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91380



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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Level 3 Business Studies, 2015

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

2.00 p.m. Tuesday 24 November 2015
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.

There is **ONE** task in this booklet. You should attempt **ALL** 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 2–10 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.

Achievement

TOTAL

4

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Use the background information below, the supplementary information in the other boxes, and your business knowledge to complete this task.

New Zealand-owned and Ashburton-based clothing company *Urban Village* has been successfully selling trendy casualwear to the young adult market (people aged 20–30) in New Zealand since 2008. As a result of *Urban Village* having an online store, increasing interest was shown by people from Asian markets. To take advantage of this, *Urban Village* launched a new range called “Street Savvy”.

The senior managers believed that a successful release of the new range would be crucial to the long-term sustainability of *Urban Village*. There were concerns over the high cost of manufacturing in Ashburton, which would impact on the competitiveness of the product overseas. The senior managers believed that for the new range to be a success, *Urban Village* needed to move production from Ashburton to the Philippines, to take advantage of a cheaper and more skilful workforce. The board of directors supported the move, but insisted that the administration section of the business remained at its base in Ashburton. The move was made in April 2014.

As well as the cost advantage of manufacturing in the Philippines, the senior managers were hopeful that the Filipino young adult market would identify with the new range. Another advantage of manufacturing in the Philippines is its proximity to other Asian markets. As a result, the senior managers plan to expand sales staff into South Korea in 2016, followed by Thailand and Malaysia in 2017. The size of these markets is huge, but the competition is very strong. The senior managers believe that the uniquely Kiwi nature of the “Street Savvy” range will make the clothing very appealing in these markets, but *Urban Village* must be competitive on price.

- (a) Fully explain the decision by *Urban Village* to become a multinational company and relocate production of the "Street Savvy" range to the Philippines.

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In your answer, refer to:

- ONE reason for shifting production to the Philippines, other than lower labour costs
- the impact this may have on the shareholders of *Urban Village*.

Urban Village has decided to become a multinational company, and relocate production of *Street Savvy* to the Philippines due to a number of reasons.

One of the reasons for this decision other than lower labour costs is the revenue potential in the Asian market. The online store showed evidence that the Asian market was becoming increasingly interested in *Urban Village*'s clothing range. By shifting production to the Philippines, *Urban Village* can launch the *Street Savvy* range into the Philippines as a pilot project before launching into other Asian markets.

By doing so, *Urban Village* can access other Asian markets which have great revenue potentials more easily given that the company will have more knowledge about Asian markets and its consumers from its experience in the Philippines. Thus the decision to relocate production to the Philippines was made.

Various shareholders will however, be negatively affected by this decision. Shareholders may find that *Urban Village* gains a bad publicity for moving production to the Philippines for cheaper labour. Employees of the administration section won't be affected given that the

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After *Urban Village* moved to the Philippines in April 2014, senior managers were very disappointed with the profits reported for the company's first 12 months of operation there. Labour costs were much higher than anticipated.

It appears that the problem has been mainly caused by the Operations Manager, Phil Whiting, having a lack of understanding of Filipino culture, which has resulted in poor staff morale and a high staff turnover.

- (b) Fully explain the impact that poor cultural intelligence by *Urban Village* may have on the retention of its Filipino staff, and therefore on the business.

In your answer, refer to:

- the impact that the lack of cultural intelligence may have on staff turnover
- the impact that this would have on productivity and business performance.

Cultural intelligence refers to the understanding of cultural differences, and application of different cultural knowledges to various situations to achieve a desired outcome.

The lack of cultural intelligence by Phil the operations manager, will negatively affect staff turnover as it being high, and also on productivity. The workers in the Philippines base could become offended by the lack of understanding of Filipino culture by Phil as it implies that *Urban Village* does not respect their culture. Workers will be demotivated to work for a company that disrespects its culture in which productivity will fall from the low morale, and staff turnover will increase from employees not wishing to work for *Urban Village*, having been offended. The business performance is likely to be poor as a result as the lack of understanding of the Filipino culture will not only lead to

continued

The senior managers have instructed Phil to develop a strategy that will ensure a more appropriate response by *Urban Village* to the culture of its Filipino workers.

(c) Evaluate a possible strategic cultural response by *Urban Village*.

In your answer:

- state the strategic response and explain why it is a business-wide reaction at multiple levels (at least TWO of size, scope, and timeframe)
- fully explain ONE positive impact and ONE negative impact of the cultural response
- provide a justified conclusion, including any new information, as to the likely success of the cultural response in resolving the staff turnover issue.

A possible strategic cultural response by *Urban Village* to address the issue of poor cultural intelligence is hiring a ^{Team of} local agent in the Philippines as to educate its employees about the Filipino culture. *Urban Village* can hire agents of different nationalities that it is wishing to expand into such as Thailand, in the future. This is a business-wide reaction in terms of scope, and timeframe. The strategy is of a large scope, given that all employees including at management level will need to be trained, and educated about cultural differences of various markets by the team of local agents to ensure cultural intelligence of *Urban Village* improves as a company. The strategy will involve a long timeframe given that *Urban Village* will need to hire new teams of agents as the company expands into different markets as to ensure *Urban Village* as a company does

More space for this answer is available on the next page.

continued

not lack cultural intelligence of any markets as it did with the Filipino market, meaning it will be an ongoing project. The positive impact of the cultural response of hiring a team of cultural experts is that it will ensure all employees of the company will be equipped with adequate cultural knowledge for different markets. Urban village may receive positive publicity by doing so, as it shows that the company is progressing onto becoming a culturally responsive company, from which urban village can experience greater revenue. A negative ~~resp~~ impact of the cultural response is that hiring team of cultural agents can require significant costs from which urban village may experience lower margins, and profit. //

Overall, the cultural response of hiring teams of local agents to work as cultural experts and educators is likely to be a success. Employee morale could be boosted as employees could gain pride in the company for taking initiatives to become culturally responsive, in which productivity could increase. As a result, the relationship between urban villages & in NZ and the Philippines, and potentially in other Asian markets in near future, will be positive and stable. //

Many multinational businesses take sustainability actions to meet **societal expectations** and make their presence more acceptable. Some actions are successful and others are not; for example, **Urban Village decided to spend time and money on cleaning up the pollution in a stream near their production plant, to the benefit of local farmers downstream.**

- (d) Evaluate a strategic response, by a New Zealand-registered business operating in a global context, to a sustainability issue (any **ONE of social, cultural, environmental, or economic**). The response may have already happened, or it may be a possible future response.

In your answer:

- state the strategic response and explain why this is a business-wide reaction at multiple levels (at least TWO of size, scope, and timeframe)
- fully explain **ONE positive impact and ONE negative impact** of the strategic response
- provide a justified conclusion, including any new information, as to the likely success of the strategic response in addressing the sustainability issue faced by the business you have chosen.

Name of New Zealand-registered business	Easiyo
Sustainability issue	Economic sustainability

Economic sustainability refers to a company positively contributing to the local economy or the global economy such as reinvesting profits, and creating jobs.

The strategic response by Easiyo to the issue of economic sustainability is reinvesting its profit into the company to develop new products, and to expand into other markets.

This is a business-wide reaction at multiple levels in terms of scope, and timeframe.

The strategic response is an ongoing project - long time frame, as Easiyo has already

More space for this answer is available on the next page.

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expanded into some markets other than NZ such as Korea, and developed new products such as premium yoghurt sachet range but plans to continue doing so. For example, Easiyo is currently developing a dairy free yoghurt as to develop its product range. This response also involves a large scope, thus being a business wide reaction.

A positive impact of the response is that Easiyo is creating jobs for not only locals but also for the global economy in a variety of sectors, including logistics, production, food science, and administrative. Employees of Easiyo are also subsequently positively contributing to the economy as they are spending as consumers. //

A negative impact is the trade off between environmental and economic sustainability due to pollution, and use of natural resources during the process of developing products, and expanding into other markets.

Overall, the ~~strategy~~ response of Easiyo reinvesting its profits into the company to develop its product range, and expand into other markets is a successful response in addressing the issue of economic sustainability.

The products Easiyo are developing - consumers buy from which money is being ~~flowed~~ ~~in~~ ~~cont~~ spent in the economy

Extra space if required.

Write the question number(s) if applicable.

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thus boosting level of economic activity at a global level, which is an indication of economic sustainability. From the strategic response by Easiyo. It is also encouraging ~~other~~ its ~~for companies~~ ^{competitors} to remain competitive as in develop new products, ~~also~~ ^{further} showing economic sustainability of Easiyo. //

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Write the question number(s) if applicable.

QUESTION
NUMBER

(a) administrative base is not being relocated. However, production employees will become redundant thus negatively affected upon relocation of production. Suppliers may find that Urban Village switches to other suppliers to better suit the option of producing in the Philippines, which suggests a fall in profit for them. Overall, Share holders will be differently affected by Urban Village's decision to become a multinational.

(b) negative publicity in the Philippines, but also in New Zealand, and other Asian countries Urban Village hoped to expand into such as Korea. This will result in less consumers shopping at ~~Urban Village~~ from Urban Village from which the company will experience a fall in revenue, thus profit. Overall, the poor cultural intelligence will negatively affect Urban Village overall.

Achieved exemplar for 91380, 2015		Overall score: A4
Q part	Annotation	
(a)	The candidate has fully explained a reason for shifting to the Philippines, but the impact on the shareholders has only been explained.	
(b)	The candidate has fully explained the impact of a lack of cultural intelligence and how this will impact on staff turnover, but has only explained the impact that this will have on productivity and business performance.	
(c)	A strategic response has been stated, and why it is a business-wide reaction at multiple levels has been explained (scope and timeframe). The positive impact has been fully explained, but the negative impact of the response has only been explained. The conclusion has been explained and justifies the response, and new information has been added.	
(d)	<p>An economic strategic response has been stated, and why it is a business-wide reaction at multiple levels has been explained (scope and timeframe). The positive and negative impacts are explained only. The conclusion has been explained and justifies the response, and new information has been added.</p> <p>Overall, the response indicates good business knowledge and uses relevant business terms.</p>	