

**UGANDA MARTYRS UNIVERSITY**  
**FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT**

**BASIC PRINCIPLES OF ENTREPREURSHIP**

**Examination**

**2015 - 2016**

**2<sup>nd</sup> SEMESTER EXAM**

**BAM II EVENING/BSDC III EVENING**

**Date: Wednesday 4<sup>th</sup> May 2016**

**Time: 6.00 pm to 9.00 pm**

**Instructions**

- 1. Do not write anything on the question paper**
- 2. Answer three questions in all.**
- 3. Number one is compulsory**

**Question One:** Read the scenario below and answer the questions that follow.

After 25 years David, Samuel and Jethro meet on the streets of Rio. David and Samuel are looking for jobs and Jethro is a successful entrepreneur. They had vowed 25 years ago never to look for employment as they decided to seek entrepreneurial careers. The three had worked for a government parastatal which was privatized when the government came up with its economic liberation and privatization policy. They looked at this new economic environment as an opportunity for entrepreneurial careers.

Jethro was born to a retired civil servant named Greg. Greg served as a civil servant for over forty years and he retired a couple of years ago. During his tenure of service he got married to Judy and they had three sons namely: Jethro, Moses and Aaron. Greg cherished the education of his sons so much and he always endeavoured to take them to the best school. His dream was that his children get a good education and get good jobs either in the public service or in reputable corporations. Though Greg's three sons went through the same schools their career aspirations turned out to be different. And eventually they have in life taken on different careers. It's only Aaron who became a civil servant. Moses ended up becoming a Pastor and Jethro became an entrepreneur.

At school Jethro was interested in leadership and served as a prefect in many portfolios. Jethro always wanted to find solutions to problems. He was really a very practical leader and students believed in him. Being a student leader gave him occasion always to communicate to the students' community. This contributed to the improvement in his communication skills. Jethro was also a good sportsman, and he was more specifically good in basketball. During his tenure at school, his team won many trophies. The team had an inspiring coach Mr. Jack Mugume. Jack always inspired his team to have resilience and never to give up in the face of stiff competition. This nurtured a strong spirit of resilience in Jethro.

When Jethro finished high school, his father sent him to the UK to study his first degree. However, his father didn't have sufficient funds to take care of all his needs while he was in the UK. Thus he took up some parttime jobs in the course of his stay in the UK. This included working in a fast restaurant, a car manufacturing factory, a hospital and a supermarket. This gave him exposure the world of work in an industrialized country.

When Jethro returned from the UK, he got a job in the civil service, thanks to the efforts of his father. He however, held the job for only one year and retired. Since then he has taken up an entrepreneurial career. Jethro's story is quiet amazing. He is only 34 years old but he owns several companies' and employs more than 300 hundred employees. Among them are chains of Restaurants and Supermarkets. His businesses have grown very fast over the time and he has managed to build a strong brand. Among the things that are astounding is how he was able to mobilize the financial resources to put up the required investment.

Among the success stories of Jethro's businesses was a restaurant named Canaan Restaurants. Canaan began as a school canteen and over the years it has grown into a chain of restaurants spread over the country. Canaan's success is attributed to many factors including the kind of leadership he provided with high business acumen. He has been able



to build a stable and motivated workforce over the years. He not only managed to retain the workers he began with but he kept them motivated. Jethro is very effective at communicating and workers always understand his vision for the company and his strategies to achieve that vision. His workers, suppliers and competitors know him as an honest person who has always been dependable. They credit him for having a listening ear and many of the innovations he has come up with are a result of suggestions from the workers.

Canaan restaurants are highly rated by their customers because of their excellent service. However bringing the business to this level wasn't all that easy. There were always challenges that frequently almost brought the business to collapse. Jethro has however always thought of ways to serve his customers better and to make the restaurant competitive. Among other things Jethro harmonized the services of all the restaurants in the Canaan chain. A customer does not see any distinction in the service rendered by one Canaan restaurant from another. Canaan restaurants serve a variety of dishes to meet the tastes of various customers. Many of these are local dishes though fast foods are also served to meet the preference of many young people. In his research Jethro discovered that there are people in need of services but at times find it inconvenient to leave their homes. He therefore came up with a service where people can make orders on SMS and food is delivered to their homes.

From his experience, Jethro discovered that most customers would get irritated whenever their orders delayed. He thus did a research of how to make his services faster. He studied the processes through which the various dishes go in preparation and the process through which an order goes before the dish is served i.e. the ordering, determination of the ingredients, the processing/cooking and setting the table. Having studied the processes he then ascribed time for each process. All workers i.e. supervisors, waitresses, and chefs are inducted into these processes to make sure they keep the time. Customers have thus known Canaan restaurants for their fast service.

Jethro also took steps to ensure that the tastes of various dishes remain consistent. He thus went ahead to do research to be able define the right ingredients for every dish including how long the dish must be cooked and under which temperature. Jethro has succeeded in achieving this. The chicken of today will taste the same as that of tomorrow.

To ensure effectiveness in management Jethro appoints a supervisor for each restaurant. The supervisor makes sure that waiter/waitress pays attention to the needs of customers and those customers are served to their satisfaction. He has therefore created a culture of customer care.

The supervisors also make sure that the environment is clean. Wherever his restaurants are located, Jethro makes sure the environment is beautiful and everything neatly cleaned. The cleaners are always on the watch should any place be dirtied.

At first, Jethro gave autonomy to each restaurant to buy food stuffs and other ingredients from the various suppliers in their regions. He found out that the costs of these inputs were high. He therefore came up with an idea of procuring these inputs from particular suppliers



in bulk, and the costs drastically reduced. Subsequently Jethro was able to reduce the prices of food a thing that won him more customers. On the whole Jethro has been a successful entrepreneur.

For his entrepreneurial career, David decided to buy a franchise from Eco Seeds Ltd. Thanks to the liberalization policy, Eco Seeds Ltd was one of the new companies registered in the country. The company had intended penetrate the country's market through agencies that would distribute its seeds to the countryside. The county was therefore looking for potential franchisees to act as agents, in a bit to increase its market share in the seed market in this country that is largely agricultural

David signed a 5 year pure franchise contract as an agent of Eco Seed Ltd. David's company EBOL LTD became eco seeds ltd's agent in the south west of the country. Upon signing the franchise contract David had to pay franchise fees and also continued paying royalties on the sales made over time.

David did not have sufficient funds to penetrate the region but eco sees ltd to give him seeds on credit and some other facilities he required to operate. He would pay the debts later after making sales.

Eco seeds ltd organized training sessions for the managers and other employees of EBOL LTD. This was meant to ensure compliance with its performance standards. David believes that thanks to the training, his company was able to better marketing strategies that enabled them to penetrate deep into the market. He also acquired critical skills in management.

Though eco seeds ltd was new to the country, its brand was well known in the country. The brand was well known for its quality seeds. It was therefore easier to market these products because of their reputation in the country.

EBOL LTD had competitive advantage over many companies in the region because of the quality of its seeds. David would always hear stories of farmers who bought seeds from other companies whose yields were disappointingly low.

David worked tirelessly to expand the market share for his company. Thanks to his efforts his market share expanded exponentially.

With time however David discovered that there were other sources of good quality seeds which were cheaper than what he was supplied by eco seeds, he could not purchase them because of the procurement restrictions imposed on him by the franchise contract. David also discovered that there was a huge opportunity in selling other agricultural inputs in the region, but again he wouldn't take advantage of such an opportunity because of the same contract that restricts the products he could sell.

To his disappointment again, David noticed that as his market expanded, eco seeds began to license other agents to sell their seeds in the same region. Before long competition between these different franchises was cutthroat.

He further found out the profit margin was greatly reduced by what he spent on paying royalties and franchise feeds.

The last blow came when the franchisor declined to grant his application of renew his sixth contract. The franchise was therefore sold to someone else and that's how he found himself trekking the street again.

For the case of Samuel, when he got his retirement package he made up his mind to purchase a coffee ginnery at a price that looked very attractive. Though the package he was given is not enough to purchase the facility, he has applied for a bank loan to top it up. The then current owner of the ginnery -Greg convinced him that the business was profitable and that he would recover his investment in a short period of time. Greg went ahead to show Samuel a set of assets he had acquired from the proceeds of the ginnery.

Samuel looked at the books of accounts of the ginnery and they indicated that the firm had been operating profitably for the previous three years. In analyzing the financial position of the business he saw that the business had three prominent assets namely machinery and equipment, debtors and inventory. Samuel was excited with the amount owing from debtors. He believed that if this money were collected, it will give him a big push to reinvest in the business. Again he was happy that he would not need to spend a lot to purchase inventory before he begins business. Samuel also discovered that before Greg acquired the ginnery, it had belonged to an Indian called Kumar Sharma who had owned it for 15 years. Sharma had also bought the firm from Kamali who had held it for an unknown period of time. It is Kamali who had bought the machinery that the ginnery still uses up to date. Samuel again learnt that the land upon which the premises of the ginnery are located is leased but was furnished with no information relating to the leasing agreement.

The ginnery has a long serving workforce. Many of the workers have been with the ginnery since the time of Kamali. The workers have a strong union that has always been fundamental in protecting their interests. In 2009 Greg failed to get rid of some of the workers whose performance was not satisfactory, thanks to the strong workers union.

The ginnery gets coffee and other supplies on credit from suppliers and it sometimes doesn't pay promptly. There are incidences when the ginnery has been dragged to court for delayed payment.

Over the past years there have been many multinational coffee exporters that have come on the market, thanks to the government policy of liberalizing the coffee sector. These have their own ginneries and buy coffee directly from the farmers. In the past the value chain was arranged in such a way that the ginners would buy coffee from the farmers, and export it to multinational coffee firms which would in turn sell to the companies that produce processed coffee.

I didn't have enough time to document the details what had happened to Samuel's business, but it had collapsed and that's why he was on the street again.

**Required:**



- i. To what extent can Jethro's performance be explained by the following schools of thought?
  - The Psychological Characteristics School of Entrepreneurship (5 marks)
  - The "Great Person" School of Entrepreneurship (5 marks)
  - The Management School of Entrepreneurship (5 marks)
- i. Describe the skills and personality characteristics that made Jethro succeed as an entrepreneur (10 marks)
- ii. Highlighting particular types of innovation, discuss how the various forms of innovation employed by Jethro contributed to the success of Canaan restaurants. (10 marks)
- iii. Base yourself on David's story to discuss the advantages and the likely challenges in purchasing a franchise (10 marks)
- iv. Discuss the issues David ought to have considered before signing the franchise contract (10 marks)
- v. (a). Analyze the issues Samuel could have ignored before purchasing the coffee ginnery (7marks)  
(b). What could have happened that drove Samuel out of business (8 marks)

#### Question Two

- (a) Distinguish between equity financing and debt financing (5 marks)
- (b) Discuss the various sources of financing available to an entrepreneur highlighting their advantages and disadvantages (10 marks)

#### Question Three

- (a) Describe the various legal forms of business (5 marks)
- (b) What are the main concerns of an entrepreneur in choosing the legal form of business (10 marks)

#### Question Four

- (a) Discuss how you would screen the viability of an entrepreneurial opportunity (8 marks)
- (b) Briefly describe how entrepreneurs may spot opportunities (7marks)