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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.

Excellence

TOTAL

23

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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.

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.

Corporate social responsibility is when firms take responsibility for the impact their decisions have on the community, environment and stakeholders. *RAD* demonstrates this by donating a percentage of its profits to charities and local causes. One cost of this is that it increases the cost of production for *RAD*. *RAD* donates what could've been their profits to charities and local causes and therefore they wouldn't be making as much profit as what they could've made if they didn't donate. One benefit of this is that it increases brand reputation. By donating its profits, *RAD* differentiates itself from competitors who perhaps don't demonstrate Corporate social responsibility. This increases brand reputation and customers ~~will become more loyal~~ who share the same values as *RAD* will become more loyal and choose *RAD* over competitors, despite their higher prices. This increases sales and therefore increase profits //

- (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	Dad's Pies NZ
Good(s) sold or service(s) provided	Pies //

Dad's Pies operates in Silverdale, Auckland, and it is known nationally and internationally for their authentic pies. Eddie Grooten, the CEO for Dad's pies, values giving back to the community and taking responsibility for the impact their decisions have.

One way Dad's Pies undertakes corporate social responsibility is by allocating fundraisers for local sports teams or individuals who are in need of funds for an event or competition. They sell boxes of their pies for \$36. Once purchased, individuals can sell the pies to friends or family and keep the profits. Once they have been all sold, Dad's pies transfers \$16 for each box sold. By ~~like such and~~ arranging fundraisers and undertaking it

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

corporate social responsibility, Dad's Pies benefit from long term economic sustainability.

One reason for this that it increases their brand reputation within communities. ~~Then~~ If Dad's pies get known for giving back to the community, ~~then~~ they will establish a positive reputation for their brand which will increase customer loyalty from those who share the same values. Increased brand reputation will also attract new customers which will potentially increase sales and profits. If customers choose

Dad's pies over competitors for their positive brand reputation, Dad's pies will become competitive in the market. Another reason it ~~increases~~ improves

long term economic sustainability is that employees will have increased loyalty. Employees who share the same values will have increased job satisfaction and will be motivated to work harder. Also, due to increase positive brand reputation, existing employees will feel pride in their job and become loyal and it could also ~~at~~ attract more skilled and experienced workers from the industry. Due to ~~increased~~ improved staff ~~retention~~ retention, Dad's pies will have decreased staff turnover. This is economically sustainable in the long term as they can save ~~training~~ training and hiring advertisement cost for new employees. Also, due to retaining high skilled and experienced workers Dad's pies will have increased productivity.

ES

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.

Monthly revenue and cost reports will help improve Sally's decision making. The purpose of revenue and cost reports is to show cash flowing into and out of the business over a period of time. By Sally having a more frequent ^{record} ~~update~~ of RAD's cash receipts and payments, it is easier for her to see exactly where high expenses are and whether they vary between months as well as where there is lower income and higher income. By knowing this information on a more frequent basis it allows for Sally to make decisions easier as it is clearer where changes can be made. Also it means that Sally is more likely to notice an ongoing issue which she can improve.

- (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.

A cost to the managers having to prepare monthly revenue and cost reports instead of quarterly ~~means~~^{is} that their workload is substantially increased. This may cause them to become ineffective leaders as they will be more stressed and focused on completing their work rather than focusing on encouraging staff and sharing the businesses vision. Also being overworked can cause the managers to ~~lack motivation~~^{work to a lower standard} as they are always busy and stressed. ^{and lack motivation} A benefit to the managers preparing monthly revenue and cost reports is that they are also able to see areas of high expenditure and since they can decide on the level of the donation if their designated amount is showing to be too high, then they can take actions to reduce it and improve RAD's profits ~~without having to~~. This gives the manager a better feeling of purpose, and whanaungatanga, as they can take action to help fix an issue themselves which makes them feel more a part of the RAD business. Monthly reporting will ensure that the centre managers remain motivated despite the rapid growth of RAD because they will feel a greater

sense of whanaungatanga which will keep them motivated because they truly feel a part of the business and therefore will want to work hard in all aspects to improve the overall success of RAD. / Also by preparing the reports more frequently they may have an improved understanding of how the business is running and where there are areas of concern, this will increase the managers interest in the business so they will continue working hard despite the rapid growth of RAD. Overall the benefits of having managers prepare monthly revenue and cost reports out-weigh the costs. //

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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 tall centralised organisational structure is likely to currently operate at RAD as there are many levels of hierarchy among the business. This structure may make RAD's operations too difficult to control as that because of the many levels of hierarchy there is a long chain of command. This means that issues/decisions in operations take a lengthy period of time to pass through different hierarchical levels in order to reach someone who has the authority to make decisions. Communication throughout RAD will be slow, and this makes operations difficult to control because for operations to operate effectively communication must be prompt in order to resolve any issues that arise or to make any changes. Because the structure is centralised, only very few are involved in this decision-making process, which means those issues ~~decisions~~ cannot be resolved quickly. This creates inefficiency in the operations, making it too difficult to control.

- (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.

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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 new organisational structure that Sally could implement is a flat decentralised organisational structure which would mean that there are less levels of hierarchy, and that managers have greater span of control, and a greater proportion of the business can be involved in the decision-making process. This allows for staff to have more input into how the business runs, meaning more are involved in the decision-making process //

One disadvantage of using this new organisational structure to improve decision-making, is that Sally no longer has complete and individual choice in how the business is run. Therefore when decisions need to be made urgently, or she chooses to propose a change in direction for the business, this process may become prolonged, as all staff involved in decision-making will have their own views, and want to voice their opinion. This may mean that ~~RAD~~ Sally is not able to as quickly respond to changes that occur in the industry, and therefore //

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

may not be able to keep up with other competitors ~~through this~~ as a result. //

One reason why this new organisational structure is more appropriate to improve decision-making, is that as more staff are involved in the decision-making process, this allows for collaboration amongst the staff which would allow for more innovation. Given the rapid growth is likely to continue, it is important that they continue to innovate in order to stay ahead of competitors and maintain a competitive edge in the industry. This will ensure they increase their revenue, and increase their market-share, which ensures their long-term economic sustainability. It will also mean along with this ~~innovation~~ increased innovation that RAD can better adapt to any changes in the market, as more are involved, and they can quickly adjust to issues that arise, ~~meanwhile~~.

Another reason that this is more appropriate for Sally to improve the decision-making, is that as rapid growth is expected to continue, ~~more~~ more decisions will need to be made, and by allowing more staff into decision-making process, they can ensure that these decisions are effectively made quickly in order to continue growing. With this growth Sally would have struggled to make all these decisions by herself. As staff are more involved, they have increased job satisfaction and motivation meaning they will work harder, increasing productivity. This will mean that RAD can keep up with the rapid growth without having to employ as many extra staff. //

E8

Excellence exemplar for 90843 – 2016		Total score: 23
Q	Grade score	Annotation
1	E8	<p>The response to this question is at Excellence level, because the candidate has fully explained corporate social responsibility (CSR) in the context of their chosen large business. The candidate has justified the economic sustainability of Dad's Pies by integrating business concepts that lead to economic sustainability (brand reputation, customer loyalty, and staff retention).</p> <p>Throughout the candidate's full explanations, business knowledge has been integrated, including the definition of CSR, productivity, job satisfaction, and competitors.</p>
2	E7	<p>The candidate understands the purpose of revenue and cost reports, which is necessary to earn higher grades. The benefits and costs to the managers have been fully explained in part (b), including the impacts on RAD.</p> <p>A Māori business concept (whanaungatanga) has been successfully integrated.</p> <p>The response is a weaker Excellence, as some explanations are repeated in the justifications.</p>
3	E8	<p>For Excellence, candidates must give explanations that link to the context of the question, i.e. rapid growth at RAD.</p> <p>The candidate earns a high Excellence here, because the new organisational structure (flat) has been successfully justified in the context of rapid growth at RAD (i.e. RAD can better adapt to any changes in the market).</p> <p>The characteristics of some organisational structures have been integrated, including span of control, levels of hierarchy, and chain of command.</p>