for reliability, ease of use, and a well-loved, home cooked taste. Through ongoing research and product development, Pakco ensures that the latest international technology and trends are combined with local insights to keep products relevant and in high demand.

Pakco (Pty) Ltd. is wholly owned by Renaissance Brands (Pty) Ltd. Recently, after extensive negotiations, the Land Bank has joined as a 50% shareholder of Renaissance Brands (Pty) Ltd. The value in such a powerful banking partner is self-evident as Mr King cites: “There are benefits in having a big financial partner; this will facilitate rapid expansion, both organically and by acquisition.” Pakco is located in Durban, KwaZulu-Natal, which is home to one of Africa’s busiest ports and where founder, Pakkiri Pillay, bottled his first batch of spiced pickle over 60 years ago. The group manufactures packs and distributes staple, dry-packed, and tinned foods, both branded and private label.

BBBEE Standards

Pakco is committed to sustainable growth and development and the business meets South African Broad-Based Black Economic Empowerment (BBBEE) standards. As a community sensitive organisation, socio-economic development in line with national imperatives is a priority and the business is structured to assist previously disadvantaged groups and individuals while simultaneously improving its economic viability.

South African Markets

All four manufacturing facilities were either rebuilt or refurbished in 2008 and 2009, resulting in a globally competitive manufacturing operation, certified by the South African Department of Health and accredited by FSSC to global food safety standards. Pakco currently has an established market in the SADC (Southern African Development Community) region, and is in the process of moving into Eastern and Western Africa. More recently the company has launched a global strategy starting in the Gulf and parts of Europe. This has been enabled by the achievement of global food safety accreditation.

The South African market is not growing at a rate that is comfortable. There is a trend towards convenience foods on one end, but also towards cost savings and commoditisation on the other. “Due to the change in lifestyle, people are searching for convenience, while at the same time looking for something that is affordable. Consumers tend to buy in bulk at the end of the month, to enjoy the discounts associated with this, but are looking to purchase smaller product sizes during the month, as this allows the consumer to buy products they enjoy, at a price that they can afford. Catering to these needs of the consumer is imperative to our success,” King affirms.

Challenges

In the sophisticated and highly competitive SA FMCG Food Industry expansion is a challenge, hence Pakco’s move into the African and global markets. The global recession has put a lot of pressure on the retail industry in general, both in terms of sales and margins. In South Africa, global food safety has gained momentum over the last 5 – 10 years and has driven the smaller players out of the market. This has opened up opportunities.

Voted Number one Sauce Choice in SA

Pakco scooped ‘Product of the Year’, one of the FMCG industry’s most prestigious recognitions, in the 2014 Product of the Year Awards for Pakco Sauces; voted the country’s number one sauce choice by South African consumers. Product of the Year is the world’s largest consumer-voted award for product innovation. Established in France 25 years ago, Product of the Year currently operates in 28 countries. In South Africa, the Product of the Year seal is backed by the votes of 5000 consumers and has a significant influence in assisting future customers in their purchase decisions.

“For manufacturers of the winning products, the award is a powerful marketing message, proven to increase product trial, awareness, distribution and sales,” explains Mr King. Pakco has launched a number of successful new products already this year, including extensions to their Curry Made Easy cook-in sauce, Bisto cook in sauce variants, a Bisto canister as well as an extension to Southern Coatings in the form of Southern Crumbs.

The Glamorous Side to the Food Industry

With the rise of popular television shows such as MasterChef South Africa, Come Dine with Me and Top Chef, there is now a major trend in the food industry. This has encouraged business because cooking has now become part of the entertainment, whereas before, it was just the finished meal that provided entertainment. King explains how Pakco is benefitting from this trend: “Pakco creates spices and ingredients that allow people to become master chefs in their own kitchen. In addition to this, there is a long standing trend that has moved the Western world to a stronger taste profile, which is evident in the UK, as tikka chicken has over taken fish and chips as the number one selling fast food option.” This puts Pakco in an advantageous position as this highlights spices and products that Pakco is most well known for, and more and more people want to try these types of dishes.

Secret Recipe to Success

Pakco is the only pickle manufacturer that uses a natural fermentation process in making its pickles; it is why they taste so much better than any other product on the market. “The recipes are decades old and we do not want to change this, as we want to maintain the high standards of quality our consumers have come to know and trust,” remarks King. “We’ve maintained recipes using real vegetables cooked/ fermented in the traditional ways,” King emphasis. With a plan to move into Africa, The Gulf and Europe, as well as continually offer new and innovative products to their consumers, Pakco remain at the top of the flavouring game.

Market Penetration

Pakco is well equipped to produce products catering to the specific needs and tastes of different regions and cultures, providing unique flavour experiences while maintaining excellent quality. Pakco products are synonymous with quality and value in Southern Africa and the business has excellent relationships in the FMCG industry, built on more than 60 years as a key player in local markets.

The Pakco range is supported in both manufacture and distribution sectors by all major catering, hospitality and food service providers. The company boasts 100% market penetration in South Africa and its products are stocked in all major retailers, wholesalers, and independent stores nationwide. The footprint has broadened and now features 95% market penetration in the SADC region, with a high level of interest being expressed throughout Africa and as far afield as Australia, Europe, USA and Canada. A dedicated team focuses on the development of export opportunities, business to business expansions and unlocking new markets. Connecting customers with Pakco products efficiently, timeously and cost-effectively is of the utmost importance. Distribution is a vital component of the FMCG industry and is inseparable from Pakco's success. The organisation has selected key industry players and developed close partnerships to ensure that more than 20 000 cases reach SADC warehouses each week. TFD Network Africa, Pakco's Southern African partner of choice, has warehouses in strategic locations around South Africa and a network of agents for distribution to other countries. To ensure stock availability, Pakco also delivers directly ex-factory to customers who purchase full container loads.

Land, Sea and Air

Pakco's vast distribution network uses road freight extensively in transporting goods to SADC regions. PAKCO is located within 30 minutes of both the King Shaka International Airport and the Durban Harbour, one of Africa's largest ports.

World class manufacturing

The Pakco plant boasts four state-of-the-art factory facilities. The plant currently operates at 100% single shift capacity, which can be doubled without further capex requirements. Pakco has the infrastructure, capacity and manpower to produce additional output for increased orders and new product lines, which opens up opportunities to develop strategic partnerships and licensing agreements that optimise the plant's potential.

PAKCO's Much Loved Family of Brands

There are decades of heritage and tradition in each of the brands, with strong roots deeply embedded in South African food culture. For over 60 years, the brands have been trusted to deliver unique tastes and flavours adding that 'special something' to mealtimes. From Indian curries to Traditional African sishebos, from English Sunday roasts to American style chicken, from starters to main meals to desserts.....Pakco has a flavour to suit every palate!

Recognition: 2013 ECR House & Garden Show Gold Award

Pakco was presented with a Gold Award for its stand display at the East Coast Radio & Garden Show in 2013. Exhibitors were judged on their displays, crowd interaction and popularity of the products sampled.

Pakco was a finalist in the 2013 Gold Pack Awards for the new packaging on its range of sauces.

The need for a packaging update was identified and new designs were inspired by the sauces' unique flavours, their delicate blend of spices, quality ingredients, and Pakco's tradition of quality. The result was a fresh, new "Authentically Indian" look and feel that looks as good as its contents taste, with square bottles and vibrant colours that are very much on-trend.

7.2.1. Identify Pakco's resources and processes

7.2.2. Isolate Pakco's organisational objectives.

7.2.3. Identify differences in strategic outlook between small businesses and large organisations by comparing Pakco with other organisations.

7.2.4. Discuss the strategies that were and still are available to Pakco as an entrepreneurial venture.

7.2.5. Demonstrate the ability of Pakco to manage its resources and processes to achieve organisational objectives.

CHAPTER 8 COMPETITIVE ADVANTAGE

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding how the integration of entrepreneurial processes enhances organisational performance. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Discuss the process of opportunity identification.
2. Describe the gathering of resources.
3. Discuss the establishment and management of ventures in achieving competitive advantage.



ESSENTIAL READING

Learners are required to read **ALL** of the textbook chapters listed below.

Venter, Urban and Rwigema. (2011) Entrepreneurship: Theory in Practice Second edition. Oxford. Cape Town Chapter Five

Van Aardt I, Bezuidenhout S, Bendeman H, Booysen K, Clarence W, Massyn C, Moos, Naidoo P, Swanepoel E, Van Aardt C (2014) Entrepreneurship and New Venture Management Fifth edition. Oxford. Cape Town Chapter Four

8.1. Introduction

The entrepreneur must be able to demonstrate a broad understanding how the integration of entrepreneurial processes enhances organisational performance. This may be achieved through the mastery being able to understand the process of opportunity identification, by being able to comprehend the gathering of resources and understanding the establishment and management of ventures in achieving organisational objectives.

8.2. Opportunity identification: Finding the Right Opportunity

Greg Fisher says that finding the right entrepreneurial opportunity depends on two important questions to ask: Is there a gap in the market? And am I the right person to fill the gap?

8.2.1. Market demand

The starting point for sourcing an opportunity is to look for a gap in a market. By becoming aware of people's under-served needs, one can develop an opportunity-oriented mindset. In order to foster this mindset, it is useful to engage in these practices:

- Observe – look for people who are under-served
- Write – keep an “ideas” notebook; write down business thoughts and ideas, reflect on them, eliminate bad ideas, link ideas with potential and build on good ideas
- Discuss – engage in exploratory chats with other people.
- Explore – explore trends and concepts

Effectively combining these practices will provide a diverse set of ideas which must be refined and researched. The research should attempt to gauge:

- The size of the market – how big is the market and is there room for another competitor?
- The likely competitors in the market – who are the competitors and how is the idea different from what they do?
- Is it possible to reach the customer? – how to get to the customer to sell and distribute the product or service.

This quick market research will indicate whether or not there is a gap in the market.

8.2.2. Passion

Building a business around an activity or product about which you are passionate can give a huge advantage. Passion increases the ability and confidence to sell it to others. Passion also makes it easier to endure the tough times of building a business.

8.2.3. Skills

Using unique skills that have developed during one's lifetime can give a competitive advantage in setting up a business.

8.2.4. Resources

As ideas are reviewed, consideration must be given to the available resources that will provide a head start when implementing the idea. Effective entrepreneurs leverage the opportunities that arise from the resources they have access to.

(Source: ENTREPRENEUR MAGAZINE JUNE 2006 ISSUE)

8.3. Opportunity identification

One way to identify opportunity is to know how existing entrepreneurs identified the opportunity and set up their enterprises. An investigation into the historical experiences of small enterprises in India, in this regard reveals some interesting factors. The entrepreneurs selected their products or projects based on:

- Their own or partners' past experience in that business line;
- The government's promotional schemes and facilities offered to run some specific business enterprises;
- The high profitability of products; which indicate increasing demand for them in the market;
- The availability of inputs like raw materials, labour, etc. at cheaper rates;
- The expansion or diversification plans of their own or any other ongoing business known to them;
- The products reserved for small-scale units or certain locations.

After having gained some idea on how the existing entrepreneurs selected products/projects, the intending entrepreneur can find a way out of the tangle of which opportunity/product/project to select to finally pursue as one's business enterprise.

One of the ways employed by most of the intending entrepreneurs to select a suitable product/project is to firstly generate ideas about a few products/ projects. Accordingly, what follows next is a discussion idea generation about products.

8.4. Idea Generation

In a sense, opportunity identification and selection are akin to, what is termed, 'new product development.'

8.4.1. Sources of Ideas

Product or opportunity identification and selection process starts with the generation of ideas, or say, ideas about some opportunities or products are generated in the first instance. The ideas about opportunities or products that the entrepreneur can consider for selecting the most promising one to be pursued by him/her as an enterprise, can be generated or discovered from various sources- both internal and external. These may include:

- Knowledge of potential customer needs,
- Watching emerging trends in demands for certain products,
- Scope for producing substitute product,
- Going through certain professional magazines catering to specific interests like electronics, computers, etc.
- Success stories of known entrepreneurs or friends or relatives,
- Making visits to trade fairs and exhibitions displaying new products and services,
- Meeting with the Government agencies,
- Ideas given by the knowledgeable persons,
- Knowledge about the Government policy, concessions and incentives, list of items reserved for exclusive manufacture in small-scale sector,
- A new product introduced by the competitor, and
- One's market insights through observation.

In nutshell, a prospective entrepreneur can get ideas for establishing his/ her enterprise from various sources. These may include consumers, existing products and services presently on offer, distribution channels, the government officials, and research and development.

8.4.2. Consumers

No business enterprise can be thought of without consumers. Consumers demand for products and services to satisfy their wants. Also, consumers' wants in terms of preferences, tastes and liking keep on changing. Hence, an entrepreneur needs to know what the consumers actually want so that he/she can offer the product or service accordingly.

Consumers' wants can be known through their feedback about the products and services they have been using and would want to use in future.

8.4.3. Existing Products and Services

One way to have an enterprise idea may be to monitor the existing products and services already available in the market and make a competitive analysis of them to identify their shortcomings and then, based on it, decide what and how a better product and service can be offered to the consumers. Many enterprises are established mainly to offer better products and services over the existing ones.

8.4.4. Distribution Channels

Distribution channels called, market intermediaries, also serves as a very effective source for new ideas for entrepreneurs. The reason is that they ultimately deal with the ultimate consumers and, hence, better know the consumers' wants. As such, the channel members such as wholesalers and retailers can provide ideas for new product development and modification in the existing product. For example, an entrepreneur came to know from a salesman in a departmental store that the reason his hosiery was not selling was its dark shade while most of the young customers want hosiery with light shade.

The entrepreneur paid heed to this feedback and accordingly changed the shade of his hosiery to light shade. The entrepreneur found his hosiery enjoying increasing demand just within a month.

8.4.5. Government

At times, the Government can also be a source of new product ideas in various ways. For example, government from time to time issues regulations on product production and consumption. Many a times, these regulations become excellent sources for new ideas for enterprise formation.

For example, government's regulations on ban on polythene bags have given new idea to manufacture jute bags for marketing convenience of the sellers and buyers. A prospective entrepreneur can also get enterprise idea from the publications of patents available for license or sale. Besides, there are some governmental agencies that assist entrepreneurs in obtaining specific product information. Such information can also become basis for enterprise formation.

8.4.6. Research and Development

The last but no means the least source of new ideas is research and development (R&D) activity. R&D can be carried out in-house or outside the organisation. R&D activity suggests what and how a new or modified product can be produced to meet the customers' requirements. Available evidences indicate that many new product development, or say, new enterprise establishments have been the outcome of R&D activity. For example, one research scientist in a Fortune 500 company developed a new plastic resin that became the basis of a new product, a plastic molded modular cup pallet. Most of the product diversifications have stemmed from the organisation's R&D activity.

8.4.7. Methods of Generating Ideas

As seen above, there could be variety of sources available to generate ideas for enterprise formation. But, even after generating ideas to convert these into enterprise is still a problem for the prospective entrepreneur. The reason is not difficult to seek. This involves a process including first generating the ideas and then scrutinising of the ideas generated to come up with an idea to serve as the basis for a new enterprise formation. The entrepreneur can use several methods to generate new ideas. However, the most commonly used methods of generating ideas are: focus groups, brainstorming, and problem inventory analysis.

8.4.8. Focus Groups

A group called 'focus group' consisting of 6-12 members belonging to various socio-economic backgrounds are formed to focus on some particular matter like new product idea. The focus group is facilitated by a moderator to have an open in-depth discussion. The mode of the discussion of the group can be in either a directive or a non-directive manner. The comment from other members is supplied with an objective to stimulate group discussion and conceptualise and develop new product idea to meet the market requirement. While focusing on particular matter, the focus group not only generates new ideas, but screens the ideas also to come up with the most excellent idea to be pursued as a venture.

8.4.9. Brainstorming

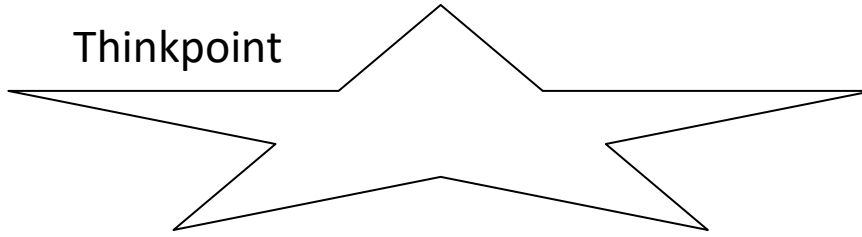
Brainstorming technique was originally adopted by Alex Osborn in 1938 in an American Company for encouraging creative thinking in groups of six to eight people. According to Osborn, brainstorming means using the brain to storm the issue/problem. Brainstorming ultimately boils down to generate a number of ideas to be considered for the dealing with the issue/problem. However, brainstorming exercise to be effective needs to follow a modus operandi involving four basic guidelines:

- Generate as many ideas as possible.
- Be creative, freewheeling, and imaginative.
- Build upon piggyback, extend, or combine earlier ideas.
- Withhold criticism of others' ideas.

There are two principles that underlie brainstorming. One is differed judgment, by which all ideas are encouraged without criticism and evaluation. The second principle is that quantity breeds quality. The brainstorming session to be effective needs to work like a fun, free from any type of compulsions and pressures.

Each member needs to have willingness and capacity to listen to others' thoughts, to use these thoughts as a stimulus to spark new ideas of their own, and then feel free to express them. As such, efforts are made to keep the brainstorming session free from any sort of dominance and obstruction derailing and inhibiting discussion to proceed in a desired manner to serve its purpose. A normal brainstorming session lasts for from ten minutes to one hour and does not require much preparation.

Thinkpoint



Read the article below and report on how start-up entrepreneurship ventures can become successful.

The state of start-up entrepreneurship for Africa in the 21st century

7 April 2016 by Wendy Van Schalkwyk

The market recession of 2007 created serious challenges by insufficiently providing jobs for people entering and leaving the formal job market due to retrenchments and slow market growth. While Africa's rate of growth has outperformed the global rate over the last decade, growth remains insufficient to provide jobs. The African Economic Outlook (2015) estimates 200 million people between the ages of 15 and 24 in Africa. This is the youngest population in the world and population growth remains rapid. The number of young people in Africa will double by 2045 and in 2050, 70% of the world's population will come from Africa. Between 2000 and 2008, Africa's working age population (15-64 years) grew from 443 million to 550 million, an increase of 25%. Left unattended, this will have serious economic and political repercussions, potentially resulting in large scale civil unrest and potential wars.

A McKinsey and Company Report (2011) provides insights into the growing demand for entrepreneurship to drive the global economy. With 12% of working age population engaged in early stage development of entrepreneurship and SME's accounting for 52% of the Global Domestic Product (GDP), the outlook for entrepreneurship looks positive, but statistics reveal that 90% of start-up entrepreneurs fail within the first two - three years of business mainly due to a poor mind-set, lack of effective business and funding models.

So how can government support the growth and development of start-up entrepreneurs?

McKinsey's highlights that the root cause lies in the early stage development of SMME's, how they are enabled, created and sustained through their business lifecycle. Their report indicates the various factors impacting the entrepreneur and their success.

While the definition of entrepreneurship has changed significantly since it being defined in the 16th century, the purpose for entrepreneurship remains consistent, presenting the economic motivation and value creation drivers for entrepreneurs. Respected global strategy academic authors agree that start-up entrepreneurship is critical to national economies as it contributes to job creation, productivity and economic growth. Interestingly, Chakravorti (2015) states while the mature world and business struggles through recession and recovery, 75% of the growth of global output will come from the emerging markets, pointing to nibble, fast paced and agile start-up entrepreneurs who can develop bottom up strategies and emerge as winners overnight.

Six centuries later, entrepreneurship has become a global phenomenon, spanning micro-entrepreneurs to visionary individuals creating global companies in less than ten years. The Global Entrepreneurial Monitor, GEM (2006) which tracks the Total Early Stage Entrepreneurial Activity (TEA) reveals the average rate (per 100) adults engaged in business start-ups is 9.43%. Interestingly, the average increases when developing countries are grouped together and includes the countries of Peru (40.15%), the Philippines (44%), Thailand (15.20%), Brazil (11.65%), India (10.42%) and Chile (9.14%). Locally, by comparison, South Africa rated a mere average of 5.29%. Eight years later in 2014, the Total Early Stage Entrepreneurial activity statistics have shown positive increases in both developed and developing countries.

Factors for entrepreneurial start-up success

Forbes Online, January 2015, points to successful factors for start-up entrepreneurs and statistics reveal that globally only a mere 10% of start-up entrepreneurs succeed and those that do include the following factors:

1. The supply of market relevant products and services
2. Good leadership
3. Market pull
4. Team tenacity

Similarly, The Allan Gray Orbis Foundation (2014) commented on the 5th Global Economic Symposium (GES), in Morocco, themed “Harnessing the Power of Technology for Innovation and Entrepreneurship” that for entrepreneurship to succeed start-up entrepreneurs must –

1. Prove their business concept as soon as possible
2. Build reputation and credibility fast
3. Work on securing customers as soon as possible

Interestingly, this is contrary to the Global Economic Monitor (2014) which focuses more on business and finance models and leadership, revealing the levels of complexity, varied perspectives and opinions on what exactly constitutes the factors for start-up success.

On closer inspection, van Schalkwyk reveals that they are in fact saying the same things but in different form. 'It's about semantics' she says 'and building bridges of understanding and communication in the simplest form in order to share the wisdom and valuable insights with start-up entrepreneurs, as complexity can be seen as simple to some, simplicity can be seen as complex to others. Building a culture of good, able and responsible leaders, with good ethics and compassion to influence and achieve a common vision, goal and understanding between stakeholders is becoming more and more critical to motivating, stimulating and mobilising the change and actions needed to muster positive economic growth. In the 21st Century entrepreneurs must therefore become positive key drivers for the value creation of a better world, which directly impacts and determines the society and environment in which we live and will operate in, with power to inform a new paradigm of existence.'

According to McKinsey (2011), the 21st century belongs to the entrepreneur and underpinned by three pillars of success i.e. their ecosystem (or market environment), financing and culture. Countries that outperform their peers in these three areas collectively will succeed in entrepreneurship. This explains why entrepreneurs in developed countries experience higher success.

Similarly, The Global Entrepreneurial Monitor (2014) cites a country's national economic framework as a factor for entrepreneurial success. It highlights that the success of entrepreneurship is directly linked to its local economic framework. It states three major motivating factors for entrepreneurship within countries and this is linked to the value drivers of the country's economy such as factor driven economies, efficiency driven economies and innovation driven economies. The GEM 2014 report advocates The Entrepreneurial Framework Conditions (EFC), playing a significant role in solving the challenges for entrepreneurs, but still requires the entrepreneur to do the right actions to achieve the right results, profits and outcomes, confirming that actions are key to growth, development and success.

The report shows how developed countries are set up for success while developing economies struggle with challenges and obstacles that hinder their growth and development. As an example of this is the fact that the South African government launched their first handbook for entrepreneurial incubators, sponsored by the United Nations Development Programme (UNDP), twenty years later when compared to developed economies.

For South Africa, the incubator support programme aims to assist SMME entrepreneurs in the start-up phase with support and services that will enable their growth and development, offering incentives for investment and support initiatives, but business models and methods are changing rapidly, fuelled by e-commerce and disruptive technology innovations.

According to respected academics, third world countries have caught up with first world countries on securing future trade agreements and protecting their markets. Initiatives such as BRICS (Brazil, Russia, India, China and South Africa) for developing countries are examples of such trade and market protection initiatives and real global alliances which influence purchasing and sales agreements between business and state. These powerful trade agreements will have a direct impact on entrepreneurship opportunities that will direct and leverage business trade partner agreements and growth into the future.

(www.entrepreneurship.co.za)

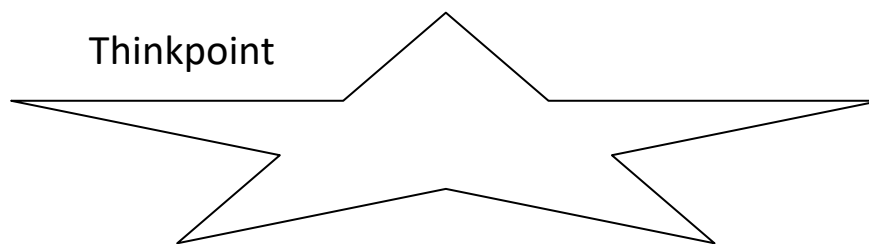
8.5. Illustrative sources of generation of business ideas

The following are some examples of sources of generation of business ideas.

- In India, service class people find it inconvenient to take milk pots with them to the office as well as they need to buy milk while coming back from the office in the evening, therefore to provide milk in sachets or tetra packs became a new business idea.
- Having difficulty in finding accommodation and transport facility while on visits to a new/tourist places may give one an idea to start a travel agency providing complete package of facilities to the visitors to these new / tourist places.
- Knowing that many people have hobbies or even develop a passion for gardening may give rise to an idea of setting up one's own nursery.

- An idea may be created to produce the local item as an souvenir.
- Recognising the increasing application of computers in offices as well as business organisations, irrespective of its size, may give an idea to set-up a computer-training centre.

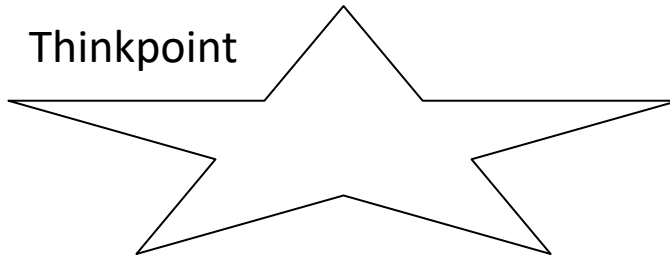
Once ideas have being generated following the above process, the next step comes is identification of above generated ideas as opportunities or product identification. After going through above process, one might have been able to generate some ideas that can be considered to be pursued as ones business enterprise.



8.6. Strategies for opportunity identification

1. Understand the role of creative thinking and behavior as entrepreneurs discover and refine entrepreneurial opportunities
2. Know the three strategies for innovation available to entrepreneurs and enhance the entrepreneurial mind-set necessary to recognise opportunities
3. Use the model of opportunity identification, including scanning the environment; discovering needs, problems, and opportunities in the industry and marketplace; and generating ideas for new products, services, technologies, and processes
4. Learn the sources of ideas and opportunities for new ventures, conduct the opportunity SEARCH process for idea generation and build an entrepreneurial culture that supports creativity and innovation.

Thinkpoint



Read the case study below and answer the questions that follow.

THE HONEY BUSINESS OPPORTUNITY

The Honey business opportunity has been embraced by thousands of people who have built their own successful and meaningful businesses. The major strength of Honey has always been the entrepreneurial qualities and enthusiasm of our Team Leaders and Sales Consultants (Distributors). People from all walks of life, who share values of commitment, focus and a desire to succeed, have been drawn to the Honey opportunity. Honey values and promotes a winning culture of self-actualisation, interdependence, integrity, excellence, sharing and of course, lots of fun!

Honey is great for people who do not necessarily have professional sales or business skills.

Why? The product sells itself.... Honey provides free training....Superb management support.

Excellent rewards & recognition....Honey is a zero risk business opportunity.

The Honey Business Opportunity has enhanced their lifestyles by enabling them to fulfil their personal goals. Having their own business has ensured financial freedom and flexibility in terms of family, personal career commitments and growth and development. (Source: honeyacc.co.za/)

1. The major strength of Honey has always been the entrepreneurial qualities and enthusiasm of our Team Leaders and Sales Consultants (Distributors). With reference to this statement, evaluate any three reasons why businesses such as HONEY survive and prosper.
2. The Honey Business Opportunity has enhanced their lifestyles by enabling them to fulfil their personal goals. Having their own business has ensured financial freedom and flexibility in terms of family, personal career commitments and growth and development. With reference to this statement, critically discuss the challenges facing HONEY as a small business.



QUESTIONS FOR REFLECTION

ACTIVITY 8.1

Read the case study and answer the questions that follow.

Know your own True North

At 36 Carlo Gonzaga is head of a rapidly expanding franchise group that promises to become one of the giants of the sector. Taste Holdings, consists of 125 Scooters pizza outlets, 70 Maxi's and 80 NWJ stores. In 2007 Taste Holdings was listed on the AltX. And Maxi's won franchisor of the year award in 2010. Carlo Gonzaga, CEO of Taste Holdings, does not believe that trying to build the biggest company of its kind is the wisest goal. "Size can be dangerous." He says, "Our core aim must always be that our franchisees must always be profitable."

Carlo sees his responsibilities as going far beyond his franchisees. "If we are remembered at all, I hope it will be for the opportunities we gave people to change their lives. That applies fundamentally to our franchisees, but also to their staff, suppliers, shareholders, stakeholders and investors.

To Gonzaga, there are two fundamental qualities a business leader must possess:

He must have great strategic clarity so he knows where he is taking his business.

He must also have clear and unambiguous values.

Especially since our listing, how easy it is to stray into grey moral areas. If I started accepting gifts from suppliers, I could hardly be surprised to find that my managers were doing the same.

Unless you know your own true north, you may lead your company down a path to long term disaster. The group's strategy is to become a diversified franchise holding company and expand their portfolio of brands; using the skills they have developed to grow their brands. The implementation of this strategy has led to the acquisition of the Natal Wholesalers Jewelers (NWJ) chain, a move that many in the sector felt was a miscalculation.

“What do the Gonzaga’s think they know about jewellery?” was the question that was being in the media and by opposition businesses. Strangely, it was the same question that was being asked when they acquired Maxi’s: “what do they know about sit down restaurants?” Gonzaga contends: “the point is that the challenges facing all our brands are the same. The consumers are similar, the systems used are similar and all three brands fall into a common strategy.” He says, “So often people seem to feel that if something doesn’t fit into an existing box it must be wrong.”

The Taste Holdings story started with pizza. Scooters Pizza was the original brand and is comfortably the group’s biggest. Then Taste Holdings came into existence when Maxi’s was acquired. But it was back in 1996, before Scooters Pizza had been thought of, that Gonzaga’s parents bought a Debonairs Pizza outlet. He was in university at that time but worked in the business whenever he got the chance- and loved it. It was as a franchise that he had his first lessons in managing people. By the time they sold four years later, they had four outlets and were employing 60 people. The young Carlo, who was only 26 years old at the time had a 25% stake in the business, had profited to the tune of R700 000 and was ready to strike out on his own. His period as a franchisee was not his first step as an entrepreneur. At university, while studying for a law degree, he was given the student fund raising portfolio. His approach was unusual by any standards.

He created a bar in the law faculty that sold drinks to both students and faculty members. It even had an intercom system from the lecture hall to the bar, so that students could sit in the bar and follow the lecture from there. He gave it the suitably legalistic name, “The Side Bar”. Carlo freely admits he has profited from the knowledge of many wise people. The first person I

hired was wrong for the job and I paid him twice what I should have. It was all part of my business education. To Gonzaga humility is a vital aspect of leadership. The entrepreneur who thinks he knows it all is a liability to himself and his business. When he started Scooters Pizza, he looked for an alliance partner and found it in Nando’s. After just two meetings, Nando’s liked what we had put in place and decided to take a stake in the new company. The Nando’s model has had a formative influence on the company and one we always tried to replicate.”

With the formation of Taste Holdings and the added diversification that came first with Maxi’s and then NWJ, Gonzaga felt compelled to step aside consciously from operating activities. “I had to change my thinking” he says “In Scooters where we began with one single store, I was involved in every decision of any importance. My role in the company has had to change

radically.” For years now he has had directors in HR, finance and other key areas. “In the early days of the business I had to both lead the company and manage every detail. Now I feel that the most important role I can fill is that of the group’s leader. I have the time now to articulate our vision and mission. And I am able to spend time working on our strategy. At Taste Holdings we know where we are going and we are going there as a team.” (Succeed: October 2010)

Questions:

- 8.1.1. Explain Carlo’s reasons for not wanting to accept gifts from suppliers? (2)
- 8.1.2. What does Carlo mean by, “unambiguous values? (3)
- 8.1.3. Discuss the significance of the title, “your own true north” (3)
- 8.1.4. A key Management teaching is “stick to your core competencies.” Explain the reasoning behind moving from fast foods, to restaurant dining and then jewelry. (5)
- 8.1.5. Identify some of the key lessons Carlo learned, whilst owning the Debonair’s franchise. How have these lessons impacted on him? (6)
- 8.1.6 What would you consider to be the key characteristics of an entrepreneur or leader that Carlo Gonzaga possesses? (6)

ARTICLE 8.2.

Read the article below and discuss the key factors of generation of business ideas and product identification.

Sir Richard Charles Nicholas Branson

Sir Richard Charles Nicholas Branson (born 18 July 1950) is an English businessman and investor. He is best known as the founder of Virgin Group, which comprises more than 400 companies.

At the age of sixteen his first business venture was a magazine called *Student*. In 1970, he set up a mail-order record business. In 1972, he opened a chain of record stores, Virgin Records, later known as Virgin Megastores. Branson's Virgin brand grew rapidly during the 1980s, as he set up Virgin Atlantic and expanded the Virgin Records music label.

According to the Forbes 2014 list of billionaires, Branson is the seventh richest citizen of the United Kingdom, with an estimated net worth of US\$4.9 billion.

Branson was born in Blackheath, London, the eldest of three children born to barrister Edward James Branson (1918–2011), and Eve Branson (born 1924), a former ballet dancer and air hostess. Branson has two younger sisters. His grandfather, the Right Honourable Sir George

Arthur Harwin Branson, was a judge of the High Court of Justice. Branson was educated at Scatcliffe School, a prep school in Berkshire, before briefly attending Cliff View House School in Sussex. Branson attended Stowe School, an independent school in Buckinghamshire until the age of sixteen. Branson has dyslexia and had poor academic performance as a student, and on his last day at school, his headmaster, Robert Drayson, told him he would either end up in prison or become a millionaire. Branson's parents were supportive of his endeavors from an early age.

Record business

Branson started his record business from a church where he ran *The Student* magazine. Branson interviewed several prominent personalities of the late 1960s for the magazine including Mick Jagger and R. D. Laing. Branson advertised popular records in *The Student* and it was an overnight success. Trading under the name "Virgin", he sold records for considerably less than the "High Street" outlets, especially the chain W. H. Smith. Branson once said, "There is no point in starting your own business unless you do it out of a sense of frustration." The name "Virgin" was suggested by one of Branson's early employees because they were all new at business. At the time, many products were sold under restrictive marketing agreements that limited discounting, despite efforts in the 1950s and 1960s to limit so-called resale price maintenance.

Branson eventually started a record shop in Oxford Street in London. In 1971, Branson was questioned in connection with the selling of records in Virgin stores that had been declared export stock. The matter was never brought before a court and Branson agreed to repay any unpaid tax and a fine. Branson's mother, Eve, re-mortgaged the family home to help pay the settlement.

Earning enough money from his record store, Branson in 1972 launched the record label Virgin Records with Nik Powell and bought a country estate north of Oxford, in which he installed a residential recording studio, The Manor Studio. He leased out studio time to fledgling artists, including multi-instrumentalist Mike Oldfield, whose debut album *Tubular Bells* (1973) was the first release for Virgin Records and became a chart-topping best-seller.

Virgin signed such controversial bands as the Sex Pistols, which other companies were reluctant to sign. It also won praise for exposing the public to such obscure avant-garde music as Faust and Can. Virgin Records also introduced Culture Club to the music world. In 1982, Virgin purchased the gay nightclub Heaven. In 1991, in a consortium with David Frost, Branson made an unsuccessful bid for three ITV franchisees under the CPV-TV name. The early 1980s

also saw his only attempt as a producer—on the novelty record, "Baa, Baa, Black Sheep", by Singing Sheep in association with Doug McLean and Grace McDonald. The recording was a series of sheep baa-ing along to a drum-machine-produced track and reached number 42 in the UK charts in 1982.

In 1992, to keep his airline company afloat, Branson sold the Virgin label to EMI for £500 million. Branson said that he wept when the sale was completed because the record business had been the very start of the Virgin Empire. In 1996 he created V2 Records to re-enter the music business, owning 5% himself.

Business ventures

Main article: Timeline of Richard Branson's business ventures

Branson formed Virgin Atlantic Airways in 1984, launched Virgin Mobile in 1999, and Virgin Blue in Australia (now named Virgin Australia) in 2000. He was ninth in the Sunday Times Rich List 2006, worth slightly more than £3 billion. Branson wrote in his autobiography of the decision to start an airline:

My interest in life comes from setting myself huge, apparently unachievable challenges and trying to rise above them ... from the perspective of wanting to live life to the full, I felt that I had to attempt it.

In 1993, Branson took what many saw as being one of his riskier business exploits by entering into the railway business. Virgin Trains won the franchises for the former Intercity West Coast and Cross-Country sectors of British Rail.

Virgin acquired European short-haul airline Euro Belgian Airlines in 1996 and renamed it Virgin Express. In 2006, the airline was merged with SN Brussels Airlines forming Brussels Airlines. It also started a national airline based in Nigeria, called Virgin Nigeria. Another airline, Virgin America, began flying out of San Francisco International Airport in August 2007. Branson has also developed a Virgin Cola brand and even a Virgin Vodka brand, which has not been a very successful enterprise. As a consequence of these lacklustre performers, the satirical British fortnightly magazine *Private Eye* has been critical of Branson and his companies (see *Private Eye* image caption)

A series of disputes in the early 1990s caused tension between Virgin Atlantic and British Airways, which viewed Virgin as an emerging competitor. Virgin subsequently accused British Airways of poaching its passengers, hacking its computers, and leaking stories to the press that portrayed Virgin negatively. After the so-called campaign of "dirty tricks", British Airways settled the case, giving £500,000 to Branson, a further £110,000 to his airline, and had to pay legal

fees of up to £3 million. Branson distributed his compensation (the so-called "BA bonus") among his staff.

On 25 September 2004, Branson announced the signing of a deal under which a new space tourism company, Virgin Galactic, will license the technology behind Spaceship One—funded by Microsoft co-founder Paul Allen and designed by legendary American aeronautical engineer and visionary Burt Rutan—to take paying passengers into sub-orbital space. Virgin Galactic (wholly owned by Virgin Group) plans to make flights available to the public with tickets priced at US\$200,000 using Scaled Composites White Knight Two. (www.google.com)

CHAPTER 9

THE NATURE OF FAMILY BUSINESS

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding of family businesses. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Define a family business
2. Explain the nature of a family business
3. Discuss the importance of family businesses
4. Distinguish between family and non-family business
5. Outline the complex roles and relationships in family businesses
6. Display insights into the challenges faced by family businesses
7. Understand the skills required to address these challenges
8. Explain the entrepreneurial outlook of family businesses
9. Understand what transgenerational entrepreneurship is.

Venter (2015:473) states that family businesses play a significant role in both the stability and health of the global economy. She contends that family businesses are the predominant way of doing business in South Africa.

A family business is commonly defined as one that has been started by a family member and has been passed, or is expected to be passed, to successive generations of the family, sometimes through marriage. Descendants of the original founder(s) will own and/or control the business and members of the family work, participate and benefit from the business. In this context, a family member is defined as anyone related to the family by birth or marriage or anyone related to the officers of the business.

A family business may also be defined as when at least 51% of the equity of a business is owned by a single family. Poza and Daugherty (2014:1) state that family businesses are ubiquitous. They consider family businesses to constitute the whole gamut of enterprises in which an entrepreneur or next-generation CEO and one or more family members strategically influence the firm. This influence is through their managerial or broad participation, their

ownership control, the strategic preferences of shareholders and the culture and values family shareholder impart to the enterprise.

Maas (in Nieman, Hough and Nieuwenhuizen, 2003:181) makes the point that a family business is not a normal business because of the involvement of family issues that are, by nature, more emotional. Maas defines a family business as one that is influenced by family ties in order to achieve the vision of the family over, potentially, several generations. Emerging from this definition are four general remarks:

- The family (or a part thereof) is actively involved in the business
- Family members have a definite input into the strategic direction of the business
- There is more than one family member involved in the business
- The intention is to continue the family business over time.

Burns (2007:415) offers three definitions of what constitutes a family business:

- An owner-managed enterprise with family members predominantly involved in its administration, operations and the determination of its destiny (Poutziouris, 1994)
- A company in which majority ownership or control lies in a single family and in which two or more family members are directly involved in the business (Rosenblatt *et al.*, 1985)
- A company in which 25% of the voting shares are controlled by the family (Nelton, 1986)

Timmons and Spinelli (2007:579) define the term family enterprising as the proactive and continuous search for opportunistic growth and contend that the outcome of family enterprising is transgenerational entrepreneurship and wealth creation.

Poza and Daugherty (2014:6) 'arrive' at a working definition of a family business as a synthesis of the following:

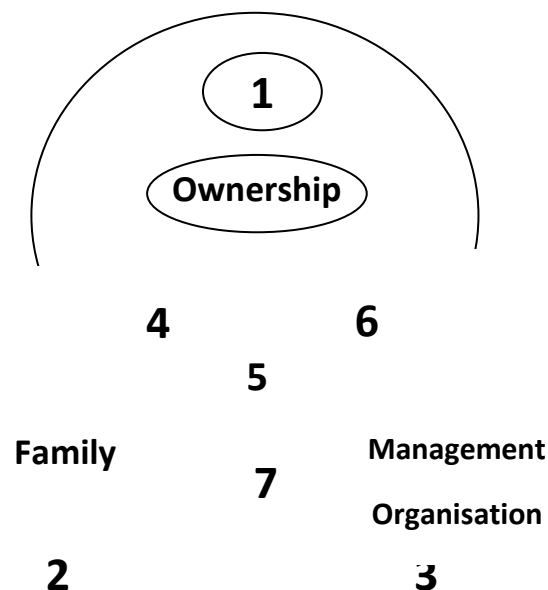
- Ownership control by two or more members of a family
- Strategic influence by family members on the management of an organisation, either by being active members of management, by serving as advisors or board members, or by being active shareholders.
- Concern for family relationships
- The dream or possibility of continuity across generations.

Poza and Daugherty (2014:70) refer to the following characteristics which define the 'essence of the distinctiveness of family businesses:

- The presence of the family
- The overlap of family, management and ownership
- The unique sources of competitive advantage derived from the interaction of family, management and ownership.
- The owner's dream of keeping the business in the family.
- The strategic influence of noneconomic family goals and values.

Systems Theory is the theoretical approach most often used in the study of family business. In this approach, the family business is modelled as comprising three overlapping, interacting and interdependent subsystems of family, management and ownership.

The Systems Theory model of family business can be illustrated as follows:

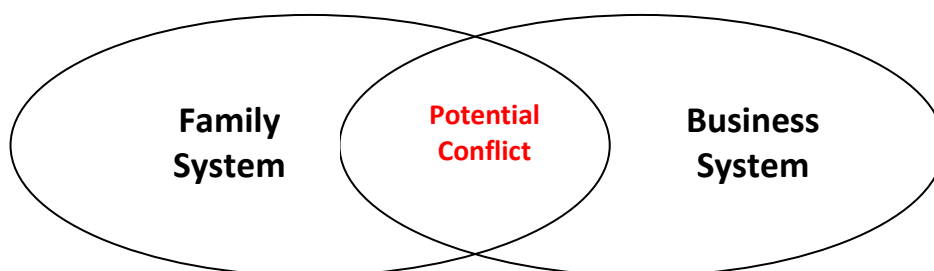


The groups identified in the model are:

1. Other owners
2. Family members
3. Managers and employees
4. Family owners'
5. Family owner-managers
6. Owner-managers
7. Family employees

Based on these subsystems, there can be a categorisation of family businesses based on their propensity to have a family-first, ownership-first or management-first perspective on issues. In family-first businesses, employment in the business is a birthright. The stereotype of nepotism arises as a result of suboptimisation of the family subsystem. In addition, benefits from the business to family members are often extensive. Management-first family businesses are likely to discourage family members from working in the business and/or require work experience outside the business as a prerequisite for employment. There is no automatic commitment to family-business continuity among management-first companies because the organisation is seen as a productive asset. In ownership-first family businesses, investment time horizons and perceived risk are the most significant issues. These businesses may have shorter time frames within which financial results are evaluated (Poza and Daugherty, 2014:11-13).

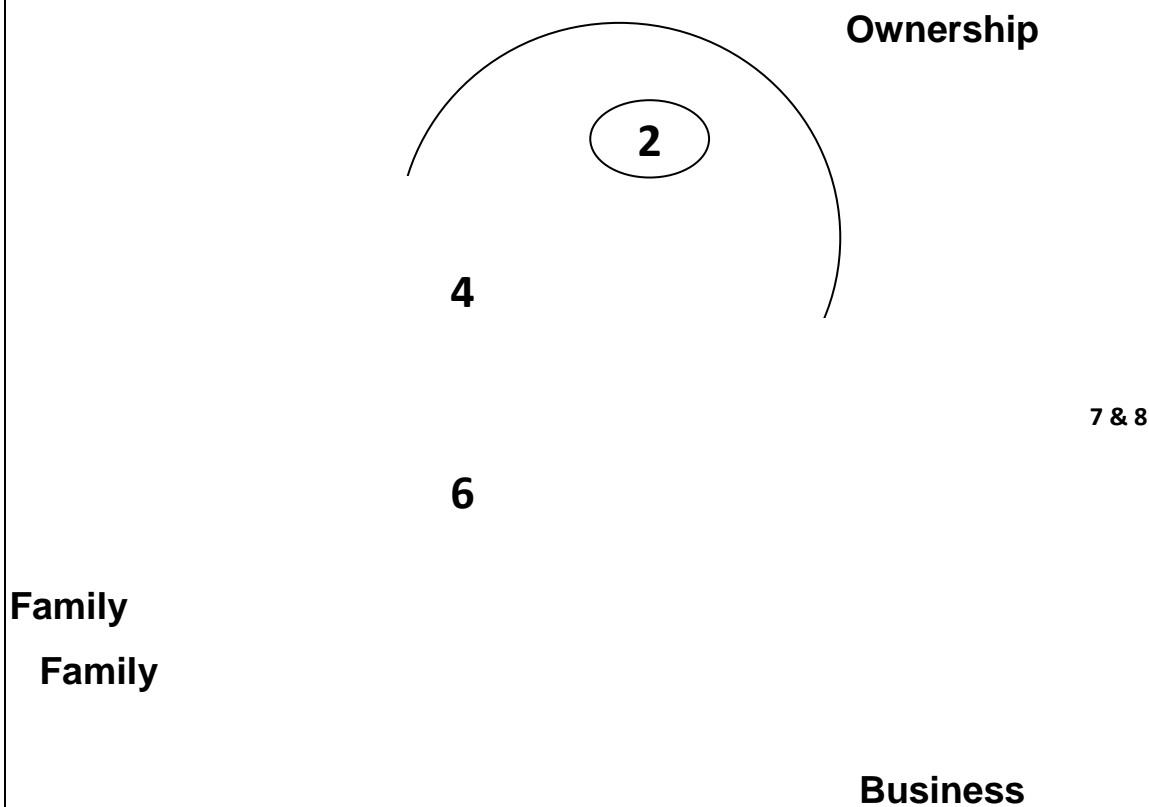
Nieman and Nieuwenhuizen (2014: 236) refer to two broad systems in family businesses: the family and the business:



Success in a family business can be ensured only if the two broad systems are balanced. If one system dominates the other, conflict can be expected, which could destroy the family business. These two subsystems can be further divide. The family system can comprise the family, family

by marriage, parents, brothers and sisters, and family inside and outside the business. The business system can consist of managers, owners, employees and external networks.

Nieman and Nieuwenhuizen (2014: 236) state that the two-system model can be expanded to give a more effective reflection of the complexity of a family business:



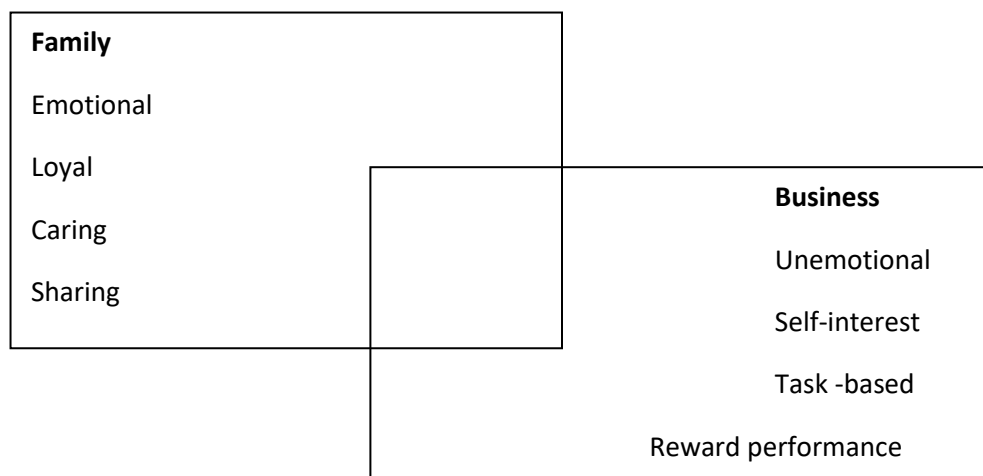
The different roles as outlined by Nieman and Nieuwenhuizen (2014: 237) are:

1. Family members
2. Non-family members
3. Non-family employees
4. Family shareholders
5. Non-family working owners
6. Working family members
- 7 & 8. Working family owners

This illustrates that role clarification is a critical activity within the family business as the above roles are quite diverse.

Poza and Daugherty (2014:15) contend that the competitive advantages inherent to family businesses can be best explained by the resource-based view of organisations. The resource-based view considers the unique, specific, complex, dynamic and intangible resources of an organisation, often referred to as competences embedded in the internal processes, human resources and other intangible assets that provide an organisation with competitive advantage. In a family business, one of these resources may be the overlapping owner and manager responsibilities. These can lead to advantages such as reduced administrative costs and speedier decision making. The owner-manager overlap may also enable longer time horizons for measuring company performance.

At the heart of the family business are its distinctive values and beliefs – its culture. Whilst family culture can be a tremendous asset for the business, it can also create the potential for conflict. The problem arises when there are differences between the family and business cultures. Families exist primarily to take care of and nurture family members, whereas businesses exist to profitably generate goods and services. The family culture is based on emotion emphasizing loyalty, caring and sharing. It is inward looking and lasts a lifetime. In contrast, business culture is unemotional, task-orientated and is based on self-interest. It is outward-looking, rewarding performance and penalizing lack of performance. Conflict between the two cultures is unlikely at start-up but, as the organization grows and time passes, the potential for conflict increases (Burns, 2007:416).



The unique resources that family businesses can utilise to create competitive advantages are:

- Overlapping responsibilities of owners and managers, along with smaller size that may enable quicker speed to market
- Concentrated ownership structure, which leads to higher overall productivity and longer term commitment to investments in people and innovation
- A focus on customer and market niches, which can result in higher returns on investments
- The desire to protect the family name and reputation, which may translate into high product/service quality, brand equity and higher returns on investment.
- The nature of the family-ownership-management interaction, family unity, and ownership commitment which support lower administrative costs, skills/knowledge transfer across generations, and agility in rapidly changing markets. (Poza and Daugherty, 2014:16)

Urban, Venter, Beder, Reddy, Oosthuizen and Venter (2015:483) outline the following advantages that are evident in family businesses:

- A unique atmosphere inside the business that creates a sense of belonging and high levels of caring and concern for individuals which may result in commitment and loyalty among the workforce.
- A longer-term view of the business may result in a different outlook on employees, customers, the community and other stakeholders and this can positively affect the quality of the product/service.
- The business draws strength from the shared history, identity and common language of the family. When key managers are relatives, their traditions, values and priorities emanate from a common source.
- Family businesses display flexibility and offer quick decision-making. This flexibility in time, work and money may lead to competitive advantage.
- The family's reputation and relationships with suppliers, customers and other stakeholders are often strong and value laden.
- The alignment of ownership and management results in benefits being realised by the business.
- Other advantages include trust, shared values,, shared vision, determination of family members in difficult times, opportunities for personal growth and advancement, job security and autonomy.
- Family businesses have greater independence in that they have no pressure from the stock market and less or no takeover risk (Venter *et al* 2015:484).

Venter et al (2015:481 – 482) provide the following table of the differences between family owned and managed businesses and non-family controlled businesses:

Family owned and managed	Not family-controlled
<ul style="list-style-type: none"> Family members in managerial positions have a lifetime and personal stake in the business 	<ul style="list-style-type: none"> The managers interest in the business is limited to the specifics of the employment contract
<ul style="list-style-type: none"> Family members in managerial positions may be with the business for their entire careers 	<ul style="list-style-type: none"> Managers seldom remain with one business for their entire career
<ul style="list-style-type: none"> Family members have an indefinite time horizon 	<ul style="list-style-type: none"> Managers have shorter time horizons
<ul style="list-style-type: none"> Failure of the business has dramatic career and personal and career implications for family members, especially those in senior positions 	<ul style="list-style-type: none"> Failure of the business has relatively less personal impact on managers
<ul style="list-style-type: none"> Likelihood of a family member in a managerial position being terminated is low 	<ul style="list-style-type: none"> Likelihood (or perception of likelihood) of a manager being terminated or his position eliminated is greater
<ul style="list-style-type: none"> Personal gain results from a sense of pride in the growth of the organisation, success, job creation and family wealth creation 	<ul style="list-style-type: none"> Personal gain results from advancement, promotion and increased compensation.
<ul style="list-style-type: none"> Organisational performance tends to be correlated with managerial compensation 	<ul style="list-style-type: none"> Organisational performance tends to be less directly correlated with what a particular manager earns
<ul style="list-style-type: none"> Decision making tends to be more centralised 	<ul style="list-style-type: none"> Decision making is often more participative and team-based.
<ul style="list-style-type: none"> Internal control systems tend to be more informal 	<ul style="list-style-type: none"> Internal control systems tend to be more formalised
<ul style="list-style-type: none"> Succession can be problematic and traumatic even if planned 	<ul style="list-style-type: none"> Succession can involve conflict and competition
<ul style="list-style-type: none"> Family member managers are accountable to self and family 	<ul style="list-style-type: none"> Managers are accountable to shareholders

Family owned and managed	Not family-controlled
<ul style="list-style-type: none"> Conflict tends to follow a dynamic pattern that is circular; a conflict within the family can impact on business decisions, which in turn influence family dynamics. 	<ul style="list-style-type: none"> Conflict tends to follow a more linear pattern, such that impacts are more traceable over time and isolated.
<ul style="list-style-type: none"> Non-family employees may perceive real limits to their upward mobility in the business 	<ul style="list-style-type: none"> Employees tend to have a greater sense of equal opportunity in terms of advancement
<ul style="list-style-type: none"> Family affairs directly affect the business affairs and vice versa. 	<ul style="list-style-type: none"> While personal lives of employees affect their job performance, the impact is likely to be more on the individual than the business

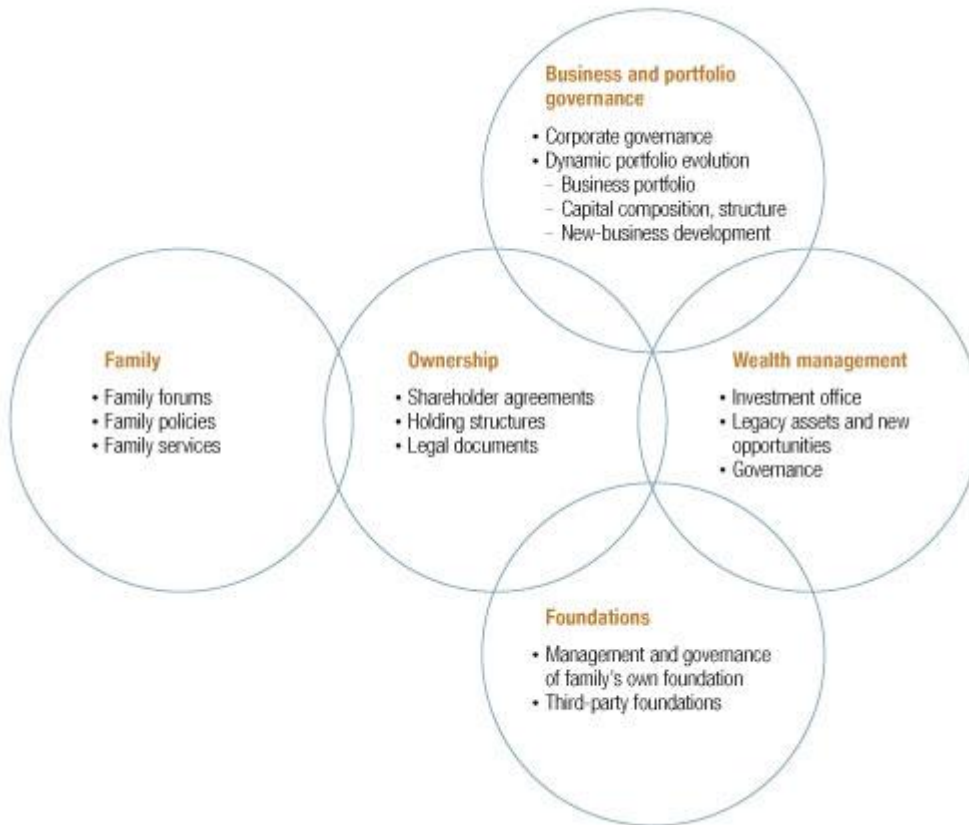
Research by Kachaner, Stalk and Bloch (2012) indicates that family-controlled companies surpass their peers because they focus on resilience and not short-term results. During economic booms, this approach leads them to forgo some opportunities (and hence do slightly worse than their counterparts), but it puts them in a position of strength during downturns, when they shine. The researchers identified seven specific ways in which family-run businesses build their resilience:

- They are frugal in good times and bad.
- They set a high bar for capital expenditures.
- They carry little debt.
- They acquire fewer (and smaller) companies.
- They are more diversified.
- They are more international.
- They retain talent better than their competitors do.

Caspar, Dias, and Elstrodt (2014) contend that as family businesses expand from their entrepreneurial beginnings, they face unique performance and governance challenges. The generations that follow the founder, for example, may insist on running the company even though they are not suited for the job. And as the number of family shareholders increases exponentially generation by generation, with few actually working in the business, the commitment to carry on as owners can't be taken for granted. Indeed, less than 30 percent of family businesses survive into the

third generation of family ownership. Those that do, however, tend to perform well over time compared with their corporate peers.

To be successful as both the company and the family grow, a family business must meet two intertwined challenges: achieving strong business performance and keeping the family committed to and capable of carrying on as the owner. Five dimensions of activity must work well and in synchrony: harmonious relations within the family and an understanding of how it should be involved with the business, an ownership structure that provides sufficient capital for growth while allowing the family to control key parts of the business, strong governance of the company and a dynamic business portfolio, professional management of the family's wealth, and charitable foundations to promote family values across generations. For a family business to be successful, five dimensions of activity must be working well and in synchrony. These five dimensions can be illustrated as follows:



(Caspar, Dias and Elstrodt, 2014)

If the systems of family businesses are not in harmony, then conflict might have a detrimental effect on the long term survival and growth of the business. Maas refers to the following in this regard:

- Only 30% of family businesses are successful into the second generation
- Only 10% of family businesses are successful into the third generation
- The average lifespan of a family business is 24 years (the time the founder-manager stays in business)
- Family businesses become less entrepreneurial when the family system dominates.

This is confirmed by Burns (2007:418) who cites Poutziouris and Chittenden(1996):

“Four out of five family businesses are managed by the first generation, which benefits from the entrepreneurial drive of the founder. However, less than one third of founders successfully pass ownership and management control of the family business to the second generation. Only 10 per cent of second generation family firms are transferred to third generation and less than 5 per cent ever reach beyond the third generation of family management”

Beyond the inherent complexity of family businesses, Lank (in Burley and Muzyka, 2000:194) examines the factors that explain the ‘fragility’ of family businesses. Lank provides two sets of factors.

Firstly, family businesses disappear for the same reasons as any corporation:

- The opportunity to sell out at an attractive price
- Inability to anticipate or adjust to changes in the market
- Insufficient investment in research and development (R & D)
- Inadequate control of costs
- Lack of access to affordable capital
- Poor management practices

Secondly, there are specific challenges faced by family enterprises:

- Failure to find capital for growth without diluting the family’s equity
- Inability to balance the family’s need for liquidity and the business’s need for cash
- Poor estate planning
- Lack of willingness of older generation to ‘let go’ of ownership and management power at appropriate time

- Inability to attract and retain competent and motivated family successors
- Unchecked sibling rivalries with no consensus on chosen successor
- Inability to attract and retain competent senior non-family professional managers
- Unmanaged conflict between the cultures of the family and the business.

(Lank in Burley and Muzyka, 2000:195)

According to Timmons and Spinelli (2007:562) family businesses do not always look and act entrepreneurially. “They can focus on serving local markets, sustaining the family’s lifestyle or providing jobs to family members. They are often conflicted due to family dynamics, constrained by nepotism or limited by their conservative risk profile.”

Family businesses can suffer from nepotism and a lack of professionalism. Managers who are not family members can feel alienated and isolated, believing that important decisions being made without their involvement, ‘over the kitchen table’ rather than in the office. Family conflict and politics can result in the business being neglected or business decisions being made for other than commercial reasons. It can also mean that the business is used as ‘milk cow’ for the family and loses its commercial edge (Burns, 2007:430).

Nieman and Nieuwenhuizen (2014:235) refer to the following problems in family businesses:

- Succession
- Keeping the business growing to address the needs of a larger family unit
- Lack of or poor strategic planning for the business and the family
- Lack of cohesion between the older and the younger generations
- Inability to ensure that talent is optimally developed in the family business
- Family members are appointed without real concern for expertise
- Family conflicts are not addressed.
- Members of the family may emigrate.

Venter et al (2015:485) present the following as the most important challenges and problems faced by family businesses:

- **Conflict** – the various factors that contribute to conflict in family businesses. These include family issues, fair compensation of family members, intra-family rivalry, inter-generational or sibling rivalry, determination of power, working versus non-working family members, personal issues such as leadership and recognition and filling the founder's shoes (succession). Emotional issues stem from the fact that the family system is emotion-based, while the business system is not. Conflict arising from the overlap of family, ownership and business systems is thus almost inevitable.
 - **Nepotism** – is a major disadvantage associated with family businesses. Nepotism can refer to tolerance of inept family members as managers, inequitable reward systems and difficulties in attracting professional management. In view of the fact that the family has the power to pursue its own objectives, these may not always align to acceptable business practice. As a consequence, a family member who is incompetent may be promoted or the salaries of family members may be established above market rates.
 - **Resistance to change** – family businesses can become tradition-bound and unwilling to change.
 - A paternalistic or **autocratic culture** is another potential issue of family businesses.
 - The hand-over of the family business from one generation to the next (**succession**) and a change of leadership are often fraught with difficulty.
 - **Ineffective communication** might be an important obstacle in family business.
 - **External issues** include increased international competition, an inability to adjust to market needs and wants, the negative impact of inheritance taxes and relationships with unions.
 - **Lack of effective supervision** among family members of themselves.
 - Poor estate planning with outdated wills
 - Lack of methods of governance
 - Inability to cope with the natural evolution of the business
 - Lack of vision and entrepreneurship
 - Inadequate control measures
- (Venter et al , 2015:486)

Poza and Daugherty (2014:35) state that multigenerational family businesses are fertile grounds for what they refer to as zero-sum dynamics. This is a result of the various ways in which behaviour can manifest itself. Zero-sum dynamics in relationships are characterised by exchanges in which one party's perceived gain is the other party's perceived loss. An example would be if family members in management are compensated at a fair market price, those not active in management assume that they will have to settle for lower dividends to accommodate these salaries. Another example may be if those active in management agree on a growth strategy, family members employed elsewhere may believe that, in settling for greater reinvestment in the business, they will have to accept reduced distributions to shareholders.

This 'us-and-them' zero-sum dynamic can be triggered by any perceived difference: male-female, active-inactive, richer-poorer, better educated-less educated, older-younger, blood relative-in law. Members of multigenerational families that operate on the assumption that another family member's gain is their loss are fertile ground for the development of family conflict (Poza and Daugherty, 2014:35).

Poza and Daugherty (2014:36) describe family systems theory as a theory of human behaviour that considers the family to be the building block of emotional life and uses systems thinking Poza and Daugherty (2014:35) to understand the complex interaction between individual members of the family unit. They describe the work of Bowen (1999) whose theory of family systems states, inter alia, that:

- A family is a system
- Family systems transfer rules, patterns, messages, or expectations about the behaviour of its members.
- Individuals and families can still learn behaviours and establish patterns different from those transferred by messages from the family of origin.
- Tension and distress tend to make individuals go back in patterns and behaviours learned from their family of origin.

Family systems theory aims to increase the understanding of family patterns and behaviours and of how those may help or hinder relationships between family members and between the family and the business. It assists in clarifying family messages and family values that influence members' actions, decisions and attitudes. The theory may shed light on the way a family communicates, plans, and resolves or denies conflict and helps business families address the problems, challenges, and opportunities they face.

Family-business owners, nonfamily management in family businesses, and service providers to family businesses all need to understand the complex matters and the emotional fields that impact on a family-owned or family-controlled business – whether the subject is management, strategy, successor selection, the location of new premises, acquisitions or the ability to adapt and compete (Poza and Daugherty, 2014:36)

As family businesses expand from their entrepreneurial beginnings, they face unique performance and governance challenges. The generations that follow the founder, for example, may insist on running the company even though they are not suited for the job. And as the number of family shareholders increases exponentially generation by generation, with few actually working in the business, the commitment to carry on as owners can't be taken for granted. Indeed, less than 30 percent of family businesses survive into the third generation of family ownership. (Caspar et al 2014).

A Price-Waterhouse-Coopers (PwC) survey in 2014 has shown that worldwide family businesses remain resilient despite the adverse economic environment they found themselves in post-recession. Significant challenges facing family businesses continue to focus around shortages of skills, the need to innovate, political instability, price competition and the containment of costs. The survey also reported that at a time when other businesses were struggling to create revenue, around 78% of South African family businesses reported growth in the previous 12 months, and 21% were aiming to grow quickly and aggressively over the next five years.

According to Timmons and Spinelli (2007:562) family businesses do not always look and act entrepreneurially. “They can focus on serving local markets, sustaining the family's lifestyle or providing jobs to family members. They are often conflicted due to family dynamics, constrained by nepotism or limited by their conservative risk profile.”

Family businesses can suffer from nepotism and a lack of professionalism. Managers who are not family members can feel alienated and isolated, believing that important decisions being made without their involvement, ‘over the kitchen table’ rather than in the office. Family conflict and politics can result in the business being neglected or business decisions being made for other than commercial reasons. It can also mean that the business is used as ‘milk cow’ for the family and loses its commercial edge (Burns, 2007:430).

However, Timmons and Spinelli argue that these realities must be contrasted with the fact that families comprise the dominant form of business organization worldwide, and provide more resources for the entrepreneurial economy than any other source (2007:562).

This is supported by Lank (in Burley and Muzyka, 2000:193) who says that “family enterprises are a – if not *the* – major contributor to the economic and social well-being of all capitalist economies”

Timmons and Spinelli (2007:567) present five different roles families play in the entrepreneurial process and distinguish between formal and informal application of these roles:

	Family-Influenced Startups	Family Corporate Venturing	Family Corporate Renewal	Family Private Cash	Family Investment Funds
Formal	An entrepreneur with no legacy assets/ existing business, but who formally launches a new business with family and/or intending to involve family	Family holding companies or businesses that have formal new venture creation and/or acquisition strategies, plans, departments, or capabilities	Family-controlled companies with a formal strategic growth plan for creating new streams of value through change in business strategy, model or structure	Startup money from family member or business with a formal written agreement for market-base ROI and/or repayment	Stand-alone professional or private equity or venture capital fund controlled by family and/or using family generated capital
Informal	An entrepreneur with no legacy assets/ existing business who happens to start a new business out of necessity and it begins to involve family members	Family holding companies or businesses that grow through more informal, intuitive, and opportunistic business startup and acquisitions	Intuitive growth initiatives that result in a change in business strategy, model or structure and new streams of value for the family company	Startup money or gift from family member or business with no agreement or conversation about ROI or repayment	Internal capital and/or funds used by family owners to invest in real estate, passive partnerships, or seed new businesses

The concept entrepreneurship has been defined according to several perspectives. Behavioural definitions of entrepreneurship are concerned with the roles that individuals play with reference to specific behaviours which sets them apart from others. Venter et al (2015:8) provide the definition by Schumpeter (1934) in this regard: “he entrepreneur is an innovator who carries out new combinations of economic development, which are new goods, a new method of production, new markets, new sources of raw materials, or a new organisational form. The entrepreneur is the co-ordinator of production and agent of change.”

Process definitions of entrepreneurship focus on how the entrepreneurial process is navigated and cover the different components in the process as it relates to individuals, businesses and society. Venter et al (2015:8) illustrate this by the definition of Hisrich and Peters (1998): “Entrepreneurship is the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence.”

Outcomes definitions of entrepreneurship focus on the results of entrepreneurship and this approach is shown in Gartner’s (1990) definition: “Entrepreneurship is the creation of new organisations (Venter et al, 2015:8).

Venter et al (2015:21) state that the process of pursuing a new venture is embodied in the entrepreneurial process. There are six components that are generic to this entrepreneurial process. Entrepreneurs:

- Locate business opportunities
- Accumulate resources
- Market products and services
- Produce products
- Build organisations
- Respond to government and society.

Starting a family business or joining a family business can be regarded as a route to entrepreneurship. Family businesses are deemed to be successful if they generate monetary value for both the family of the owner and the non-family stakeholders (Venter et al, 2015:498). In this regard the ability of family businesses to create continuity and growth across generations (transgeneration potential) is critical.

Entrepreneurial performance has been recognised as the most significant performance outcome of a family business (Habbershon et al, 2010 cited in Venter et al, 2015:498) as it is a driver of transgenerational potential and success.

One way to increase entrepreneurial performance and transgenerational potential in family businesses is through entrepreneurial orientation (EO) there are five dimensions to EO – autonomy, innovativeness, risk taking, proactiveness and aggressiveness.

Entrepreneurial performance in family businesses can also be as a result of familiness resource pools (Zellweger and Sieger, 2012 cited in Venter et al 2015:499). Familiness refers to the exclusive and unique capabilities and resources that family businesses contain as a result of the interaction between the family, its members and the business. Familiness provides family businesses with a competitive advantage which is difficult to imitate and promotes transgenerational success. Familiness resource pools comprise eight dimensions:

- Leadership
- Networks
- Capital
- Decision-making
- Culture
- Relationships
- Governance
- Knowledge

Spinelli and Adams (2012:525) utilise the phrase *family enterprising* to describe families who leverage the entrepreneurial process in the family context. Enterprising is the action of generating economic activity. Consistent with the definitions of entrepreneurship, families who are enterprising generate new economic activity and build long term value across generations. This outcome is referred to as transgenerational entrepreneurship and wealth creation.

The mind-set for enterprising includes the following characteristics:

- A proclivity for higher risk
- A desire to create new revenue streams
- A commitment to generating next-generation entrepreneurship
- A willingness to continually revisit the business model
- A willingness to leverage the business
- A desire to reinvest distribute
- A strategy to manage the family's wealth
- A commitment to innovation in business strategies and structures

(Spinelli and Adams, 2012:533)

Spinelli and Adams (2012:533) also list the characteristics of the entrepreneurial methods for enterprising:

- Allocating disproportionate resources to new business opportunities
- Systematically searching for and capturing new opportunities
- Seeking new opportunities beyond the core (legacy) business
- Creating a core competency in innovation
- Initiating competitive change
- Making changes in products, services, markets and customers
- Investing early to develop or adopt new technology and processes
- Institutionalising the entrepreneurial process in the organisation
- Having formal routines for gathering and disseminating market intelligence

The six dimensions for family enterprising are:

Leadership – entrepreneurial leaders create a sense of shared urgency in the organisation. A transgenerational commitment requires families to move beyond the ‘great leader’ model to the ‘great group’. The leader must empower the family and the organisation to be enterprising

Relationship – the family must have the relationship capital to sustain their transgenerational commitments. Relationship capital is the reserve of attributes such as trust, loyalty, positive feelings, goodwill, forgiveness, commitment and altruistic motives. Relationship capital is a necessary condition for transgenerational families.

Vision – a compelling vision is what creates the shared urgency for family enterprising and mobilising and energising people in the family business. Such a vision has to make sense in the light of tomorrow’s marketplace realities and has to describe how the family will collectively create new streams of wealth that will enable the family business to be multigenerational.

Strategy – the family must have an intentional strategy to enable them to find their competitive advantage as a family. This relates to a formal approach to developing strategies for cultivating and capturing business opportunities. The strategic thinking and planning should be based on determining how to exploit the unique family-based resources and capabilities to find advantages in enterprising. The strategy will also include things like finding synergies with current assets, leveraging networks of personal relationships, cultivating next-generation entrepreneurs and extending the power of the family reputation.

Governance – this relates to the structures and policies that stimulate change and growth in the family and the organisation. The lack of effective governance structures and policies creates ambiguity in families and constrains enterprising. In addition, when entrepreneurial processes are institutionalised through the governance structures and policies, growth and change activities are promoted.

Performance – families who are enterprising are market driven and seek to accelerate their wealth creation through their opportunistic entrepreneurial actions.

The performance of the business has to meet the requirements for transgenerational entrepreneurship and wealth creation. This requires clear financial benchmarks and information for assessing performance.

Spinelli and Adams (2012:541) conclude that for business families who would like to act more entrepreneurially and become intentional enterprising families that have multiple generations seeking higher-potential opportunities, four strategic shifts are required:

- From a business that has the goal of personal comfort for the owners to an enterprising family committed to transgenerational entrepreneurship and wealth creation
- From an intuitive family business that 'looks around' to see what new opportunities turn up to an intentional entrepreneurial process that actively seeks to generate and exploit new opportunities.
- From a senior-generation entrepreneur who does it to a successor-generation entrepreneurial process and team that create opportunities for others to do it.
- From a low potential entrepreneurial family that creates one-off businesses as they can to a higher-potential entrepreneurial family that mobilises resources to create transgenerational wealth.

CHAPTER 10 BUSINESS PLANS

Specific Learning Outcomes

The overall outcome for this section is that, on its completion, the learner should be able to demonstrate a broad understanding of business planning. This overall outcome will be achieved through the learner's mastery of the following specific outcomes, in that the learner will be able to:

1. Understand the importance of business plans
2. Discuss the purpose(s) of business plans
3. Describe the components of a business plan

10.1 Introduction

Every successful entrepreneur needs a Business Plan for a variety of different reasons. Some need the plan as a guide to achieve goals, short and long-term; others use the plan as a tool to raise funding. Whatever your reason the plan is your 'flight plan' which lets you and everyone in the firm know the direction in which you aim to go, the product or service you will offer to the market, the pricing, promotion and distribution strategies which will be employed and the expected financial returns.



(Africa Sunrise Guest House <https://encrypted-tbn2.gstatic.com/>)

Whatever the reason, the Business Plan if presented should be eye catching, of a high quality and it must gain the reader's attention immediately.

10.2 Reasons for Using a Business Plan

There are three main reasons for an entrepreneur to draw up a Business Plan

a) To obtain Funding

The Business Plan is a vital tool in approaching and securing financial sources. Any investor wants to know that the business is well planned and has a good strategy, and a sound financial basis. (Struwig, 2014:120) (Nieman and Nieuwenhuizen, 2009:104)

b) To serve an inside purpose

The Business Plan can be used internally to set company objectives, and focus efforts towards attaining them. Similarly it can be used in a controlling function as a feedback to measure actual versus forecasted results.

If the business is being sold, the Business Plan allows outsiders to form a clear picture of what the firm is doing and the 'road map' it is taking to achieve its desired results. (Struwig, 2014:120)

c) To be used as a tool to reduce risk

When the entrepreneur goes through the process of drawing up a detailed Business Plan, it forces him/her to think through the entire operation fully and carefully. The entrepreneur often has to consider alternatives and new possibilities. It also focuses the entrepreneur to complete the financial analysis and set the Business Plan up as a yardstick for future comparison. (Struwig, 2014:120) (Nieman and Nieuwenhuizen, 2009:104)

An entrepreneur setting up a new firm needs a business plan for several reasons

- (i) To explore the feasibility of a new business without actually having to start it and run it and to
- (ii) Provide a handy tool to establish a value if you are contemplating buying or selling a business and to support that value if challenged.
- (i) If you are seeking financing (Bangs, 2005: 5-6)

Remember when setting up your plan be clear, simple and make your presentation as attractive as possible.

..." People evaluating a plan want an overview in a nutshell "

(Kroon, 1998:207)

A Business Plan offers a broad overview of the entire organisation's mission, objectives, strategy and resource allocation (Kotler and Armstrong et al., 2010:633) (Kotler and Keller, 2012:A1) and should achieve its aim.

10.3 Importance of the Business Plan

It is important for an entrepreneur setting up a new firm to prepare a business plan because he can

- (ii) Explore the feasibility of a new business without actually having to start it and run it and to
- (iii) Provide a handy tool to establish a value if you are contemplating buying or selling a business and to support that value if challenged.
- (iv) If you are seeking financing (Bangs, 2005: 5-6)

10.4 Purpose of a Business Plan

There are various purposes that an alert Entrepreneur can make use of a Business Plan. It depends on the stage of the firm. Is the firm new and requiring start-up funding, or is it established and using the Business Plan to redefine its Goals or renegotiate a loan with a bank. Possibly an existing supplier is putting pressure on the credit facilities of the company and it is wise to sit down with the supplier (creditor) and present a Business Plan showing the direction and current financial status of the company. Below are some of the purposes the Business Plan is used .

Clarify Direction

The primary purpose of a business plan is to define what the business is or what it intends to be over time. This allows you to understand what needs to be done for forward movement.

Describing can consist of a simple explanation of your business and its products or services you'll offer, as well as a detailed description of your ideal customer. (Burns-Millyard,

<http://smallbusiness.chron.com/>)

Helps Get Advice

Business professionals may be more likely to give you free advice about your business if they can comment objectively on numbers, rather than having to give you their personal opinion of your "great idea." Some organizations will not only give you free advice on launching a business, but will assign an executive to read your business plan and offer suggestions for improving it. (Ashe-Edmunds, Sam (2016) What Are the Benefits of a Business Plan?

<http://smallbusiness.chron.com/>)

Standard Bank for example has assistance for new entrepreneurs including

- free Business Plan templates
- cash management checklist
- how to read and understand financial statements
- and access to a Free eBook
(<https://bizconnect.standardbank.co.za/>)

Manage Company

The Managerial part of a Business Plan shows the organisational structure of your business, including titles of directors or officers and their individual duties. It also acts as a management tool that can be referred to regularly to ensure the business is on course with meeting goals, sales targets or operational milestones.

(Burns-Millyard, Kathy (<http://smallbusiness.chron.com/>)

Aids in Obtaining Funding

A thoroughly prepared business plan will improve your chances of obtaining additional funding. Potential investors will have a variety of questions about your potential or existing business. A complete business plan not only provides them with answers, but shows that you are organized and have considered all of the marketing, legal, financial, human resources and other aspects of running a business. (Ashe-Edmunds, Sam (2016) <http://smallbusiness.chron.com/>)

Identifies Problems

A well prepared Business Plan considers all the key areas of running your company. As you analyse the information you wish to include in your Business Plan, you may learn that some of the ideas that you had about your financial budgets, cost of materials, distribution costs, labour costs, and other critical aspects of your business are incorrect. Learning this before you launch your business gives you time to make adjustments before you have signed contracts and committed funds. Business plans include budgets that help you manage cash flow and breakeven points –not just assumptions about marketing. (Ashe-Edmunds, Sam (2016)

<http://smallbusiness.chron.com/>)

Provides Exit Strategy

A good Business Plan sets realistic criteria for shutting down the business to prevent your throwing good money after bad. A business failure can be very disturbing and business owners are often not objective in the face of that reality. Solid numbers that tell you the business is unsound and flawed will help you make the decision to shut down a failing business easier and will prevent you from losing more of your or your investors' money than necessary. (Ashe-Edmunds, Sam (2016) <http://smallbusiness.chron.com/>)

Minimises Legal Problems

You may need local, state or federal licenses or permits to operate your business. You will need to pay taxes properly, using the correct forms, and operating under proper procedures. A Business Plan addresses all of the legal and financial issues involved with operating your firm to help you avoid penalties, fines or the loss of your business. (Ashe-Edmunds, Sam (2016) <http://smallbusiness.chron.com/>)

Purpose of a Business Plan

- ▶ Provides clarity of thought and purpose
- ▶ Introduces Business Model
- ▶ Introduces the company and the team
- ▶ Attempts to persuade investors
- ▶ Highlights risks and challenges
- ▶ Serves as an entry point for further discussions

Source: Purpose of a Business Plan <http://image.slidesharecdn.com>

10.5 Benefits of a Business Plan

A well written Business Plan has several benefits to the company.

According to Burns-Millyard (2016) there are three major benefits to writing and compiling a Business Plan.

Future Vision

Businesses change and adapt over time, and allowing for future growth and direction in the business plan can be an effective way to plan for these changes. The entrepreneur should take into account future growth or trends, and new innovations to take as the firm adapts. Future vision allows you to have goals to reach for.

Attract Financing

The Financial section of the Business Plan will show whether or not a business has the potential to make a profit. By putting statistics, facts, figures and detailed plans in writing, a new business has a better chance of attracting investors to provide the capital needed for getting started.

Attract Team Members

Business plans can be designed as a selling tool to attract partners, secure supplier accounts and attract executive level employees into the new venture. Business plans can be shared with the executive candidates or desired partners to help convince them of the potential for the business, and persuade them to join the team.(Burns-Millyard, K (2016)

<http://smallbusiness.chron.com>])

Plus the Business Plan will assist you in staying on track and keeping focussed on your main priorities.

Benefits/Reasons for Writing a Business Plan

- Initial planning document for a new business.
- Serves as a tool to communicate the idea of the new venture to potential investors, bankers, key employees.
- Serves as a record to monitor and compare results.
- To obtain bank financing.
- To obtain investment funds.
- To establish strategic alliances.
- To obtain initial contracts.
- To attract key employees.
- To motivate and focus your management team

Source: Benefits of a Business Plan <http://image.slidesharecdn.com/>

10.6 A Typical Business Plan Structure

A typical Business Plan consists of nine (9) sections. These are not always included, or are sometimes ordered differently depending on the type of firm and the reason for the Business Plan. But the average Business Plan will include the following sections

- (i) Cover Page
- (ii) Table of Contents
- (iii) Executive Summary
- (iv) Product and/or Services Plan
- (v) Marketing Plan
- (vi) Operations Plan
- (vii) Management Plan or structure
- (viii) Financial Plan plus
- (ix) Appendices

It should be noted that the business plans differ according to industry. Thus, the Operations Plan for a Retailer would focus on the details of suppliers and logistics in the Marketing Plan. Similarly, if you were using the Business Plan to seek financing, then directly after the Executive Summary it would make sense to describe in complete detail the members of the Management Team, their qualifications and what each person will contribute to the firm's success.

Below is the illustration of a Marketing Plan which is just part (v) of a Business Plan.

The Business Plan is a written presentation that carefully explains the business, its managerial team, its products or services and its goals, together with strategies for reaching the goals.

(Nieman, Hough et al., 2003:90).



Source: Kotler, P (2000) Marketing Management Millenium Edition (10th edition) Pearson Education; Upper Saddle Valley, New Jersey

It should be noted that the business plans differ according to industry. Thus, the Operations Plan for a Retailer would focus on the details of suppliers and logistics in the Marketing Plan. Similarly, if you were using the Business Plan to seek financing, then directly after the Executive Summary it would make sense to describe in complete detail the members of the Management Team, their qualifications and what each person will contribute to the firm's success.

10.7 What elements do we include in the Business Plan?

Comprehensive business plans have three sections--business concept, marketplace and financial--and these are broken down into seven components that include the overview or summary of the plan, a description of the business, market strategies, competition analysis, design and development, operations and management, and financial information. (Burns-Millyard, K (2016) <http://smallbusiness.chron.com/>)

Running a business with a Business Plan requires every element included to ensure that it is comprehensive and fully researched. We may not show everything in a presentation, but for our own internal use a complete Business Plan is advised.

An entrepreneur setting up a new firm needs a business plan for several reasons

- (v) To explore the feasibility of a new business without actually having to start it and run it and to
- (vi) Provide a handy tool to establish a value if you are contemplating buying or selling a business and to support that value if challenged.
- (vii) If you are seeking financing (Bangs, 2005: 5-6)



10.8 The Cover page

The Cover Page is the first impression the Business Plan proposal makes on the reader. This page should be simple, clear and attractive, yet it should contain the important ingredients of

- The full name of the business
- A brief description or mission statement
- The Title, date written and
- The author's name (Awe, 2006:59)

Struwig in Nieman and Nieuwenhuizen., (2014:120) also advises including the full street address and the ownership status. Bangs (2005:196) makes mention that some plans include a confidentiality notice on the cover page and he also stresses the importance of the contribution it makes to the first impression.

10.9 Table of Contents

Your contents page should be the very last thing you write to ensure that all the page numbers are correct. Make sure that you number your pages correctly so that a person can quickly and easily find the sections they are interested in. (Fisher, 2016) The easiest way to number the pages correctly, is to set up a separate word document or 'chapter' for the Table of Contents. Once the entire Business Plan is completed and the Executive Summary is finalised then number the pages sequentially. Print the Business Plan with the numbered pages and then complete the Table of Contents professionally with the various subheadings, showing the different pages correctly numbered, neatly extended at the end of each line.

10.10 Executive Summary

The Executive Summary is the first part of the plan anyone will see after the title page, and table of contents. (Bangs, 2005:83) Because it summarises the entire Business Plan in such a short discussion, usually a page or two, this is the section you should take the most time over. It is advised by most authors to complete this section after the entire Business Plan is finished. (Nieman and Nieuwenhuizen, 2014:121) (Nieman and Nieuwenhuizen, 2009:105) (Awe, 2006:60 and 62) (Ferrell and Hartline, 2001:43) (Fisher, 2016) The Executive Summary should also identify the scope and time frame of the plan. (Ferrell and Hartline, 2001:43)

Since the Executive Summary can only be completed once the entire Business Plan is finished, the final discussion on this section will conclude once the chapters which will deal with the last two sections of the plan:- the Marketing Plan and the Financial Plan have been covered in detail.

10.11 The Management Plan or Management Structure

The quality of the members comprising the management of the company often makes a huge difference between success and failure of the new enterprise. It is wise, therefore, to list the names and qualifications of the various directors and other key professionals who will be involved in the business. (Nieman and Nieuwenhuizen, 2014:122) . (Nieman and Nieuwenhuizen, 2009:106) Each of their detailed résumés can be included in an Appendix.

Sometimes it is simpler to include an organisation chart showing the firm's structure (or intended structure)

When you give your management teams background it is even suggested that you not only describe their titles, but also what each member of the management team will be expected to do. (Bangs, 2005:96)

“Many investors look first at the Executive Summary and then then go directly to the management team section to assess the strength of the people starting the firm.”
Barringer and Ireland 2015

10.12 Company Overview and Product and /or Services Plan

Following the Executive Summary and the management team, logically the reader should be introduced to a brief business overview of the enterprise/proposed enterprise. This section should briefly describe the product or service you are offering, the industry status and where the new business fits in. (Nieman and Nieuwenhuizen, 2014:121). (Nieman and Nieuwenhuizen, 2009:105) It is of vital importance that an entrepreneur has a complete knowledge and understanding of the product or service the firm is offering to the market. Any investor or financier potentially about to assist with funding will invariably turn down the proposal if he/she feels that the entrepreneur's product knowledge is weak or lacking detail and analysis.

..." A Dream written down with a date becomes a Goal

A Goal broken down into steps becomes a Plan

A Plan backed by Action makes your dreams come true.

It is even suggested that the entrepreneur describe any features which will clearly differentiate the product or service and give it an advantage over the competition. (Nieman and Nieuwenhuizen, 2014:121))

You could also include some short-term and long-term goals which are specifically to be major parts of the Business Plan. (Awe, 2006:60)

Today's customers are even more selective. They are socially connected and far more aware than twenty years ago about environmental and health issues. So the next level of marketing has become a priority as well.

10.13 The Marketing Plan

The Marketing Plan is an action plan within the Business Plan, with the customer as a starting point. It is also linked to the plans of the other departments within the company. (Kotler and Armstrong et al., 2010: 633) (Kotler and Keller, 2012:A1).

Both Kotler and Keller (2012:A1) and Kotler and Armstrong (2010:633) point out that the length of the Marketing Plans vary from company to company.

10.14 The Operations Plan

This needs to cover the organisational processes the business will use to achieve its daily outcomes, and therefore, long-term outcomes for success. It needs to cover all the important points regarding how the business will function including physical set-up and any responsibilities, and desired outcomes for each task. (LINKILAW, 2016 <http://linkilaw.com/>)

Just as your Business Plan should estimate the size of your market, it should also estimate "what they want". The Operations section of the Business plan sets out how the firm will provide the goods and/or services to the customers if the business is run efficiently. (Hauk , 2016 <http://articles.bplans.com/>)

The Operational Plan explains the day to day running of the business. Its location, equipment, people, processes, and surrounding environment and how the business functions on a continuing basis. There will also be a description of capital and expense requirements related to the functioning of the business. . (Fisher, 2016: <http://www.entrepreneurmag.co.za/>)

This section will vary depending on the nature of the business .

Thus a Retail operations checklist might include

- Marketing (i.e. sales projections, sales reports)
- Training sales staff
- Buying procedures
- Inventory control
- Customer service policies to name a few
- Administration profit feedback controls (Bangs, 2005:149) adapted

Whereas a Manufacturing operations checklist might feature items such as

- Production plan
- Basic manufacturing operations listed in sequence
- Raw materials purchased
- J.I.T. system
- Equipment obtained
- Administering monitoring and control policies
- Training for cross-skilled workforce
- Quality control and so on (Bangs , 2005:151) adapted



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