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3

91380



NEW ZEALAND QUALIFICATIONS AUTHORITY
MANA TOHU MĀTAURANGA O AOTEAROA

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SUPERVISOR'S USE ONLY

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.

Merit

TOTAL

6

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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.

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.

Another reason, other than lower labour costs, for shifting production to the Philippines is that, since increasing interest was shown by people from Asian markets on Urban Village's online store, shifting production to the Philippines would make it easier for Urban Village to enter the Asian market as the Philippines is in close proximity to other Asian markets. Also manufacturing in Philippines means that the market can be expanded into the Philippines, and since it is close to other Asian markets, it would be much easier for Urban Village to expand their market even further from the Philippines (than from Ashburton where shipping cost would also be high). Exporting costs would decrease compared to Ashburton. If Urban Village established itself in the Philippines market it is likely that other Asian markets will also show interest in Urban Village, therefore giving Urban Village a great opportunity to increase their market size. Increasing market size means an increased customer base, which will likely result in higher sales and revenue, which will lead to increased profitability of Urban Village. This will make shareholders more confident with the business and shareholders are likely to invest more ^{shares} ~~shares~~ in Urban Village. ~~and there will be~~ The Urban Village shares will likely increase in value, ~~which~~ so shareholders are likely to invest further into Urban Village, so Urban Village can further expand their business.

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.

If the cultural intelligence was lacking, Filipino staff are likely to get offended (by the lack of cultural intelligence) and will be unsatisfied with working for *Urban Village*. No one wants to work for someone who is disrespectful of their culture, and the lack of cultural intelligence will likely lead to many Filipino staff resigning (quitting). Therefore new staff have to be recruited, who (if they are Filipino) will also likely to resign relatively soon after they start if *Urban Village* is still lacking cultural intelligence. The cost of recruiting new staff and having to train ~~in~~ them high, therefore this ~~high cost~~ increase on staff turnover will increase costs and reduce profitability. New staff are less experienced and are likely to be a bit less productive, and if new staff keep coming in and leave as soon as they are more experienced, the productivity rate will never be very high. Also if cultural intelligence was lacking, staff will be very unmotivated to work for a business with such little awareness and respect about their culture, so their productivity will decrease, which will have negative impacts on the business's ~~profitability~~ and performance and profitability.

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.

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(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 strategic response could be to make ~~Phil~~ Phil and the other non-Filipino staff more aware about the Filipino culture by interacting more with the locals and learning more about their culture. They could also hire a Filipino mentor who will mentor Phil and the other non-Filipino staff about the Filipino customs, beliefs, language, business ~~etiquettes~~ etiquettes etc. so that Phil and other non-~~Phi~~ Filipino staff become fully aware of the cultural intelligence of the Filipino culture. The mentor could work along with Phil and other non-~~Phi~~ Filipino staff and management and ~~make sure that~~ ensure that *Urban Villages* respond more appropriately to the culture of its Filipino workers. A positive impact of this would be that the cultural response of the non-Filipino staff and management would improve and the ~~Phi~~ Filipino staff will get less offended, as they feel like Phil and other non-Filipinos are respectful of their culture (as they are trying their best to fit in with the locals). This will make staff feel a lot better about working //

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

for Urban Villages, and staff will be a lot happier and more satisfied, increasing their motivation to work and their productivity. They will notice that Phil and other non-Filipino staff are respecting their culture so they will respect Phil and other non-Filipino staff a lot more as well.

A negative impact is that hiring a Filipino ~~mentat~~ mentor is likely to cost a lot, and could increase costs and ~~therefore~~ decrease profitability. The Filipino mentor might also take a lot of control over how the business functions, and Urban Village could lose their business culture.

The ~~phil~~ mentor might take advantage and charge very high cost on Urban Villages, increasing cost which could lead to decrease in profitability.

~~This response~~ The positive impacts of ~~this~~ ~~this~~ response outweigh the negatives, and therefore making Phil and other non-Filipino staff aware of cultural intelligence of Philippines is likely to be a ~~a~~ successful cultural response in resolving the staff turnover issue. Although there might be increased costs of hiring a Filipino mentor, the staff will now feel a lot more respected and valued, which will ~~increase their motivation~~ and make them want to continue working for Urban Villages, therefore less staff will resign so ~~less~~ ~~new~~ less new staff have to be recruited, therefore the rate of staff turnover decreases, hence solving the staff turnover issue. In the long term this will increase productivity^{of staff}, ~~and~~ and decrease costs of having to hire new staff all the time, therefore increase profitability of Urban Villages.

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	The warehouse
Sustainability issue	(Social) Giving back to the community, and looking after the community.

The warehouse make sure that their workers are paid more than minimum wage and ensure workers' work environments are safe. They ~~always~~ sponsor ^{^ lot of} local charity events in the community they are located in. ~~They~~ Their workers are treated with respect and they help out people in the community who are in need of financial help. In the past they have given out Christmas gifts to children in unfortunate conditions.

A positive impact of this is that the warehouse will gain a good reputation in their local community they are located in, and people are likely

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

to buy from the warehouse as they knew that the warehouse always gives back to the community ~~and~~ ~~that~~ with their triple bottom line. Many people will want to work for the warehouse as they believe that they will be ~~over~~ treated and paid fairly, which will increase staff motivation. The warehouse helps out with charity events so the community feels that the warehouse cares for the community, so are satisfied with the presence of a warehouse in their community. Customers and potential customers are likely going to choose to shop at the warehouse even if other stores sell the same thing. This is also because of great customer service, due to motivated staff. A negative impact of this is that ~~such activity~~ activities such as donating, sponsoring and paying their workers above minimum wage will cost the warehouse a lot of extra money, ~~increase~~ increasing costs, which could decrease profitability. However, customers and potential customers are aware of the charity and community services the warehouse does and are therefore willing to buy from the warehouse, therefore the strategic response in addressing social sustainability is successful for the warehouse, as such social sustainability activities they do are recognised and these will lead to increase in sales, which increases revenue, leading to increased profitability to the warehouse. This makes it a very successful strategic response. The ~~even~~ people of the community like what the warehouse does and this makes them choose the warehouse over other businesses.

Merit exemplar for 91380, 2015		Overall score: M6
Q part	Annotation	
(a)	The candidate has fully explained a reason for shifting to the Philippines and the impact on the shareholders.	
(b)	The candidate has fully explained the impact of a lack of cultural intelligence and how this will impact on staff turnover, and has also fully explained the impact that this will have on productivity and business performance.	
(c)	A strategic response has been stated. There is no explanation that the response is a business-wide reaction at multiple levels (size, scope, and timeframe). The positive impact is fully explained, but the negative impact of the response is only explained. The conclusion is weak, and the justification is mainly a repeat of the positive and negative impacts with very little new information added.	
(d)	A social strategic response has been stated. There is no explanation that the response is a business-wide reaction at multiple levels (size, scope, and timeframe). The positive impact has been fully explained, but the negative impact is explained only. The conclusion is explained and justifies the response, and new information has been added. Overall, the response indicates good business knowledge and uses relevant business terms.	