

CHAPTER 2: THE SMALL BUSINESS DECISION

CHAPTER OBJECTIVES

1. To discuss the advantages and disadvantages of small business ownership as a starting point in making the small business decision.
2. To review the personal and organizational attributes of a successful small business owner.
3. To explain the reasons some businesses succeed and others fail.
4. To discuss entrepreneurial development in large business.
5. To identify the differences between an entrepreneur and a manager.

CONCEPT CHECKS

List the advantages and disadvantages of owning a small business?

There are many advantages and disadvantages to owning a small business. Some of the most common advantages are: independence, more personal contact with people, skill development, potential financial rewards, challenge, and enjoyment. The possible disadvantages include: risk, stress, need for many abilities, limited financial rewards, people conflicts, and time demands.

What are the characteristics of successful small business owners?

There are certain personality characteristics required to be a successful owner-manager. This list includes: achievement oriented, risk taker, independence, innovative, strong verbal and numerical skills, problem solving ability, strategic planning, and the ability to persevere.

What are the characteristics of a successful business?

A healthy small business generally has the following characteristics: a good owner manager rapport, more labour intensive, personal attention to daily operations by the owner, flexibility, and a market where demand is local.

What are the major causes of business failure?

The major causes of business failure are generally related to external shocks and/or management problems. Statistics Canada estimates that roughly 68 percent of businesses fail due to some type of external shock. These commonly include a downturn in the economy, changes in the economy such as interest and/or currency rates, new competition, loss of customers, loss of suppliers, new competition or substitute product, and/or change in laws or regulations. Management problems usually revolve around issues such as starting a business without raising enough funds, inability to raise additional capital, failure to control costs, problems attracting or retaining employees, growing too quickly, and/or poorly planned

expansion. Additionally, some entrepreneurs will also suffer from burnout associated with working too many hours.

What is the difference between an entrepreneur and a manager?

Entrepreneurial skills such as inventiveness and creativity tend to be more valuable in starting and expanding a business. Managerial skills are more useful for maintaining and solidifying the already started business.

KEY TERMS AND CONCEPTS

Advantages of small business ownership
Independence
Skill development
Disadvantages of small business ownership
Risk
Stress
People conflicts
Characteristics of successful small businesses
Alertness to change
Personality characteristics for an entrepreneur
Achievement oriented
Innovative
Entrepreneur versus Manager

ANSWERS TO INCIDENT QUESTIONS

INCIDENT 2-1 MOMPREENEURS

1. Given the challenges associated with starting and running a business, do you think being a mompreneur allows for more work–life balance compared with traditional work or part-time employment?

Answer: Student Choice – however students should mention a motivation for many mompreneurs was to start a business so they could be personally in charge of their own work schedule

2. What do you think are some of the advantages and disadvantages of being a mompreneur?

Answer: Student Choice – however students should review the advantages and disadvantages discussed in the text.

3. What do you think are some business ideas that would allow work and life balance?

Answer: Student Choice

INCIDENT 2-2 TAKING THE PLUNGE

1. Asaria notes one of the disadvantages of being an employee is your work sometimes benefits the company, but the financial rewards may not flow back to you the employee. Based on this statement, what would you say was Asaria's primary motive for starting a business?

Answer: Student Choice – however most students will likely say financial rewards.

2. What are some of the reasons that Asaria's business succeeded?

Answer: Industry experience, there was a demand for the products/service, lack of competition, innovation in marketing, and ability to raise money.

3. Given how easy potential competitors can enter the marketplace and the increasing competition from American online retailers would you have invested money in Well.ca? Why or why not?

Answer: Student Choice

INCIDENT 2-5 YOUNG ENTREPRENEUR APPEARS TO POSSESS ALL THE KEYS TO SUCCESS

1. Review the keys to entrepreneurial success above. Does Satok possess most of these characteristics?

Answer: Student Choice – however most students will cite alertness to change and the ability to obtain capital.

2. Do you think AppHero is a strong product? Will the company succeed? Why, or why not?

Answer: Student Choice

3. Were you surprised that an 18-year-old was able to raise \$1.8 million for a business? What do you think are some of the challenges with trying to raise money while still in high school?

Answer: Student Choice – however most students will note that young people lack experience, often have a hard time getting people to believe in them and lack their own money to invest in the business.

4. Mobile business offers entrepreneurs incredible opportunities. List and, if time permits, develop an explanation of some mobile-based businesses you may want to start. For example, for a similar project, an Acadia University student actually developed a beer appreciation app that he is now selling.

Answer: Student Choice

ANSWERS TO DISCUSSION QUESTIONS

1. What are the advantages and disadvantages of small business ownership?

Answer: There are many advantages and disadvantages to owning a small business. Some of the most common advantages are: independence, more personal contact with people, skill development, potential financial rewards, challenge, and enjoyment. The possible disadvantages include: risk, stress, need for many abilities, limited financial rewards, people conflicts, and time demands.

2. Which of the characteristics of successful small business owners do you think is the most important? Why?

Answer: The students could develop answers for a number of characteristics. Three characteristics stand out as important for any successful small business. The first characteristic is to stay close to the consumer. Businesses that are constantly monitoring the market have a good idea of what the consumer wants and needs. A second very important characteristic is the ability to attract and hold competent employees. A manager cannot do everything in the firm so he/she needs good employees to effectively carry out duties and deal with the client on an everyday basis. A third important characteristic of successful small businesses is to have very thorough operating details. These successful businesses have goals, reports, and constant evaluation and adjustments to follow a detailed business plan.

3. How do managerial skills differ from entrepreneurial skills? When would an entrepreneur's skills be more useful than a manager's? Why?

Answer: The text outlines the difference between an entrepreneur and a manager. Entrepreneurial skills tend to be more valuable in starting and expanding a business. Managerial skills, on the other hand, are more useful for maintaining and solidifying an existing business.

4. Select a successful small business, and discuss the reasons for its success, drawing on the success characteristics outlined in the text.

Answer: The answers will vary.

5. What are the most common reasons for small business failure?

Answer: Students should note external shocks and management problems.

ANSWERS TO APPLICATION QUESTIONS AND HANDS-ON ACTIVITIES

1. Investigate a local business that has recently failed. Using Internet sources and other research methods, identify why the business ceased to exist.

Answer: The answers will vary.

2. Complete the checklist in Figure 2-5 of this chapter. Do you possess the personality characteristics necessary for successful small business ownership?

Answer: Dependent on student evaluation.

3. Interview a local small business owner and determine what he or she feels are the advantages and disadvantages of small business ownership?

Answer: Application question – dependent on Interview with the owner.

4. Interview an entrepreneur and attempt to identify his or her entrepreneurial characteristics and leadership style.

Answer: Student Choice.

5. Select a successful small business and discuss the reasons for its success drawing upon the success characteristics outlined in the text (page 38-40).

Answer: Applicant question - dependent on the small business chosen.