

LESSON 06

Business Venture

LO 2 AS 4

Critically reflect on a business venture, assess its entrepreneurial qualities.

LO 2 AS 5

Business venture addresses issues such as human rights, inclusivity and environmental issues.

LO 2 AS 8

Particular form of ownership can contribute to the success or failure of a business.

LO 4 AS 6

How quality of performance within the business functions can influence the success or failure of a business

1. ENTREPRENEURIAL QUALITIES

1.1 Entrepreneur

An entrepreneur can be defined as a person who has seen the need in the market and has come up with a way to satisfy that need. Entrepreneurship is the key factor of production and it combines the other three factors of production (labour, capital and resources)

1.2 Qualities of Entrepreneurs

- They have innovative ideas
- They have good interpersonal relations
- They identify opportunities
- They are willing to take risks
- They show good leadership and management skills
- They have organisational skills
- They have a desire for responsibility
- They are flexible and can change quickly
- They are diligent (positive, confident and commit their energy full time to the business venture)
- They have problem - solving skills
- They have good communication skills
- They have a healthy relationship with money
- Other Qualities:** High level of energy, desire feedback, high tolerance and commitment.



2. WHAT MAKES A BUSINESS SUCCESSFUL?

2.1 A Good Business Idea

A successful business is based on a good idea. The business must address a real desire / need of the people for it to succeed. In other words it must fill a gap in the market.

What constitutes a good business idea?

2.2 Strategic Skills

These skills enable the entrepreneur to see clearly how the business satisfies the market and to run in such a way that customers realise the value of what it offers.

2.3 Planning and Management Skills

This is critical for the success of the business. A good business plan provides information about target markets, budgets, cash flow, etc. Effective control by managers is also essential. At the center of successful management is communication.

2.4 Financial Control

This refers to the ability to manage money. It will enable managers to keep track of income and expenditure and monitor cash flow. Entrepreneurs also need to assess business investments in terms of their risks and potential.

2.5 Human Relation Skills

This will help the entrepreneur deal with people such as employees, customers, suppliers, etc. On the issue of employees the entrepreneur needs to be able to motivate them. Workers are reluctant to join a business that has a high staff turnover.

2.6 Marketing Skills

Entrepreneurs must understand the market. They need to focus on the target market and ascertain the needs of that market and develop products or services to meet the needs of that market. Market research is a way to measure the needs of the market. The more a business understands the factors that affect its market, the more likely it is to succeed.

2.7 Industry Knowledge & Trends

Conditions that apply to the industry as a whole will also apply to a business in that industry. A decline in consumer spending may lead to decline in turnover in the retail industry. If a business is successful it is rewarded with profits. Losses can be suffered if the business fails to achieve its goals. Key success factors differ from business to business depending on the nature of the business.

Task: 1

List the success factors for a restaurant.

Task: 2

List the success factors for a small retail business.

Task: 3

List the success factors for a small business that manufactures furniture.



3. HUMAN RIGHTS, INCLUSIVITY AND ENVIRONMENTAL ISSUES

3.1 Human Rights

The Constitution of South Africa has laid the foundation for promoting and protecting human rights. The most important laws regulating human rights in the workplace are:

- The Constitution and the Bill of Rights
- The Employment Equity Act, 1998
- The Basic Conditions of Employment Act, 2002
- The Labour Relations Act, 2002



Business can contribute to a healthy community by honouring rights in the following ways:

- providing health care and a safe and healthy workplace for all.
- enlightening workers and clients on the role of human rights in the business and also make them aware of human rights' violations.
- by taking a strong position against issues such as drugs, child abuse, etc
- employees must be educated and encouraged to take action where violations of human rights take place.
- creating a safe environment for all customers and workers
- treating customers, employees, suppliers and competitors with respect and dignity.

There are several human rights organisations that expose human abuses and also create human rights in countries where it does not exist.

Task:4

Name three main human rights organisations.

3.2 INCLUSIVITY

Inclusivity means equal opportunities for all. Businesses are expected to treat all people fairly, regardless of gender, race, age, language, disability or sexual orientation. Businesses must apply inclusivity and diversity. They must adapt to changes and accommodate new employees, suppliers and customers.

In terms of the law businesses are expected to apply affirmative action. This is done in order to:

- identify and eliminate employment barriers, including unfair discrimination
- to ensure equal dignity and respect of all people and can create diversity in the workplace
- ensure equitable representation in all occupational categories and levels in the workforce.

Task: 5

Name and explain four ways a business can manage cultural diversity in the workplace.

3.3 ENVIRONMENTAL ISSUES

There are many environmental issues that are of increasing concern in the world. Businesses can address environmental issues in the community.

Research the following:

- What factors are the major threats to the environment?
- What can businesses do to reduce the threat to our environment?
- What role can government play in protecting our environment?

Task: 6

Outline the principles on which the Marine Living Resources Act is based.

Task: 7

Explain what is meant by each of the following terms:

- biodiversity
- ecological degradation
- strategy
- Global warming

Insurance & Investments

LO2 AS 7

Investigate a range of available business investment opportunities, distinguish between assurance and insurance (both compulsory and non-compulsory) and discuss the viability and relevance of these to both individuals and businesses

BUSINESS INVESTMENT

1. DEFINITION

Investment may be defined as the formation of capital. It involves considering where best to spend profits so as to ensure maximum long-term return.

A business invests in:

- business premises
- equipment and machinery
- their staff



2. INVESTMENT OPPORTUNITIES

Listed above are the business opportunities that are found in the business. However, entrepreneurs may choose to invest outside the business as well. Some examples are dealt with below.

2.1 JSE

- A stock exchange provides for the purchase and sale of shares in various companies listed on the stock exchange
- The JSE is the largest stock exchange in Africa.
- Investors use a registered stockbroker to buy and sell shares on the stock exchange.
- The investors instruct their stockbrokers to buy and sell shares in a particular company
- The investors will hold on to their shares and may decide to sell when the share prices rise.
- The difference between what they paid for the shares and what they sold it for is their profit.
- This is regarded as a high-risk investment because there is no guarantee that the share prices will rise.

2.2 Unit Trusts

A. Definition

Unit trust is the pooling of money of a number of people into a single fund which is then used to buy shares on the stock exchange. Unit trusts are managed by professionals who are called fund managers or portfolio managers.

The role of these fund managers is to:

- increase the value of these funds
- to manage these funds
- to buy more shares
- to sell shares
- to invest in another company should it be a better option



B. Main Divisions of Unit Trusts

There are two main divisions of unit trust funds:

- Income funds are designed to give the investor an income in the form of interest.
- Capital growth funds sources out investments that will grow the value of the capital invested.

C. Characteristics of Unit Trusts

- It provides a method of investing on the stock exchange in shares in a less risky way because their investment is spread over a range of securities.
- You can invest or withdraw your money at anytime from a unit trust fund.
- The size of the fund increases or decreases as you add or withdraw money from it.
- Operating costs are low as investors are not buying and selling shares.
- Unit trusts are longer-term investments.
- Income that a unit trust earns can be a combination of dividends and interest or interest only.
- South African regulated unit trusts are those having more Than 75% of their market value invested in local markets

The price of unit trusts are published in the daily newspapers.

Two prices are quoted:

Selling price: is the price you pay to buy unit trusts from the management company.

Re-purchase price: is the price the management company will pay investors wishing to sell their unit trusts.

3. CALCULATION OF INTEREST

- Interest rates are used to indicate the return on an investment
- The rate of interest is expressed as a percentage over a specified period of time.
- Simple interest is calculated on the original investment only
- If you invest R2 000 at 12% p.a. for one year

Therefore the simple interest will be:

$$\begin{aligned} & \text{R2 000} \times \frac{12}{100} \times \frac{12}{12} \\ & = \text{R240} \end{aligned}$$

- Compound interest is calculated on the original capital investment as well as on interest already earned.
- Example:** If a person invests R2 000 in savings account for two years at an interest rate of 12% p.a. and earns compound interest, what is the interest earned after two year?

Answer : Interest for First Year: $\text{R2 000} \times \frac{12}{100} \times \frac{12}{12} = \text{R240}$

Interest for Year Two: $\text{R2 240} \times \frac{12}{100} \times \frac{12}{12} = \text{R268,80}$

Total interest earned = $\text{R240} + \text{R268,80} = \text{R508,80}$

(Compare to simple interest earned for two years which $\text{R240} + \text{R240} = \text{R480}$)

- Future value of an investment can be calculated using the following formula $\text{FV} = \text{PV} (1+r)$

Example:

Jan invested R6 000 at 10% p.a. for two years with an investment company. Calculate the value of his investment after two years if he earns compound interest.

$$\begin{aligned} \text{FV} &= \text{R6 000} (1 + 0.1) \\ &= \text{R 7 260} \end{aligned}$$

Note the interest earned is $\text{R7 260} - \text{R6 000} = \text{R1 260}$

Task: 9

- Peter invested R20 000 with a leading bank and will earn simple interest at 8% p.a. Calculate the interest he will earn for two years.
- Mr Dlamini has invested R10 000 for 10 years with an insurance company. The insurance company promised to pay him compound interest at 13% p.a. Calculate:
 - the future value of his investment
 - the interest he will earn on the investment on maturity.

Insurance / Assurance

1. DEFINITIONS

Insurance is a contract or an agreement between the insured and the insurer in which the insurer undertakes to, upon receipt of a premium, indemnify the losses suffered by the insured as a result of a specific event.

Assurance is insurance on the life of a human being. Unlike loss in insurance on property, loss in life insurance is certain to occur.

Whole-Life policies provide for payment of the amount of the policy on the death of the insured.

Endowment policies provide for the payment of a basic sum at a certain age or on death of the insured, whichever comes first

Retirement Annuities are a popular form of long-term insurance and investment. They provide some financial security for investors once he or she reaches retirement age.

