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91380



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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Level 3 Business Studies, 2014

91380 Demonstrate understanding of strategic response to external factors by a business that operates in a global context

2.00 pm Wednesday 19 November 2014

Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of strategic response to external factors by a business that operates in a global context.	Demonstrate in-depth understanding of strategic response to external factors by a business that operates in a global context.	Demonstrate comprehensive understanding of strategic response to external factors by 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.

You should attempt ALL the questions in this booklet.

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 2–15 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

21

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QUESTION ONE: Multinational businesses

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Use the information in the boxes below and on page 4, and your business knowledge, to answer this question.

The New Zealand-owned and Hawke's Bay-based olive company, *Te Awanga Olives* has been bought by a United States-based olive grower.

California-based *Grove Ranch*, led by CEO Doug Freeman, has entered into a merger agreement with *Te Awanga Olives* to buy 100% of the shares in the olive-growing and processing company, whose products include the premium oil brands "Bay Press" and "Haumoana Extra Virgin".

Te Awanga Olives produces 150,000 litres of olive oil annually, but senior managers at *Grove Ranch* plan to introduce new processing technology within the next few years. *Grove Ranch* also has a marketing and distribution network in the United States and Europe, which would be a huge benefit to the New Zealand company in the future.

- (a) Discuss the decision by *Te Awanga Olives* to merge with a foreign-owned multinational such as California-based *Grove Ranch*.

In your answer:

- explain the possible impact on production
- fully explain a possible impact on future sales.

• A multinational business (or company) is ^{a business organisation} ~~one~~ with its headquarters in one nation, but operations and production facilities across a range of nations.

• The merger between the two companies will benefit *Te Awanga's* Olive's production through the investment capital and more efficient processing technology of United States olive company, *Grove Ranch*. By bringing these overseas expertise and ~~process~~ innovative production processes to New Zealand, *Te Awanga* will able to increase their production output and volume.

• Firstly, the ~~companies~~ company's now increased production output will allow them to distribute and sell a higher volume of olive oil annually; leading to greater ~~sales~~ sales revenue and thus profitability for the company. Additionally, *Grove Ranch's* existing marketing and distribution networks in the United States and Europe will allow *Te Awanga Olives*

to enter new overseas markets; greatly increasing the company's sales volume. Moreover, with American marketers advertising their product in the United States, Te Awanga is likely to receive a better reception & uptake of their product than if they were to promote it from New Zealand; due to not having a 'locals' insight to what appeals to this American target market. This too, would increase the company's sales, and thus their revenue & subsequent profitability. //

Question One continues on page 4 ►

While many businesses, such as *Te Awanga Olives*, welcome mergers with foreign-owned multinational companies, some business leaders in New Zealand have become concerned that domestic markets could be dominated by foreign-owned businesses. They have seen a need to develop strategies to defend their domestic markets against international competition.

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- (b) A "strategic response" means a business-wide reaction at multiple levels (size, scope, and timeframe). Evaluate a possible strategic response by a New Zealand-registered business operating in a global context, to the entry of a foreign multinational into the domestic New Zealand market.

In your answer:

- explain the chosen strategic response
- fully explain ONE positive impact and ONE negative impact of the strategic response
- draw a justified conclusion regarding the likely success of the strategic response to defend the domestic market of the business.

Name of New Zealand-registered company	Fonterra
Name of the foreign multinational	Nestle

- Despite the ~~alliances~~ partnerships between the two dairy-product~~ing~~ producing world leaders in South America, if Nestle were to enter Fonterra's domestic market of New Zealand, the Kiwi company would face fierce & damaging competition.
- Should this happen however, Fonterra could respond by launching an immediate marketing campaign that promotes the benefit of "buying local" and the importance of supporting the New Zealand economy and a "Kiwi co-operative". The campaign could also emphasise the taste and health benefits of fresh NZ-made produce as ~~opposed~~ ~~to~~ opposed to that imported from overseas.
- By doing so, Fonterra would positively benefit from increased domestic consumer loyalty and the favourable public perception of the company as a

New Zealand made brand. As such, the company is likely to retain a far larger percentage of their domestic market share at the entrance of Nestle. Therefore, the company's sales volume and revenue may remain the same, or even increase in the longrun; positively impacting the profitability of the company.

- Conversely, this aggressive marketing and advertising approach will require considerable time & investment capital at the expense of Fonterra, and may even carry the potential opportunity cost of drawing finance away from other company departments (e.g. research and development or production). This ^{increased} cost to the business will reduce the company's short-term ~~profit~~ revenue, and thus, profitability.

- The success of this strategic response at defending Fonterra's domestic market is dependent on the public reception and uptake of Fonterra's "buy local" message in their advertising campaign. Nonetheless, I believe that the short-term cost of implementing this response will be far outweighed by the long-term benefit in sales ~~and~~ volume and revenue that it will achieve, and is therefore a viable and advisable strategic response.

- By doing so, Fonterra would ^{also} be exercising the Maori business concept of Kaitiakitanga, ~~by~~ ^{demonstrating} guardianship over the natural resources and people of New Zealand; discouraging overseas multinationals from establishing operations here.

QUESTION TWO: Cultural intelligence

Use the information in the boxes below and on page 8, and your business knowledge, to answer this question.

Doug Freeman and other senior managers from *Grove Ranch* travelled to New Zealand from California to take a closer look at their new purchase.

While in the Hawke's Bay, they were invited to visit a local Māori-owned olive oil business, *Hinu o Te Rākau*. The Chief Executive of *Hinu o Te Rākau* explained to Doug the distinctive nature of their business that grows all its products on tribal lands. Connections with the local Māori community help ensure a high-quality product and take into account the priorities of the local Māori. All staff feel a strong sense of belonging, and an involvement in something bigger than a company focusing purely on profit.

Local tikanga such as manaakitanga underpinned the mihi whakatau (Māori welcome) the visitors from *Grove Ranch* received. Doug was captivated by the speakers issuing welcomes in Māori, as well as the waiata (songs) that supported each speaker. Following the welcome, Doug's delegation was invited to join their hosts in a meal of locally grown produce.

Doug was impressed. The visit had highlighted that *Hinu o Te Rākau* operated out of the principles of whanaungatanga and as a result, focused employment on the local Māori community, and treating each stakeholder, such as customers and suppliers, as if they were a member of their family.

Definition of key Māori concepts

Tikanga: Tikanga is a body of practices or customs that implements tribal values and priorities.

Manaakitanga: Hospitality, generosity, care, respect, and giving. A group or organisation should be able to host and provide for people appropriately.

Whanaungatanga: An ethic of belonging or kinship. This principle acknowledges the importance of networks and relationships, and therefore of developing, managing, and sustaining relationships. It involves caring for and working harmoniously with others to achieve common goals. Whanaungatanga is expressed in a variety of ways in business settings – for example, culture, whānau-model systems and structures, support for and employment of whānau, use of whānau networks, and whānau support for the business.

- (a) *Hinu o Te Rākau* draws upon a range of tikanga in their day-to-day practices and longer-term strategies. Discuss how this is demonstrated in their initial contact with Doug Freeman and his group.

In your answer:

- explain the role of manaakitanga in the Māori welcome given to Doug and his colleagues
 - fully explain ONE impact of demonstrating whanaungatanga in the initial contact with Doug and his colleagues.
- By greeting Doug and his colleagues with Māori welcomes, waiatas and a locally grown meal, the manaakitanga they received allowed the group to feel a sense of welcoming, care and respect from their ~~beneficial~~ generous Māori hosts. //
- As such, Doug & his Grove Ranch colleagues felt a strong sense of belonging from Hinu o Te Rākau business people, ~~and~~ who they would now ~~be~~ feel more inclined to form networks & supplier relationships with. Doug has learnt a powerful lesson in whanaungatanga from his visit, and, as a result, is likely to ~~be~~ implement some of these ~~these~~ ~~in~~ ~~Grove Ranch~~ for the wider well-being of his ~~business~~ business.
- customs in Grove Ranch for the wider well-being of his business. For example, focusing employment on the local community (iwi), and taking a Whanau (family) like approach to company stakeholders. As a continuation of this, Doug may feel encouraged to employ a predominantly Māori staff at his newly acquired New Zealand production facilities. //

Question Two continues on page 8 ➤

Doug Freeman was so inspired by his welcome at *Hinu o Te Rākau* that he decided to commit to developing a strategy to promote greater cultural awareness by employees at *Te Awanga Olives* of local Māori customs.

- (b) A "strategic response" means a business-wide reaction at multiple levels (size, scope, timeframe). Evaluate a strategic response that senior management could implement to promote greater cultural awareness of local Māori customs by the employees at *Te Awanga Olives*.

In your answer:

- explain the strategic response
- fully explain ONE positive impact and ONE negative impact of the strategic response to promote greater cultural awareness
- draw a justified conclusion as to the likely success of the strategic response.

~~Doug~~ c To promote a greater cultural awareness of local Māori customs at *Te Awanga Olives*, Doug & senior management could adjust the company's culture - the accepted set of habits, attitudes and beliefs - of a business to be inclusive of tikanga; Māori tribal values and priorities. This could be achieved through hosting events for employees, such as those encompassing hūngis (Maori way of cooking food) and other customs, to increasing the representation of Maori in their workforce, or even readjusting company notices and signage to include their Maori language translations //

- In doing so, *Te Awanga* would benefit from a heightened cultural intelligence of its employees; the capability of a person to relate and operate effectively across varied cultural situations. This would allow employees to operate in closer observation of traditional Maori ~~customs~~ customs and culture, as well as benefiting from a more supportive and

Whanau - orientated working environment. //

- To the opposite effect, however, this response may cause a rift between existing employees of Te Awanga, who may have difficulty adjusting to this new company culture. This may cause tensions between existing staff and the company's new leadership, with some employees removing themselves from the company, after having worked under relatively unchanging conditions for several years previously. As such, Doug and Te Awanga may face a ~~temporary~~ temporary skill and labour shortage due to experienced staff leaving. //

- The success of this ^{strategic} response is dependent on the speed and ~~manner~~ manner in which it is carried out. ~~While if ~~implemented~~ ~~and abruptly~~~~

While a fast and abrupt implementation is likely to cause the resignation in some staff, if this new, adjusted company culture is introduced over an extended and gradual period, I believe that it would be very successful in promoting a greater cultural awareness of Maori customs for the company. //

- In actioning this strategic response, Doug and senior management would be ^{employing} ~~employing~~ the Maori business concept of Rangiri tanga: the exercise of leadership and authority. //

E7

QUESTION THREE: Changes in the global marketplace caused by natural disasters

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Use the information in the box below, and your business knowledge, to answer this question.

The earthquakes affecting various parts of New Zealand in the last few years have caused some concern amongst senior management at *Te Awanga Olives*. It was thought that strategies should be implemented to ensure the continuation of olive oil production in a highly competitive market if such a natural disaster hits their processing plant.

- (a) Discuss the impact that natural disasters, such as earthquakes can have on *Te Awanga Olives*.

In your answer:

- explain ONE possible impact on sales
- fully explain ONE possible impact on the workforce.

- Natural disasters such as earthquakes can disrupt, and in some cases halt completely, the supply chain of a business. If ^{either} ~~Te~~ ~~Awanga's~~ production plants or distribution networks are damaged in the earthquake, the company will be forced to produce a smaller volume of olive oil; meaning less sales and revenue for the company. Additionally, in this highly competitive post-disaster environment, ~~Te~~ ~~Awanga~~ will be effectively be competing for a "smaller slice of the pie" (market), as consumer confidence & thus ~~demand~~ ~~with~~ spending will ~~also~~ decrease. Demand for olive oil ^(a luxury good) will fall, as households focus on purchasing necessities, leading to further reduced sales for *Te Awanga Olives*.
- The company may also face a labour shortage, as in a disaster scenario, it is likely that a large portion of their workforce will opt to stay home and care for their family (Whanau) or the general well being and rescue

efforts of their community (w.) at large. This decision may be forced for them, as roading and public transport networks are also likely to be disrupted at this time, leaving many workers with no viable transport to get to work.

ASSESSOR'S
USE ONLY**Question Three continues on page 12>**

- (b) A "strategic response" means a business-wide reaction at multiple levels (size, scope, timeframe). Evaluate a strategic response that senior management could implement to limit the impact of a potential natural disaster, such as an earthquake, on *Te Awanga Olives*.

In your answer:

- explain the strategic response
 - fully explain ONE positive impact and ONE negative impact of the strategic response on *Te Awanga Olives*
 - draw a justified conclusion on the likely success of the strategic response to limit the impact of a potential natural disaster, such as an earthquake.
- *Te Awanga* could reduce the potential impact of an earthquake or other natural disaster by reinforcing the structures of their processing sites and operation bases with earthquake proof materials, such as those seen in the recent rebuild of Christchurch homes & buildings.
- This will benefit ~~the~~ *Te Awanga Olives* by providing safer and more resolute working conditions for its employees, allowing greater 'peace of mind' should an earthquake occur and continued, sustained and undisrupted production. This will allow *Te Awanga* to maintain ~~sales~~ relatively normal sales volume in disaster scenarios; benefiting the company's long term revenue and profitability.
- Conversely, this strategic response will come at an immense cost and expense to the business, ~~who may not be spending~~ with some company members viewing the spending as not entirely necessary and preferring to see the capital redirected elsewhere.
- ~~As such~~ As such, the investment cost of installing these safety upgrades will take a

significant toll on the ~~profitability~~ of the company, and therefore decreasing total profits.

- Nonetheless, the longterm benefits of sustained production and sales in a disaster situation would far outweigh the short-term cost of installing the reinforcements. A considerable amount of the initial investment would be ~~recovered~~ recovered in reduced insurance premiums on company property, as well as potential damage and rebuild costs after an earthquake, alone. Finance aside, increasing the structural strength ~~and~~ of Te Awanga's processing sites and buildings of operation would greatly reduce and limit the impact of a potential natural disaster on the company, and is an advisable strategic response to take.

Excellence (21) Question One – E7

Part (b) Two competitive businesses are named.

The Strategic Response is a weak explain only, reducing the score from an E8 to an E7.

Both the Positive and Negative are fully explained and demonstrate good business knowledge with the use of relevant business terms to support the answer (customer loyalty, investment, capital, market share, kaitiakitanga).

The candidate added new information into the justified conclusion and Māori concept Kaitiakitanga.

Strategic response mentions the size (Marketing campaign), scope (depts. = Marketing, Finance and Research and Development), timeframe (short-term and long-term).

Question Two – E7

Part (b)

Strategic Response is explained. The Positive is weaker and only at an explained level (fails to provide the how this will impact the business), therefore reducing the score from an E8 to an E7.

The Negative impact is fully explained.

The candidate demonstrates good business knowledge with the use of relevant business terms to support the answer (company culture, labour shortage, resignation, leadership).

The candidate added new information into the justified conclusion and Māori concepts Tikanga and Rangatiratanga.

Strategic response mentions the size (employment and events), timeframe (extended gradual period).

Question Three – E7

Part (b)

The Strategic Response is a weak explain only reducing the score from an E8 to an E7.

Both the Positive and Negative are fully explained and demonstrate good business knowledge with the use of relevant business terms to support the answer (sustained production, revenue, profitability, capital investment, insurance premiums).

The candidate added new information into the justified conclusion (investment and insurance premiums). The strategic response mentions scope (depts. = Production, Finance) timeframe (short-term and long-term).