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2

90843



NEW ZEALAND QUALIFICATIONS AUTHORITY
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Level 2 Business Studies, 2016

90843 Demonstrate understanding of the internal operations of a large business

2.00 p.m. Friday 25 November 2016
Credits: Four

Achievement	Achievement with Merit	Achievement with Excellence
Demonstrate understanding of the internal operations of a large business.	Demonstrate in-depth understanding of the internal operations of a large business.	Demonstrate comprehensive understanding of the internal operations of a large business.

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 2–12 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.

Merit

TOTAL

16

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Background information for all questions

RAD Coffee, widely known as RAD, roasts and grinds coffee beans, and sells these to cafés and restaurants throughout New Zealand. Sally Johnson started the company in 2008. All decision-making takes place in the Dunedin head office. RAD operates three other coffee bean roasting and distribution centres, located in Blenheim, Nelson, and Invercargill. The managers of these centres report to Sally every three months.

As part of its commitment to corporate social responsibility, RAD donates a percentage of its profits to charities and local causes. The managers in Blenheim, Nelson, and Invercargill can decide on the level of donation in their respective communities. RAD's commitment to corporate social responsibility is an important way for the company to differentiate itself from other coffee producers. RAD's coffee beans are priced higher than those from their competitors. neesh

QUESTION ONE: The costs and benefits of corporate social responsibility

- (a) Fully explain ONE benefit and ONE cost to RAD of giving a percentage of its profits to charities and local causes.

A benefit of donating profits to local charities is this action enhances RAD Coffee's reputation. Donations given to local charities gives back to the community and customers and the community appreciate this. Donating to local charities will improve the reputation of RAD Coffee, and will lead to customers appreciating RAD Coffee's support and will more likely shop with RAD Coffee. ~~This will lead to increased sales.~~

An enhanced reputation will bring more customers to RAD Coffee increasing their market share.

A cost of donating profits is Sally will see profits decrease. For example if Sally donated 10% of profits her Net Profit will decrease 10% every year. This can potentially restrict expansion and her return from RAD Coffee. However the long term benefits outweigh the costs, justifying her donations.

- (b) Discuss how a large business (more than 20 employees and/or with a national or regional significance) you have studied shows corporate social responsibility in local communities, **other** than by making donations to local causes.

In your answer:

- fully explain ONE way in which the large business undertakes corporate social responsibility, other than by making donations to local causes
- justify, with TWO reasons, whether undertaking corporate social responsibility in this way improves long-term economic sustainability for your chosen business.

Business name	Air New Zealand//
Good(s) sold or service(s) provided	Domestic and International Flights//

Air New Zealand undertake social responsibility through what they call a 'Green Team'. The team is made up of over 3,000 volunteers who organise Beach Clean-ups along with many other ~~organised~~ acts of kindness toward the environment. An example is their Beach Clean-ups where volunteers and staff take part in cleaning up the New Zealand beaches. This is recognised by local communities. Air New Zealand say they do it to make the country to look good to encourage visitors to come to New Zealand. By undertaking social responsibility this way it improves the reputation within New Zealand communities which Air New Zealand has. This will lead to New Zealanders more likely to fly Air New Zealand, bringing more sales and profits. Therefore improving their long-term economic sustainability. Air

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

Second reason that the 'Green Team' contributes to the economic sustainability of Air New Zealand is the environment is looked after and protected. This is attractive for overseas people to come to New Zealand. With higher rates of travellers to New Zealand this will increase sales and profits for Air New Zealand, improving their economic sustainability. //

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QUESTION TWO: Monthly revenue and cost reports to aid decision-making

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Donations to local causes have grown, and Sally is concerned that they are becoming harder to control. Profits are falling, despite rapid growth. She has asked all centre managers to prepare revenue and cost reports monthly instead of quarterly (every three months). The centre managers agree, but have indicated to Sally that because of the rapid growth of RAD, they are already overworked.

- (a) Fully explain how monthly revenue and cost reports, instead of quarterly reports, may improve decision-making **for Sally**. In your answer, include an explanation of the purpose of revenue and cost reports.

Revenue and costs reports are to show a detailed explanation of what the business is earning and spending on. They can see exactly where the income is coming in and where it is going out. Having these reports monthly instead of quarterly gives a much more accurate reading of what's happening within each RAD centre. This could positively improve Sally's decision making as it would allow her to see what costs she could cut each month and how much revenue is being earned each month. Therefore allowing her to fix any errors and stay on top of everything which could lead to an increase in profits. //

- (b) Fully explain ONE benefit and ONE cost to the managers of the three other centres of preparing monthly revenue and cost reports instead of quarterly reports, and justify, with TWO reasons, whether monthly reporting will ensure that centre managers remain motivated, despite the rapid growth of RAD.

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One benefit of the managers preparing monthly reports is that they become more aware of what's going on in their business and gives them some more responsibility. This is because they would be more regularly seeing the revenue and costs their centre is producing. Therefore this would lead to a sense of empowerment for managers and they may feel more valued in their job with this extra responsibility!!

creating monthly revenue and cost reports is a cost to the managers because they have to put more time and effort into this instead of all the other things they have to worry about in their centre. This could lead to them having more pressure in their job and becoming more stressed meaning they are working at a lower quality to what they were. It would decrease their productivity!!

Monthly reporting will ensure that centre managers remain motivated. Firstly because they will see first hand what's going on within their ~~the~~ centre and how they can improve. This will increase managers as they are striving to achieve at the best level. Because there are three different centre managers it could individually!!

motivate them because each centre would want to be the best. Because it is a monthly report rather than quarterly it is a shorter time frame and each month a different centre could be at the top. This would increase competitiveness between managers leading to increased motivation because they want to be best. Secondly because RAD has grown quickly doing monthly reports show how each month it changes. These reports allow managers to see how the growth is happening and see that they have been one of the big factors causing RAD to grow how it has. This increases their motivation as they have increased job satisfaction and they feel good about doing good so will want to keep working this way. ||

MS

QUESTION THREE: Organisational structure

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After three months of looking at the monthly revenue and cost reports, Sally is convinced that controlling RAD's operations is becoming too difficult. She feels that RAD needs a new organisational structure. She has arranged to meet with her managers at the three other centres to discuss alternative organisational structures and decide which would be the most appropriate, given that the current rapid growth is expected to continue for at least the next two years.

- (a) Explain which organisational structure is likely to currently operate at RAD, and fully explain why this structure may make RAD's operations too difficult to control.

A centralised tall structure is likely to currently operate at RAD. This is because operations are becoming difficult to control due to rapid growth. A tall structure has many levels of hierarchy. It has a long chain of command with ~~each~~ many managers having a ^{small} ~~span~~ span of ~~control~~ control.

A tall structure usually has a centralised approach where the leader or a few senior managers make all the major decisions.

As a tall structure has many levels of hierarchy, communication takes a long time as there are many levels to pass through. Due to the long chain of command, decision making takes a long time due to slow communication.

Inefficient communication and decision making leads to ~~controlling ops~~ difficulties in controlling operations as it takes a long time for actions to be taken. If RAD does not take actions promptly to change the organisational ~~str~~ structure which is proving to be inefficient, it will not be able to survive the rapid growth.

- (b) Discuss ONE new organisational structure which may allow Sally to remain in control and also enable managers at the other centres to have greater input into decision-making.

In your answer:

- identify and explain how this new organisational structure works
- fully explain ONE disadvantage to Sally of using this new organisational structure to improve decision-making
- justify, with TWO reasons, why this new organisational structure is more appropriate for Sally to improve decision-making at RAD, given that rapid growth is expected to continue.

A de-centralised flat structure could be used by Sally for RAD. A flat structure only has a few levels of hierarchy. It has a short chain of command with a few managers at each level having a wide span of control. A flat structure usually has a ~~de~~ decentralised approach to decision making as decision making is delegated to managers or employees. Therefore, this structure will be beneficial to Sally who wants to enable other managers to have greater input into decision making while still remaining in control. One disadvantage of a decentralised flat structure to Sally is that it may lower job satisfaction for her managers. This is because, a flat structure usually comes in the format of a few managers at each level of hierarchy ~~with~~ with/

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

each manager having a wide span of control. This may increase the workload for managers as they will have more employees to look after and organise. This will decrease job satisfaction as the managers have already indicated to Sally that they are overworked.

Due to decreased job satisfaction, a stressful work environment could be established and motivation could decrease. This leads to lower productivity which may be an advantage to Sally.

Given that rapid growth is expected to continue, a flat structure will be more appropriate for Sally to improve decision making at RAD.

One reason is because it increases the rate of communication. As a flat structure only has a few levels of hierarchy and a short chain of command, communication will be faster as it only has to pass through a few levels. Due to faster communication, decision making can be improved as decisions will be made faster and actions will be taken promptly. Another reason a flat structure is more appropriate for Sally is because it allows for innovation and creativity in decision making. Due to the de-centralised approach of decision making, managers will have a greater input into decision making. Leaders or senior managers at the top of the hierarchy may lack //

(continued on
extra page)

Extra space if required.

Write the question number(s) if applicable.

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QUESTION
NUMBER

3b) specialist knowledge. ~~MAN~~ Managers who have specialist knowledge and ~~those~~ work closest to the end users (customers) will be able to contribute their ideas which may allow innovation and creativity in decision making. They will be able to come up with innovative ideas which could also help RAD become market leaders and more competitive in the market. This will lead to increase in sales and profits //

Merit exemplar for 90843 – 2016		Total score: 16
Q	Grade score	Annotation
1	M5	For part (a) the evidence is at Merit level, because the candidate has fully explained one benefit and one cost to RAD of giving a percentage of its profits to charities. The candidate has explained the “what” (improved reputation), the “why” (as RAD give back to the community), and the impact (more customers and increasing market share). For a cost, the candidate has explained the “what” (profits decrease), the “why” (an example), and the impact (restrict expansion).
2	M5	The candidate is precluded from Merit in part (a) because the response has not referred to the idea of timely data and quicker decisions for why monthly revenue and cost reports are better than quarterly. In part (b) the evidence is at Merit level, because the candidate has fully explained one benefit and one cost to the managers. The candidate has explained the “what” (managers have more responsibility), the “why” (they more frequently see the revenue their centre is producing and the costs incurred), and the impact (sense of empowerment). For a cost, the candidate has explained more time and effort and the impacts of more stress and pressure, and decreased productivity, on managers.
3	M6	Part (a) is at Merit level, because the candidate has included the features of a tall organisational structure into their explanations. The candidate correctly included levels of hierarchy, span of control, and chain of command to fully explain why a tall structure is making RAD’s operations difficult to control. The candidate has concluded by linking these difficulties to the context of rapid growth. Similarly, in part (b) the candidate has correctly included the features of a flat organisational structure throughout their response. For example, for a disadvantage the candidate included the concept of a wide span of control leading to increased workload for managers. This is linked to the impacts on Sally of decreased motivation and productivity. To secure an Excellence grade, the candidate needed to expand the answer as to why a flat structure is more appropriate, given that rapid growth was expected.