



BUSINESS AND MANAGEMENT
CASE STUDY: UNITED WORLD PEACE MISSION TO LOYKA

For use in May and November 2012

INSTRUCTIONS TO CANDIDATES

- Case study booklet required for Higher Level Paper 1 and Standard Level Paper 1 Business and Management examinations.

United World Peace Mission to Loyka

The first years

Loyka is a small country with an economy that is 45% primary sector, 15% secondary sector, and 40% tertiary sector. From 2006 to 2008, Loyka was torn by civil war. When the fighting ceased, a new coalition government was established, but its hold on the situation was fragile. In 2009, to prevent the eruption of further violence, the *United World Peace (UWP)* sent 4000
5 peacekeepers to Loyka. The *UWP* Mission to Loyka had ethical objectives: its troops (nicknamed “the Olive Hats” because of their olive coloured helmets) were expected to create stability, fulfilling the *UWP* Mission’s aim to maintain order, peace and security.

The *UWP* Mission to Loyka was based in Beral, the capital of the country. The autocratic
10 General Ron Meiri was appointed by the *UWP* as Commander. The organizational structure of the *UWP* Mission was tall and centralized, with several levels of hierarchy and a narrow span of control (Appendix 1). This structure fitted well with the organizational culture of the military. This organization was not flexible, but it ensured that orders were clearly understood and always followed. As a consequence the security of the *UWP* troops was maintained.

In the first years, the *UWP* Mission to Loyka experienced some successes but also some failures.
15 The presence of “the Olive Hats” gave a sense of stability and international support. It also benefited the local business community: the provisions for the troops were purchased locally, the soldiers spent a significant proportion of their pay in the local economy and also helped repair roads and bridges that had been damaged during the civil war. As a result of these improvements in infrastructure, local businesses in Beral were able to resume their trade activities to the
20 same levels as before the civil war. However, the *UWP* presence also caused some problems. There was some resentment at the presence of “the Olive Hats” – some Loykese just did not want these foreign soldiers in their country. Local community leaders had also accused the troops of inappropriate behaviour and the local governor often had disagreements with General Meiri about the frequency of *UWP* patrols in the Beral area.

25 The reputation of the *UWP* troops gradually deteriorated and General Meiri did not seem able to control the situation. Originally, when the troops first arrived, the local population was largely supportive. However, opposition to the *UWP* presence grew as did violence against the troops. Moreover, “the Olive Hats” in Loyka started to resent being there and motivation was beginning to deteriorate. They felt unappreciated by the local population, whom they believed they were
30 assisting by maintaining order, peace and security. Due to these changes in the external and internal environment, the *UWP* headquarters in Geneva prepared a force field analysis to evaluate whether the *UWP* Mission to Loyka should change its strategy in 2011 (Appendix 2).

General Diane Pierce

In late 2011 the *UWP* replaced General Meiri with General Diane Pierce as Commander, in the hope that her situational leadership style and experience of social marketing in previous *UWP* missions would help reduce the problems. She was given two specific objectives:

35

- Firstly, she had the strategic objective to improve the image of “the Olive Hats” in Loyka in order to improve public relations. This would reduce the number of conflicts with the Loykese, thereby improving the safety of the *UWP* troops.
- Secondly, she had the operational objective to remotivate her troops. As salaries were set by the *UWP*, she could not use financial rewards so she would have to use non-financial

40 motivational methods.

General Pierce decided to undertake a major improvement of social infrastructure in Loyka by using the resources of the *UWP* to build either a new hospital or a new university campus. She received permission from the *UWP* headquarters, provided that the new hospital or university

45 be operated as a non-profit organization. The *UWP* believed that this would allow the Loykese to see an important benefit of the presence of “the Olive Hats”. It would also reinforce the *UWP* Mission’s corporate social responsibility. This humanitarian project would remotivate the troops by providing a change of routine, by giving them a sense of achievement, and by building positive relationships with the local population. The construction of a new hospital or university

50 would allow General Pierce to fulfill the two objectives given to her.

General Pierce delegated the responsibility for investigating the feasibility of the two projects down the chain of command to Colonel Michael Donovan, Head of the *Civil Engineering Group*. Colonel Donovan identified a suitable piece of land for the construction site: Beral’s only botanical gardens, ideally located and owned by the local government. He calculated that both projects

55 would cost the same (Appendix 3). As a result, the decision about whether to build a university or a hospital would not be based upon cost, but upon other factors.

A university or a hospital?

To gain a general sense of which option would be better for the local population, Colonel Donovan decided to ask Kos Palouk, someone he had come to know quite well. Kos worked as a part-time food server in the officers’ dining hall for the *UWP* Mission. He also ran his own small produce

60 distribution business that he had set up thanks to his contacts from his job in the dining hall. Twice a week, operating as a sole trader, he drove his car to several local farms, where he bought vegetables and other produce such as eggs and poultry for resale to the officers’ dining hall. Colonel Donovan asked Kos which option he thought would better meet the needs of the local Loykese. According to Kos, both options had advantages and disadvantages.

65 A non-profit hospital would increase access to medical care, especially for poorer people. When the civil war broke out, most of the Loykese doctors who could speak English left for countries such as Canada, the United Kingdom, and the United States, where foreign doctors could easily obtain work visas and employment opportunities. As a result, there was a significant decrease in the number of doctors in Loyka. Secondly, complications from the lack of prenatal
70 care had increased significantly. Many young children had a variety of health issues. However, Kos was very concerned about who the staff at the hospital would be. Given the shortage of doctors in the country, would doctors from abroad be employed? Also would those providing obstetrics and gynecology be female doctors? Conservatives in the country, Kos warned, would be strongly opposed to Loykese women receiving care from foreign male doctors.

75 The construction of a university campus presented its own set of issues. On the one hand, a new university campus would be welcomed, as the existing one was small, old and in need of extensive repair. Moreover, because of the civil war, the country desperately needed engineers, school teachers, nurses and many other highly skilled professionals to help rebuild the social infrastructure. However, although instruction would be in the local language, Kos feared
80 that a university built by the *UWP* would become a symbol of foreign intervention in Loyka and would make it a target for critics of the government and of the *UWP* presence in the country. Although a hospital might offend some conservatives, it is unlikely that it would be the target of physical attack. A university, on the other hand, with more open access, would be less secure than a hospital. In addition, as a place where free speech is exercised, a university could potentially
85 cause unrest in a country recently torn by civil war.

In further discussions with local officials, Colonel Donovan found that Kos' concerns were shared by others. After completing a critical path analysis, he reported to General Pierce that constructing either a university campus or a hospital was feasible within 25 to 30 weeks. He added that the officers in the *Civil Engineering Group* were excited by the opportunity to lead the project.

90 The project also had the support of the troops, who would feel empowered and would welcome working in new flexible matrix structures. It would, however, require careful workforce planning and training: some peacekeeping troops would need extra training in construction skills and safety procedures. Colonel Donovan concluded that both types of facilities were greatly needed in Loyka and would offer important benefits. The issue was which one to choose.

95 Given her experience of previous *UWP* Missions, General Pierce ordered Colonel Donovan to conduct a formal social and environmental audit of the construction of both facilities and to carry out additional primary research. She asked him to prepare and distribute a survey to 2000 local residents for a more valid and reliable indication of the local community's opinion of which was needed more, a university or a hospital. She also wanted focus groups to discuss
100 the two options. Some of the focus groups were to consist of men only, some of women only, and some of both men and women.

Unfortunately, the results of the survey did not give General Pierce the clear indication that she had hoped for (Appendix 4). A slight majority preferred the hospital to the university, but it was by such a small margin that she could not be confident of which direction to take. In addition, a
105 far larger percentage of those surveyed were strongly opposed to the hospital than to the university.

After spending weeks gathering data, Colonel Donovan had few doubts. He recommended that the hospital should be built as soon as possible. He still needed to decide what method of production to use. He was considering cell production, where each cell would be responsible for the construction of a separate section of the hospital. On completion, the hospital would provide
110 immediate important benefits to the local population. If the main objection of the local population was the concern that most of the doctors would be male, the *UWP*, he argued, should do everything it could to recruit female doctors, even if only for the short term. However, the local governor who agreed to contribute the piece of land for the construction site preferred the new university campus rather than a hospital. A new university would be prestigious and contribute to the
115 long-term development of Loyka by training future professionals. It could also attract private capital for future public-private partnerships in research and development (R&D).

Kos Palouk's own business

It was clear that the construction of a new facility would create a number of opportunities for local entrepreneurs in a range of different markets. Kos had already started to think about the future of his own small produce distribution business. Should he expand it?

120 He knew that he could increase the scale of his business operations with the *UWP* Mission without any additional marketing. This would also allow for significant economies of scale, but the logistics would be more complex. He would have to drive and collect produce using dangerous remote unpaved roads outside the protection of the *UWP* Mission. These remote communities might perceive Kos as collaborating with the *UWP* troops. He would also have to dedicate
125 all his time to his business and would no longer be able to work in the officers' dining hall. Although that job did not pay particularly well, it was in a safe environment and provided a regular source of income.

To collect larger quantities of produce in remote areas, Kos would need to purchase a large lorry (truck). He discussed potential sources of finance with his bank. The bank manager
130 indicated as a condition for the granting of a loan that the bank would require the lorry as collateral. Secondly, the poor quality of the roads meant that the lorry would lose value quickly.

The bank manager warned Kos that many other local entrepreneurs were likely to take advantage of the business opportunities resulting from the construction and operation of the new hospital or university. If Kos could utilize his contacts within the *UWP* Mission, he would have a
135 "first-mover advantage".

Kos' deliveries to the *UWP* Mission were just-in-time in order to ensure fresh produce. However, increasing the scale of operation of his business would lead to some complications. He would need to manage stock levels on a just-in-case basis. One of Kos' business contacts offered to rent him a large storage facility equipped with a refrigerated room for \$200 per month
140 to keep the produce fresh. The use of just-in-case stock control would raise the possibility of waste, but Kos thought spoilage would be minimal.

145 Kos prepared a business plan and compiled information comparing his current income to his forecast income if he increased his scale of operation (Appendix 5). The income comparison showed that the expansion of his business would be very profitable – as long as the *UWP* Mission remained in Loyka. However, even after a number of conversations with Colonel Donovan, Kos was still unsure how long the *UWP* Mission would remain in Loyka.

Consequently Kos drew up three possible options for his produce distribution business:

- **Option 1:** No change. Keep the same scale of operation and stay working at the *UWP* Mission.
- 150 • **Option 2:** Increase the scale of operation of his business. Sell more produce to the *UWP* Mission and to the university or hospital. Kos would need to leave his job at the officers’ dining hall and lose his regular source of income.
- **Option 3:** Maximize the scale of operation. Supply produce not only to the *UWP* Mission and to the university or hospital, but also to retailers in Beral. In Beral there is no city-wide
155 wholesaler for the produce that Kos distributes. Becoming a wholesaler would require setting up and managing supply chains, employing staff, increasing working capital and adopting a new business structure.

160 At 54 years old, Kos was nervous about the risks of increasing the scale of operation of his business. He enjoyed the job security at the officers’ dining hall. His salary and the profits from selling produce to the *UWP* Mission were sufficient to provide for himself and his family. However, Kos realized that he was entirely dependent on the *UWP* Mission for his income. What would happen if the *UWP* Mission withdrew from Loyka when he was 60 or 62, when it would be more difficult for him to start over again?

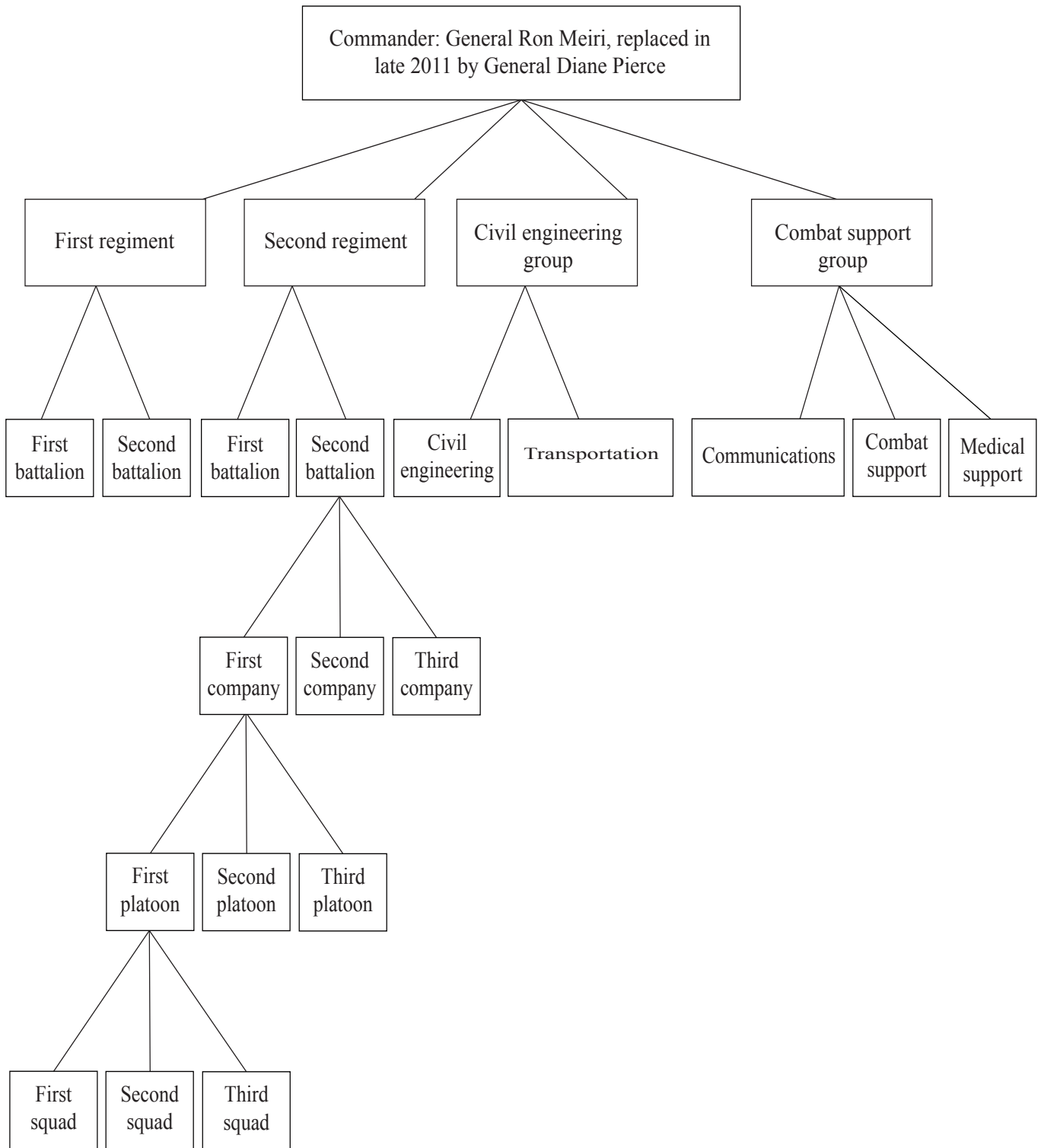
165 Kos hoped that the *UWP* Mission would stay for many years. However, he knew that the aim of General Pierce was to stabilize the situation in Loyka as rapidly as possible so that the *UWP* Mission could withdraw their presence.

170 Having been satisfied with Colonel Donovan’s research, General Pierce believed that the construction project would achieve the strategic and operational objectives she was given as commander. However, she wished that the results from the primary research would give a clearer indication of the preferred option, the university or the hospital. General Pierce was yet to decide.

Additional terms not in the Guide

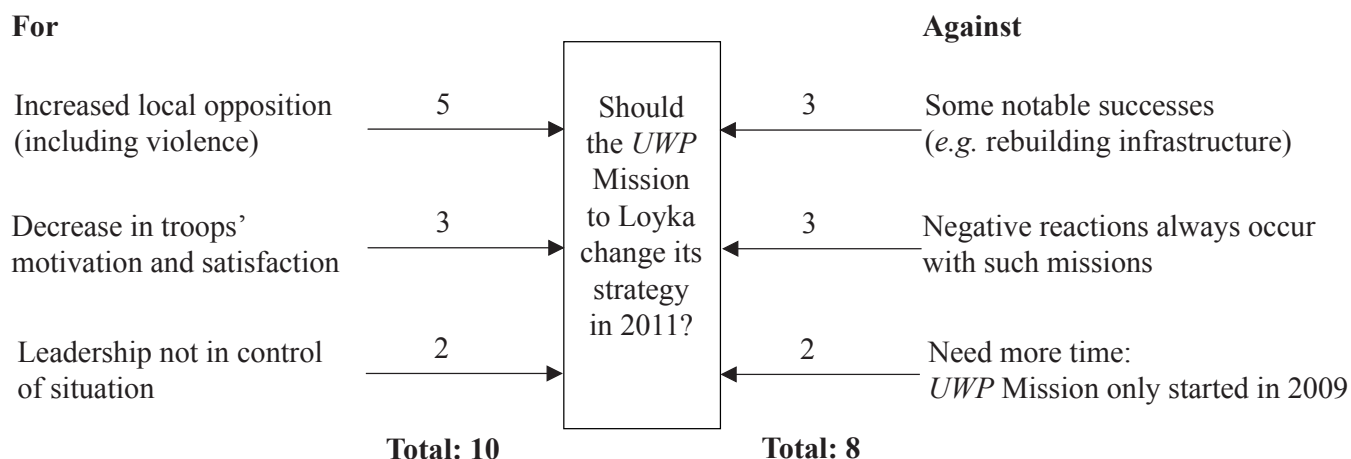
Collateral
Entrepreneur
First-mover advantage

Appendix 1: UWP Mission organizational chart



N.B. Battalions are divided into companies, companies into platoons, and platoons into squads (as is demonstrated with the second battalion). These subdivisions would apply to all other battalions in the organizational chart.

Appendix 2: UWP headquarter’s force field analysis



Appendix 3: Comparison of the two construction projects

| | Hospital | University |
|-------------------------|-----------------|-------------------|
| Land | Free | Free |
| Building | \$2 000 000 | \$3 000 000 |
| Furniture and equipment | \$1 100 000 | \$100 000 |
| Construction time | 30 weeks | 25 weeks |

Appendix 4: Results from the survey

| | Hospital | University |
|-------------------|-----------------|-------------------|
| Strongly support | 28 % | 24 % |
| Support | 24 % | 25 % |
| Neutral/undecided | 11 % | 21 % |
| Oppose | 20 % | 20 % |
| Strongly oppose | 17 % | 10 % |
| Total | 100 % | 100 % |

Appendix 5: Comparison of Kos’ current income: Option 1 (no change) and Option 2 forecast income (if he increases the scale of operation of his business)

Appendix 5a: Selected financial information from produce distribution business (all figures in \$ per month)

| | Option 1 | Option 2 |
|--|-----------------|-----------------|
| Sales revenue | 400 | 4000 |
| Cost of goods sold | 200 | 1800 |
| Gross profit | 200 | 2200 |
| Gas and vehicle maintenance | 50 | 400 |
| Rent of storage facility | 0 | 200 |
| Interest | 0 | 100 |
| Net profit after interest and before tax | 150 | 1500 |

Appendix 5b: Income from (i) produce distribution business and (ii) salary from job at the officers’ dining hall (all figures in \$ per month)

| Source of income | Option 1 | Option 2 |
|--|-----------------|-----------------|
| (i) Produce distribution business (from Appendix 5a above) | 150 | 1500 |
| (ii) Salary from job at the officers’ dining hall | 500 | 0 |
| Total income from all sources | 650 | 1500 |

To support himself and his family, Kos needs an income of \$550 per month.

Companies, products, or individuals named in this case study are fictitious and any similarities with actual entities are purely coincidental.