



# Entrepreneurship & Small Business Management

Only study guide for **MNE2601**

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# Learning unit 1

## Entrepreneurship in emerging economies

### AIM

The aim of this topic is for you to explore the nature of entrepreneurship and what is meant by emerging economies. After completing this unit, you should be able to:

- explain the concept of emerging economies
- evaluate the opportunities and challenges facing BRICS (Brazil, Russia, India, China, South Africa) countries
- discuss the challenges facing small and medium enterprises in South Africa
- apply the values of ubuntu to entrepreneurship

### INTRODUCTION

The role of entrepreneurship and small businesses has been established mainly in the context of mature economies such as Europe and the USA. What role does small businesses play in younger economies? In this learning unit, we will explore the meaning of an emerging economy and the role of entrepreneurship in these economies.



#### Activity 1.1: Getting started

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Before embarking on this module, we would like you to reflect on why you are taking this module. If you are an entrepreneur or a small business owner, you will gain knowledge on how to start your own business or improve your existing business. Go to myUnisa and complete the self-assessment on getting started.

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Study "Business case for entrepreneurship and small business in emerging economies" in your prescribed textbook.

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## 1.1 DEFINING ENTREPRENEURSHIP

Although there is no consensus among authors on what entrepreneurship really is, most agree that it is an important economic factor. At an international level, many organisations measure the social and economic indicators which constitute key data and knowledge to assist government and organisations with valuable information that will assist in developing our economies and societies. One of the most comprehensive efforts to collect comparative international data on entrepreneurship research is the Global Entrepreneurship Monitor

study. You can access the current and previous GEM reports on the following link: [www.gemconsortium.org](http://www.gemconsortium.org).

Stokea and Wilson (2017:36) highlight the following definitions of entrepreneurship:

- **Entrepreneurship** is a way of thinking, reasoning and acting that is opportunity based, holistic in approach and leadership balanced. Entrepreneurship results in the creation, enhancement realisation and renewal of value not just for the owners, but for all participants and stakeholders.
- **Entrepreneurship** is the process of creating something new of value by devoting the necessary time and effort, assuming the accompanying financial, psychological and social risks and receiving the resulting rewards of monetary and personal satisfaction and independence.
- **Entrepreneurship** is an emergent process of recognising and communicating creativity so that the resulting economic value can be appropriated by those involved.

The above definitions show that entrepreneurship consists of the following:

- The identification, evaluation and exploitation of an opportunity
- The management of a new or transformed organisation so as to facilitate the production and consumption of new goods and services
- The creation of value through the successful exploitation of a new idea (requires both creativity and innovation)

Entrepreneurship does not only apply to small enterprises, but it can take place in a wide variety of contexts. Now that you have the idea of what entrepreneurship is, let's move on to define emerging economies.



### Activity 1.2

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Give your own definition of entrepreneurship from what you have learnt. Is there such a thing as African entrepreneurship? Discuss. Go to myUnisa where you will discuss this with your fellow students.

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## 1.2 DEFINING EMERGING ECONOMIES

There are many different interpretations of what an emerging economy is. Emerging economies are sometimes described as transitional economies that are emerging as they struggle to catch up to the Western world.

A good indicator of a growing economy is an increase in the small business population as seen in China and India. China emerged from the economic disasters of the Cultural Revolution, from 1978, when party leaders decided to undertake gradual reform of the system by increasing the role of market mechanisms within a controlled communist state. In 2013, small and medium enterprises' (SMEs) contribution to the gross domestic product (GDP) in China was 60 per cent and provided 80 per cent of the jobs (Stokes & Wilson, 2017:19).

India initially put faith in its public sector to tackle its huge poverty problems after it gained independence in 1947. The New Industrial Policy of 1991 encouraged the private sector, thereby liberalising the economy and allowing entrepreneurs to flourish. SMEs now contribute 40 per cent of India's GDP and they are the second-largest source of employment after agriculture (Stokes & Wilson, 2017:19).



### Activity 1.3

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Work through section 1.2 of your prescribed textbook on emerging economies. How would you define South Africa as an emerging economy? Go to myUnisa and discuss with your fellow students.

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## 1.3 CHALLENGES FACED BY ENTREPRENEURS AND SMALL BUSINESS OWNERS IN SOUTH AFRICA

You need to have an understanding of the state of entrepreneurship and small businesses in South Africa and the challenges faced by SMEs in South Africa. After reading section 1.3 and 1.4 of your prescribed textbook, you should be able to identify the challenges faced by SMEs and think of possible solutions to overcome these challenges. Take note of the discussion on the informal sector and the role of entrepreneurship education in your considerations.



### Assignment 1

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*Discuss how you can integrate the values of ubuntu in entrepreneurship.*

## 1.4 SOUTH AFRICAN POSITION WITHIN BRICS



Read section 1.6 in your prescribed textbook and take note of the reasons why South Africa should be part of Brazil, Russia, India, China, South Africa (BRICS) and the reasons against being part of BRICS. You need to evaluate the opportunities and challenges that exist among these trade partners.

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## 1.5 OPPORTUNITIES AND CHALLENGES IN EMERGING ECONOMIES

Now that we have discussed the case for entrepreneurship in emerging economies, what are the challenges that entrepreneurs face in these economies? As a student of this module, whenever you see challenges you need to start thinking of possible solutions to overcome these challenges. This reflects an entrepreneurial mindset that is always seeking opportunity where others see problems.

## CONCLUSION

In this learning unit, you were introduced to the concept of emerging economies in terms of the BRICS countries. As South Africa is an emerging economy, we need to understand entrepreneurship in emerging economies and how to take advantages of the opportunities that exist in that particular context in order to further develop our economy.



### Useful terms

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It is useful for you to know the following important terms and their meaning as they are used in this module.

- entrepreneurship
- BRICS
- SME
- emerging economy
- entrepreneurship education



### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practise questions on myUnisa.*



# Learning unit 2

## Small businesses in emerging economies

### AIM

The aim of this topic is for you to explore the nature of small businesses in emerging economies. After completing this unit, you should be able to:

- define the small business in your own context
- discuss the role of small businesses in emerging economies
- identify small business startup categories in South Africa
- identify ideas for small business startups in emerging economies
- explain the factors contributing to failure in emerging economies

### INTRODUCTION

Emerging economies create opportunities for the development of new small businesses. Although it is accepted that small businesses contribute to the economy of South Africa as in other BRICS countries, small businesses continue to face a myriad of challenges that threaten their growth and sustainability. This learning unit will focus on the role of small businesses in the economy, factors that lead to failure, different categories of small businesses and ideas for small business startups in an emerging economy like ours.



#### Activity 2.1: Small business ideas

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Before continuing with this learning unit, take a moment to think about ideas that you may want to explore should you start your own small business. Are the ideas new or existing, are they feasible, would they make a successful new business, what are the odds of failure? Go to myUnisa and share your views with your fellow students.

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Study "Small business startups in emerging economies" in your prescribed textbook.

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## 2.1 DEFINING SMALL BUSINESSES

Although there is no consensus among authors on what a small business really is, most agree that it is an important economic factor. The term small business implies that small businesses have certain characteristics and management issues in common that distinguish them from larger organisations. Small businesses do not conform to any neat parameters and much depends on the industry in which they operate and the personalities and aspirations of those that run them (Stokes & Wilson, 2017:3).

Small businesses are sometimes defined quantitatively, this means that numerical parameters are used to differentiate between smaller and larger organisations. These parameters include number of employees, turnover and gross assets. Refer to your prescribed textbook to see how the National Small Business Act classifies small businesses according to the above parameters. Non-quantitative factors have also been proposed to try to single out differentiating characteristics of small businesses. According to Stokes and Wilson (2017:5), a small business is said to have the following characteristics:

- is managed by its owner in a personalised way
- has a relatively small share of the market in economic terms
- is independent, does not form part of a larger enterprise and its ownership is relatively free from outside control in its principal decisions

The above is, however, not true for all small businesses, and scholars still find it problematic to define a small business. In South Africa the Small Business Act differentiates between a survivalist, micro-enterprise, very small, small and medium enterprise. Work through the definitions of these in your prescribed textbook.



### Activity 2.2

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Give your own definition of a small business. Do you think it is enough to have only one definition of a small business? Discuss. Go to myUnisa to discuss this with your fellow students.

After working through section 2.4 of your prescribed textbook. Explain the role of small businesses in emerging economies.

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## 2.2 SMALL BUSINESS STARTUP CATEGORIES

There is no ideal form of business ownership as a lot of factors determine the form that is best suited for your small business. For example, whether you go into business alone or with someone else, influences your choice of business ownership.



Study the section on the different forms of small businesses that you can register in South Africa. Pay attention to the advantages and disadvantages of each.

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### Activity 2.3

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Compare and contrast two forms of business ownership. Which form would you choose for your business startup and why?

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## 2.3 CHALLENGES IN SMALL BUSINESS ENVIRONMENTS

The small business does not exist in isolation of the wider economic environment; therefore, a number of outside influences sometimes pose challenges for the small business in an emerging economy. It is important to note that the small business does not have direct control over the macro environment in particular, although it has a direct effect on the wellbeing of a small business. Therefore, small business owners or managers need to be aware of the factors that affect their business and be able to deal with the threats they bring to the business.

Section 2.7.1 in your prescribed textbook highlights a number of challenges experienced by small businesses in the macro environment. Read through these and come up with possible strategies that can help the small business overcome these challenges.

## CONCLUSION

In this learning unit, small businesses in an emerging economy were discussed. The different factors that lead to failure, the factors in the macro environment that act as a challenge to the survival of small businesses as well as the different forms of ownership that a small business can take were discussed. It is important to put the small business in the context of an emerging economy so that we can begin to address specific challenges and ensure small business sustainability.



### Useful terms

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It is useful for you to know the following important terms and their meanings as they are used in this module.

- small business
- legal personality
- macro environment
- startup failure
- limited liability



### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 3

## Feasibility analysis for small businesses within emerging economies

### AIM

The aim of this topic is for you to be able to conduct a feasibility study and be able to identify elements that are unique to emerging economies. After completing this unit you should be able to:

- explain the importance of a feasibility study
- discuss the elements of a feasibility study
- conduct a feasibility study on any idea or business
- explain the entrepreneurial success factors for emerging economies
- discuss networking and collaboration

### INTRODUCTION

To survive in the marketplace, the entrepreneur needs different types of information depending on the stage of development of the business. For a startup the most crucial question is whether there is sufficient market demand for the new product or service to enable the enterprise to establish itself as a viable business. In conjunction with conducting the feasibility study, an entrepreneur needs to know the environment in which their business will be operating and what the essential factors are that contribute to a successful business. In conducting a feasibility study, the entrepreneur needs to take into consideration success factors and challenges applicable to their business idea and the environment they find themselves in.



#### Activity 3.1: Getting started

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Read the case study "Opportunities created by crime" in your prescribed textbook and evaluate the feasibility analysis of AGV Security Services.

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Study "Feasibility analysis for small businesses within emerging economies AND Essential success factors in entrepreneurship for emerging economies" in your prescribed textbook.

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### 3.1 WHY A FEASIBILITY STUDY

Stokes and Wilson (2017:146), highlight the importance of a feasibility study to develop and confirm a strategy for market entry based on the identifiable needs of the target customer group. A feasibility study also seeks to provide credibility to outside backers and financiers in order to convince them that the new venture is founded on the realities of the marketplace, not just the dreams of the entrepreneur.

A product/service feasibility study can take the form of screenshots of a new website, to a physical model of a new product design or prototype. The purpose here is to learn how close the new product/service is to adding sufficient value to a potential customer to make them want to buy it. This will enable the entrepreneur to make decisions on whether the product/service needs modification or drastic changes to the idea, or whether the entrepreneur can go ahead with the concept unchanged, or should abandon the idea altogether.

Industry and market feasibility analysis refers to information about existing and potential customers, trends in the market sector and competition. This includes information such as who the direct competitors are, profitability of the industry, the size of the target market, the characteristics of existing and potential customers, and whether there are any substitutes for the product or service.

The entrepreneur needs to take into consideration the technical and legal implications that an idea can have so that they can operate according to accepted standards and within legal parameters.



Read section 3.4 in your prescribed textbook on some of the aspects pertaining the above.

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Financial feasibility will give the entrepreneur information on whether the business will be financially viable to start. Is the financial return on the business worth the risk (financial), time and effort that the entrepreneur must invest in order to get the business up and running?



Read the section on organisational feasibility in your prescribed textbook. Please note that this section is related to the success factors discussed in the following chapter of the prescribed textbook.

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After completing this section, you should be able to do your own or another business's feasibility study and determine whether the business will be a profitable one or not. In the next section, we look at the success factors and challenges that the entrepreneur needs to consider when conducting a feasibility study. The emerging market's uniqueness requires entrepreneurs to learn or possess certain enabling attributes and tools to successfully navigate their business environment. Also take note of the different research methods that you can use in the feasibility study.



### Activity 3.2

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What are the unique aspects that entrepreneurs can take advantage of in the African business environment? Discuss. Go to myUnisa to discuss this with your fellow students.

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## 3.2 OPPORTUNITIES AND CHALLENGES OF ENTREPRENEURSHIP IN SOUTH AFRICA

Work through this section in your prescribed textbook to get a sense of what differentiates an emerging economy from a more developed one in terms of the opportunities and challenges that an entrepreneur needs to consider before embarking on a new business venture.

After studying this section, you should be able to incorporate the above in your feasibility study.



### Activity 3.3

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Discuss entrepreneurial management and leadership in the small business venture and how you can apply it in your own business or business idea. Go to myUnisa and discuss this with your fellow students.

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## 3.3 MANAGEMENT AND LEADERSHIP KNOWLEDGE

Management in a small business is important as in most instances the small business owner is also the manager of the business, especially for a business in its startup and early stages. The small business manager needs to have knowledge on how to manage people in their business, finances and resources, risk management and change management, among other management functions. Read more on these functions in your prescribed textbook. For the small business owner, this can be daunting as no manager can be an expert in all fields, often with limited resources, especially in an emerging economy, hence the need for advice and training (Stokes & Wilson, 2017:345).



### Activity 3.4

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Study the section on resource dependency theory and relationship management in your prescribed textbook and identify the assets or organisational capabilities that can help an enterprise realise a competitive edge. Add your own assets and resource capabilities to the ones mentioned.

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### 3.4 NETWORKING AND COLLABORATION

An entrepreneur can benefit from networking and collaboration, which entail support, collaboration with other organisations and assistance from local institutions. Small business managers can overcome resource constraints through networking by acquiring and locating essential resources. The ability to scan the external environment for opportunities is also maintained through networking. In this case they know their customers well, keep an eye on competitive activity and become aware of underlying trends that may affect their business (Stokes & Wilson, 2017:147). It is important for an entrepreneur to keep on searching the environment for opportunities and threats that may be detrimental to their business. One of the ways in which they can do this is through networking and collaboration.



Study the section on networking and collaboration in your prescribed textbook. Also take note of negotiation skills and relationship management and how an entrepreneur can use these skills in managing a sustainable business.

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### CONCLUSION

In this learning unit, you learned why an entrepreneur needs to conduct a feasibility study and the different aspects to do a feasibility study on before exploring an idea. We also looked at the success factors entrepreneurs need to keep in mind to exploit any idea or opportunity with knowledge. Entrepreneurs and small business owners and managers need to know the importance of management leadership and knowledge, as well as networking and collaboration when pursuing their opportunities in order to run successful businesses.



#### Useful terms

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It is useful for you to know the following important terms and their meanings as they are used in this module.

- concept test
- feasibility analysis
- entrepreneurial collaboration
- negotiation
- entrepreneurship essentials



#### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 4

## Challenges of starting a business in an emerging economy

### AIM

The aim of this topic is for you to be aware of the challenges associated with starting a small business in an emerging economy. After completing this unit, you should be able to:

- categorise the general challenges associated with starting a business in an emerging economy
- discuss the challenges when evaluating a business opportunity
- explain managerial skills shortage as a challenge when starting a small business
- evaluate the financial challenges of starting a business in an emerging economy
- discuss the marketing challenges of starting a new business in an emerging economy

### INTRODUCTION

There are many challenges that the entrepreneur or small business owner faces once they have started operating their business. Once a business is established, it is vulnerable to circumstances that are, sometimes, beyond its control, both externally and internally. As much as small businesses are important to an economy, they still fail within the first few years of operation. By being aware of the challenges of starting a small business, entrepreneurs can be better prepared to face any challenges they may face and come up with strategies to counter the negative effects of these challenges. This learning unit focuses on the general challenges, managerial skills challenges, marketing challenges and financial challenges that small businesses in emerging economies encounter.



#### Activity 4.1

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If you are the owner of a small business, discuss the challenges that you have faced or continue to face in managing your business. Discuss this with your fellow students on myUnisa.

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Study the chapter “Challenges of starting a business in an emerging economy”, in your prescribed textbook.

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## 4.1 GENERAL CHALLENGES

According to Raj (2016), many factors such as limited access to information, procedures, government rules and regulations, finance, skills and expertise and, most importantly, guidance pose a major threat to the growth of an enterprise and this, in-turn, affects the economy. In a country like India, employment stability and the attraction of being associated with a brand of a big company continues to be the dream of many of the younger generation and this culture continues to hamper their entrepreneurial intentions. Unless this attitude changes, the government will have limited scope in doing what it should in order to support the number of entrepreneurial ventures in the country.



### Activity 4.2

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Read the case study below and identify the challenges small businesses face in South Africa. Go to myUnisa and discuss this with your fellow students.

#### Case study

##### **SME REGULATION WOES IN SOUTH AFRICA**

Although the South African government recognises the need to encourage entrepreneurship in order to create economic growth, the SME sector is actually declining. The 2013 Global Entrepreneurship Monitor (GEM) report statistics indicate that small businesses are closing down at a faster rate than new ones are being formed; only 10.6% of South Africa's adult population is involved in early-stage entrepreneurship, while 3% operate established small businesses, putting the country in the bottom four globally for entrepreneurial activity. (In contrast, for example, 17% of Brazilians are active in early-stage entrepreneurship and 15% operate established firms.)

According to Small Business Project (SBP) Alert (2014), the burden of regulation is a key factor. Frequent changes in the regulatory environment, the need to keep track of overlapping and, sometimes, conflicting regulatory requirements across multiple departments and levels of government, poor communication and access to information, as well as administrative inefficiencies in government departments and municipalities, mean that the SME owner spends a disproportionate amount of time dealing with regulatory compliance.

Small firms spend an average of eight working days (75 hours) a month dealing with red tape. This regulatory compliance is estimated to cost SMEs R216 000 per year, plus a further R21 000 to comply with tax requirements. Business owners identified labour issues as one of their top red tape headaches; small firms can spend up to 11 days per case at the Council for Conciliation, Mediation and Arbitration (CCMA) to resolve a dispute and the average SME is taken to the CCMA twice a year.

**Source:** Stokes and Wilson (2017:91)

## 4.2 FINANCIAL CHALLENGES

When it comes to finances, the major challenges for small businesses in emerging economies is not only lack of funds, but also the awareness of the sources of funds. Study the source of funds for South African SMEs in your prescribed textbook.

Many entrepreneurs also lack financial management knowledge, which sometimes leads to the mishandling of funds in the business, making it difficult to continue operating.

## 4.3 MANAGERIAL SKILLS SHORTAGE

Entrepreneurs and small business managers do not only need entrepreneurial skills and characteristics in order to run successful businesses. Managerial skills are also an important requirement to manage a small business and many small business owners in emerging economies lack managerial skills. It is important for small business managers to attend training in the skills that they lack so that they are better equipped to manage their businesses.

## 4.4 MARKETING SKILLS SHORTAGE

Over and above managerial skills, entrepreneurs and small business managers need to market their products and services and the type of marketing they use can contribute to the success of their business. In the age of the internet and social media, small business managers need to keep abreast with new and effective ways of reaching their customers. The information gathered in the feasibility study will assist the small business manager to develop an appropriate marketing strategy for the kind of customers they are targeting.



### Activity 4.3

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Study the section on, “Challenges when evaluating a new business opportunity in an emerging economy”, in your textbook, and link it to the feasibility study in learning unit 3. Share your findings with your fellow students on myUnisa.

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## CONCLUSION

In this learning unit, you learned about the challenges entrepreneurs have to face in emerging economies when they start their business operations. These challenges are unique to a number of emerging economies globally, but are not uncommon. We discussed general challenges, financial challenges, the lack of managerial and marketing skills and the challenges faced when evaluating a new business opportunity. As a student in entrepreneurship, you need to take time and reflect on these changes and come up with possible solutions that can make the entrepreneurial environment less challenging.



## Useful terms

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It is useful for you to know the following important terms and their meanings, as they are used in this module:

- financial challenges
- general challenges
- marketing skills shortage
- lack of managerial skills



## ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 5

## Strategic planning in small businesses

### AIM

The aim of this topic is for you to explore strategic planning in small businesses in emerging economies. After completing this unit, you should be able to:

- define strategic planning in the small business context
- explain the importance of strategic planning for a small business
- discuss the different types of strategic planning and approaches to strategic planning
- explain the strategy-as-practice approach
- discuss strategy implementation
- evaluate entrepreneurial growth strategies

### INTRODUCTION

Strategy is commonly associated with large organisations, but strategic decisions have been found to be just as significant to the success of small enterprises. In this learning unit, we will discuss strategic planning and its importance for a small business; the different types and approaches to planning; strategy-as-practice; strategy implementation as well as a few entrepreneurial growth strategies. Entrepreneurs and small business managers need to know that growth does not happen naturally and having a strategy in place can help a small business become successful.



#### Activity 5.1

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What do you think is meant by “strategy” in the small business context? What would be the main ingredients of a small business strategy?

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Study the chapter “Strategic Planning” AND section 15.6 on “Strategic Planning” in your prescribed textbook.

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### 5.1 DEFINING STRATEGY

The origins of strategy are based on warfare and business strategy originated in the early 1960s, when Igor Ansoff (1965) and others advocated extensive research and information gathering as the precursor to strategy formulation.

A strategy is now defined as the actions a company takes to achieve one or more of its goals through either a plan, pattern, ploy, perspective or position. Strategic thinking synthesises the creativity and intuition of the entrepreneur into a vision for the future, suggesting that creativity and strategy have more in common than people think (Stokes & Wilson, 2017:218). This definition implies that an entrepreneur needs to have a plan for the future and has to begin to mobilise resources and scan the environment in order to achieve that plan.

Strategic planning can also be defined according to the process that an entrepreneur or small business manager needs to follow in order to achieve their goals for the business. Study this process in section 7.1 of your prescribed textbook.



#### Activity 5.2

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Give your own definition of strategy based on what you have studied. How relevant is strategy in small businesses? Go to myUnisa and discuss this with your fellow students.

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## 5.2 STRATEGIC PLANNING TYPES

There are different ways in which a firm can decide to approach strategic planning. This largely depends on the type of enterprise, the environment in which they find themselves and the available resources, among other factors.



Study the section on the different types of planning, by Mintzberg and Waters, in your prescribed textbook.

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Choose one of the types of planning and apply it to a business enterprise of your choice. In your studying of this section, also take note of the benefits and advantages of strategic planning.

Strategic planning in a small business can either be formal or informal and there are many different reasons for this. You need to know the benefits of both formal and informal planning. Another approach to strategic planning is the strategy-as-practice approach, which focuses more on the actual day-to-day activities that contribute to strategic planning. It is easier to link these micro processes to strategic planning in smaller enterprises.



Read through the section, “Strategic planning template”, and take note of the strategic planning template given in your prescribed textbook (figure 7.1 **AND** table 7.1).

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#### Activity 5.3

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Work through section 7.3.1.1 of your prescribed textbook **AND** distinguish between formal and informal planning. Go to myUnisa and discuss this with your fellow students.

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## 5.3 STRATEGIC PLANNING ISSUES

As much as the entrepreneur or small business manager can plan, there tends to be issues in strategic planning. Sometimes, due to circumstances beyond the control of the small business manager, intended strategies do not work out as planned and they have to continuously adapt to their changing situation. Study the strategic planning issues given in your prescribed textbook and focus on implementation as one of the issues mentioned. A small business manager can have a great strategy, but, if implementation is not done properly, they risk failure of the strategy. Strategy evaluation and control are also important, so that the entrepreneur or small business manager can keep track of the progress in order to achieve operational and organisational goals.

## 5.4 GROWTH STRATEGIES

Small enterprises can sometimes adopt survival strategies, which means their goal is not to grow, but to keep the business alive. Sometimes, they adopt growth strategies, which are discussed in your textbook. Study the different internal and external entrepreneurial growth strategies.



### Activity 5.4

Read the case study below and answer the questions that follow. Share your answers with fellow students on myUnisa.

#### Case study

##### SEEING AHEAD

Tebogo was 22 years old when she set up her company in her parents' back room. It all started when her eyesight started changing and she realised she needed some reading glasses. On visiting the local optician, Tebogo was astonished to find the prescribed glasses would cost R2 100. As a student, this was not affordable. Tebogo was prompted to do some research and she discovered that her R2 100 glasses only cost R100 to make. She realised she could make glasses for a fraction of the price charged by high-street retailers (who collectively held a 70 per cent share of the market). She set about learning how to carry out optometric testing and cutting lenses. Within the first year of setting up her new business, Glasses Direct has sold over 22 000 pairs.

**Adapted from:** Stokes and Wilson (2017:220)

- (1) What factors influenced Tebogo's decision to set up a glasses business?
  - (2) When Tebogo realised she could produce glasses more cheaply, what did she do next?
  - (3) If you were in Tebogo's position, what resources would you call upon to help you set up your own glasses business? Also, what would you do to acquire the resources you don't already have at your disposal?
- .....

## CONCLUSION

In this learning unit, you were introduced to the concept of strategy and strategic planning. It is important to understand the purpose of strategic planning and how a small enterprise can go about formulating a strategic plan. The different types and approaches to strategic planning were also discussed, including the importance of implementation, evaluation and control.



### Useful terms

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It is useful for you to know the following important terms and their meaning, as they are used in this module:

- strategic planning
- strategy-as-practice
- strategy implementation
- growth strategies



### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practise questions on myUnisa.*

# Learning unit 6

## Creativity and innovation in entrepreneurship

### AIM

The aim of this topic is for you to examine the nature of creativity and innovation in entrepreneurship. After completing this unit, you should be able to:

- describe creativity and innovation
- develop and improve creativity to excel in entrepreneurial venturing and small business management
- assess the likely commercial success of a new idea or innovation
- explain creativity and innovation as critical elements for entrepreneurial success
- identify the misconceptions about creativity and innovation and their impact on entrepreneurship
- discuss the tools for creativity and innovation
- explain how an entrepreneur can lead and manage innovation in their business

### INTRODUCTION

In this learning unit, we examine entrepreneurship by focusing on creativity and innovation. The focus is on how we describe creativity and innovation and the types of creativity that an entrepreneur or small business manager can explore. Myths and misconceptions about innovation can hinder entrepreneurs and small business managers from being innovative; therefore, they need to be aware of these myths, and avoid these traps to advance their businesses by being innovative. The role of the entrepreneur in innovation is important as they have to act as leaders and managers of innovation.



#### Activity 6.1

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Do you have an innovative idea? Go to myUnisa and share your ideas with your fellow students.

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Study section 9.3 "Innovation" in your prescribed textbook.

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## 6.1 DEFINING CREATIVITY AND INNOVATION

The terms innovation and creativity are often used interchangeably, however, in the context of entrepreneurship, it is important to distinguish between them. Stokes and Wilson (2017:112) define them as follows:



**Creativity** – is the generation of new and valuable ideas

**Innovation** – is the successful exploitation of new and valuable ideas

The process of entrepreneurship relies on the creativity of individuals, who come up with original ideas for new products and services. However, entrepreneurship also involves successful exploitation of these ideas, which is identified as innovation. Innovation plays an important role in maintaining the competitiveness of a business.



Study the section on “Innovation and why it matters”, in your prescribed textbook, and pay special attention to innovation in an emerging market context.

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## 6.2 MYTHS AND MISCONCEPTIONS ABOUT INNOVATION

Innovation is often misunderstood. Your prescribed textbook describes some myths and misconceptions about innovation. Below, we discuss some of the misconceptions about innovation that are not mentioned in your prescribed textbook.

### **Innovation = invention**

Innovation is strongly linked to invention, but they are not the same. An invention is essentially a creative idea, while innovation takes that idea and puts it to work (Stokes & Wilson, 2017:114).

### **Innovation = new products or services only**

Innovation may result in new products and services, but it is not limited to new product development. Five types of innovation through which an entrepreneur can change a market have been identified and these are:

- new products or services or a new quality of existing products or services
- the introduction of a new method of production
- the opening of a new market
- the conquest of a new source of supply of raw materials or half-manufactured goods
- the carrying out of the new organisation of any industry

Innovation can also be related to **new markets**, that is, taking existing products or services and selling them into new markets. Small businesses often have the advantage of spotting markets that have been overlooked by larger organisations. An entrepreneur can also be innovative by coming up with **new marketing methods** – the product or service remains the same and the market does not change. The innovation can be in the marketing of the product to the consumer. An enterprise can innovate in how it operates by finding **new methods of operating**, either through changes in its production methods or its systems or in its way of doing business or by developing new ways of making goods and services available to the customer (Stokes & Wilson, 2017:116).

### **Innovation = once-off inspiration**

Innovation does not rely on a sudden flash of inspiration, but is, rather, a gradual process, which builds into something new over a period of time.



### Activity 6.2

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Explain the myths and misconceptions of innovation. Go to myUnisa and discuss this with your fellow students.

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After working through section 9.3.4 of your prescribed textbook, go to myUnisa and discuss the different types of innovation with your fellow students.

Study the whole of section 9.4, in your prescribed textbook. Note the role of the entrepreneur in the business.

## 6.3 CREATIVITY AND INNOVATION TOOLS

To be conducive to creativity and innovation, an environment must have many different sources of mental stimulation including other people and things. There are hundreds of techniques and tools that are available for use by the entrepreneur. If you go to the internet, you will find many different tools for creativity and innovation.



### Activity 6.3

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Discuss the different types of tools that one can use to be creative and innovative. Can creativity be taught? Share your views with fellow students on myUnisa.

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Study the section on “South Africa National Innovation Ecosystem” in your prescribed book.

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Pay special attention to the process of pitching your idea to potential stakeholders or investors. Every entrepreneur and small business needs to know how to sell their idea, be it to get funding or support for exploiting the idea and bringing it to the market.

## 6.4 LEADING AND MANAGING INNOVATION

As an entrepreneur or small business manager, the burden is on you to lead the enterprise when it comes to creativity and innovation. When an innovation is introduced, one cannot leave it up to fate and hope for the best outcome, but, to see success, you must manage the innovation. A number of variables have an impact on how small enterprises manage innovation, such as skills level capacity, research and development activities and whether the business environment is generally receptive to new innovations.

## CONCLUSION

In this learning unit, we explored the concept of innovation and creativity and the role it plays in entrepreneurship and small business management. Entrepreneurs need to be aware of what their options are when exploiting creative ideas and what they need to do to manage their innovations. It is also important to understand what innovation is and what it is not. Lastly, to be successful, entrepreneurs need knowledge about how to manage their innovations and they have to be aware of environmental constraints that can affect their innovations.



### Useful terms

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It is useful for you to know the following important terms and their meanings, as they are used in this module.

- creativity
- innovation
- innovation misconceptions
- innovation ecosystem
- innovation management



### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 7

## Ethics, governance and sustainability

### AIM

The aim of this topic is for you to explore ethics, governance and sustainability in entrepreneurship and small business management in emerging economies. After completing this unit, you should be able to:

- share the importance of ethics in a small business
- support governance structures to a small business
- defend legislation that relates to ethical conduct in business
- judge measures that encourage ethical behaviour in a business
- support the measures of business sustainability

### INTRODUCTION

Ethical conduct is of utmost importance when running a successful business. Ethics refer to the moral principles that guide a person's behaviour. However, ethics is equally important in the business world and it should guide how a business conducts its affairs. A business needs to have a standpoint on what they deem as right or wrong in their dealings both internally and with external stakeholders. In this learning unit, we will look at the importance of business ethics and its role in small businesses, especially in emerging economies, and how governance can be applied in small businesses. We will also look at sustainability and how a small business, as it is critical to any economy, can become sustainable.



#### Activity 7.1: Ethics in business

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What do you understand by the term “ethics in business” and how does it apply to small businesses? Go to myUnisa and complete the self-assessment on ethics in business.

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Study “Ethics, governance and sustainability” in your prescribed textbook.

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### 7.1 IMPORTANCE OF ETHICS IN BUSINESS

Business ethics or corporate ethics are often used to describe the application of ethical values to business activities. This applies to all aspects of conduct by a business and its representatives. There are factors which are discussed in your prescribed textbook that could constitute ethical factors in business. Study these and see if you can think of other factors that you would consider important ethical issues in a business.



## Activity 7.2

What other factors constitute ethics in a business? Go to myUnisa and discuss your thoughts with your fellow students.

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## 7.2 ETHICS AND LAW

Law and ethics are not the same thing, although both exist in order to influence behaviour. The following table highlights the differences between ethics and law.

**Table 7.1:** Differences between ethics and law  
(Adapted from: Crane & Matten 2016:6)

Ethics	Law
Adhering to an ethical code is voluntary	Law is mandatory
Ethics speak to what is right, good and just	Laws define what is permissible
Individuals are responsible for clarifying meaning in any ambiguous ethical situation that may arise	Lawyers and judges are responsible for clarifying meaning where there is ambiguity or when a matter is subject to interpretation
Ethics do not usually have any punishment for violation	Law carries punishment for violation
Ethics are rules of conduct	Laws are ruled developed by governments to provide balance in society and protection of citizens

In organisations, employees can look to the code of ethics or the statement of values for guidance on how to handle ethically gray areas. Even when an individual has a clear sense of right and wrong, or good and bad, it can be difficult to know what is ethical in a given situation. In addition, there are times when people believe that the ends justify the means. In other words, if the result of an action is good, then it is okay if the action itself is unethical. Most ethical decisions exist in a gray area – where there is no clear-cut or obvious decision that can be determined solely through quantitative analysis or consideration of objective data or information (Crane & Matten, 2016:4). Ethical decision making requires judgment and interpretation, the application of a set of values to a set of perceptions and estimates of the consequences of an action. Sometimes ethical decisions involve choosing, not between good and bad, but between good and better or between bad and worse. A code of conduct for employees sets out the procedures that should be used in specific ethical situations. It also delineates the procedures required to determine whether a violation of the code of conduct has occurred and, if so, what remedies should be imposed.



### Activity 7.3: Ethical dilemma

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You are selected to be Head Judge in a business competition, where the winner will be awarded a grant of R100 000. You have co-judges, but it has been made clear to you that they will defer to you to guide them on their decision. Your best buddy, Katlego, just happens to be starting an amazing company. It's a revolutionary idea that could help reduce the environmental damage on 6 out of 7 continents in a rapid timeframe. "I could use the money," he says. "So, join the contest," you reply, "but remember, I cannot let our friendship interfere with my final decision." "I understand. Of course," he says. "I'm excited to see your presentation," you say encouragingly.

Presentation day comes and it was made clear to the participants that presentations will take place from 10 am–6 pm. Everybody shows up at 9 am to register and claim their time slots. Then they wait till they are called to present. That's how it's been done for years. However, Katlego hasn't shown up and you are worried. At 5 pm, when there was still no sign of him, you surreptitiously call him. You've been leaving texts all day, but none of them go through. At 5:55 pm, he shows up. Your co-judges are all still there, but they are packing up. His name isn't on the list. He looks dejected and tired. You feel the same. You haven't seen a good presentation all day. None of the young people today had prepared pitches that deserve the amount of money you're granting. You know Katlego would have killed it and he would have used the money to do something incredible and life-changing, unselfish and humane ... But, he didn't follow the rules. Your co-judges are watching you, wondering what you're about to say ...

This is your ethical dilemma ... Do you let him present?

Go to myUnisa and discuss your thoughts with your fellow students.

.....

## 7.3 CORPORATE GOVERNANCE

Study the section, "Corporate governance", in your prescribed textbook and pay attention to the principles that guide governance. Think of how corporate governance can be implemented in a small business.

## 7.4 SUSTAINABILITY

Sustainability is the capacity to endure over the long term through renewal, maintenance and sustenance. From an organisational perspective, sustainability is a criterion used to make decisions about business conduct and to evaluate the outcomes.

**Environmental** sustainability involves efforts to protect air, water and land from any harmful effects. It also encompasses stewardship for natural resources such as trees and wildlife. Sustainable business practices consider not only the use of resources in production, but also the assurance that those resources can be replenished for future use. Endeavours to reduce greenhouse gasses that are harmful to the atmosphere and to embrace alternative, renewable fuel sources such as wind and energy are examples of business practices that are supportive of environmental sustainability.

The **social** dimension of sustainability addresses concerns such as peace and social justice. Efforts to improve education, expand worker rights, minimise the use of child labour and increase the political empowerment of women, especially in developing countries, are examples of social sustainability practices. Reducing poverty by helping people develop the skills to earn their own livelihoods is another example of social sustainability.

**Economic** sustainability refers to business practices that do not diminish the prospects of future generations to enjoy levels of consumption, wealth, utility or welfare comparable to those enjoyed in the present. This means companies' operational practices reduce environmental damage and resource depletion. Efforts to influence business practices towards economic sustainability include pricing mechanisms such as carbon taxes that pass on the cost of environmental impact to the users of those resources.

Tracking sustainability measures can be performed by disclosing a business' performance with respect to activities that have a direct impact on the societal, environmental and economic performance of an organisation.



#### Activity 7.4

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Discuss the relationship between ethics, good governance and sustainability.

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## CONCLUSION

This unit discussed the meaning of ethics and how ethics can be applied in a small business. The differences between law and ethics are also highlighted. It is still widely debated whether corporate governance can be practised in a small business; however, it was discussed here and, as an entrepreneur, you need to apply what works for your particular business. Sustainability and good governance in business are also closely related to ethics and the ways in which a business can seek to become more sustainable is discussed. This is very important for small businesses in emerging economies, as most of them fail within the first few years of operation.



#### Useful terms

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It is useful for you to know the following important terms and their meaning as they are used in this module.

- ethics
- corporate governance
- sustainability
- law
- intellectual property



#### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 8

## Entrepreneurial finance for an emerging economy

### AIM

The aim of this topic is for you to be aware of the nature of financing and the sources of finance available to an entrepreneur within an emerging market context. After completing this unit, you should be able to:

- explain the nature of entrepreneurial finance
- discuss the sources of finance available for an entrepreneur
- appraise the financial needs of an emerging market entrepreneur
- illustrate basic financial entrepreneurial investment valuations
- design a financial plan for a small business/entrepreneur

### INTRODUCTION

This learning unit focuses on an important strategic aspect of the small business, which is finance. We are going to consider the financial needs of an entrepreneur or a small business and the sources of funds that are available for them. Small businesses need this information in order to make use of it when they need to. They also need to know where they can go for financial assistance and which is the best source of finance for their particular situation. Entrepreneurs also need a basic understanding of finance, to be able to make informed investment decisions or draw up a financial plan when necessary.



#### Activity 8.1: Getting started

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If you are the owner of a small business, discuss with your fellow students your business' financial journey. If you are an entrepreneur, discuss how you are going to finance your business idea. Share your experiences and thoughts on myUnisa.

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Study "Challenges of starting a business in an emerging economy" in your prescribed textbook.

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## 8.1 THE NATURE AND SOURCES OF ENTREPRENEURIAL FINANCE

Access to finance for entrepreneurs and small business owners, especially women, in emerging economies remains a challenge. Small businesses need money in order to finance a host of different requirements, which vary according to the type and stage of development of



the business and the financial circumstances of the entrepreneurs involved (Stokes & Wilson, 2017:410). It is therefore important for an entrepreneur or small business owner to match the use of funds with the appropriate funding methods.

An entrepreneur can make use of different sources of finance. You can find more information on this, which you need to study, in your prescribed textbook.



### Activity 8.2

Discuss how commercial banks in South Africa assist small businesses/entrepreneurs financially. Go to myUnisa and discuss this with your fellow students.

#### Small Enterprise Finance Agency (Sefa)

Sefa's core function is to foster the establishment, development and growth of SMMEs and cooperatives, and to contribute towards poverty alleviation, job creation and economic growth.

Our task is to provide SMMEs and cooperatives throughout South Africa with simple access to finance, in an efficient and sustainable manner, by:

- delivering wholesale and direct lending credit facilities or products
- providing credit guarantees to SMMEs and cooperatives
- supporting the institutional strengthening of financial intermediaries, so that they can effectively assist small and micro-enterprises and cooperatives
- creating strategic partnerships with a range of institutions for sustainable small, micro and cooperative enterprise development and support
- monitoring the effectiveness and impact of our financing, credit guarantee and capacity development activities
- developing (through partnerships) innovative finance products, tools and channels, to speed up increased market participation in the provision of affordable finance

In South Africa, there are many organisations that support small businesses by lending money to small businesses, Sefa is one such organisation. Visit Sefa's website, at [www.sefa.org.za](http://www.sefa.org.za), and learn more about what they do to assist small businesses through financing. Commercial banks in South Africa have recently developed programmes that assist small businesses by providing finance. Therefore, a small business or entrepreneur has a variety of sources of funds to choose from; however, they need to be aware of these options.

## 8.2 FINANCIAL PLANNING

It is important for a small business or an entrepreneur to have a feasible financial plan, as it will assist in predicting the income and financial needs of the business and how best they can be met. In your prescribed textbook, study the section on, "Determining the financial need of a beginner entrepreneur", and the subsequent section on the problems that an entrepreneur in an emerging market can come across in planning their finances for the business.

## 8.3 INVESTMENT VALUATION

Equity finance can be provided by banks, venture capital and private individuals acting as “business angels” or, more recently, “crowdfunders”. Venture capital provides risk finance for growing businesses, usually through equity capital (Stokes & Wilson, 2017:417). An entrepreneur therefore needs to understand the value of their investment and the risk involved when using venture capitalists to fund their business. Entrepreneurs/small business owners also need to know how to measure the financial risk of the business so that they are able to factor it in their financial planning. Study how different types of investment can be calculated in your prescribed textbook.

## 8.4 THE COST OF BORROWING

When the entrepreneur decides to make use of sources of finance that include paying back interest, for example long-term debt, they need to also calculate the cost of borrowing. How much will they end up repaying when the loan period is over, and would they be able afford it? That is why it is also important to employ capital budgeting techniques. Every investment includes cash outflows and cash inflows. There is the cash that is required to make the investment and (hopefully) the return.

In order to see whether the cash outflows are less than the cash inflows (i.e., the investment earns a positive return), the investor aggregates the cash flows. Since cash flows occur over a period of time, the investor knows that, due to the time value of money, each cash flow has a certain value today. Thus, in order to calculate the cash inflows and outflows, each cash flow must be discounted to a common point in time. You will find examples of capital budgeting techniques in your prescribed textbook.



Study the break-even analysis in your prescribed textbook. As an entrepreneur or small business owner, you need to know how to calculate the break-even point of your business.

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### Activity 8.3

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What other sources of finance are available for the small business owner/entrepreneur? Share your findings with your fellow students on myUnisa.

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## CONCLUSION

This learning unit focused on the uses and sources of finance that are available to the entrepreneur or small business owner. It is important to choose the appropriate source of finance that best suits the needs of your business at a given time. Financial and investment planning is also important for the entrepreneur to determine future cash inflows and outflows of the business.



## Useful terms

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It is useful for you to know the following important terms and their meanings as they are used in this module.

- internal/external finance
- venture capital
- sources of finance
- financial planning
- investment



## ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 9

## Enterprise development

### AIM

The aim of this topic is for you to be able to overcome obstacles in small business management and to grow a small business in an emerging economy. After completing this unit, you should be able to

- explain the concept of enterprise development
- demonstrate knowledge of the SMME environment in emerging economies
- discuss the business life cycle in an entrepreneurial environment
- describe the process of business incubation
- apply growth strategies to different stages of the lifecycle of the business

### INTRODUCTION

Enterprise development is a vehicle that can be adopted in emerging economies to foster economic growth. Growth takes the form of a life cycle and it is not usually sudden. Entrepreneurs and small business owners need to understand the concept of growth and the different stages in which they may find their business and be able to apply the appropriate growth strategies. The entrepreneur or small business owner also needs to understand his/her environment and apply appropriate growth strategies that suit the environment. Another form of enterprise development comes in the form of incubation, which is becoming popular in emerging economies.



#### Activity 9.1: Getting started

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Read the case study, “Chesa Nyama”, in your prescribed textbook and discuss the implications of listing your business on the stock exchange. You can read more on listing at the end of the chapter, in your prescribed textbook, BUT you will not be examined on this.

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Study “The life cycle of an enterprise” in your prescribed textbook.

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## 9.1 LIFE CYCLE OF A BUSINESS

An enterprise moves through different stages of growth; however, most small businesses do not actually go through these stages, as they fail within a short time of becoming operational, especially in emerging economies. The important factor in the lifecycle of a business is for the small business owner to be aware that different strategies and skills are required at

different stages of a business' life (Stokes & Wilson, 2017:233). Setting up a new business will not require the same managerial tasks as running an existing, fast growing one. A small business owner has to redefine their role and be flexible as the business circumstances change.



Read the section, "Growing an entrepreneurial venture", in your prescribed textbook, and learn about the characteristics of a growing firm and the different growth strategies that is available to an entrepreneur.

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### Activity 9.2

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Is success equal to growth? Does every small business have to grow into a larger enterprise? What about small businesses that have survived for more than 20 years, but still remain small, are they successful? Go to myUnisa to discuss this with your fellow students.

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## 9.2 SMALL BUSINESS ENVIRONMENT IN EMERGING ECONOMIES

Small businesses in emerging economies often find themselves in difficult circumstances with little or no support and this may lead to closure or, in some instances, a failure to grow. Governments have tried to create enabling environments for small business growth in emerging economies and it is up to small business owners to utilise the support that is best suited for their business circumstances.

In your prescribed textbook, study "The SMME environment in emerging economies" AND "Small business policies in South Africa, India and Brazil" AND "Small business support". Compare how the different governments offer support to small businesses and how they create an enabling environment for small businesses.



### Activity 9.3

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Discuss the funding agencies that are available to small businesses in South Africa. If you have used any of these agencies, please share your experience. Go to myUnisa and discuss this with your fellow students.

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## 9.3 INCUBATION

Incubation is one form of business development that assist in the development of starting or operating micro and small enterprises to transform ideas into products, processes and services. They offer technical, management and additional training support to the entrepreneur and also technical support for the development of their product. As such, the venture can be accompanied with expert advice, starting at the planning phase until the consolidation of its activities (Rizzi, Wescinski, Poli & Jacoski, 2017).

In Brazil, the business incubation process is divided into the following categories: (1) technology-based incubators; (2) traditional incubators; (3) mixed incubators; (4) social incubators; and (5) incubators of cooperatives. The technology-based incubators deal with companies in which technology represents a significant portion of the value added to the products, processes or services. The traditional incubators, in turn, cover companies in different sectors of the economy that want to add value to their products, processes or services, but which use widely-diffused technologies. The mixed incubators are those containing both technology-based ventures and traditional sectors of the economy. Finally, the social and cooperative incubators bring together ventures from social projects and associations (Rizzi, Wescinski, Poli & Jacoski, 2017).

Are you aware of the business incubation environment in South Africa or other emerging economies?



#### Activity 9.4

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Read the following article and discuss the contents with fellow students on myUnisa:

Lose, T, Nxopo, Z, Maziriri, E & Madinga, W. 2016. Navigating the role of business incubators: a review on the current literature on business incubation in South Africa. *Acta Universitatis Danubius. Œconomica* 12(5).

.....

## 9.4 CONCLUSION

In this learning unit, you have learned about business growth and what it means to a small business owner in an emerging economy. The lifecycle of the business is an important factor when planning for growth and the small business owner must know the different growth strategies that are applicable during the different lifecycle stages or circumstances of a business. It is also important to note the types of support that are available for small businesses in emerging economies that would help them to grow or, at the very least, survive and continue contributing to the economy. Incubation is recognised in emerging economies as a support tool for new small businesses, which can help them to develop and grow.



#### Useful terms

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It is useful for you to know the following important terms and their meanings as they are used in this module.

- enterprise development
- incubation
- lifecycle
- growth



#### ASSESSMENT

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After working through this learning unit, you should be able to answer the questions at the end of the chapter, in your prescribed textbook. You will find more practice questions on myUnisa.

# Learning unit 10

## Alternative paths to entrepreneurship

### AIM

The aim of this topic is for you to be aware of other ways to start a business, namely franchising and buying an existing business. After completing this unit, you should be able to:

- identify the different concepts in franchising
- discuss the considerations for purchasing an existing small business
- evaluate the advantages and disadvantages of buying an existing business, as opposed to starting a new venture
- apply the different methods of valuation of an existing business
- explain the different types and forms of franchising
- discuss the requirements of establishing a franchise business
- discuss the advantages and disadvantages of franchising

### INTRODUCTION

Buying an existing business can be more beneficial than starting from scratch, but also carries a significant amount of potential problems. Entrepreneurs can choose to buy an existing business as a means of market entry, especially where the barriers to entry for a new start-up are sufficiently high. An entrepreneur needs to be aware of all the factors surrounding the business they wish to purchase, so that they can make an informed decision. Franchising is a method for starting a new business within the framework of an existing, larger business entity. The entrepreneur should be aware of the different forms and types of franchising and how to establish a franchise business.



#### Activity 10.1: Getting started

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In your opinion, what motivates entrepreneurs to opt for an existing business rather than starting one from scratch?

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### 10.1 BUYING AN EXISTING BUSINESS

In buying an existing business, it is important to recognise what exactly is for sale. This will depend on the legal status of the business and whether it will be sold with its assets or not. The entrepreneur needs to be aware of the tangible assets of the business such as stock, machinery, furniture and the intangible assets such as goodwill, image, employees and customers. The entrepreneur or small business owner needs to take all assets into consideration that are being sold as part of the valuation of the business.

There are two basic ways of valuing an existing business, namely:

1. **The market or other valuation of the assets to be acquired** – the tangible assets are usually valued in this way, in other words, the property, fixtures and fittings, equipment, stock and debtors can all be physically and separately identified and valued.
2. **Multiple of the annual profits** – in this case, a buyer can consider the earning power of the business now and in the future as a basis for valuation. This brings into play the valuation of the intangible assets, which are usually measured through profit.

Some businesses are asset rich and therefore profitability becomes of secondary importance in the valuation. In this case, businesses would be priced according to the market value of other similar businesses in the area. Businesses with no real tangible assets such as service industries can only be measured by profitability, because their assets are overwhelmingly intangible. Practically, businesses are usually valued on a mix of both tangible and intangible assets (Stokes & Wilson, 2017:292).

If intangible assets are to be judged by profitability, how much profit should be taken into account? This is normally expressed as a multiple of annual profits, taking the following factors into consideration:

- **Quality of earnings** – which is measured by a history of several profitable years in business. If a business can demonstrate that it has a sound, continuing level of profitability and has a well-established customer base, then it is said to have good quality earnings.
- The **interest rates** need to be taken into consideration, because, when the interest on a loan to buy a business exceeds the profits of that business, then it will not be a viable option. The same can be said for the rate of inflation, where the return or profits of an investment have to keep pace with inflation just to maintain its value.
- **Non-quantitative factors in valuing a business** – when buying an existing business, there are other factors, which are not monetary, that an entrepreneur should consider, study these in your prescribed textbook. These factors also apply when considering franchising as a way to get into business.



### Activity 10.2

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In addition to the above, what other factors might be important when valuing a business? Go to myUnisa to discuss this with your fellow students.

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## 10.2 ADVANTAGES AND DISADVANTAGES OF BUYING AN EXISTING BUSINESS

Stokes and Wilson (2017:295) suggest the following advantages and disadvantages of buying an existing business:



## Advantages

- **Overcomes barriers to market entry** – where barriers exist, buying an existing business may be the most realistic alternative, for instance, the entrepreneur does not have to go through the process of obtaining legal permits.
- **Buying immediate turnover and income** – this is important, especially when the buyer has no other sources of income.
- **Buying market share** in a specific market, which is one of the key ingredients for a successful small business. If existing businesses control a significant percentage of the market, then it might be advantageous to buy into that market, rather than to compete with them.
- The cost and time required to put in place **existing assets of property, equipment and staff** can be considerable, it may therefore be more appropriate to focus resources and energy on the marketplace through an existing business.
- **Goodwill with existing customers** is evidence of the viability of a business concept and therefore takes some of the risk out of small business ownership.
- An **existing track record** brings the ability to look over the past performance of a business and provides comfort, not only to the potential buyer, but to financial institutions such as banks. It is easier to fund a business with evidence of a good track record, over a number of years, than one with no history at all.

## Disadvantages

- **Buying possible liabilities with assets** can form part of the risk when they are known; however, the greatest problem is the possibility of liabilities that are not recognised at the time of purchase emerging at a later date.
- **Uncertainty over records** – sole traders and partnerships are not required to have their accounts audited, so some information may be withheld. The onus here is therefore on the buyer to ask the right questions, not on the seller to provide all the information.
- **Risk in regard to intangible assets** – for instance, the goodwill inherent in an existing business, which can disappear very rapidly if a new owner makes inappropriate changes. A previous owner may represent a substantial part of the goodwill, which goes with them when they leave.
- **Historical problems in the business**, which can be negative goodwill that is not immediately apparent in the form of poor relationships with suppliers or staff.
- **Not all my own work** – some of the satisfaction an entrepreneur gains from starting a new business, including taking a business idea from its conception to successful implementation, can be diminished by buying an existing business. There is no sense of achievement and, often times, no motivation to make it succeed.



### Activity 10.3

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In your prescribed textbook, read about the franchising opportunities in South Africa and the franchising environment in emerging economies in Africa. Go to myUnisa and discuss this with your fellow students.

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## 10.3 FRANCHISING

Franchising is a business arrangement in which one party (the franchisor) allows others (the franchisees) to use a business name or sell products in such a way that the franchisee operates their own legally separate business (Stokes & Wilson, 2017:257). This means that the franchisee pays for the right to use the franchisor's trade name/trademark, business know how, methods, systems and other intellectual property rights. The parties have to sign a franchise agreement. Franchising comes mainly in the form of business format, product or distribution and manufacturing, production or process franchising, which are discussed in your prescribed textbook. There are also different types of franchisees, depending on the business or industry in which they are found.



Study the section on the different types of franchising in your prescribed textbook.

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### Activity 10.4

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Is a franchise a small business or a managed branch of a larger organisation? Go to myUnisa and discuss this with your fellow students.

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## 10.4 DISADVANTAGES AND ADVANTAGES OF FRANCHISING

Franchising can be beneficial to both the franchisor and the franchisee. The advantages and disadvantages from both perspectives are discussed in your prescribed textbook. To make an informed decision, the entrepreneur needs to be aware of the advantages and disadvantages associated with franchising before making the decision to buy.

## 10.5 ESTABLISHING A FRANCHISE BUSINESS

Both the franchisee and the franchisor need to be aware of the financial aspects when entering the franchise agreement, for example, the upfront fee and ongoing monthly fees that the franchisee needs to pay. In establishing a franchise, the franchisor should make available all the business procedures and operations so that it is clear to the franchisee what they are buying. There are factors that the franchisor should take into consideration to be able to franchise the business, which are discussed in your prescribed textbook.



Study the sections, "How to establish a franchise business operation" **AND** "Developing the franchise package" in your prescribed textbook.

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## CONCLUSION

In this learning unit, you have learned about two alternative routes to entrepreneurship. Buying an existing business and franchising were discussed as alternatives available to the entrepreneur, who wants to hit the ground running in business. Not having the stress of setting up a business is one of the advantages of buying an already existing business. However, there are also disadvantages related to buying an existing business, which an entrepreneur has to take into account. Therefore, the entrepreneur should be able to weigh the benefits as well as the drawbacks of buying an existing business to make an informed and, potentially, a profitable decision.



### Useful terms

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It is useful for you to know the following important terms and their meanings, as they are used in this module:

- franchising
- franchisor/franchisee
- business valuation
- business-format franchising



### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 11

## The family business

### AIM

The aim of this topic is to understand the structure of the family business and be able to identify elements that are unique to emerging economies. After completing this unit, you should be able to:

- define a family business
- explain the dynamics of a family business in emerging economies
- distinguish between a family business in a developed and in an emerging economy
- discuss the challenges faced by family businesses in emerging economies
- identify family business systems/models

### INTRODUCTION

An entrepreneur can choose to go into business with family members and, if the prospects are to hand the business over to another generation in the family, then the business can be seen as a family business. This learning unit will focus on the structure of the family business, determine if there are any differences in family businesses in developed and emerging economies and on the challenges that are unique to the family business. This will enable the entrepreneur or small business owner to make an informed decision as to whether they want to go into business with family members or not.



#### Activity 11.1

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What are the advantages and disadvantages of having a business run by members of the same family?

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### 11.1 DEFINING THE FAMILY BUSINESS

Definitions of a family business vary, however, the most accepted definitions suggest that a family business employs more than one family member, which is common in family businesses, and is passed on to a second generation, which happens less frequently (Stokes & Wilson, 2017:469).



Study the definition of a family business in your prescribed textbook.

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### Activity 11.2

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Study the section, “Family business theories/models”, in your textbook, and discuss any conflict that may occur in the two broad systems of the family business. Go to myUnisa and discuss this with your fellow students.

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## 11.2 FAMILY BUSINESS DYNAMICS IN EMERGING MARKETS

Work through this section in your prescribed textbook to get a sense of what differentiates a family business in an emerging economy from such a business in a more developed one. A family business has to navigate through certain aspects that are not found in a non-family business, such as succession.

After studying this section, you should be able to identify the challenges that a family business is faced with, the competitive advantage it has and how a family business can manage succession.



### Activity 11.3

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Read, “Family business in the African context”, in your prescribed textbook and share your thoughts on whether there is a uniqueness to family businesses in the African context. Go to myUnisa and discuss it with your fellow students.

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## 11.3 FAMILY BUSINESSES IN SOUTH AFRICA

This learning unit concludes in your prescribed textbook by looking at family businesses in South Africa. You need to identify the challenges faced by family businesses specifically in South Africa.



### Activity 11.4

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What are the characteristics of a family business that differentiates it from a non-family business? Discuss as many characteristics that you can think of.

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## 11.4 CHARACTERISTICS OF A FAMILY BUSINESS

Motivations of running a family business may differ from that of a non-family business some of which are discussed below:

- The priority of a family business may be to provide employment and income for family members, with less emphasis on commercial goals such as profit generation and business growth.
- The family hierarchy is an added complication to the normal issues of managing people. This may act as a constraint, which sometimes contradicts business ra-

tionality when preference is given to family members in recruitment, training and remuneration.

- Issues relating to the ownership of the business and responsibilities in running the business are often less clear in a family business, but can be an advantage in terms of speedy decision making due to short lines of communication.
- It can be argued that succession issues are the most important defining feature of a family business. The impending departure or retirement of the founder or leader of the business can be destabilising. Conflict may easily arise when there is no natural successor (Stokes & Wilson, 2017:469).

## CONCLUSION

In this learning unit, you were introduced to the family business, its structure and characteristics and how it differs from a non-family business. A family business needs to navigate the business environment with added challenges such as succession planning and other issues, which are unique to the family business. For a family business to survive, it needs to come up with strategies to deal with these unique issues. From an emerging market perspective, these challenges become contextualised and they have to be taken as such. As a small business owner and entrepreneur, we hope to have given you enough information in this introduction to family businesses for you to decide whether to go into business with family members or not.



### Useful terms

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It is useful for you to know the following important terms and their meanings, as they are used in this module.

- Family business
- Family system
- Succession
- Advisory board



### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter, in your prescribed textbook. You will find more practice questions on myUnisa.*

# Learning unit 12

## Social entrepreneurship

### AIM

The aim of this topic is for you to discover social entrepreneurship. After completing this unit, you should be able to:

- define social entrepreneurship
- differentiate between social and commercial entrepreneurship
- explain the benefits and importance of social entrepreneurship
- discuss the driving forces of social entrepreneurship that are relevant to South Africa

### INTRODUCTION

Some entrepreneurs are not solely driven by profit, they also motivated to resolve some or other social problem. Social entrepreneurship has the primary objective of adding value to the society rather than to the individual behind the entrepreneurial venture. In this learning unit, you will learn about the social entrepreneur, the importance of social entrepreneurship and what drives social entrepreneurship in South Africa.



#### Activity 12.1

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What do you understand by the term “social entrepreneurship”? Go to myUnisa and discuss this with your fellow students.

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### 12.1 DEFINING SOCIAL AND COMMERCIAL ENTREPRENEURSHIP

Social entrepreneurs do not have profit or other personal needs as their primary aim, but they use entrepreneurial processes to fulfil the social or economic needs of others. Social entrepreneurs make a positive difference in the lives of others by emphasising the social responsibility of their ventures, before the need to maximise profits.



Read the section, “Defining social entrepreneurship and commercial entrepreneurship” in your prescribed textbook.

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Take note of the benefits of social entrepreneurship to both the entrepreneur and society. Also, distinguish between social and traditional entrepreneurs AND the importance of social entrepreneurship. From the definition of social entrepreneurship, it is clear that entrepreneurs put the needs of society before themselves, thereby achieving a societal advantage.



### Activity 12.2

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Give examples of social entrepreneurs whom you know and briefly discuss their business focus? Go to myUnisa and discuss this with your fellow students.

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## 12.2 SOCIAL ENTREPRENEURSHIP IN SOUTH AFRICA

Social entrepreneurship tends to produce greater value in emerging economies, as these economies have limited resources. Therefore, social value and sustainability become important in an emerging economy.

Work through the section on social entrepreneurship in the South African context and take note of the driving forces of social entrepreneurship in an emerging economy such as South Africa.



### Activity 12.3

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Read the case study, "Case study on ambition: Muhammad Yunus", and answer the questions that follow. Go to myUnisa and discuss it with your fellow students.

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## CONCLUSION

In this learning unit, you were introduced to the concept of social entrepreneurship. Social entrepreneurs' main objective is to contribute to the lives of others in a positive way and maximising profit is not their primary objective. The importance and benefits of social entrepreneurs were discussed and how these enterprises differ from traditional entrepreneurial ventures. The prospective social entrepreneur also has to be aware of the environment in which they operate in order to know which social problems exist in that specific environment.



### Useful terms

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It is useful for you to know the following important terms and their meaning, as they are used in this module.

- social entrepreneurship
- social value
- sustainability



### ASSESSMENT

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*After working through this learning unit, you should be able to answer the questions at the end of the chapter, in your prescribed textbook. You will find more practice questions on myUnisa.*



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