



# THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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**MAIN EXAMINATION**

**JANUARY – APRIL 2019 TRIMESTER**

**FACULTY OF COMMERCE**

**MBA PROGRAMME**

**WRITTEN COMPREHENSIVE EXAMINATION: ENTREPRENEURSHIP**

**Date: FEBRUARY 2019**

**Duration: 3 Hours**

**INSTRUCTIONS: Answer Question ONE and any other FOUR Questions**

**Q1. The entrepreneur versus the planner**

A small business owner, Richard met a corporate planner, Kevin, for a social drink. The two were old friends, but as they had not met up for some time, they were anxious to catch up on each other's news.

Kevin was still working for a large utility company, as he had been when they last met. His work was to assist the line managers in his organisation to produce regular business plans which reflected corporate goals.

Richard's business, by comparison, was small and changing. He had owned a publishing company, which specialized in producing magazines for the medical profession paid for by advertising from drug companies.

'Yes, I think I was doing rather nicely in publishing when we last met', Richard commented to Kevin. 'That's all changed now of course. Generic prescribing came along and wiped out that business. Doctors have to prescribe non-branded drugs where possible now, so there's little point in drug companies advertising their branded products to them. My publications were dependent on that advertising, so the day generic prescribing came in, I went cut-off the business that is.'

'You mean you've stopped publishing altogether?' asked Kevin. 'Didn't you see it coming and move into some other form of publishing?'

'Well, I heard about it of course, as it was being talked about well before it became a policy', Richard replied. 'But I didn't think it would affect me the way it did. My advertising revenue dropped by 25 per cent, which was enough to make publication unprofitable. I had hoped I could ride the storm, but there didn't seem much point once I was losing money. If I'd had more time to develop new

products, I probably could have stayed in the same business. There's still plenty of money to be made in medical publishing. But once the cash is flowing out of a business, it's like taking plug out of a bath of water', it's hard to put it back in the hole and keep what you've got. I decided to cut my losses and do something else.'

'What did you do then?' Kevin questioned. I decided to do something completely different. I bought a toy company, making dolls and children's games, announced Richard. 'Want to buy it? It keeps me awake at nights with its cash flow problems.'

'No thanks. Very seasonal business, imagine. Still you would have known that before you bought it. What's been the problem?' asked Kevin.

'You're right,' said Richard, I did know it was a seasonal business, but I actually did a very good deal in buying it. The price was rock bottom. I didn't even have to take out any loans. It's just that so much depends on Christmas it's impossible to plan anything. My accountant checked out the reported profits and balance sheet before I bought the business, so I knew what I was getting. And the profits are there, as the previous owner said they would be. He just forgot to tell me about the cashflow. I nearly went bankrupt in the first year waiting for Christmas.'

Didn't your business plan predict that, or at least indicate there would be some serious troughs in your cash flow?' asked Kevin.

'Like I said, I don't need any loans, so I didn't need a business plan. I don't have a corporate planning department like yours, youknow', said Richard.

'Well I don't want to push my own profession, but I think a business plan would have told you about these troubles in advance. But then I am biased', laughed Kevin.

Richard did not seem to appreciate the joke.

'If I had to put together the sort of five -year plan you produce every time I make a decision, I'd get nowhere fast. As a matter of fact, when I found out about this toy company for sale, there was another larger organisation interested. It was only by going down there the next day and making an offer on the spot that I clinched the deal. I expect your equivalent in this other company is still working on the business plan! heretorted. I don't think that's fair at all', responded Kevin. 'How can you know what you're doing without some sort of plan? It doesn't have to be complicated or time consuming. And it can show how sensitive a business is to seasonal factors or more permanent changes like your last business. You know a business plan may have helped you there too.'

'I don't think so at all', Richard said indignantly. 'What I needed then was creativity and innovation to change my business, not the straightjacket of some plan. Anyway, they are only financial forecasts-crystal ball gazing. What's the point of that when you're going bust?'

'OK, OK, so you don't believe in planning. How about objectives? Do you believe in setting those?' asked Kevin.

'Of course, I do,' said Richard, 'I just don't want to spend my time writing them down, that's all. You sound like the sales manager of my toy company. He's always sending me endless statistics of how he's doing compared to last year. I

tell him to get out and see the customers. Don't worry about the targets, I can set those, and I'll tell you if you're not doing well. Just get out there and sell, that's all I ask.'

'Well you are obviously like centralized control, at least that's something you have in common with us planners', smiled Kevin.

- a) Kevin may be right to claim that business plans could have helped Richard. In what ways do you think Richard could have benefited from a business plan in both of this business? **(5marks)**
- b) Richard may be right to be sceptical about planning. What are the problems, perceived and real, in writing a business plan? **(5marks)**
- c) Richard claims that plans 'are only financial forecasts-crystal-crystal ball gazing'. What would you want to put into a business plan to make it more meaningful in his situation? **(5marks)**
- d) Suggest some outline headings for a business plan for Richard's toy company. **(5marks)**

## Q2. **KIT SUGGESTS A NEW PRODUCT**

Kit Hugos had an important decision to make with his partner Robin Davidson before they continued the planning of their proposed electronics business.

'We have a fundamental choice it seems to me", he explained to Davidson. 'We either act as a design and manufacture service for other companies or we make and sell our own products. If we design and manufacture for other manufacturers, they decide what the final product will be and they control all the sales and marketing to their customers. We depend totally on them to make a success of something for which we have probably come up with most of the good ideas. Alternatively, we can design our own products which we market ourselves. Then we are in charge of what we produce and sell. We don't have to rely on others to make our business work.'

'yes, but if we produce to a customer's order, we don't carry the risk of stock-they do', countered Davidson. Nor do we have to bear the product development, marketing and distribution costs. Also, they come up with the initial ideas-which is usually the hard part. I don't know of any products which we can develop and sell ourselves. Do you?"

'Well actually I do", said Kit. 'I have developed a personal security device. It's basically an electronic tracking system-a small transmitter which you carry on your person, and computerized receivers which can track and locate the transmitter on a digital map at all times. Any trouble, you press a button on your transmitter which alerts security who can pinpoint you straight away. I believe we could sell it direct to organisations with large, open sites-office complexes, conference centres and universities for example-to improve their on-site security.'

No one else is offering anything quite like what I have in mind and the market is having to become increasingly security conscious.

- a) What are likely barrier of market entry Kit and Robin might face? **(5marks)**
  - b) What do you think will be some of the key micro environmental factors in this case? **(5marks)**
  - c) Which competitive forces will be particularly influential in Kit and Robin business case? **(5marks)**
  - d) Advise Kit and Robin on their choice of market sector. What are the pros and cons of alternatives raised by Kit? **(5marks)**
- Q3. Discuss Drucker's seven sources for innovative opportunity **(20marks)**
- Q4. a) Discuss in details the following types of entrepreneurs
- i) Immigrant Entrepreneurs **(3marks)**
  - ii) Copreneurs **(3marks)**
  - iii) Social entrepreneurs **(3marks)**
  - iv) Women entrepreneurs **(3marks)**
  - iv) Intrapreneurs **(3marks)**
- b) Discuss factors that favour growth of Entrepreneurship in developing countries. **(5marks)**
- Q5. 'Entrepreneurship is all about addressing customer 'pains' and turning them into 'customer gains 'Discuss **(20marks)**
- Q6. Discuss the key entrepreneurial theories and offer a critique of each of the theories. **(20marks)**

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