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91380



NEW ZEALAND QUALIFICATIONS AUTHORITY
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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.

Excellence

TOTAL

8

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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". *e-commerce*

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. *MNC*

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*.

The decision to move production of "Street Savvy" to the Philippines is likely to be successful for the company.

A reason why they would have chosen to shift could have been due to the Asian area having a large market, by having their operations based where sales are likely to be made makes transportation costs lower and therefore allows the company to offer lower prices to customers (since their costs are also lower). This is most likely to create more sales and revenue, which ~~in~~ ~~ex~~ would ~~ultimately~~ ultimately increase profits.

The impact of a rise in profits from becoming a multinational company on shareholders of *Urban Village* would be that the dividends they receive back from the increased ~~for~~ profits would also increase. ~~Urban Village~~

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.

Through having poor cultural intelligence, especially in management, allows for a high chance of staff turnover. Cultural Intelligence is a person's ability to interact effectively in situations characterized by ~~several~~ cultural diversity, by ~~man~~ managers and staff not knowing how a culture works and how to show respect can leave employees feeling invaluable. Therefore meaning workers leave if they are not being respected.

The high rate of staff turnover created by the operations manager's lack of Cultural Intelligence is likely to decrease the businesses productivity and ~~pre~~ performance. The more staff which need to be hired and trained is not only costly to the business but also time consuming. Ultimately negatively impacting the business, and stopping them from reaching their full profitability potential in the Philippines.

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 strategic response which *Urban Village* could implement is hiring a cultural expert. The expert will teach managers and workers foreign to the ~~Philina~~ Phillipines the customs and norms of the Phillipino culture. This response is strategic as it will cost the business to hire the expert, however should benefit the business in the future. It affects multiple layers of the business with managers ~~and~~ to floor staff needing to gain cultural intelligence across a number of departments. As well as it being a long-term advantage to the business after learning the traditions.

A positive impact of hiring a cultural expert would be increasing worker value and bettering staff interaction. ~~Then~~ By doing so workers will become more motivated to work under the management of people who value and try

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

to understand their culture. Which leads to a productivity increase as staff turnover will decrease and employee motivation will increase. This lowering expenses of hiring and costs of slow production - which ultimately will allow profits to increase. //

A negative impact of the response is that going through the process of hiring someone, and ensuring they have the correct information could be costly to the business. The expenses while the expert is working for Urban Village will increase which if sales do not increase could negatively impact profits. Short-term the response could seem to ~~like~~ not work in favour of the business. //

As humans a basic need is to feel valued and respected. When we are not and our culture is not often we retreat from situations. This is the problem Urban Villages is facing + why their staff turnover is so high. Although hiring a cultural expert can be costly in the short-term the benefits of that investment will pay off in the long-term as employees will start to gain the basic human need and will create a warm and safe work environment staff will be happy to work hard in. //

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	Sanford
Sustainability issue	Environmental impact - fishing fish too small - causing extinction.

Sanford implemented a strategic response of using innovative thinking to ~~help~~ help decrease fish wastage while fishing by creating a new design of a fishing net which will trap fish big enough to sell but allow fish too small to escape. This is a strategic response as the production of the nets is a large change to the company which would be costly. It effect multiple layers of the business as managers have to develop and organise the ideas of the nets and workers have to begin using them. And it has long-term implications on their company becoming

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

environmentally sustainable.

A positive impact of this strategic response is that Sanford are having a positive impact on helping sustain sealife and therefore the ecosystem. This act of good nature is likely to increase their reputation as people will hear from media coverage of their efforts, creating brand loyalty. People are more likely to buy a product if they feel they are supporting a company which cares for the environment and future generation. Therefore this will possibly increase sales and revenue, and depending on the costs of the nets, could increase their profits in the future.

A negative impact of this strategic response is that costs will increase. The production of an innovative idea, never before seen, is likely to cost more. Especially considering a process which may involve trial and error to get the holes in the nets the perfect size to still catch fish, while letting the small ones free. Ultimately this could impact the business's profits in the short term while the costs from the production of the nets are being paid off by revenue.

In years to come it is highly possible that fish will have become extinct, disrupting the ecosystem to great lengths. Fish are a

Extra space if required.

Write the question number(s) if applicable.

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QUESTION
NUMBER

d. large part of the ecosystem and it needs to be realised that the extinction of such a large aspect ~~to~~ could be detrimental to the state of the planet. I believe that Sanford's innovative thinking will pay off not only in the long run of the business - but ~~add~~ also in the long run of the planet.

Excellence exemplar for 91380, 2015		Overall score: E8
Q part	Annotation	
(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 is fully explained, but the negative impact, while fully explained, is weak. The conclusion is explained and justifies the response, and new information has been added.	
(d)	<p>An environmental 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 fully explained. The conclusion is explained and justifies the response, and new information has been added.</p> <p>Overall, the response indicates excellent business knowledge and uses appropriate business terms.</p>	