



MARKSCHEME

May 2012

BUSINESS AND MANAGEMENT

Higher Level

Paper 1

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The markbands on pages 3–6 should be used where indicated in the markscheme.

Section A			Level descriptors
Q1 (c)	Q2 (d)	Q3 (c)	
Marks 0–7			
0			<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2			<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study.
3–5			<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
6–7			<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study.

Section B	Level descriptors
Q4 (d)	
Marks 0–8	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–2	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study.
3–4	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of judgments and/or conclusions. • Some reference is made to the information in the case study, not just to the name of the organization. • The response is mainly theoretical.
5–6	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses relevant and appropriate terminology. • Evidence of judgments and/or conclusions that are little more than unsubstantiated statements that has balanced analysis and demonstrates understanding. • Explicit references to the information in the case study are made at places in the response.
7–8	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • A response that includes judgments and/or conclusions that is well supported and underpinned by a balanced analysis. • Explicit references to the information in the case study are made throughout the response.

Section C	Level descriptors
Q5 (d)	
Marks 0–9	
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology.
1–3	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No reference is made to the information in the case study and/or the extension material within Section C.
4–6	<ul style="list-style-type: none"> • A description or partial analysis/examination with relevant knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • Some reference is made to the information in the case study and/or the extension material within Section C, not just to the name of the organization. • At the lower end of the markband responses are mainly theoretical.
7–9	<ul style="list-style-type: none"> • A balanced analysis/examination with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • An analysis/examination that uses appropriate terminology throughout the response. • Explicit references are made to the information in the case study and/or the extension material within Section C.

Section C	Level descriptors	
Q5 (e)		
Marks 0–12		
0	<ul style="list-style-type: none"> • No knowledge or understanding of relevant issues, concepts and theories. • No use of appropriate terminology. 	
1–3	<ul style="list-style-type: none"> • Little knowledge and understanding of relevant issues, concepts and theories. • Little use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • No evidence of judgments and/or conclusions. • No reference is made to the information in the case study and the extension material within Section C. 	
4–6	<ul style="list-style-type: none"> • A description with some knowledge and/or understanding of relevant issues, concepts and theories. • Some use of appropriate terminology. • No evidence of synthesis of information from the case study, the extension material in Section C and, where applicable, from other responses within Section C. Information is merely lifted and copied into the response. • Evidence of judgments and/or conclusions that are no more than unsubstantiated statements. • Limited reference is made to the information in the case study and the extension material within Section C. • The response is mainly theoretical. 	
7–9	<ul style="list-style-type: none"> • A response with relevant knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology. • At places in the response information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that have limited support and are underpinned by a balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made at places in the response. 	
10–12	<ul style="list-style-type: none"> • A response with accurate, specific, well-detailed knowledge and understanding of relevant issues, concepts and theories. • A response that uses appropriate terminology competently throughout the response. • Information from the case study, the extension material in Section C and, where applicable, from other responses within Section C is proficiently (synthesised and) integrated to provide a basis for analysis and evaluation. • A response that includes judgments and/or conclusions that is well supported and underpinned by a thorough and balanced analysis. • Explicit references to the information in the case study and the extension material within Section C are made throughout the response. 	

SECTION A

1. (a) **General Ron Meiri was autocratic (lines 8–9). Identify *four* key features of an autocratic leadership style.** [4 marks]

An autocratic leadership style has features such as:

- the leader wants to hold on to as much power, authority and control as possible
- the leader does not delegate
- employees are not involved in consultation
- employees are just expected to obey
- *accept any other relevant feature.*

N.B. Answers about organizational structure (centralized, tall) are not directly relevant and should **not** be credited.

Award [1 mark] for each correct feature identified, up to a maximum of [4 marks].

- (b) **“The organizational structure of the UWP Mission was tall” (lines 9–10). Explain *one* advantage and *one* disadvantage of this type of structure.** [4 marks]

A tall organizational structure has the following advantages:

- hierarchies and managerial chains of command are clear and unambiguous
- roles, posts and departments tend to be highly specialized
- rules and procedures are written and formalized
- the working environment is often very stable
- *accept any other relevant advantage.*

A tall organizational structure has the following disadvantages:

- it may appear impersonal, overly administrative and bureaucratic
- decision-making can be slow and centralized
- employees are not encouraged to participate or share their views
- responding to changes in the internal or external environment can be slow
- *accept any other relevant disadvantage.*

Accept any other relevant explanation.

Mark as 2 + 2.

Award [1 mark] for each correct advantage/disadvantage identified, and [1 mark] for the appropriate explanation of that advantage/disadvantage up to a maximum of [2 marks].

- (c) **Analyse the appropriateness of a bank loan as a source of finance for Kos Palouk’s new lorry (lines 129–130).** [7 marks]

The bank loan is appropriate because it is a well-established method of external funding to buy fixed assets such as machinery or property. In Loyka, Kos may not have access to other sources of external funding such as venture capitalists. Moreover, due to the small size of his part-time business and the fact that he can only save \$100 a month before tax (Appendix 5), he probably does not have enough savings or retained profit for internal funding.

However, the bank loan may not be appropriate because Kos would have to pay interest, even if he is not very successful at the start. Besides, the bank manager requires the lorry as collateral: this means that one day Kos could lose his lorry if he does not keep up with repayments, which is vital for the business, even if he has paid back some of the loan.

N.B.

- Candidates may refer to other sources of finance (such as leasing); this is an acceptable way to analyse the appropriateness of the bank loan, as opposed to other sources of finance. This should be credited.
- As in all answers, correct use of subject terminology (*e.g.* about retained profit) should be credited.
- Candidates are **not** required to make any recommendation at the end; the ones who do so will **not** receive extra marks, as the command term is “analyse” and not “recommend”.

Accept any other relevant analysis.

Marks should be allocated according to the markbands on page 3.

2. (a) **Loyka’s economy is mainly in the primary sector (line 1). Briefly describe the nature of business activity in this sector.** [2 marks]

The primary sector of an economy includes agriculture as well as fishing, forestry and mining. It converts natural resources into primary products.

Accept any other relevant description.

Award [1 mark] for each correct element of the description up to a maximum of [2 marks].

- (b) **Outline *one* reason why Kos Palouk does not need to do any additional marketing at the *UWP* Mission.** *[2 marks]*

Kos does not need to do any additional marketing at the *UWP* Mission because he is already known there: he already has an established base of customers who trust him (customer loyalty) and will be ready to buy more produce from him.

Accept any other relevant answer.

Award *[1 mark]* for a basic outline that shows some knowledge and understanding.

Award *[2 marks]* for a clear outline that shows clear knowledge and understanding.

- (c) **Using information from Appendix 5a,**
- (i) **calculate the net profit margin *and* the gross profit margin for Kos Palouk from his current operation (*Option 1*).** *[2 marks]*

$$\text{Net profit margin} = \frac{150}{400} \times 100 = 37.5\%$$

$$\text{Gross profit margin} = \frac{200}{400} \times 100 = 50\%$$

Award *[1 mark]* for each correct answer, up to a maximum of *[2 marks]*.

- (ii) **calculate the net profit margin *and* the gross profit margin for Kos Palouk from his forecast operation (*Option 2*).** *[2 marks]*

$$\text{Net profit margin} = \frac{1600}{4000} \times 100 = 40\%$$

$$\text{Gross profit margin} = \frac{2200}{4000} \times 100 = 55\%$$

Award *[1 mark]* for each correct answer, up to a maximum of *[2 marks]*.

(d) Interpret your results from part (c) and the data from Appendix 5a and 5b. [7 marks]

The calculations show that the net profit margin for the forecast operation increases by 2.5% and the gross profit margin increases by 5% (from 50% to 55%).

For the forecast operation (**Option 2**), gas and vehicle maintenance are eight times higher (\$400 as opposed to \$50) as it involves more driving, and there is a new type of expense (rent of storage facility for \$200 per month), however Kos can multiply his sales by ten (from \$400 to \$4000) and realize economies of scale. The forecast operation also means that he would multiply his income more than twice (from \$650 to \$1500, see Appendix 5b). As he needs \$550 to support himself and his family, he currently saves \$100 every month (before tax). With the forecast operation, if he expands, he could save over \$900 a month ($\$1500 - \$550 = \950) though not all of it would be personal savings as he would need to pay back the bank loan (currently \$100 interest a month) and any tax (he is likely to pay more taxes).

The profitability ratios overall show that Kos' operations (the current one as well as the forecast one) are financially healthy, however the forecast one (**Option 2**) shows a slightly higher margin (for both net and gross profit), which could support the choice for that option.

Apply Own Figure Rule (OFR).

Accept any other relevant answer.

Marks should be allocated according to the markbands on page 3.

3. (a) **Kos Palouk prepared a business plan (line 142). Identify four elements of a business plan.** [4 marks]

Business plans usually include the following elements:

- mission statement and/or vision statement (*count as one answer*)
- aims / objectives / strategic objectives (*count as one answer*)
- information about the business environment (industry, competitors), PEST analysis (*count as one answer*)
- description of operations
- marketing plan / marketing strategy / marketing intelligence (*count as one answer*)
- information about staffing / HR (*count as one answer*)
- financial statements / cash-flow forecast / start-up costs (*count as one answer*)
- *accept any other relevant element.*

N.B. The list above is not exhaustive.

- Do **not** award a mark for “appendices” or “table of contents” or “executive summary”.
- Do **not** award a mark for just “SWOT analysis”.

Award [1 mark] for each correct element up to a maximum of [4 marks].

- (b) **With reference to Kos Palouk’s business, distinguish between just-in-time and just-in-case stock control (lines 136–138).** [4 marks]

Just-in-time (JIT) stock control means that Kos was only buying stock (fresh produce) from suppliers (farmers) when required, for example when he had particular orders from the *UWP* Mission. This was a good way for him to avoid storage and wastage.

Just-in-case (JIC) stock control means that Kos would need to buy produce and keep a reserve (the buffer stock); he would need to store the produce, which is why he would require a storage facility with a refrigerated room for the eggs, vegetables and poultry. With just-in-case stock control, Kos would be ready to deliver larger amounts of produce to the new university or hospital, whenever required.

Accept any other relevant answer.

[1 to 2 marks]

Award **[1 mark]** for an answer that shows some knowledge of stock control methods. Award **[2 marks]** for an answer that refers to the difference between just-in-time and just-in-case stock control at a generic, theoretical level.

[3 to 4 marks]

Award **[3 marks]** for an answer that combines “theory” (*i.e.* definitions) and “practice” (*i.e.* reference to the case study). Award **[4 marks]** for an answer that fully and clearly distinguishes between just-in-time and just-in-case stock control with reference to Kos Palouk’s business.

- (c) Analyse the value of the social and environmental audit (line 96) for both General Diane Pierce and the local community. [7 marks]**

The results of the formal social and environmental audit of the construction of both facilities will enable General Diane Pierce to assess the relative impacts of the two proposed facilities (university vs hospital) and to make a more informed decision. Some of the results of the audit will probably be positive in the short term (*e.g.* by increasing access to medical sources straightway) and in the long term (*e.g.* by training the next generation of Loykese engineers, teachers and nurses), but some others may be negative (*e.g.* the destruction of the botanical gardens).

The audit will also be of value for the local community as it represents a channel to express their views, either to express approval (*e.g.* as there is a lack of doctors in Loyka) or disapproval (*e.g.* about the issue of foreign male doctors looking after local female patients). Audits make it possible to go beyond the anecdotal (*e.g.* the earlier conflicts between the local governor and General Ron Meiri) and to have a more holistic, objective view with recommendations.

Accept any other relevant analysis.

N.B. candidates may not refer much to environmental aspects; this is acceptable as there is little in the case study about that. There is no expectation that candidates will cover social and environmental aspects to the same extent, as the focus here is on social impacts.

Marks should be allocated according to the markbands on page 3.

SECTION B

4. (a) Describe the use and value of a critical path analysis (*lines 87–88*). [4 marks]

A critical path analysis (CPA) is useful for long and complex projects that are composed of several events/activities. It is useful as a planning tool (for example to allocate resources), as an aid for time management (when one must calculate the critical path itself) and also as a decision-making tool for project management (for example about prioritizing tasks). It can also be used as a control tool to assess the progress gradually made. As there is a predetermined schedule (represented by the network diagram), a CPA is valuable for monitoring achievement (for example to identify delays; some may have impacts on the overall duration of the project, others may not).

Accept any other relevant point.

Award [1 mark] for each correct element of the description, up to a maximum of [4 marks].

- (b) Explain *two* methods of sampling that Colonel Michael Donovan could have used to carry out the primary research (*line 97*). [4 marks]

Colonel Michael Donovan could have used several sampling methods, such as:

- quota sampling (this means that he would have specific shares/allocations, for example 30 % of respondents from the 30–40 year old age bracket)
- random sampling (this means that he would have to get a sample of a cross-section of the population, for example by taking every 200th name in the list of registered Loykese voters)
- stratified sampling (this means that he would target the people most likely to use the university and hospital, for example secondary age school children and pregnant women)
- cluster sampling (this means that he would focus his research on a particular location or population, for example people in the vicinity of the botanical gardens)
- snowball sampling (this means that he would start with a small number of respondents who, in turn, would help recruit others, for example teachers or stakeholders of the university).

Accept any other relevant explanation.

Mark as 2 + 2.

Award [1 mark] for each relevant and correct method of sampling identified and [1 mark] for an appropriate explanation of that sampling method up to a maximum of [2 marks].

N.B. If there is no reference to the case study award a maximum of [3 marks].

- (c) **Explain *one* advantage and *one* disadvantage of the organizational culture of military organizations such as the *UWP* Mission.** **[4 marks]**

A military organization may be considered to have a role culture. The ranks define peoples' jobs and roles. The tall organizational structure and many levels of hierarchy also lend itself to role culture.

However, the project teams such as the SAS, SBS, Green Berets and other non-traditional specialized military units are much more task culture orientated.

The organizational culture of military organizations such as the *UWP* Mission has the following advantages:

- the culture is characterised by a desire for stability and control as well as formal rules and policy, so it is congruent with a tall structure and an autocratic leadership style (such as General Ron Meiri)
- orders are always followed, so the organization can be very efficient with regard to operations and tactics, as it is goal-orientated and results-orientated (for example, if they decide to build the hospital, it will happen)
- the organization promotes from within, so staff know the routes for promotion and have a strong sense of respect for seniority (as showed by the relationship between Colonel Michael Donovan and General Diane Pierce)
- *accept any other relevant advantage.*

The organizational culture of military organizations such as the *UWP* Mission has the following disadvantages:

- the focus on well-established norms and values means that the organization could ignore the norms and values of the society where it operates (here: possible tension with Loykese culture)
- the stable culture of the military implies a resistance to change, be it as a result of internal or of external forces (so even the arrival of General Diane Pierce with her situational leadership style could create some tension with some staff more used to an autocratic leadership style)
- new ideas are not sought and are rarely welcome (so even if some members of the civil engineering group under Colonel Michael Donovan have valid ideas or objections, they are not likely to raise them)
- *accept any other relevant disadvantage.*

Accept any other relevant explanation.

Mark as 2+2.

Award **[1 mark]** for each correct advantage/disadvantage identified and **[1 mark]** for an appropriate explanation of that advantage/disadvantage up to a maximum of **[2 marks]**.

N.B. Candidates that only focus on organizational structures can only achieve a maximum of **[2 marks]**.

(d) Recommend to General Diane Pierce whether the hospital should be built. [8 marks]

Several factors would suggest that the hospital should be built:

- there is a clearly identified need for a hospital (for example the complications from a lack of prenatal care have recently increased) and this would have immediate benefits (as opposed to the longer term impacts of the university)
- the results from the survey showed that a slight majority (52 %) preferred the hospital (so there is market research evidence) compared to 49 % for the university
- Colonel Donovan (who has coordinated the research and has been in the country for longer than General Pierce) recommends the hospital
- it would help the *UWP* Mission reach its strategic objective to improve the image of “the Olive Hats” and to display their corporate social responsibility by improving the healthcare of the Loykese.

However, some other factors go against recommending the hospital:

- many locals have formulated objections to the hospital (for example about the presence of foreign male doctors): the survey showed that 17 % of respondents strongly opposed the hospital (this is a large proportion: more than one person in six) whereas only 10 % strongly opposed the university
- there is an opportunity cost when compared to the university (which also presents advantages), as noted by several stakeholders including the local governor who favours the university
- the alternative project (the university) would equally fit with the mission to improve the image of “the Olive Hats”, showing how they contribute to the sustainable development of Loyka, by training future professionals such as teachers, nurses, doctors and engineers.

Candidates need to have a clear conclusion.

Accept any other relevant recommendation.

N.B. Candidates who use a force field analysis (or any other decision-making) model to answer this question should be rewarded for doing so.

Marks should be allocated according to the markbands on page 4.

SECTION C

5. (a) **Identify *two* advantages to Kos Palouk of merging his wholesale produce business with Sami Taibi's grocery store.** [2 marks]

Advantages of a merger include:

- the combined business would have greater financial strength than Kos' business alone
- it would be easier to obtain loans from banks and other sources
- two revenue streams provide security if either of the divisions of the business experiences a decline in revenue
- Kos' business would immediately have a large and reliable customer
- *accept any other relevant advantage.*

Award [1 mark] for each correct advantage identified up to a maximum of [2 marks].

N.B. The question is from the perspective of Kos: be sure that the advantage identified is from Kos' perspective, not Sami's.

- (b) **Explain *two* advantages to Sami Taibi and Kos Palouk of organizing the new (merged) business as a private limited company.** [4 marks]

Advantages of organizing the new business as a private limited company include:

- capital can be raised by selling shares, typically to friends or relatives of Sami and/or Kos
- as a corporation, there is legal continuity if one or more of the principals passes away
- because private limited companies are typically better capitalized than sole traders or partnerships, they generally find it easier to borrow funds
- control of the company can be maintained, as shareholders can control who additional shareholders will be
- all shareholders have limited liability
- *accept any other relevant advantage with an explanation.*

Mark as 2 + 2.

Award [1 mark] for each correct advantage identified, up to [2 marks] and [1 mark] for an appropriate explanation of the advantage identified, up to a maximum of [2 marks].

(c) Calculate:

- (i) the annual depreciation *expense* of one \$15 000 lorry with a useful life of 7 years and a residual value of \$1000 using the straight line method. [1 mark]

$$\$15\,000 - \$1\,000 \text{ [residual value]} = \$14\,000$$

$$\frac{\$14\,000}{7} = \$2\,000. \text{ Annual depreciation expense: } \$2\,000$$

Award [1 mark] for the correct answer.

- (ii) the depreciation *expense* in the *second year* of one \$15 000 lorry using the reducing balance method, with a depreciation rate of 32% (*show all your working*). [2 marks]

$$\text{Year 1: } \$15\,000 \times 32\% = \$4\,800 \quad \$15\,000 - \$4\,800 = \$10\,200$$

$$\text{Year 2: } \$10\,200 \times 32\% = \$3\,264$$

Award [1 mark] for correct working and [1 mark] for the correct answer, up to a maximum of [2 marks].

(d) Using Vroom’s expectancy theory of motivation, or any other motivation theories, examine Sami Taibi’s proposal. [9 marks]

If candidates choose to use Vroom then they would be expected to include the three main points:

- what workers value
- what workers think they can succeed in doing
- what rewards they will get from the business if they succeed.

Vroom’s expectancy theory fits well with Sami’s proposal. Kos gets a 25 % share of the new business – clearly this is what Kos values – he likes owning his own business and would want to be part-owner of the new business. Sami has set Kos targets and if these are met then Kos receives an additional 24 % share in the business (Item 3.2) – Kos probably believes he can meet these targets. If he does, the rewards he gets are what he wants, which again fits well with Vroom’s expectancy theory.

At the higher markbands candidates would be expected to also refer to three terms used by Vroom – expectancy, instrumentality and valence. If Kos works hard there is a high expectancy that he will succeed. The agreement between Sami and Kos gives instrumentality – if the targets are met then Kos’ share of the business increases by 24 %. Kos is highly likely to value the extra 24 % ownership and therefore valence is likely to be high.

Candidates can consider other theorists to examine Sami Taibi’s proposal. The following is a guide of the theories that could be used **with** further examination:

- Adams – equity clearly may be an issue here, not just with the issue of the shares allocation, but the owner/employee aspect too.
- Herzberg – hygiene factors are not necessarily motivators but they can be demotivators.
- McGregor – is Sami a theory x manager? Does he not trust Kos enough?
- Maslow – security needs should be addressed but there are positive and negative aspects for Kos.
- Mayo – the human element is important here because the focus seems to be on management by objective (MBO) and so it is lacking.
- McClelland – clearly Kos has less power and also affiliation even if he achieves the goal set for him. Sami is still the power player and Kos the subordinate.
- Taylor – pay and Kos’ salary and share option are relevant, but how would Sami be motivated?

Accept any other relevant examination.

Marks should be allocated according to the markbands on page 5.

- (e) **Using information contained in the case study and Items 1 to 4, advise Kos Palouk on Sami Taibi’s proposal.** [12 marks]

It should be recognized that, given time constraints, answers are likely to include a **much** narrower range of issues and concepts than identified below. There is no “correct” answer.

Examiners **must** be prepared to award full marks to answers which synthesize and evaluate even if they do not examine all the stimulus materials.

It is to be expected that the answer will include relevant information from the case study, extension material and Items 1–4 and employ a range of business concepts, tools and terminology.

Sami’s proposal has advantages and disadvantages for Kos. In terms of advantages for Kos, the most important are that he would soon be part-owner of what one can assume to be an established business (Sami’s grocery store) and have considerable opportunity to see his own stake in the business increase (from 25% to 49%). In addition, the two “divisions” of the proposed business are complementary. The wholesale division will immediately strengthen the grocery store operation, providing it with a reliable source of fresh produce at low prices. The balance sheet of the two operations would also be complementary. Grocery stores typically operate with positive working capital (because sales are cash), while wholesale operations such as Kos’ have working capital requirements.

In addition, because the wholesale operation will have to purchase for both Sami’s grocery store as well as the other retail outlets that Kos plans to sell to, Kos’ operation should be able to negotiate favourable prices when purchasing (purchasing economies of scale). The size of the business is a benefit for another reason: to support two lorries. With only one lorry, periods of vehicle maintenance would mean interruption of Kos’ service to his customers. There would be other benefits of the merger as well: a deeper management pool, the combined business networks of both principals, a cleaner path to management continuity if one of the principals were to get sick or pass away.

All of these benefits, however, can obscure one significant potential negative: Kos would not be his own boss. Though the structure of the merger would give Kos considerable incentive to work hard and, in certain respects, elements of his future are in his own hands, Sami will still be his boss and will still own the majority of the company (75% initially and 51% if Kos does meet the performance targets). At Kos’ age, accustomed to running his own small business and seriously entertaining the idea of going on his own full-time, he may chafe having to work for someone else (to be sure, he has done so working in the officers’ dining facility at the *UWP Mission*, but that was a minor position). Under Sami’s proposal, Kos would be working full-time for the new business and have to answer to Sami.

Though the two men have known each other, and presumably discussed many issues to make sure that they could work well together, *actually* working together may prove challenging. Sami has always owned 100% of his business, and his leadership style over the years may have developed in a non-democratic direction. His leadership style in general may not dovetail with Kos'. There could well be times when Kos, as 25% owner, may have to make supervisory decisions in Sami's absence. Will Kos exercise his managerial authority in a manner consistent with Sami's?

Another major consideration is the actual business plan. The deterioration of the situation in the countryside could be a challenge for Kos. As excited as he is about the business opportunity, he is not young (mid-50s) and the situation in the countryside is deteriorating, which could make for dangerous work and, possibly, more physically demanding work than he wants or should do (long detours on rough roads, changing tyres/managing minor repairs in difficult circumstances, *etc.*). The deterioration of the situation in the countryside could also make reaching the sales targets more difficult than he thinks, which could mean that he does not eventually get the 49% ownership in the business that he wants.

There are many other advantages and disadvantages to Sami's proposal.

Accept any other relevant advice.

Award a maximum of **[7–9 marks]** where both the case study **and** Items 1–4 have not been used, *i.e.* only one set of data.

Marks should be allocated according to the marksbands on page 6.
