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91379



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## Level 3 Business Studies, 2017

### 91379 Demonstrate understanding of how internal factors interact within a business that operates in a global context

9.30 a.m. Friday 10 November 2017  
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of how internal factors interact within a business that operates in a global context.	Demonstrate in-depth understanding of how internal factors interact within a business that operates in a global context.	Demonstrate comprehensive understanding of how internal factors interact within a business that operates in a global context.

Check that the National Student Number (NSN) on your admission slip is the same as the number at the top of this page.

There is **ONE** task in this booklet. You should attempt **ALL FOUR** parts of the task.

Refer to relevant business knowledge and/or Māori business concepts in your answers.

If you need more room for any answer, use the extra space provided at the back of this booklet.

Check that this booklet has pages 2–12 in the correct order and that none of these pages is blank.

**YOU MUST HAND THIS BOOKLET TO THE SUPERVISOR AT THE END OF THE EXAMINATION.**

Excellence

TOTAL

E8

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Read the background information below and in the other boxes about *Kemu*. This is the business that you may use to answer parts (a), (b), and (c) of the task.



*Kemu* was formed in 2010 and specialises in the development of games to play on platforms such as PlayStation and Xbox. *Kemu* has a small niche market, however it can charge a premium price due to the consistent quality and innovation shown in its gaming software.

The head office is located in Lower Hutt and there is a design team in Silicon Valley, California. The designers have proved to be most effective when working together as a team.

*Kemu*'s CEO convinced the shareholders that to remain competitive, the company needed to start developing games for virtual reality (VR) technology. The CEO's decision to convert to VR games was influenced by attending a technology conference in San Francisco, where VR games featured. This conference was attended by many of the market leaders in the gaming industry.

Image source: <http://www.wearable.com/project-morpheus/sony-project-morpheus-release-date-price-games>

You may choose to answer parts (a), (b), and (c) using *Kemu*, or a New Zealand-registered business(es) operating in a global context that you have studied in depth.

In part (d) you must use a New Zealand-registered business operating in a global context that you have studied in depth.

Name of New Zealand-registered business(es)	Cryptopia , Icebreaker
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**TASK**ASSESSOR'S  
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- (a) Fully explain ONE benefit the business may gain by introducing product innovation, such as the new VR games.

In your answer, refer to:

- staff motivation
- productivity.

When Kemu introduces product innovation such as cutting edge developments like VR, Kemu brings themselves to the forefront of technology. Staff working for Kemu then feel like their job has value as their work literally advances technology as a whole. Staff motivation will increase as staff believe that their job is worth doing as there are real, tangible advancements being produced from their work product. Furthermore, employees could be more excited to come to work as they get to work on new and exciting developments in society. When staff are more motivated, outputs increase. Productivity is output/input, and since output increases, so does productivity. Profitability increases as a product of productivity, thus giving Kemu more funds to distribute to shareholders and employees through dividends and wages respectively.



For the move to VR games to be successful, the CEO needed the Silicon Valley designers to be fully supportive. The designers are a highly experienced and influential team. The CEO believed that an inclusive strategy for change, where the designers are consulted about how they believe the change should take place, would be the most effective strategy to transition *Kemu* to VR technology games.

- (b) Evaluate the likely success of an inclusive change management approach to convince employees to use innovative new technology.

In your answer:

- fully explain ONE positive and ONE negative effect of the inclusive change management approach for the business
- provide a justified conclusion, including any new information, as to the suitability of the inclusive change management approach for this business.

An inclusive change management approach involves consulting with all stakeholders and possible outside advisers to get feedback before implementing the change. This policy ensures that a majority of the stakeholders are on board with the change before it happens.

One positive is the reduced likelihood of conflict between management and staff. *Kemu* works in the technology field with highly skilled staff. If *Kemu* moves ahead without consulting their skilled workforce, these employees could be upset that their expertise was ignored. If upset, employees won't feel valued or important to *Kemu*. This could mean that if *Kemu* doesn't use an inclusive policy, they would be more likely to self-terminate their employment. The result is that *Kemu* would have to spend more on hiring and training new staff, thus increasing staff inputs without receiving additional outputs ( $\text{productivity} = \text{output} / \text{input}$ ), which result in a fall in productivity. Therefore, an inclusive change management strategy results in higher productivity and thus greater profitability and dividend payments for shareholders.

One negative is the increased costs of the change management policy. Consulting staff, hiring outside advisers etc., cost time and money than

could be spent elsewhere on the business. These increased costs don't immediately produce increased outputs, so productivity therefore falls as inputs rise. This would in turn result in decreased profitability over the short term, resulting in a reduction economic sustainability and a decrease in the funds available to distribute to shareholders as dividend payments.

Overall, an inclusive change management strategy is suitable for Kemu. The highly skilled workforce will likely react very negatively to being ignored, whereas the costs of consulting them are one-off. The costs are short term, but the benefits of increased staff retention are long term. Thusly, the benefits outweigh the costs. Furthermore, by retaining skilled staff and continuously consulting them, Kemu creates a culture of innovation where employees aren't afraid to come forward with ideas. This could mean that more innovation is produced long term which allows Kemu to increase competitiveness and revenue even further.



*Kemu* is known in the industry for its consistent high quality and innovation. *Kemu* embraced the change and developed new VR games. However, since the introduction of the new VR games, there has been negative online feedback from unhappy customers finding faults and other problems with the quality of the new games.

- (c) Fully explain, with ONE reason, how negative online feedback may affect a business like *Kemu*, which is known for its consistent high quality and innovation.

In your answer, refer to:

- the effect on the use of a premium pricing strategy
- the impact on long-term revenue and profitability.

Cryptopia.co.nz is an NZ-based online cryptocurrency exchange and financial service provider that serves an international market of traders. Cryptopia has a reputation for a quality trading platform and an innovative inclusion of the newest cryptocurrencies (beyond just Bitcoin). This allows them to use a premium pricing strategy as customers are willing to pay higher prices for access to a wide range of markets.

Negative online feedback for Cryptopia negatively impacts profitability and revenue over the long term. If Cryptopia receives negative feedback on the security, functionality, etc. of their service, investors and traders will be far less likely to store funds and use their trading platform. If Cryptopia continues to receive negative feedback over the long term, customers will be less willing to pay the premium price to use their service as they could no longer be considered consistently high quality. Instead, customers may choose a competitor. This hurts a premium pricing strategy. The fall in demand and price customers are willing to pay results in a reduction in revenue and therefore profitability (costs remain constant) over the long term. This would mean there are less funds to re-invest back into business and less funds to distribute to shareholders in the form of dividends.

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The examination continues on the following page.**

Kemu is currently investigating three possible quality management (QM) strategies to improve the quality of their games:

- Quality Control
- Total Quality Management
- Quality Circles.

(d) For a New Zealand-registered business you have studied that is operating in a global context, choose a strategy from the above list, and evaluate its suitability to improve the quality of the products of the business.

In your answer:

- explain the chosen strategy in the context of the business
- fully explain ONE positive and ONE negative effect of this QM strategy for the business
- provide a justified conclusion, including any new information, as to the suitability of this QM strategy for this business.

Name of New Zealand-registered business	Icebreaker
Quality management strategy	TQM

Icebreaker is an NZ based multinational that specialises in the creation of merino wool garments. They have factories in Shanghai. At the time of writing, Icebreaker is undergoing negotiations to be bought by a US firm, however they are still an NZ company for the time being. //

Total quality management (TQM) is a strategy that aims to involve the entire supply chain in the management of quality. For Icebreaker, this means that suppliers are subject to strict policies on quality; employees throughout the process are educated, trained, and made responsible for identifying quality lapses; and customers are asked to give feedback on their garments. //

One positive of TQM is that it creates a culture of quality in Icebreaker. Once educated, every person in the supply chain will be responsible for their own quality output. This is instead of quality control where quality is



only the responsibility of the checker at the end of the process. As employees themselves are responsible, this means that the supply chain is more likely to identify quality lapses in the garment. Two heads are better than one I guess. This means that quality of the end product is improved substantially, which in turn results in less unhappy customers which increases brand loyalty. The impact of this is that customers are more likely to choose Icebreaker over a competitor, boosting revenue and thus profits to be distributed to shareholders as dividends //

One negative of TQM is that it results in higher costs for Icebreaker. For example, to make suppliers engage in TQM ~~procedures~~ procedures, Icebreaker has to pay them over and above market rates to make it worth their while. Furthermore, educating staff and implementing feedback systems for customers require additional costs. These costs could have been avoided by ignoring quality all together. Higher costs are immediate, which result in a reduction in profitability for Icebreaker and thus reducing the availability of funds to re-invest back into the business or be given to shareholders as dividend payments. //

Overall, TQM is a suitable QM strategy for Icebreaker. The costs incurred with educating staff are over the short term, with costs being mostly once off such as educating staff and putting in place contracts with suppliers.

However, the impact of having good brand loyalty is long lasting and impactful, resulting in a large increase in revenue over the long term. These increases are likely to be over and above the once off costs.

Furthermore, under TQM, mistakes are caught early. For example, by having merino farmers under strict QM policies, Icebreaker is less likely to be sent poor quality wool. If instead quality control were used, the wool would be turned into a garment and the garment discarded when caught at the end of the process (after lots of production costs are incurred). Under TQM, hopefully the farmer catches the error before the wool is shipped, //

E8

Extra space if required.  
Write the question number(s) if applicable.

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QUESTION  
NUMBER

D) saving costs for the farmer and for Icebreaker. This even further increases profitability. //

By fostering a culture of quality, you get everyone on board with the idea of producing a quality product. If management values quality, employees will be more likely to come forward with ideas on how to improve their product's quality. This means that Icebreaker could get even more quality improvements and thus even more brand loyalty and revenue. //

Overall, TQM is likely to be suitable for Icebreaker. //

<b>Subject:</b>		<b>Level 3 Business Studies</b>	<b>Standard:</b>	<b>91379</b>	<b>Total score:</b>	<b>E8</b>
<b>Q</b>	<b>Grade score</b>	<b>Annotation</b>				
1	E8	<p><b>Part (b)</b>  The candidate has fully explained one positive and one negative impact for an inclusive strategy. In the conclusion, there is evidence for Excellence, because the candidate has fully explained the long-term benefit of the strategy versus short-term cost. The candidate has also provided a new idea for Excellence (to help create a culture of innovation, which would further increase <i>Kemu's</i> competitiveness).</p> <p><b>Part (d)</b>  The candidate has fully explained one positive and one negative impact of Total Quality Management (TQM), in the context of <i>Icebreaker</i>. In the conclusion, there is evidence for Excellence, because the candidate has fully explained the long-term benefit of using TQM. The candidate has also provided a new idea for Excellence (tracking mistakes in terms of quality early in the production process).</p>				