



Small Medium and Micro Enterprise: SMME4 LESSON 10

Unit Standard: 10006 SO1

Topic: Demonstrate and Understanding of Enterprise and Develop Entrepreneurial Qualities.

By the end of this lesson, you should be able to:

1. Describe and discuss entrepreneurship
2. Identify, describe and discuss different types of businesses
3. Advantages and disadvantages of an entrepreneur
4. Roles of entrepreneur in the social development to develop community
5. Enabling programs to assist and develop entrepreneurs to grow their businesses.

WHAT IS MEANT BY THE TERM ENTREPRENEUR?

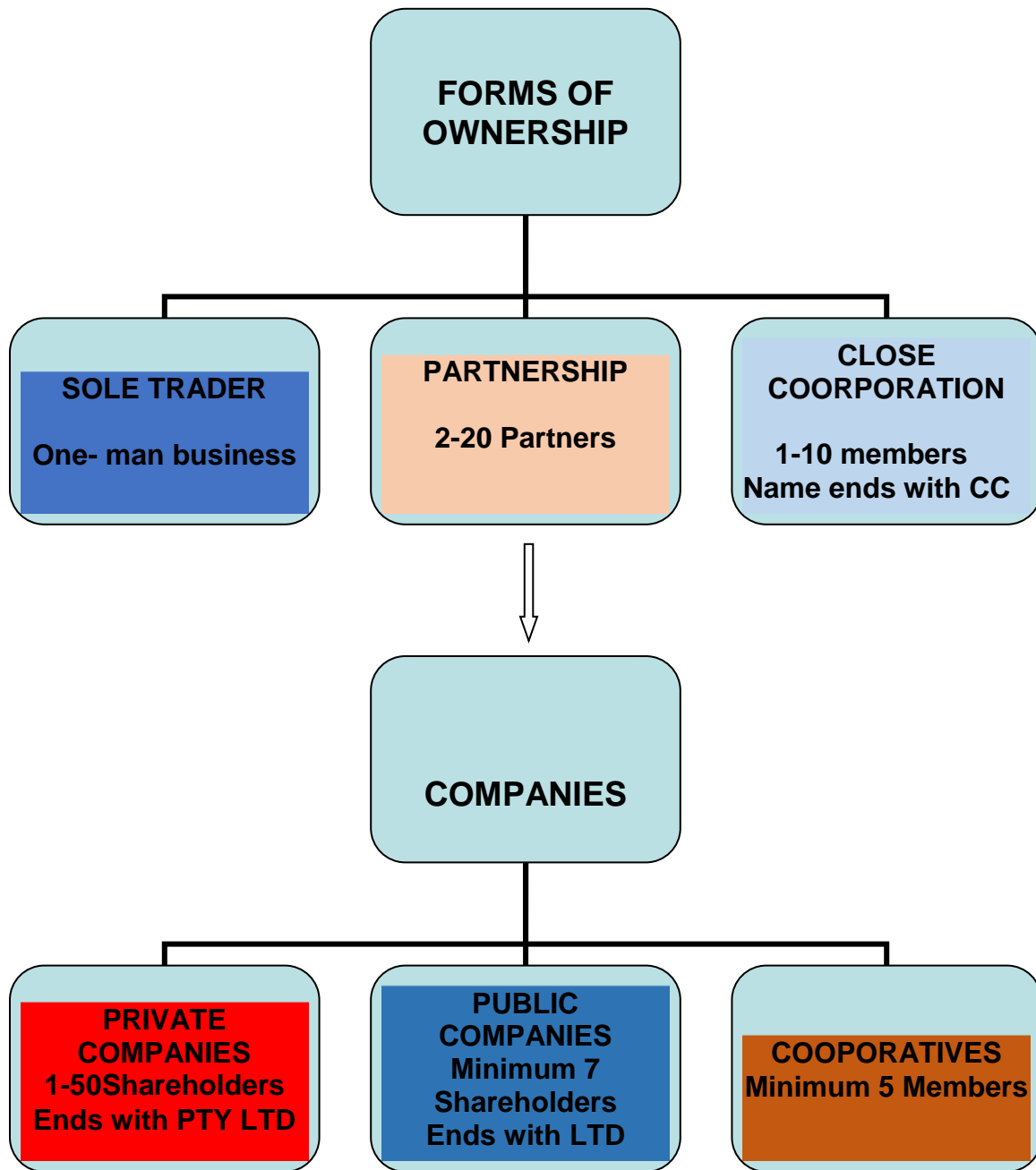
- Entrepreneur is a person who takes initiative and risk to start his/ her own business with the aim of making profit.
- Entrepreneur is someone who starts his/ her own business to make a profit
- An entrepreneur is an individual who after conducting a market research sees an opportunity, take a risk , opens a business in order to make profit

TYPES OF BUSINESSES

- **Service business** – they offer services to customers e.g., hair salon, driving school and dry-clean.
- **Manufacturing business**- they convert raw material into finished or semi-finished goods e.g. dress making, car manufacture and furniture stores.
- **Trading/ Retail business** – they buy in bulk from suppliers and sell in small quantities to customers e.g. supermarket, bottle store and butchery.

FORMS OF OWNERSHIP

1. **Sole trader/ sole proprietary** – is a form of business that is owned and run by one person.
2. **Partnership** – is a form of business that is owned and run by 2-20 partners.
3. **Close corporation** –is a form of business that is owned and run by 1-10 members.
4. **Co-operatives** – is a form of business, which is owned and run jointly by **five members**.
5. **Public company** – is a form of business that is owned and run by 1-50 shareholders.
6. **Private company** – is a form of business that is owned and run by 7 shareholders.



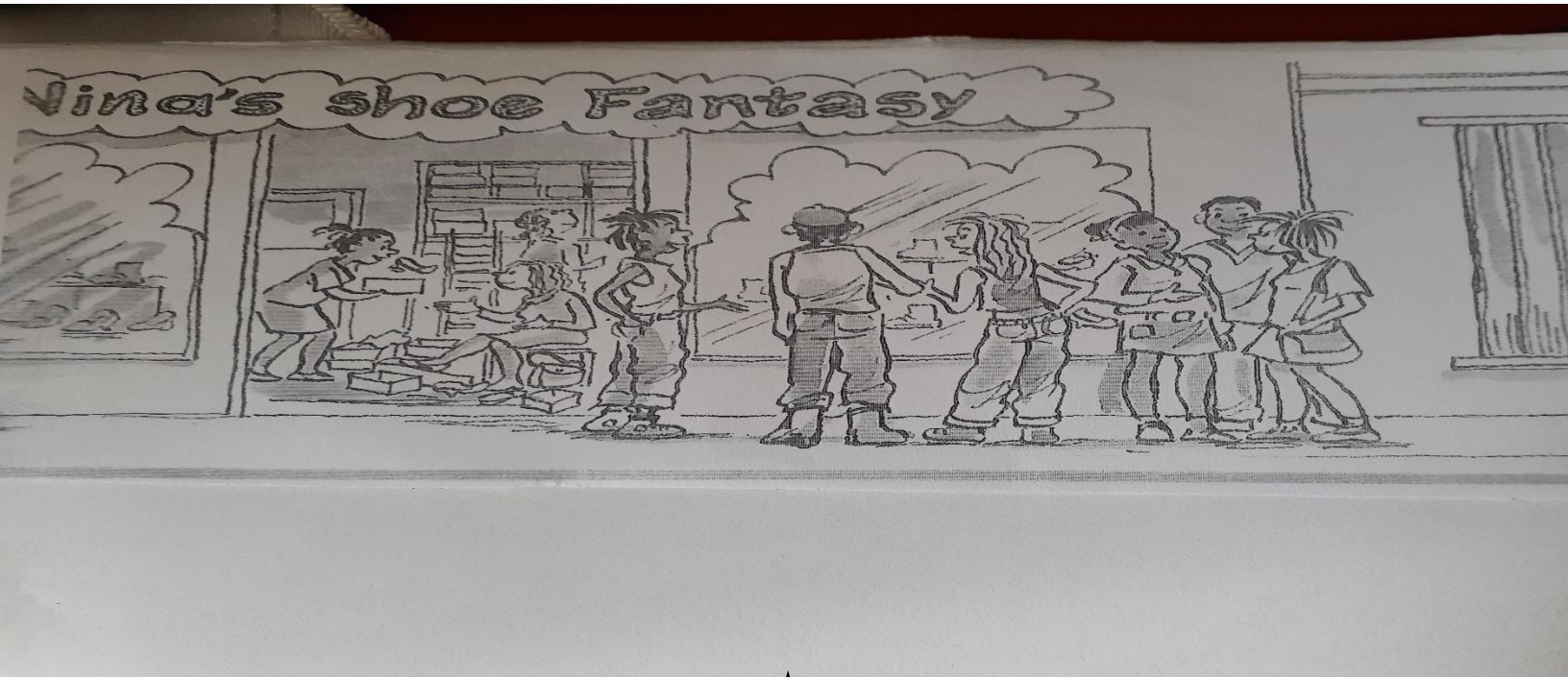
CHARACTERISTICS OF FORMS OF OWNERSHIP

	Sole trader	Partnership	Close corporation	Co-operatives	Private Company	Public company
Number	1 owner	2-20 partners	1-10 Members	5 Members	1-50 Shareholders	At least 7 shareholders
Name of the enterprise	Use any name	Must end with &	Must end with CC	Must end with CO-OP LTD	Must end with PTY(LTD)	Must end with LTD
Continuity of the business	Lack continuity, if owner dies the business stops	No continuity if one partner dies the business dissolves	Continuous, unless dissolved by insolvency	Has continuity	Indefinite continuity unless the company is liquidated	Indefinite continuity unless the company is liquidated
Establishment	Trading license not necessary	Trading license	Registration with registrar of cc's	Registration with registrar of co-op's	Registration with Registrar of companies	Registration with Registrar of companies
Management	The owner	Partners per agreement	Every member is a manager	Every member have right to vote	Shareholders per agreement	Shareholders per agreement
Legal personality	None	None	Yes act 69 of 1984	Yes act 24 of 2009	Yes act 71 Of 2008	Yes act 71 of 2008
Continuity	Limited	Limited	Unlimited	Limited	Unlimited	Unlimited
Division of profit	Owner receive all profit	Partners as per agreement	Dividends according to partners	Dividends according to shareholders	Dividends according to shareholders	Dividends according to shareholders
Tax	Personal income tax	Personal income tax	Company tax rate	Company tax rate	Company tax rate	Company tax rate
Financial statement	Not necessary to publish and audit	Not necessary to publish and audit	Necessary to publish and audit	Necessary to publish and audit	Necessary to publish and audit	Necessary to publish and audit

ADVANTAGES AND DISADVANTAGES OF FORMS OF OWNERSHIP

Form of ownership	Advantages	Disadvantages
Sole trader	<ul style="list-style-type: none"> • Owner takes all the profit • Owner makes all decisions • Owner has full control over the business • Depends on skills of owner • It is easy to start 	<ul style="list-style-type: none"> • If the owner dies, business ends. i.e. the lifespan of the business is limited • Cash flow is often a problem • Owner has to pay all debt • The business is not a legal entity
Partnership	<ul style="list-style-type: none"> • More profit will be generated • Better decisions can be made • Partners invest new capital into the business • New ideas can be generated • It is easy to register 	<ul style="list-style-type: none"> • Partners may disagree and cause conflict • Partnership may terminate on the death of partner • Transfer of ownership can be difficult • Discussions can slow decision making
Close corporation	<ul style="list-style-type: none"> • Each member contribute equally • Each member represent cc • There are no directors but members • It is easy to register 	<ul style="list-style-type: none"> • Membership is limited to 10 members • Members pay debts and taxes • If a member want to sell his/ her shares all members must agree • It is not controlled by legislation
Co-operatives	<ul style="list-style-type: none"> • Inexpensive to register • Members have equal voting rights • Members can join and leave the business without causing dissolution • Government offer grants to co-operatives 	<ul style="list-style-type: none"> • Lack of membership and participation • Does not involve long and complicated legal formalities • Lack of profit motive • Has to submit its annual reports and accounts to registrar
Private company	<ul style="list-style-type: none"> • Company has unlimited number of shareholders • Money is available for the business • More ideas can be generated • More opportunities to pay tax 	<ul style="list-style-type: none"> • It is expensive to establish • It is difficult to register • The company is subjected to double taxation • Shares cannot be sold to public
Public company	<ul style="list-style-type: none"> • Share are freely transferable • Capital is raised by selling shares • It is easier to attract capital investment 	<ul style="list-style-type: none"> • It is complicated and expensive to register • It requires expensive procedures • It is subjected to double taxation

THE PICTURE BELOW DEPICTS THE ADVANTAGES OF OWNING A BUSINESS



ADVANTAGES OF BEING ENTREPRENEUR

- To be your own boss
- To make profit
- To make his/ her own decisions
- Work at your time
- Make all the decisions
- Having more customers

DISADVANTAGES OF BEING ENTREPRENEUR

- Business may fail
- Unpredictability of the income
- Financial risk
- Pressure to succeed
- Spending all your time in your business

ROLES OF AN ENTREPRENEUR IN THE SOCIAL DEVELOPMENT TO DEVELOP COMMUNITY

- **Job creation** – by creating job opportunities to the community to assist in the business.
- **Empowerment** – by transferring skills to members of the community through skills development programmes.
- **Wealth creation** – by circulating money within the community, this allows the business to benefit.
- **Negation of migrant labour** –to employ local people therefore the number of people leaving the community find jobs in towns and cities is reduced.
- **Urbanization** – to improve the area where the business is located into the urban area e.g. infrastructure, roads, electricity and water supply.

ENABLING PROGRAMMES TO ASSIST AND DEVELOP ENTREPRENEURS TO GROW THEIR BUSINESSES.

1. **NYDA- National Youth Development Agency**
 - To subsidize young entrepreneurs between 18 to 35 years of age.
 - To create and promote coordination in youth development matters.
2. **UYF- Umsobomvu Youth Fund**
 - To create a platform for job creation, skills development and transfer for South Africa's young people.
3. **LFSB- Local Forum for Small Business**
 - To offer their members a variety of benefits aimed at catering for the needs of the self-employed and small to medium size businesses.
4. **SBDC- Small Business Development Corporation**
 - To provide support for individuals who want to open their own business.
5. **SEDA- Small Enterprise Development Agency**
 - To develop, support and promote small business and ensuring their growth.
6. **NEF- National Empowerment Fund**
 - To provide financial funding and venture capital in support of black empowerment.

INDIVIDUAL EXERCISE

1

. What is an entrepreneur?

(2)

2

. List **FIVE** characteristics of successful entrepreneur.

(5)

3. Give a brief description of each of the following types of business and give one example of each type.

3.1 Service business:

(2)

3.2 Manufacturing business:

(2)

3.3 Trading/ Retail business:

(2)

4. List **FOUR** roles of entrepreneur.

(4)

5. Explain the following roles of the entrepreneur in the social development to develop communities:

5.1 Job creation

(2)

5.2 Wealth creation

(2)

5.3 Negation of migrants labor

(2)

5.4 Urbanization

(2)

5.5 Empowerment

(2)

6 Explain the function of each of the following programmes

6.1 SEDA (Small Enterprise Development Agency)

_____ (1)

6.2 NYDA (National Youth Development Agency)

_____ (1)

6.3 SBDC (**Small Business Development Corporation**)

_____ (1)

[30]

7. Read the following case study and then answer the following questions:

Sam started a business of repairing TV's in his garage. Many people are bringing their TV's to him for repairs. He cannot do all the work on time; he needed extra person with expertise to help him. He asked John to join him in his business. Sam and John decided to expand their business and they name it Outreach rep

(Own Creation)

7.1 What form of ownership did Sam have before meeting with John?

_____ (2)

7.2 What type of business did Sam start?

_____ (2)

7.3 In your view why did Sam decided to ask John to help him?

_____ (2)

7.4 What programs can you advise Sam to attend in order to keep up with new technological changes

_____ (2)

7.5 What form of ownership did Sam and John choose? Copy and complete the following table and give two advantages and three disadvantages of that form of ownership:

Form of ownership	Advantages	Disadvantages

(7)

[15]

GRAND TOTAL [45]

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