



UNIVERSITY EXAMINATIONS: 2013/2014
EXAMINATION FOR THE MASTERS OF BUSINESS ADMINISTRATION
(MBA) CORPORATE MANAGEMENT
ENT 5011 ENTREPRENEURSHIP AND SMALL BUSINESS MANAGEMENT
(EVENING)

DATE: APRIL, 2014

TIME: 3 HOURS

INSTRUCTIONS: Answer Question One and Any Other Three Questions

QUESTION ONE

The “Cinderellas”

Robert Moog says all he wanted was to “learn how to run a bigger business by first doing this little business.” Fred Gratzon says his plan was “to do this business to support my family while I decided what to do with the rest of my life.” Rick Shangraw says he was only going to work at his business until he could accept a college faculty job and make some real money. But today, the stop-gap companies these entrepreneurs founded are established stars on Inc. Magazine’s list of the top 500 growth companies.

According to a survey done by the magazine, 10 % of these company founders reported that mere survival was their initial business goal. A total of one third of them says that they never hoped for business growth, believing instead that their company would stay small or grow slowly. Inc. Conducted a special survey of those 175 “Cinderella” fast companies and found that more than half of them thought that they lacked the capital needed to place their start- up on the fast track. Almost as many (44%) wanted to limit growth as a means of keeping control. Some reported that they were fearful or cautious about fast growth (32%), or just didn’t think that fast growth would happen in their situation (23%). Other founders said they underestimated the market demand (20%) or the economic

conditions (20%), that they thought they lacked the business know –how to be truly successful (18%), or that they never intended to work hard enough to achieve fast growth (6%).

For Robert Moog, co founder of university games in Burlingame, California, fast growth was simply unintentional. After graduating from Stanford Graduate School of Business, Moog and a partner formed this company to produce a game called “Murder Mystery Party.” Their plan was to sell the company after three years to provide seed money for a more ambitious venture, but their ambitions were met when the game became a national best- seller overnight. University Games now grosses \$30 million a year and ranked 494 on the Inc. 1996 list.

Fred Gratzon was broke and out of work when he started Telegroup Inc., a discount long distance phone service provider. Six years later, the Fairfield, Iowa company has \$210 million in annual revenues and ranks 151 on the Inc. List. The company’s success has been a big surprise for Gratzon, who whole idea for the new venture was accidental. He was inspired when he was trying to figure out a way to reduce his own phone bills, and he started investigating the package deals then being offered by AT&T.

Fifty two percent of the Cinderella company founders responding to the Inc survey said that their company had turned out “not even close” to what they expected. For many of them, success was personal affirmation. Rick Shangraw had been fired from his consulting firm job when he pooled the resources of four credit cards to start Project Performance Corp., the environmental management firm that ranks 272 on the Inc. list. His Sterling, Virginia, start- up went from a one man show to a company with eight employees almost immediately. “Within six months, it became clear that there was a market, that there were clients, and that I had the ability to build something.”

Shangraw’s experience echoes the stories of many of the entrepreneurs in the survey. Forty percent traced their motivation to start their business to a desire to be their own boss. Twenty three percent said they wanted to prove that they could do it. Twelve percent reported they went into business so that they could leave a job or recover from being fired. Only seventeen percent claimed that their primary reason was to make a lot of money.

Not surprisingly, forty one percent of the top growers report that their initial financial projections were “understated.” More than one quarter said they didn’t even have spreadsheets when they began. Thirteen percent said they were unprepared for fast growth when it occurred and two thirds said they were just staring to gear up when growth took off.

Most fast trackers said what they needed most when growth exploded was more employees (33%). Others said they needed more money (27%) or a better operating structure and internal procedures

(21%). Even though their growth wasn't planned, only 10 percent said they need more experienced management. On the other hand, more than half reported that their personal lives have become "more complicated" since the company began to experience unanticipated fast growth.

Whether they planned for fast growth or not, many of these entrepreneurs have obviously enjoyed the surprise of success. Daniel W Hunt started his Asphalt Specialities in Henderson, Colorado, with a five man crew and a dream of putting away enough money to retire in comfort. Two years later, his company had 50 employees, annual sales of eight million and was number 367 on the Inc. top growth list.

Hunt can recall the moment when he was out of a job and he realised that he was surrounded by his machinery and his employees working on his project, and he thought, "this is just like a real company."

Required:

- (a) Explain how the entrepreneurs who have been mentioned in the case study could have identified their business ideas. (10 Marks)
- (b) What motivated the entrepreneurs to start their own businesses? Analyse this in terms of positive push etc. (8 Marks)
- (c) Why do you think the businesses grew as fast as they did? (5 Marks)
- (d) What is the relationship between growth and resources? (8 Marks)

QUESTION TWO

- a) Explain five things the GOK has done to promote the development of entrepreneurship in Kenya. (13 Marks)
- b) Analyze the role of innovation in the development of entrepreneurship in a country. (10 Marks)

QUESTION THREE

- a) Analyse circumstances when international expansion may not be the expansion option for an entrepreneur. (12 Marks)
- b) Analyze the variables that affect the choice of financing sources for an entrepreneur. (11 Marks)

QUESTION FOUR

- a) Analyse the advantages to an entrepreneur who carries out his business in a cluster. (13 Marks)

- b) If a new venture has a choice between long term equity and debt financing, which would you recommend and why? (10 Marks)

QUESTION FIVE

- a) In what ways is marketing a resource within an entrepreneurial business. (13 Marks)
- b) Quoting relevant examples from the Kenyan scene explain what you understand by the following as far as resources are concerned: i) rare resources ii) not easy to copy iii) non substitutable (10 Marks)

QUESTION SIX

- a) How would advise an entrepreneur to locate and measure the window for a new importing opportunity. (11 Marks)
- b) What are the specific challenges in getting stakeholders to commit to an internet venture as opposed to a conventional venture? (12 Marks)