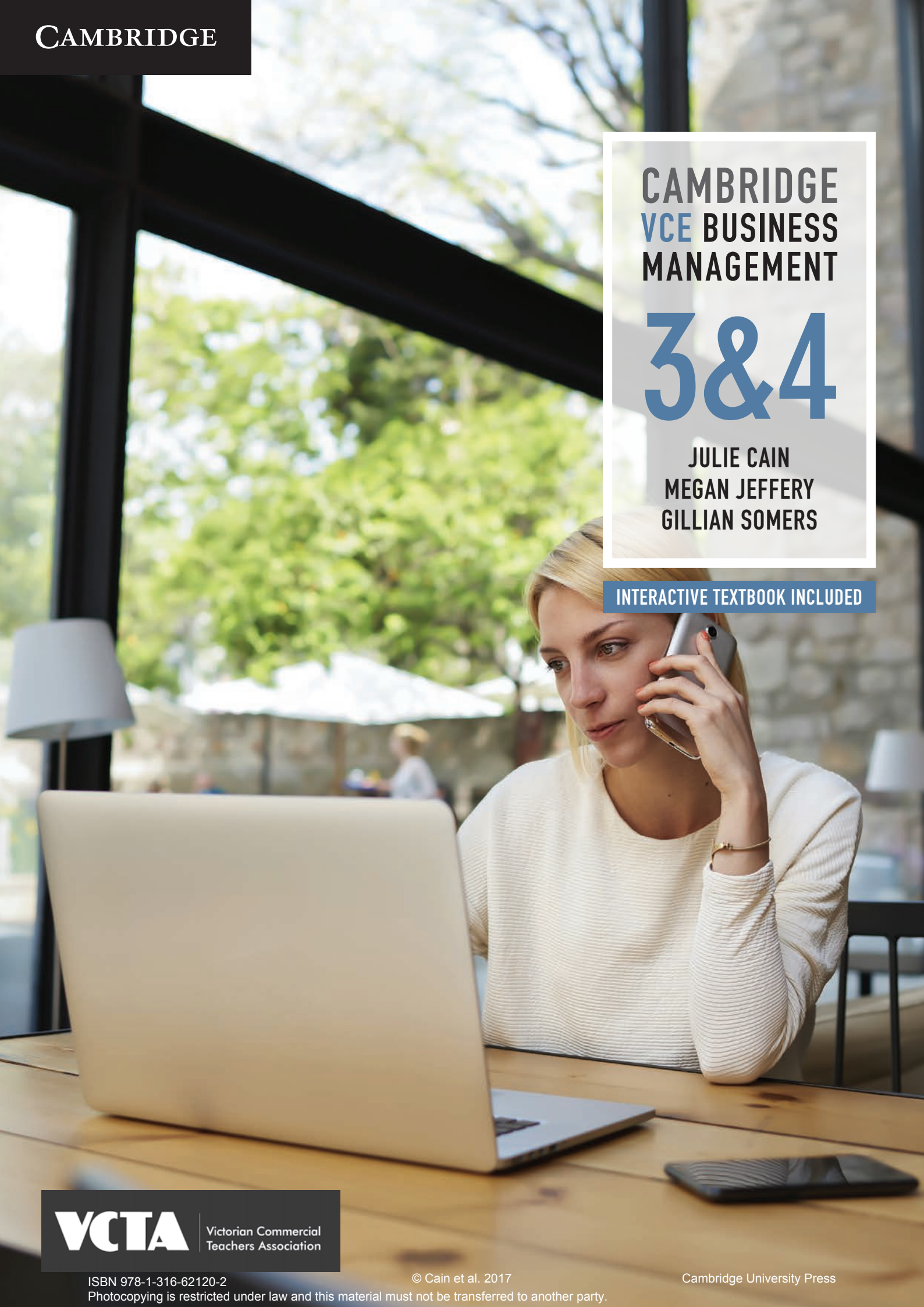
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CAMBRIDGE VCE BUSINESS MANAGEMENT 3&4

JULIE CAIN
MEGAN JEFFERY
GILLIAN SOMERS

INTERACTIVE TEXTBOOK INCLUDED



VCTA Victorian Commercial Teachers Association

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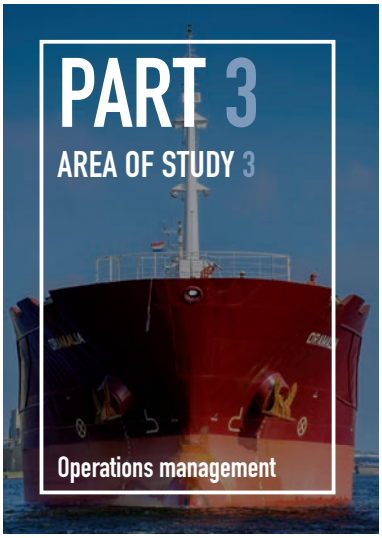
Chapter openers feature four sections introducing the topics being studied:

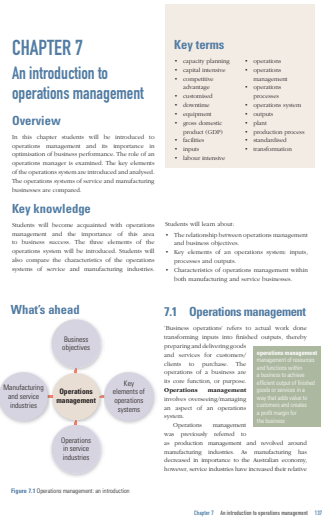
Overview captures the essence of the content presented.

Key knowledge links to the Study Design and lists the outcomes this chapter will help you achieve.

Key terms gives a summary of the language you need to discuss the topics.

What's ahead presents a visual overview of focus areas.





Case studies extend on information to add another layer to your knowledge and understanding.

Each case study is followed by an **Analysis** – a set of questions challenging you to apply business management knowledge to a practical business situation.

Glossary terms are bolded in the text, defined in the margins and collated at the end of the textbook for easy reference.



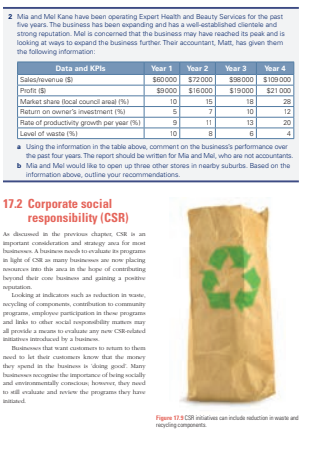


Section heads link to key knowledge required by the Study Design.

A variety of **activities** and research tasks explore key concepts, develop skills, and encourage you to consolidate and extend your knowledge and skills on a wide range of key topics.

All activities are available as downloadable documents.





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Chapter summaries review the main ideas of the topic to consolidate what you have learned.

Chapter summary questions highlight key areas explored and help reinforce learning.

Examination preparation questions, using key exam terminology, test your knowledge through the reinforcement of key concepts and the application of skills.



Chapter summary

- Business objectives are the stated, measurable targets of how to achieve business aims. They involve a business creating plans, strategies and actions to achieve these objectives.
- Employees are important stakeholders of any business and need to be properly managed. If a business, regardless of its size, has a positive relationship with its employees, the employees will assist in the growth and success of the business.
- The SMART principle should be used when managers and employees establish the individual objectives/goals for an employee. They should be Specific, Measurable, Achievable, Relevant/Realistic and Time-bound.
- Management by Objectives (MBO) is a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.
- A greater level of employee engagement is experienced by employees who can identify with the values, vision, objectives and how a business operates.
- Managers must be able to establish and promote a climate that motivates their subordinates to do the best possible job.
- Managers who can create well-designed jobs for employees will not only act to increase their motivation, but also their level of job satisfaction and productivity.
- Motivation for individuals is the drive to achieve an objective. To get the highest level of work performance from a subordinate, a manager must understand what motivates them.
- Motivation theories – Abraham Maslow's hierarchy of needs, Locke and Latham's goal-setting theory, and Lawrence and Nohria's four drive theory.
- Abraham Maslow's hierarchy of needs: The five levels of needs are 1 physiological, 2 safety, 3 social, 4 esteem and 5 self-actualisation. An employee's level of need in the hierarchy must be substantially satisfied before moving to the next higher level which acts as the motivator. Managers need to understand how to apply these psychological needs into actions that can be applied at the workplace.
- Locke and Latham's goal-setting theory states that the setting of goals leads to increased effort, task focus and persistence of individuals. The goals should be established using the SMART principle. Applying this theory acts to motivate both individuals and work teams due to its focus on setting goals, undertaking regular feedback and measuring the actual performance.
- Lawrence and Nohria's four drive theory is based on four motivational needs which act to drive people. The four drive needs are: acquire, bond, comprehend and defend. The relative strength of each driver differs between individuals, as well as over time; however, it is not wise to allow for any major imbalance between them. It is important that both the business and individual managers recognise and implement the various actions that can be taken to satisfy the four drives.
- Motivation strategies that can lead to a more motivated workforce are: performance-related pay, career advancement, investment in training, providing support and sanction.
- Performance-related pay (PRP) is a financial reward given to employees or a work team who have reached or exceeded the pre-set standard.
- Career advancement can act to motivate employees who want increased remuneration, a more challenging on-the-job experience, are ambitious or seeking more status. A job can be made more challenging for an employee by enlarging its scope, enriching its depth or rotating them to other departments to gain an increase in their depth of experience.
- Investment in training can create a greater sense of attachment, loyalty and commitment by an employee. If subsequently the business is not able to provide the employee with a suitable job or equipment, then this will not act as a motivator.
- Employees who feel supported, encouraged and acknowledged for their work performance will be more motivated to work diligently.
- Sanctions in the form of penalties or discipline can act to motivate some employees in the short term. Once the sanction has been received, the employee should be encouraged to respond to positive motivators to improve their performance.

Chapter summary questions

1 Define the following terms. Use each term in a sentence to demonstrate your understanding.
- a motivation
- b performance-related pay
- c the drive to acquire
- d the SMART principle

2 Identify the correct order of Maslow's hierarchy of needs:
- a safety, physiological, social, esteem, self-actualisation
- b physiological, safety, social, self-actualisation, esteem
- c physiological, safety, social, esteem, self-actualisation
- d physiological, social, safety, esteem, self-actualisation

3 Locke and Latham are responsible for:
- a human relations theory
- b four drive theory
- c goal-attainment theory
- d management by objectives

4 Career advancement is regarded as a motivational strategy. Identify and explain two actions a business can take directly related to work tasks (job) that would act to motivate an employee.

5 Discuss this statement: 'If a business wants to prosper the only thing they need to concentrate on is ensuring their workers are motivated'.

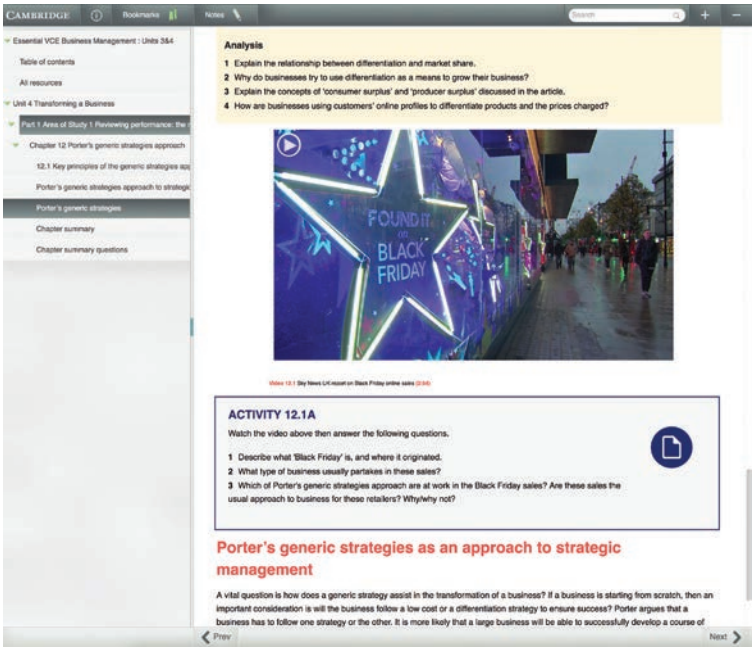
Examination preparation

1 Compare the ideas of the following motivational theories: hierarchy of needs (Maslow), goal-setting theory (Locke and Latham) and the four drive theory (Lawrence and Nohria).
(6 marks)

2 Using one of these motivational theories, identify and explain two strategies based on that theory which a human resource manager could implement to motivate staff, resulting in job satisfaction and increased work performance.
(4 marks)

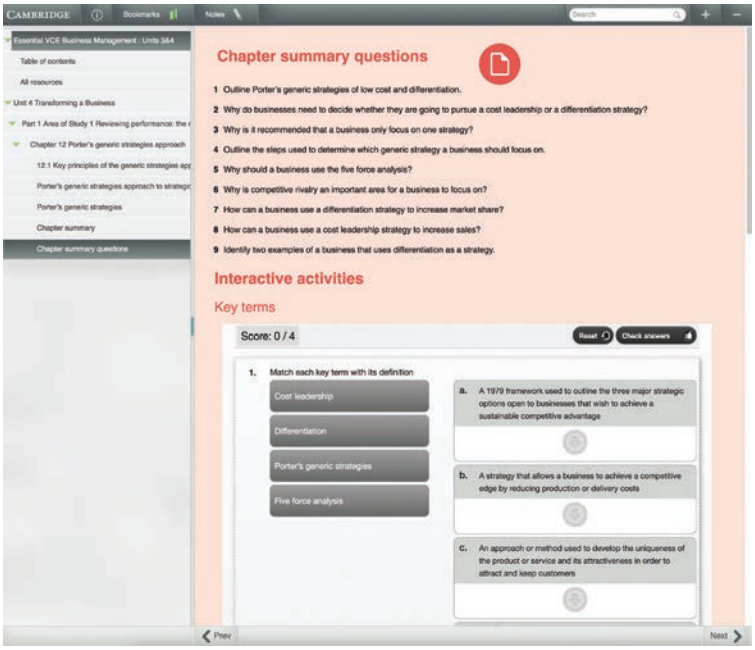
In the Interactive Textbook, **video**, **audio** and additional **images** enrich the learning experience.

Roll-over definitions of glossary terms enhance understanding.



Interactive activities (e.g. drag and drop questions) assist recall of facts and understanding of concepts.

All activities and end-of-chapter content are available as **downloadable Word documents**.



A downloadable **PDF Textbook** is available with note taking and search functions.

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KEY KNOWLEDGE TABLE

	AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
UNIT 3	Part 1 AOS1 Business foundations	1 Business foundations	• Types of businesses, including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises. • Business objectives, including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations. • The areas of management responsibility, including operations, finance, human resources, sales and marketing, and technology support, and how each area contributes to the achievement of business objectives.
		2 Stakeholders and corporate culture	• Characteristics of stakeholders of businesses, including their interests, potential conflicts between stakeholders and corporate social responsibility considerations. • Corporate culture, both official and real, and strategies for its development.
		3 Management styles, skills and their interrelationship	• Management styles, including autocratic, persuasive, consultative, participative and laissez-faire. • The appropriateness of management styles in relation to the nature of the task, time, experience of employees and manager preference. • Management skills, including communicating, delegating, planning, leading, decision-making and interpersonal. • The relationship between management styles and management skills.
	Part 2 AOS2 Managing employees	4 Employees: business objectives and motivation	• The relationship between managing employees and business objectives. • Key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria). • Motivation strategies; including performance-related pay, career advancement, investment in training, support and sanction. • Advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation.

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	AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
UNIT 3	Part 2 AOS2 Managing employees	5 Training, performance management and termination management	• Training options, including on-the-job training and off-the-job training, and the advantages and disadvantages of each. • Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation. • Termination management, including retirement, redundancy, resignation and dismissal, entitlement and transition issues.
		6 Workplace relations	• The roles of participants in the workplace; including human resource managers, employees, employer associations, unions and the Fair Work Commission. • Awards and agreements as methods of determining wages and conditions of work. • An overview of the dispute resolution process, including grievance procedures, mediation and arbitration.
	Part 3 AOS3 Operations management	7 An introduction to operations management	• The relationship between operations management and business objectives. • Key elements of an operations system: inputs, processes and outputs. • Characteristics of operations management within both manufacturing and service businesses.
		8 Optimising operations	• Strategies to improve the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development. • Strategies to improve the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just In Time. • Strategies to improve the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management. • Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management.
		9 Corporate social responsibility and global issues in operations management	• Corporate social responsibility considerations in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs. • Global considerations in operations management, including global sourcing of inputs, overseas manufacture, global outsourcing and an overview of supply chain management.

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KEY KNOWLEDGE TABLE

	AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
UNIT 4	Part 1 AOS1 Reviewing performance: the need for change	10 Reviewing performance	• Key performance indicators as sources of data to analyse the performance of businesses, including percentage of market share, net profit figures, rate of productivity growth, number of sales, rates of staff absenteeism, level of staff turnover, level of wastage, number of customer complaints and number of workplace accidents.
		11 Forces for change	• The concept of business change. • Key principles of the Force Field Analysis theory (Lewin). • Driving forces for change in business, including managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes. • Restraining forces in businesses, including managers, employees, time, organisational inertia, legislation and financial considerations.
		12 Porter's Generic Strategies approach	• The two key approaches, lower cost and differentiation, to strategic management by Porter's Generic Strategies (1985).

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	AREA OF STUDY	CHAPTER	KEY KNOWLEDGE
UNIT 4	Part 2 AOS 2 Implementing change	13 Leadership and strategies to respond to KPIs	• The importance of leadership in change management. • Management strategies to respond to key performance indicators, including staff training, staff motivation, change in management styles or management skills, increased investment in technology, improving quality in production, cost cutting, initiating lean production techniques and redeployment of resources (natural, labour and capital). • Low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives. • High-risk strategies to overcome employee resistance, including manipulation and threat.
		14 Seeking new business opportunities	• Management strategies to seek new business opportunities, both domestically and globally.
		15 Principles of the Learning Organisation and the Three Step Change Model	• An overview of the principles of the Learning Organisation (Senge). • Key principles of the Three Step Change Model (Lewin).
		16 The effect of change on stakeholders and corporate social responsibility	• The effect of change on stakeholders, including managers, employees, customers, suppliers and the general community. • Corporate social responsibility considerations when implementing change.
		17 Evaluation of business transformation	• The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.

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KEY SKILL-BASED TERMS USED IN OUTCOMES AND EXAMINATION QUESTIONS

Term	Definition
Analyse	Break into parts and examine, e.g. essential components in decision-making or problem-solving process.
Apply	Use theory to help in a practical example. Show or make links, relationships or connections.
Compare	Bring together for noting the points of likeness and difference, e.g. compare management theory and practice, compare the management style of manager A with manager B.
Define	Accurately state or explain the precise meaning of a word, phrase or term.
Describe	Provide a detailed account of something.
Discuss	Examine an issue or response and state arguments or opinions covering both sides of the issue or response involved in the stimulus material.
Distinguish	To recognise or show points of difference between two or more concepts of items. Note the distinctive characteristics.
Establish criteria	Determine criteria or measures to conduct an evaluation.
Evaluate	Apply weighted criteria to the relative strengths and weaknesses of the arguments raised in the stimulus material, as well as being able to provide your opinion.
Explain	To make the meaning of something clear, detailed and understandable.
Identify	Determine or establish as being a particular thing. To determine the key characteristics or features.
Illustrate	Provide an example to support your statement/comment.
Interpret	Use knowledge and understanding to explain or make clear the meaning of something.
Label	To describe or designate, e.g. specific management style.
List	Enter in a list with others.
Outline	Provide a brief description of the terms or topic.
Propose	To put forward (a plan or suggestion) for consideration by others.
Provide reasons/ justify	Justify your choice or answer. Give valid reasons or evidence to support an answer or conclusion.
Recognise	To identify the existence of something or someone, e.g. the contribution of businesses within the local, national and global markets.
Recommend	To be able to present and state facts, ideas or feelings appropriate to the issue or response covered in the stimulus material.
Record	To write something down or use some other permanent form so that it can be used or seen again in the future.
Research	To investigate, explore or study in order to establish facts and reach new conclusions.
Select	To choose one in preference to another.
Share	To have or use something at the same time as someone else.
Understand	To interpret, perceive or view (something) in a particular way.

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OVERVIEW OF AREAS OF STUDY AND COURSEWORK ASSESSMENT

Managing a business and Transforming a business

The VCE Business Management Study Design 2017–2021 outlines the following areas of study and the relevant school-assessed coursework that must be undertaken for the course.

UNIT 3 MANAGING A BUSINESS: AREAS OF STUDY

1 Business foundations
2 Managing employees
3 Operations management

UNIT 3 COURSEWORK ASSESSMENT CHART

Number	Outcome	Marks allocated	Assessment tasks
1	Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture and management styles and management skills	20	One or more of the following: • A case study • Structured questions • An essay • A report • A media analysis
2	Explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees	40	One or more of the following: • A case study • Structured questions • An essay • A report • A media analysis
3	Analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations	40	One or more of the following: • A case study • Structured questions • An essay • A report • A media analysis
	Total marks	100	

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UNIT 4 TRANSFORMING A BUSINESS: AREAS OF STUDY

1 Reviewing performance – the need for change

2 Implementing change

UNIT 4 COURSEWORK ASSESSMENT CHART

Number	Outcome	Marks allocated	Assessment tasks
1	Explain the way business change may come about, use key performance indicators to analyse the performance of a business, discuss the driving and restraining forces for change and evaluate management strategies to position a business for the future.	50	One or more of the following: • A case study • Structured questions • An essay • A report • A media analysis
2	Evaluate the effectiveness of a variety of strategies used by managers to implement change and discuss the effect of change on the stakeholders of the business.	50	One or more of the following: • A case study • Structured questions • An essay • A report • A media analysis
	Total marks	100	

Students are required to gain key knowledge within each area of study and to be able to use key skills in relation to that knowledge. This is demonstrated through the use of both internal and external assessment. The overall assessment (study score) is calculated in the following manner.

ASSESSMENT CONTRIBUTION CHART

Unit	Assessment	Contribution to study score
3	Outcomes (internal)	25%
4	Outcomes (internal)	25%
3 and 4	External examination	50%

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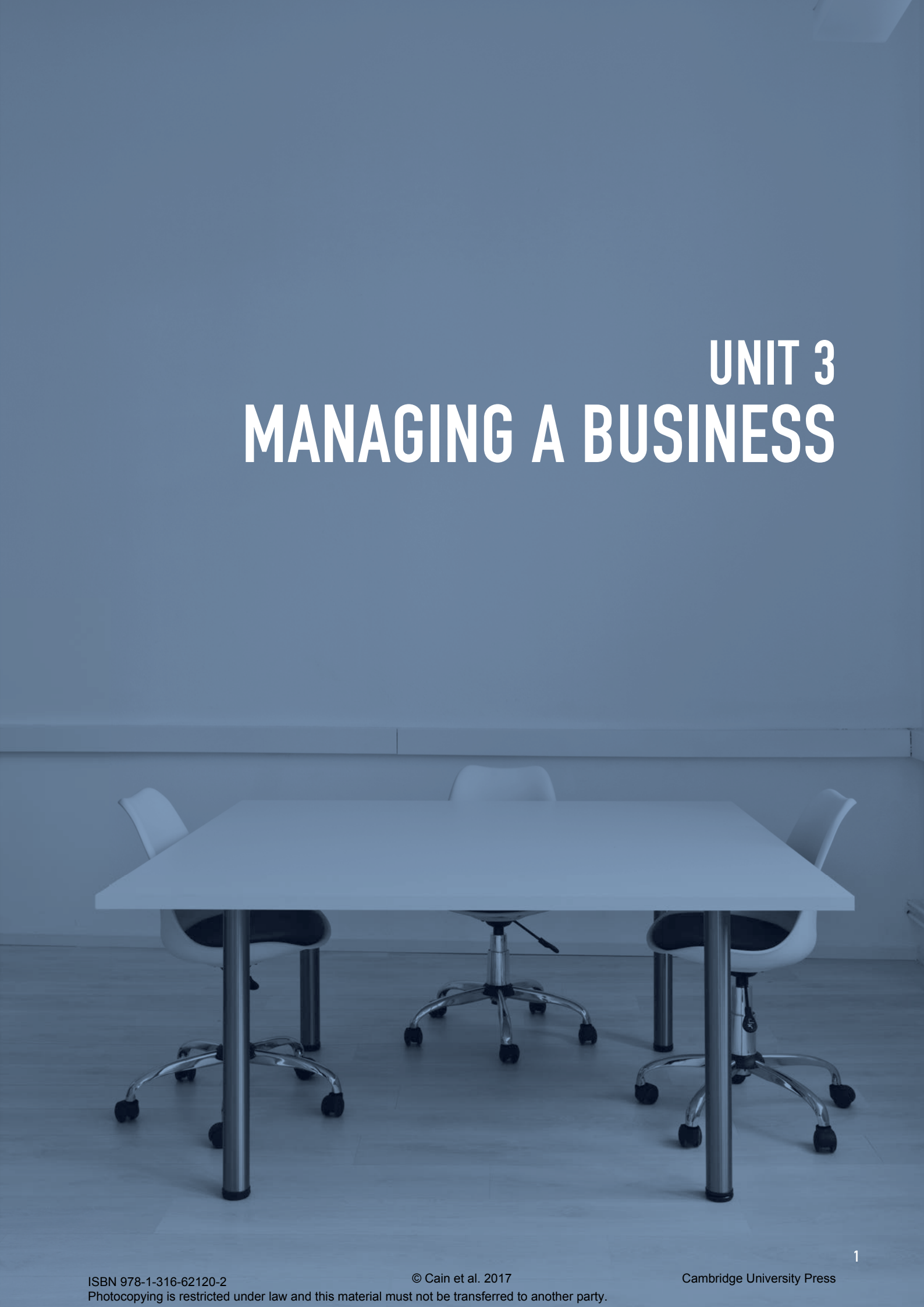
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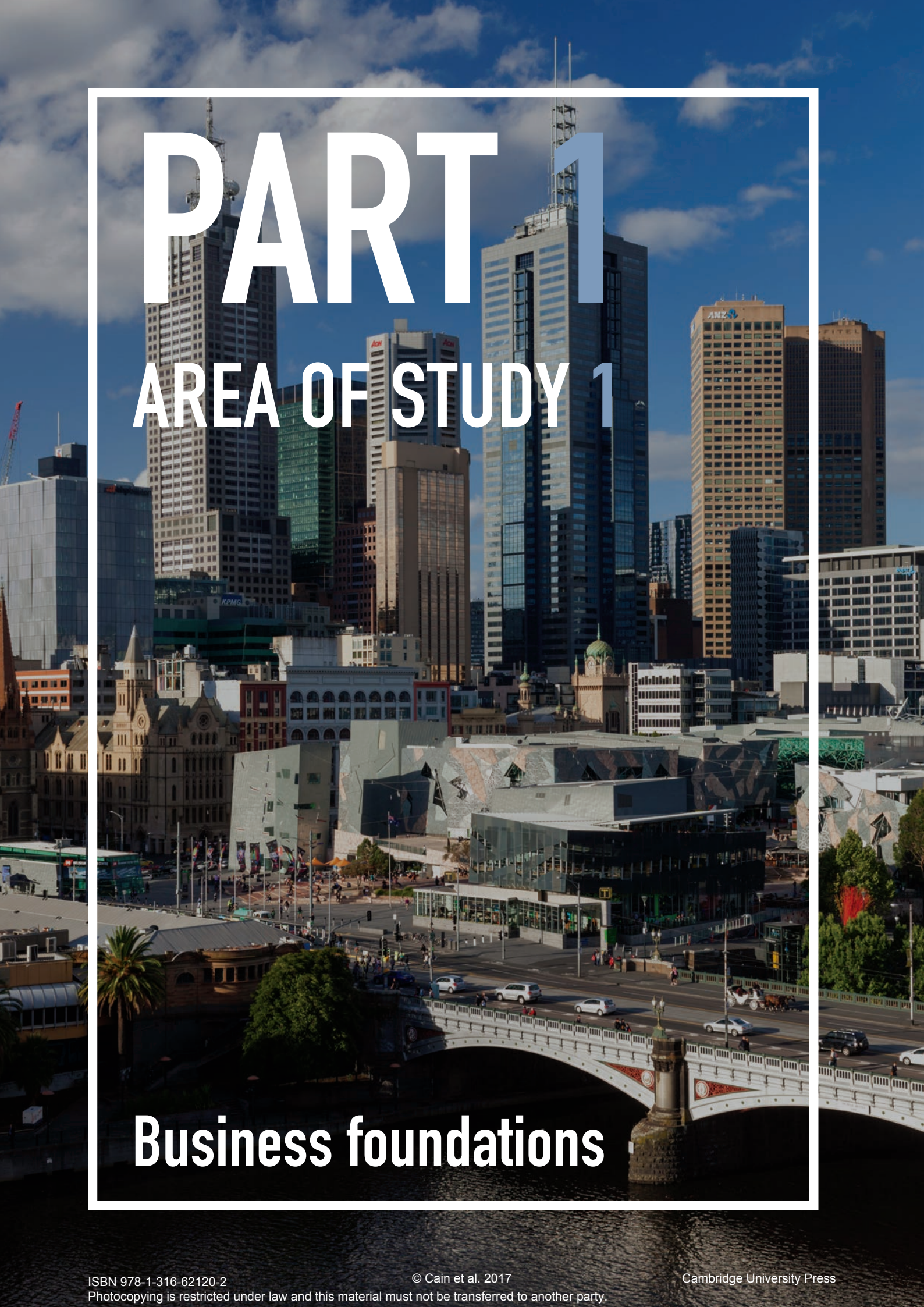
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UNIT 3
MANAGING A BUSINESS



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PART 1

AREA OF STUDY 1

Business foundations

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CHAPTER 1
Business foundations

Overview

This chapter examines the types of businesses that operate in the Australian economy together with the types of objectives that these businesses establish. To assist a business to achieve its stated objectives in an efficient and effective manner, it will usually be organised on the basis of the areas of management responsibility relevant to that business.

Key knowledge

Students will examine the different types of businesses and their respective objectives. They will also develop an understanding of the areas of management responsibility within a business. Students will learn about:

- Types of businesses, including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises.
- Business objectives, including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations.
- The areas of management responsibility, including operations, finance, human resources, sales and marketing, and technology support, and how each area contributes to the achievement of business objectives.

Key terms

- Australian Company Number (ACN)
- Australian Securities and Investments Commission (ASIC)
- Australian Securities Exchange (ASX)
- company
- efficiency
- financial objectives
- goods and services tax (GST)
- government business enterprise (GBE)
- incorporation
- limited liability
- market share
- objectives
- organisational chart
- partnership
- partnership agreement
- perpetuity
- private sector
- profit
- prospectus
- public sector
- Registered Business Name (RBN)
- shareholder
- SMART
- social enterprise
- social entrepreneur
- social objectives
- sole trader
- stakeholder
- unlimited liability
- values statement
- vision statement



What's next?

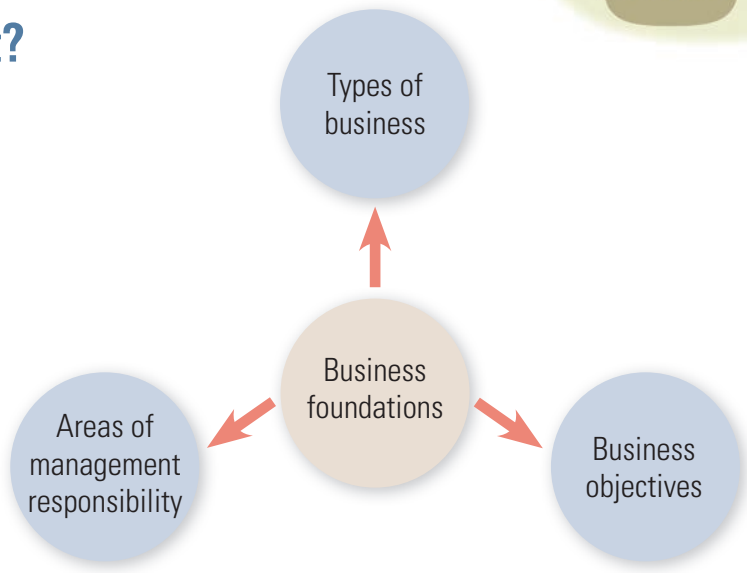


Figure 1.1 The three business foundations

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1.1 Businesses in Australia

The way a business is run and the role of the owner(s) varies depending on how those owners wish to be involved and the various legal implications of different forms of ownership and legal structure.

Australia operates as a mixed market economy where ownership of resources, property and factors of production are shared between private individuals and governments. The majority of businesses are owned by private individuals, groups or institutions and these are classified as being in the **private sector.** There are, however, a significant number of government-owned businesses, which are classified as being in the **public sector**.

private sector part of the economy operated by private individuals, groups or institutions

public sector part of the economy operated by the government

Businesses are integral to the successful functioning of the domestic (Australian) and global economy. They are important because they:

- manufacture and sell goods and/or provide services to consumers either in Australia and/or globally
- create employment
- provide taxation income to the government directly from their earnings
- are an important source of innovation and product development
- provide infrastructure.

Types of businesses

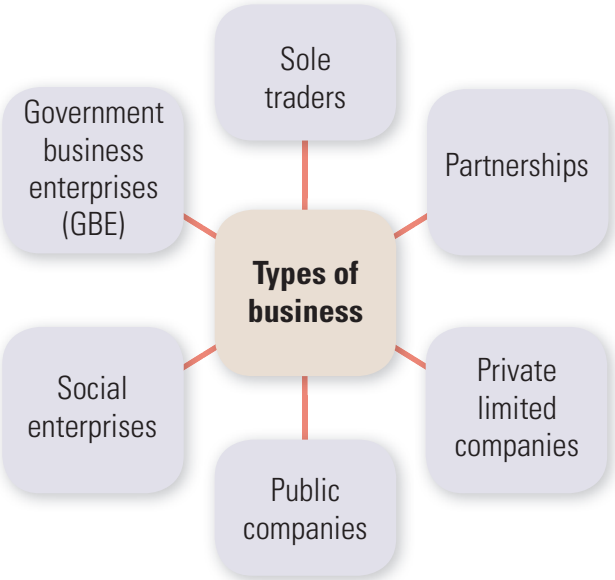


Figure 1.2 The six types of businesses

Sole trader

If an individual wants to establish or run a business, becoming a **sole trader** is the simplest and most inexpensive form of business structure. It involves a single owner operating a business under either their own name or a **Registered Business Name (RBN)**. The sole trader assumes total responsibility for managing the business and therefore does all planning, organising, leading and controlling. They have the sole right to all profits and capital.

sole trader an individual owner of a business, entitled to keep all profits after tax has been paid but liable for all losses

Registered Business Name (RBN) a trading name under which a person (sole trader) or partnership conducts its business or trade

However, in the event of the business incurring losses or debts, the sole trader as the owner is held totally legally responsible for all debts of the business (**unlimited liability**). This means that the owner's personal assets can be seized to recover a debt. The business may operate using the personal bank account and tax file number (TFN) of the owner; however, there is a requirement that the financial records of the business must be retained for at least five years. A sole trader may employ people to help them run the business. If they choose to do this, there are several compulsory obligations that must be complied with: namely, making superannuation contributions on behalf of employees and obtaining workers' compensation insurance. Sole traders are recommended to apply for a RBN as a form of protection for their business identity.

unlimited liability full liability of owner (if their business fails) to the extent of their personal assets

Many businesses initially set up as sole traders then progress to other forms of business structure.



Figure 1.3 A sole trader gets to keep all the profits but carries full responsibility for risk and loss.

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Advantages	Disadvantages
Simple and inexpensive to establish	Unlimited liability for owner
Owner has total control over business	Harder for owner to get finance for the business
Simple to wind up	Reliant on owner's own knowledge and skills
Minimal government regulation	

Table 1.1 Advantages and disadvantages of sole trader as a type of business

Partnership

partnership a legal form of business ownership where two or more people (partners) work together
partnership agreement a formal document which outlines the duties and responsibilities of the parties to a partnership

A business **partnership** combines the expertise and resources of two to 20 people. Each partner is jointly liable for business debts incurred (unlimited liability).

There are two types of business partnership:

- **General partnership:** All partners are deemed equally responsible for management of the business. Each has unlimited liability for debts and obligations.
- **Limited partnership:** Liability of one or more partners is limited. These partners (passive investors) are not involved in day-to-day business operations. Liability is limited in proportion to the amount invested.

Most partnerships are based on a formal legal agreement regulated by the *Partnership Act 1963*. If a **partnership agreement** is not entered into all partners are deemed equally liable for debts incurred.

Common details included in a partnership agreement are:

- partner details
- commencement date and duration of the partnership
- description of the business and the nature of the partnership, including individual roles and what each partner provides
- division of profits and remuneration
- contribution of capital from each partner
- responsibilities of each partner within the business and who has authority to do things such as access bank accounts
- how disagreements will be resolved
- provision for admitting new partners
- termination clauses, including procedures for distributing assets when the business is wound up.

perpetuity having ongoing life; that is, neverending

A partnership does not have an ongoing life: if one partner leaves, a new partnership must be formed. In other words, there is no **perpetuity**. It is generally accepted that a person should only enter into a business partnership with people whom they completely trust, since a business partner may be liable for their partner's debts.

Figure 1.4 A business partnership involves collaboration of between two and 20 partners.



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Advantages	Disadvantages
Inexpensive and simple to set up	Unlimited liability
Risk is shared between partners	Liability for debts incurred by other partners
Minimal government regulation	Business could be threatened by one partner leaving (i.e. no perpetuity)
Workload may be shared	Potential for disputes and personality clashes
Offers broader access to capital, knowledge, skills and experience	

Table 1.2 Advantages and disadvantages of partnerships as a type of business

Company

Many business owners opt to establish a separate legal entity, being a company, which is achieved through the process of **incorporation**. Prior to the company being formed, the business should undertake a name availability search to check whether the name they would like is available or whether it has already been allocated to another company. The *Business Names Registration Act 2011* sets out words that may not be included in a company name. The **company** needs to be formed according to legislation, the *Corporations Act 2001* (Corporations Act) and is then registered with the **Australian Securities and Investments Commission (ASIC)**. An **Australian Company Number (ACN)** must be obtained and this number must then be placed on every public document of the business. In addition, the business must designate a registered office. A company has a more complex structure, is more expensive than a sole trader or partnership to establish and has ongoing administrative costs and reporting requirements, such as maintaining a shareholder register, minutes of directors' meetings and financial records.

incorporation the process of legally declaring a corporate entity as separate from its owners

company a separate legal entity (incorporated body) that is subject to the requirements of the *Corporations Act 2001*, owned by shareholders who have limited liability, run by directors and has perpetual succession

Australian Securities and Investments Commission (ASIC) independent Australian government body that acts as Australia's corporate regulator

Australian Company Number (ACN) a nine-digit number to be used on a company's common seal and all public documents involving the company

Establishing a company means the business:

- has the same rights as a 'natural person'
- has perpetuity (ongoing life)
- can incur debt
- can sue and be sued
- has shareholders (the owners) who have **limited liability** to the value of their shareholding
- has company officers and directors who must comply with legal requirements and are appointed to manage and control the business
- must be registered for **goods and services tax (GST)** if the annual GST turnover is $75 000 or more
- must lodge an annual company tax return with the Australian Taxation Office (ATO)
- must keep financial records for at least seven years after the transaction was completed.

limited liability shareholders are only personally liable to the level of their original investment in the company

goods and services tax (GST) a broad-based tax of 10% on most goods, services and other items sold or consumed in Australia



Figure 1.5 Shareholders elect a board of directors to oversee the running of a company.

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There are two forms of company that a business may choose to run – private limited or public.

Private limited company

A private limited company is easily recognised by its name as it includes the words 'Proprietary Limited', which is often shortened to 'Pty Ltd' at the end of the name. This classification works to place some restrictions on how this type of company operates.

1 Shareholders – the company has a minimum of two shares and is restricted to a maximum of 50 shareholders
2 Shares – can only be traded with the permission of other shareholders, which must be given before any transaction takes place.

This form of company is popular with businesses that have previously operated as sole traders or partnerships but would now like to expand, while also gaining the protection that comes from creating a separate legal entity and limiting their liability for debts incurred by the business. It is also a favoured business structure for family businesses wanting to create an ongoing business structure for future generations of the family.

Advantages	Disadvantages
Limited liability	Higher degree of complexity in establishing
Extra capital can be obtained by issuing more shares	Higher establishment costs
Separate legal entity	Higher degree of government control and reporting requirements
Existence is not threatened by death or removal of one of the directors or shareholders (i.e. has perpetuity)	Additional compliance costs

Table 1.3 Advantages and disadvantages of private limited company as a type of business

Public company

As businesses grow in the size of their operations they may look to the option of becoming a public company as a means of increasing their number of shares and access to more capital. If this is the path the business wants to go down, it needs to issue a **prospectus**, which is a formal document inviting the public to purchase its shares. A public company does not have any upper limit restrictions placed on it as to its number of shareholders. Once listed on the **Australian Securities Exchange (ASX)** the shares in the company can be openly traded with the price of the shares being dependent upon the value perceived by the marketplace. These companies can be recognised by the word 'Limited' (Ltd) after their name, which shows that they offer limited liability to their shareholders.

prospectus an invitation to the public and potential investors to purchase shares in a particular company

Australian Securities Exchange (ASX) the primary exchange for securities in Australia

Advantages	Disadvantages
Limited liability	Highly complex structure
Able to gain extra capital through selling extra shares	High establishment costs
Separate legal entity	Needs more accountability and compliance paperwork
Existence is not threatened by death or removal of one of the directors or shareholders (i.e. has perpetuity)	Additional compliance costs

Table 1.4 Advantages and disadvantages of public company as a type of business

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ACTIVITY 1.1

Analysis of business structures/types

Draw up the following table in your workbook.

1 Fill in the table using information from the Commbank business link from Cambridge weblinks: http://cambridge.edu.au/redirect/?id=6933

Business legal structure	Features	Advantages	Disadvantages
Sole trader	**Taxation** • • **Setting up** • • **Ongoing administration** • •	• •	• •
Partnership	**Taxation** • • **Setting up** • • **Ongoing administration** • •	• •	• •
Private company (Pty Ltd)	**Taxation** • • **Setting up** • • **Ongoing administration** • •	• •	• •
Publicly listed company (Ltd)	**Taxation** • • **Setting up** • • **Ongoing administration** • •	• •	• •

Social enterprises

social enterprise private sector business that distributes profit to benefit the community rather than individual shareholders

social entrepreneur a person who establishes an enterprise with the aim of solving social problems or effecting social change

A **social enterprise** is a type of business that uses strategies to maximise improvements in human wellbeing or the environment, rather than to maximise profits for its **social entrepreneur** owners or shareholders. Whether they are structured as 'for-profit' or 'not-for-profit' entities, a social enterprise has two main goals: to achieve social, cultural, community or environmental outcomes, and to earn revenue. Research indicates that social enterprises are innovative and sustainable

Social enterprises are run like a business, as they produce goods or services to sell, but redirect the surplus in pursuit of social or environmental goals. In other words, a social enterprise aims to make a profit in order to help solve a social or environmental problem. The majority of social enterprises adopt the legal structure of a company. To assist them in the management of their business, the social entrepreneurs behind the business will seek to

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appoint directors to their boards who are specialists in key areas including community development, business, vocational training, law and accountancy.

Social enterprises are encouraged to obtain Deductible Gift Recipient (DGR) status from the Australian Taxation Office, making all donations above $2 to their business fully tax deductible. This enables them to offer to any person who donates money to their cause the additional advantage of being able to claim that donation off their taxation, so reducing the donor's tax liability. It is estimated that there are in excess of 20 000 social enterprises operating in every industry within the Australian economy.

For example, Social Traders is a not-for-profit organisation formed in 2008 with the purpose of supporting and encouraging the establishment of commercially viable social enterprises throughout Australia. Many social entrepreneurs have great ideas and a social conscience but need the extra assistance provided by Social Traders to position their enterprise to be viable and investment ready.

CASE STUDY 1.1

CERES Fair Food: a green social enterprise



Figure 1.6 CERES delivers fresh produce from local farmers and producers.



Figure 1.7 CERES Fair Food

CERES Fair Food is a Melbourne business which delivers fresh food directly to customers. CERES Fair Food products are sourced locally, organically grown and in-season.

Mission and objectives of CERES Fair Food:

- to buy from local farmers and grocery producers at fair prices and stick with them season after season
- to give asylum seekers and new arrivals that crucial first job in Australia
- to deliver food orders to a network of 73 volunteer food host pick-up points around Melbourne
- all profits to go to the CERES Educational Environment park.

Operations: Consumers purchase online, selecting from seven different types of fresh food boxes each designed to feed different types of families for a week. (Extra grocery items can be added.) Each week, the orders are delivered to one of 73 drop-off points around Melbourne (food hosts) for pick up.

Scale: Each month more than 1350 Melbourne households purchase from more than 30 Victorian growers via CERES Fair Food. More than $1 million is contributed annually to the Victorian economy.

(Source: CERES Fair Food website.)

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CASE STUDY 1.1 continued

Analysis

1 Briefly describe CERES Fair Food and its business model.
2 Examine the mission of CERES Fair Food. Identify and explain the public and community causes that this business is aiming to advance through its business operations.
3 Explain the criteria a business must meet in order to be classified as a social enterprise.
4 Justify whether CERES Fair Food meets all of the criteria to be classified as a social enterprise in your opinion.
5 Research and identify two other social enterprises. Write a brief description of the business, including its social objectives.

CASE STUDY 1.2

Streat

Figure 1.8 STREAT

STREAT is a social enterprise that provides youth aged 16 to 25 who are experiencing homelessness or other kinds of disadvantage with the life skills, work experience and training they require to start a career in the hospitality industry. Its Melbourne-based cafes, catering and coffee-roasting businesses provide the venues (and some of the funds) needed to support marginalised young people.

> STREAT has a passionate, active and committed Board, that not only understands its responsibilities under the Corporations Act and takes ultimate responsibility for all matters relating to the running of STREAT, but that does so in strong partnership with STREAT's management. The Board comprises directors with expertise across key areas including community development, psychology, hospitality, social enterprise, business, vocational training, law and accountancy.

(Source: STREAT website, 'Board'.)

Analysis

Visit the STREAT website and answer the questions below.

1 Describe the inspiration behind social entrepreneurs Rebecca Scott and Kate Barrelle commencing this social enterprise.
2 Define the term 'social entrepreneur'.
3 Describe STREAT's journey from its humble start to its current operational level.
4 Explain how STREAT earns its income/revenue.
5 Identify measures that can be used to determine whether this social enterprise has been successful.
6 List the awards STREAT won in 2013 and 2015.

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Government business enterprises (GBEs)

government business enterprise (GBE) a business that is government owned and operated. GBEs seek to run profitably by controlling costs and selling their goods and services at a price to cover costs.

A **government business enterprise (GBE)** operates in the public sector of the Australian economy. The Australian government, the six state governments and territory governments have established businesses that operate by adopting a corporate (company) model. The relationship of the GBEs is similar to that of a holding company and its subsidiaries. The various governments act as the shareholders for the GBEs and have a strong interest in their performance and financial returns. The management of a GBE has autonomy over the running of the business; however, this must be balanced with their regular reporting requirements to the shareholder and ultimately to parliament and the public. GBEs provide essential community services, such as communications (Australia Post), telecommunications (National Broadband Network), housing (Defence Housing Australia), transport, employment and health services. There are three characteristics that identify GBEs:

1 The government controls the business.
2 The business is principally engaged in commercial activities.
3 The business has a legal personality separate to a department of government.

CASE STUDY 1.3

Three different GBEs

National Broadband Network

In 2009, a wholly-owned Commonwealth company was established with the purpose of designing, building and operating an open-access broadband network to reach all Australians. The National Broadband Network (nbn™) provides wholesale services to service providers who deal directly with the public and businesses. This Government Business Enterprise is represented by two shareholder ministers, namely the Minister for Communications and the Minister for Finance.



Figure 1.9 The National Broadband Network (NBN) is an example of a government business enterprise.

Defence Housing Australia (DHA)

DHA was established with the purpose of providing quality housing and related services to Defence members and their families. DHA is one of Australia's largest property managers. It develops land, constructs, acquires and leases properties. These activities support the operational, recruitment and retention goals of the Department of Defence. To fund its operations, DHA sells property to investors under a leaseback arrangement.

(Source: Defence Housing Australia.)



Figure 1.10 Defence Housing Australia

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CASE STUDY 1.3 continued

Australia Post

Australia Post is an example of a GBE that is self-funded, and which is required by legislation to perform a variety of services for the community. The objective of Australia Post is to deliver reliable and accessible postal services for the people of Australia, while at the same time making a profit. Australia Post's operations cover three core areas:

- Letters and associated services: this involves the collection, process and distribution of letters to Australia and overseas.
- Parcels and logistics: this involves the collection, process and distribution of parcels. Australia Post also offers a courier mail service and an integrated logistics service to business for both domestic and international needs.
- Agency services and retail merchandise: in representing government agencies and businesses, Australia Post agencies perform a range of services, such as billing payment, banking, and identity services such as applying for a passport. Agencies also stock and sell retail merchandise such as mail packaging, stationery, office supplies and small gift items.



Figure 1.11 Australia Post is an example of a self-funding government business enterprise.

Analysis

1. Identify characteristics that each of the above GBEs have in common.
2. For each of the above GBEs, describe how they earn their revenue.
3. Discuss whether you believe that these three government business enterprises should move from the public sector to the private sector (i.e. undergo privatisation) so that their shares can be openly traded on the Australian Securities Exchange.

1.2 Business objectives

objectives statements of desired achievement which provide direction for the business

financial objectives relate to the desired financial performance of the business; for example, profit and market share

All businesses must establish aims or objectives. These provide an overall or overarching goal which can then be translated into action by using strategies. **Objectives** are statements of desired achievement and provide the direction for the business and subsequent actions. All businesses, whether they are small, medium or large, need to establish clear objectives if they are to succeed.

Objectives cover a wide range of areas such as shareholder and **financial objectives** relating to profit, increasing market share, meeting shareholder expectations and satisfying the needs of consumers. Other objectives relate to social needs such as meeting community and societal expectations around contributing beyond providing a product or service. Objectives are also developed to meet the interests of other stakeholders and for the provision of goods and services within the limitations of the business's resources and budget constraints.



Figure 1.12 Typical business objectives

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SMART objectives or goals which are specific, measurable, attainable or achievable, relevant or realistic and timely or time-bound

Objectives should be set using the **SMART** principle. SMART stands for:

- **S**pecific – the objectives are set and are explicit
- **M**easurable – the outcome and objective can be measured
- **A**ttainable/**A**chievable – the objective is one that can be reached
- **R**ealistic/**R**elevant – objectives are goals that can be reached within the time frame
- **T**imely or time bound – the objectives will be reached within a certain period of time.

By adopting the SMART principle businesses are clear about what they would like to achieve and aim for.

ACTIVITY 1.2

Determine whether the following statements meet the SMART test.

1 Sam decides he wants to win a lottery and move to Fiji.

2 Wendy plans to open a women's fashion store business next year and achieve 90% market share within 18 months.

3 Jai would like to start up a small recording studio in the next two years. He would like the business to make a small profit within four years.

4 Julia is in Year 12 and would like to gain a high enough ATAR to complete a business course at the local university. She is studying four hours every night and has received high marks for the work she has completed so far.

Objectives influence and direct all levels of a business. There is a hierarchy of objectives and this includes:

1 The **vision statement** and mission statement. These express the purpose or reason the business exists. Qantas, for example, states that it wants 'To be a great airline that champions the Spirit of Australia' (see the Qantas website). The vision statement outlines the values of the business and relates to key groups including shareholders, employees and customers. Some businesses also produce a **values statement**, which outlines a business's corporate values and cultural priorities. These are usually set by the board of directors or senior managers and reflect the direction and objectives of the business.

vision statement a statement that outlines the aspirations and values of the business

values statement outlines what the organisation sees as its corporate values and centres around integrity, honesty and ethical behaviour



Figure 1.13 Qantas aims to champion the 'Spirit of Australia'.

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Domino's Pizza franchise, for example, sets out a vision, mission and values statement. The vision of the business is to be 'Number One in people, Number One in pizzas'. Its mission is to 'sell more pizzas, have more fun' and its value statement revolves around the following:

- Treat people as you'd like to be treated
- Produce the best for less
- Measure, manage and share what's important
- Think big and grow
- Incentivise what you want to change
- Set the bar high, train, never stop learning
- Promote from within
- We are not ordinary, we are exceptional

(Source: Domino's website, 'Vision and mission'.)



Figure 1.14 Domino's Pizza's vision is to be 'Number one in people, Number one in pizzas'.

2 Corporate and strategic objectives establish the goals for the rest of the business. Corporate objectives set the strategic direction (usually long term, two to five years), and the departmental objectives (tactical objectives) are set for the next one to two years. Finally, operational objectives (for a period of less than one year) are set by teams and individuals within departments. This hierarchy of objectives all align to achieve the goals of the business.

Wesfarmers has set a number of strategic objectives for Bunnings. These include a focus on sustainability that includes a range of initiatives such as:

- Using less energy – efficient lighting systems
- Using less water – water tanks and more water efficient devices
- Less waste – recycling and initiatives to reduce packaging waste
- Responsible sourcing of products. This includes becoming a member of the Supplier Ethical Data Exchange (SEDEX)
- Education of customers and school activities through programs such as School Sustainability Program and National Schools Tree Day.



Figure 1.15 Bunnings' strategic objectives include a focus on sustainability.

ACTIVITY 1.3



Figure 1.16 What is the vision of Bakers Delight?

Many businesses develop a vision and mission statement. Look at the website of Bakers Delight and determine the mission and vision statements of the business.

1 Outline what the statements indicate about the business.

2 Identify the priorities of the business.

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Types of business objectives

Financial objectives

profit the difference between revenue and expenses. If a business makes a profit, it may be considered to be successful. Usually, a certain level of profit will be determined as acceptable by the business (in terms of its objectives and the expectations of investors and other institutions).

market share proportion or percentage of the market (and total sales) controlled by the business. If market share increases, the business has a greater percentage of the market and sales. A business objective may be to increase market share.

Financial objectives relate to the desired financial performance of the business. There are a number of financial objectives a business will try to achieve. These include making a **profit**, growing sales, improving **market share** and increasing productivity.

Many businesses in Australia are part of the private sector and have been established to make a profit. Reducing the operational costs for a business is one strategy that a business can adopt to achieve a financial objective such as increasing profit. The business may then set an objective such as 'to reduce costs associated with providing a product or service'. Woolworths, for example, set such an objective and through increasing its operational efficiencies it achieved this objective, which resulted in a 0.1% increase in its net profit before tax in 2015.

Marketing objectives

Businesses produce goods and services. If there is not a demand or need for the product or service then the business is unlikely to reach its other objectives. Many businesses, regardless of their size, will strive to maximise the appeal of their product or service and to increase market share wherever possible. Recognising a niche in the market is vital and many small and medium businesses are able to do this very well.



CASE STUDY 1.4

The Booklist

'A good book can make you laugh, make you cry, teach you something new, inspire and enrage you, romance and engage you. In fact a good book can do just about anything. The only problem is? Sometimes there's just too many to choose from'.

So in comes The Booklist, an online book price comparison service. An online business started in 2013 by owners Ozgur Akdeniz and Tom McLeod, 'The Booklist' finds its customers the cheapest textbooks, school books and pretty much any other book – at no cost.

… The Booklist offers a saving of up to 80% on purchases. After some research the business owners found a gap in the market and moved quickly to fill it, as owner Ozgur puts it '… the price and delivery costs for the same product would vary greatly between online retailers.' The business decided to offer a one-stop shop and a comparison tool.

The product itself can easily be replicated around the world. The idea is that the business model can be used to fulfil the needs of target markets with similar demographics and needs both locally and internationally …

The Booklist's strategy is to combine their digital and physical marketing activities, an important aspect of marketing tactics the business believes is being overlooked in the rapidly changing online space …

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CASE STUDY 1.4 continued

The owners believe that advertising in a range of mediums provides opportunities to connect the digital activities with physical marketing campaigns.

> Being an online business, The Booklist also receives a combination of direct and indirect feedback daily.

The business provides follow-up contact with customers who have left feedback when the business has made a change as the result of the comments.

(Source: Business Victoria website, 'Cracking the online marketplace'.)

Analysis

1. Describe the main business of The Booklist.
2. Explain how the owners of the business found a niche in the market.
3. Analyse why it is important for businesses to continually seek feedback from customers.
4. Justify The Booklist's strategy of combining online and physical advertising methods.

CASE STUDY 1.5

Cotton On

Cotton On has a number of different businesses under the Cotton On structure. It has a range of brands including Cotton On, Cotton On Kids, Typo, Ruby Shoes, Supré and Factorie. In 2015 the average rate of growth in the retail sector was 2–3% whereas Cotton On had an increase in sales of more than 10%. Globally the business has grown at a rate of around 12–45% in some countries.



Figure 1.17 Cotton On is a popular retail business.

Cotton On believes it has been successful for a number of reasons, including:

- the ability to open new stores as they 'do it themselves'
- control over the supply chain which allows the business to move from supplier to the retail store in two to eight weeks
- a quality product which is good value
- a positive corporate culture which is 'for the people'.

Analysis

1. Explain why Cotton On is considered to be a successful business.
2. Go to the Cotton On website and research what kinds of products Cotton On sells.
3. Complete a survey of your class or year level. How many people shop at one of the Cotton On stores? Why do they shop at these businesses?

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Social objectives

social objectives relate to the role of a business in the community

Social objectives relate to the role of a business in the community. They go beyond the financial objectives and revolve around the business as a 'good citizen'. Social objectives may relate to a number of different areas, such as the provision of community services and facilities, contribution to community causes at the local, state, national or world level. One example is The Body Shop. It campaigns on a range of different issues and ensures its business acts ethically. The Body Shop believes that testing cosmetics on animals is unethical and unnecessary and should be banned. It is one of the few companies that complies with the requirements of the internationally recognised Humane Cosmetics Standard.

The Body Shop also campaigns and runs advertising and promotions around encouraging women to celebrate the way they look. Its products are sold on the promise that they do exactly what they say on the label. The business also works in conjunction with a range of other businesses including 'Bizness Babes' (which encourages women to develop their own business ideas). The Body Shop also works through its Ethical Trade program to ensure suppliers are continually improving the working conditions of the people who make the products.

Another example of a 'good citizen' is SurveyMonkey, a business best known for its survey creation software, which has established a way to give back to the community. SurveyMonkey donates 50 cents per survey completion to the survey taker's charity of choice in America. In 2013 more than $1 million was donated to organisations such as the Humane Society and Teach for America.

SurveyMonkey®

Figure 1.18 SurveyMonkey is an example of a business that donates a lot of money to charities.



Figure 1.19 The Body Shop campaigns to ban the testing of cosmetics on animals.

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Nespresso, the global coffee giant, has developed a socially responsible plan known as 'The Positive Cup'. The company plans to produce quality coffee that also has constructive results for the environment and the communities that help produce the beans. Nespresso is committed to using sustainably sourced coffee beans for part of its range of coffee pods, and to reducing its carbon footprint. In order to improve the environmental and working standards of farming, the company has partnered with Rainforest Alliance and Fairtrade International. Nespresso also runs extensive recycling programs for its used pods and aims to improve the source material for the creation of its pods through helping form the Aluminium Stewardship Initiative.

Businesses can also promote social objectives through the policies and practices within the workplace. These can include equal opportunity policies, anti-bullying policies, equity in the workplace and targeted employment programs, which exceed their legal obligations.



Figure 1.20 Nespresso is an example of a business that promotes social objectives.

ACTIVITY 1.4

Investigate a local business that has put into place some type of community program/s or supports a local sporting or other club. Share your example with other members of your class.

CASE STUDY 1.6

Castle Design

A small business can make an impact on others within the community, as demonstrated by Sarah Rosborg from Castle Design. Sarah used to watch her mother send things to Africa while she was growing up and always wanted to go there. She had the chance to visit Kenya, fell in love with the people and the country and had a deep sadness for what she saw there. She then was involved in a serious car accident; during rehabilitation she came up with the idea to assist people in Kenya and was involved in promoting and running a charity. In 2011 she founded Castle Designs, which builds websites. By 2013 her business and husband were funding a safe house for young girls in Kenya. Since then the business has been able to fund-raise to keep open a community house for young girls and fund a scholarship program. Over the past few years the business has been able to support fund-raising to open a second house and also provides other supporting programs.

(Source: Based on Kelly Exeter, 'The power of one: Sarah Rosborg', Flying Solo website, 24 July 2015.)

Analysis

1 Outline the support the business gave the Kenyan community.
2 Explain why small businesses become involved in community programs and sponsorships.

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Shareholder expectations

shareholder owner of a company

stakeholder an individual or a group that has a direct or vested interest in the activities of a business

Shareholders are the owners of a company and are also **stakeholders** in that business. Individuals may own the entire business or may be in partnership with others or buy shares in businesses listed on the stock exchange. All shareholders expect the business they have invested in to be successful. Shareholders also expect the business to make a profit and for any shares purchased to increase in value and dividends to be paid.

Shareholders can pressure a business, regardless of size, to make certain decisions and can therefore influence the strategic objectives and direction of the business.

CASE STUDY 1.7

Myer and shareholders

In 2010, Myer's profit revenue was $164 million but by 2015 this had dropped to only $77 million. At a recent annual general meeting, the Board of Directors granted a proposal to pay millions of dollars to many of Myer's key personnel even though profits continued to reduce significantly. The remuneration report proposed that these executives should be awarded bonuses; however, shareholders were advised to vote against this proposal.

If more than 25% of Myer's shareholders vote against the remuneration report this year and again next year, Myer faces a board spill. The policy is that the board could spill if more than 25% of the shareholders vote against this recommendation two years in a row.

Analysis

1. Explain why shareholders would be advised to vote against the bonuses to executives and senior management.
2. Explain how shareholders may have an influence on the business they have invested in.

Providing a service or product within budgetary constraints

efficiency the best use of resources in the production of goods and/or services. The outcome can be judged on both the quality and quantity of the goods or services produced.

All businesses, regardless of size, aim to reach their preset objectives. While market share, increased sales and other objectives drive a business it is also important that businesses work within the constraints of budgets and finances. The need to keep within budgets and minimise costs is essential to business success. Increasing **efficiency** and productivity may assist a business in keeping within budgets when producing goods or providing a service.



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ACTIVITY 1.5

For a business to be successful it is important that a budget is prepared to ensure that business objectives can be successfully achieved. A budget is the financial strategy for a business that supports the goals and objectives set. There are a number of benefits in having a financial strategy; these include:

- making the key goals of the business clear
- providing tools and key performance indicators (KPIs) to measure and monitor performance
- improving profitability as actual results can be compared with budgets
- increasing the efficiency in the use of resources and assets – by monitoring resources and comparing with the budget, resources can be allocated where they are needed.

Other reasons why a business should have a sound financial strategy include it allows for the development of realistic targets that link to the plans of the business, it allows the business to make comparisons with industry trends and it means an analysis can be carried out if the actual results are different from the targets that have been set.

(Source: Business Victoria website, 'Align your finances to strategy'.)

Chen and Sanjeev have been in business together for three years. They run a clothing store in inner Melbourne. While they have been happy with the performance of the business so far they both believe that the business could improve if they focused on setting realistic and detailed budgets. Provide Chen and Sanjeev with four pieces of advice that would assist them in using a budget to improve the performance of the business.

1.3 Areas of management responsibility

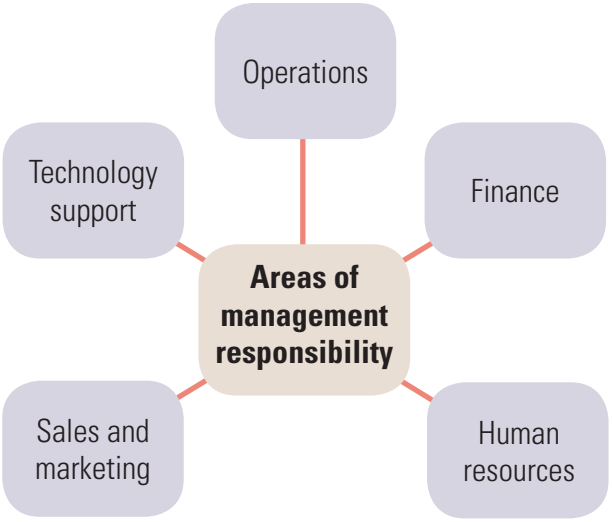


Figure 1.21 Areas of management responsibility

All businesses need to be managed through performing various functions that relate to certain aspects of the business. These are categorised as areas of management responsibility and are performed by managers at all levels (senior, middle and front-line). Typical functional areas are:

- **Operations** – the business function responsible for managing the process of creating goods and services. It involves planning, organising, coordinating and controlling all the resources needed to produce the goods or services provided by a business. It involves managing the raw materials or component parts, equipment, technology, information and people and any other resources required as input for the production process, their transformation and finally the output created. This area of management responsibility is core to the business as its output provides the revenue stream for the business and is closely aligned to helping the business to achieve its financial objectives, specifically relating to increasing the profitability and productivity of the business.

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- **Finance** – is the functional area responsible for planning and preparing internal financial information such as budgets, which then act to guide the financial decision-making of the business in the forthcoming financial year. It is also responsible for keeping and maintaining financial records such as sales revenue and business expenses, paying creditors and employees, and monitoring cash flow to ensure the business has sufficient working capital to maintain its various activities. Finally, it is responsible for preparing financial accounts, such as the Profit and Loss Statement and Balance Sheet so that the business can assess and analyse its financial performance. This management area provides the business with the data and measurement tools that can be used to assess whether the business has achieved its financial objectives.
- **Human resources** – is the functional area which relates to managing the overall relationship the business has with its employees. Management is responsible for establishing the relationship through various steps – HR planning, recruitment, selection and determining the employment arrangements and forms of remuneration. The maintenance phase is the next step in the relationship and incorporates the induction process, training and developing employees in both their skills and as a person, while also managing and evaluating their performance. It is also the responsibility of this area of management to ensure that workplace relations are harmonious and there is no conflict disrupting the productivity levels at the workplace. Finally, when the employment relationship is to be terminated either voluntarily or involuntarily, it is responsible for ensuring that matters are carried out in an ethical, consistent and transparent manner. If a business sets strategic objectives relating to increasing productivity, profitability and performance, responsibility then rests with human resources to ensure that it develops a positive and diverse work environment in that business, boost employee morale, recruit and retain top talent and promote work–life balance and wellness.
- **Sales and marketing** – in some businesses these two management responsibilities can be split. First, marketing is responsible for developing strategies, such as market research, advertising and branding, to create an ongoing relationship between the business and its customers. This functional area generates customer demand, understands the customers' wants and needs and is then responsible for promoting the product or service to the target customers. It acts as the 'window' to customers. Second, sales is also about developing relationships; however, its focus is the relationship with an individual customer. It is based on the reality that the product or service is now potentially able to be purchased so generating revenue for the business. An important objective for many businesses is the desire to increase their market share. The strategies undertaken and outcomes achieved by this management area therefore play a vital role in the achievement of this objective.



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- **Technology support** – has the primary focus of assisting a business to create value by using technology. The technology being adopted can be broad in nature while its main aim is to meet the business objectives of increasing the efficiency, productivity and cost-effectiveness of the business. Management of this area must ensure that they work collaboratively with all other functional areas within the business. The nature of activity undertaken by the business will act to determine the type of technologies that are adopted. For instance, in a manufacturing business, technology will be used to support production (computer aided manufacturing), the ordering of stock and inventory control, tracking work in progress and finally supplying the goods produced to fulfil an order made by a customer. In a service business, such as a hospital, technology support would involve the detailed record keeping of patient particulars and care provided while attending the hospital. In addition, it would relate to ensuring medical technology required by and used in the hospital operates correctly.

Businesses will often use an **organisational chart** to graphically demonstrate how these areas of responsibility are organised within their respective businesses.

organisational chart a diagram showing the lines of authority and levels of hierarchy in a business; it defines the relationships between people within a business

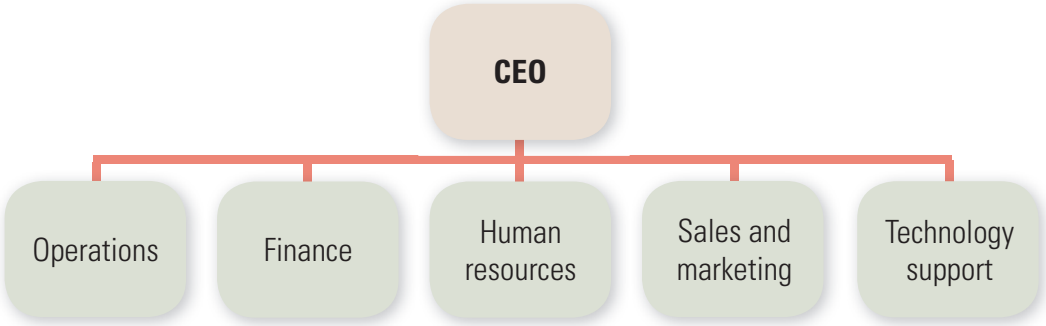


Figure 1.22 Typical organisational chart

Chapter summary

- There are several different types of business ownership and legal structures.
- A public sector business is owned by government.
- A private sector business is owned by individuals.
- The most common legal structures for business are:
  - sole trader
  - partnership
  - company.
- There are two types of company:
  - private limited
  - publicly listed.
- A company is a separate legal entity to its owners/shareholders, who enjoy the benefits of limited liability.
- Social enterprises exist to pursue social and/or environmental goals.
- Government business enterprises are government owned (public sector) enterprises that have adopted a corporate model.
- All businesses must establish aims or objectives.
- Objectives should be SMART.
- Objectives can include financial objectives, social objectives and market objectives.
- Vision and mission statements are important for all businesses.
- A values statement allows a business to focus on what is important in the business.

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- Stakeholders have expectations around the performance of a business.
- It is important for businesses to continually revisit objectives and look at ways to improve financial and other objectives.
- All businesses need to be managed through performing various functions which relate to certain aspects of the business.
- Common areas of management responsibility are: operations, finance, human resources, sales and marketing and technology support.
- An organisational chart is a graphic representation of these management responsibility areas.

Chapter summary questions

1 Define the concepts of a mission statement and a vision statement.

2 Identify and describe the mistake or error in the following statements:
   - **a** Mary is going to establish a grocery chain that will have 80% market share by 2019.
   - **b** Sam wants to achieve a big profit in the next three years.
   - **c** Connie is going to retire at 25 after running her business for two years.

3 Why should a business ensure it has clear financial, market and/or social objectives?

4 Explain why a profit-based business would continually look at ways to increase efficiency and productivity.

5 Define and use each of the following terms in a sentence in order to demonstrate your understanding:
   - **a** Sole trader
   - **b** Social enterprise
   - **c** Incorporation

6 Outline what the term 'limited liability' refers to. Identify which business structures offer limited liability to a business owner/shareholder.

7 Compare (differences and similarities) a private limited company operating as a for-profit business with a social enterprise such as CERES or STREAT.

8 Identify three government business enterprises (GBEs). Visit their websites and identify the key values and objectives of each GBE. Explain the features all three GBEs have in common. Identify and explain any differences. Describe the function of the following departments: sales and marketing and finance.

9 Identify which functional area of a business brings revenue into the business.

10 Identify which functional areas of the business act to support the operations of the business.

Examination preparation

1 Discuss the implications of a business adopting a legal structure of a private limited company rather than that of a public listed company.

(4 marks)

2 Explain what is meant by the term 'unlimited liability'. Identify which types of business legal structures involve unlimited liability for business owners and their potential consequences.

(3 marks)

3 Distinguish between a mission statement and a vision statement.

(4 marks)

4 Explain why it is important for all businesses, regardless of their size, to ensure that they have clearly articulated business objectives.

(4 marks)

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CHAPTER 2
Stakeholders and corporate culture

Overview

This chapter examines the key characteristics of the stakeholders of a business. Regardless of the size of the business, some stakeholders may influence the business in a positive way while others may experience conflict with the business. Both groups of stakeholders, however, have an effect on the success of the business. Corporate culture, whether official or real, is also examined. It is important for a business to have a positive corporate culture, both official and real, and to have strategies in place to develop the culture of that business.

Key terms

- Australian Competition and Consumer Commission (ACCC)
- chain of command
- competitor
- corporate culture
- delayering
- diversity
- ethics
- executive management
- fringe benefits
- front-line managers
- hierarchical structure
- internal environment
- macro environment
- middle-level managers
- mission statement
- official corporate culture
- operating environment
- packaging
- policy
- real (unofficial) culture
- senior/executive management
- strategy
- work–life balance

Key knowledge

Students will be introduced to both the stakeholders of a business and its corporate culture, and how these relate to the success of a business. Students will learn about:

- Characteristics of stakeholders of businesses including their interests, potential conflicts between stakeholders, and corporate social responsibility considerations.
- Corporate culture, both official and real, and strategies for its development.



What's ahead

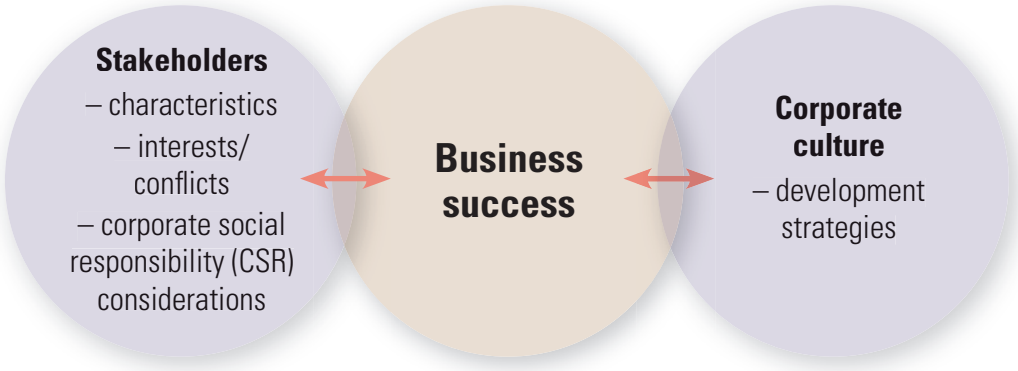


Figure 2.1 Elements of business success

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2.1 Stakeholders of businesses

macro environment broad operating conditions in which a business operates and over which it has no control

operating environment the environment immediately external to a business with which it has close interaction when conducting its business activities

internal environment activities, functions and pressures that occur within a business over which it has control

At each level of the business environment (**macro**, **operating** and **internal**), there are *stakeholders* or pressures that impact directly on the business. A stakeholder can either affect or be affected by the operations of a business. Ideally, all stakeholders should want the business to achieve its aims or objectives.

In reality, this does not occur, as various stakeholders – a competitor, for example – would have conflicting interests. In addition, the needs of stakeholders can actually be at variance with each other. Lobby groups interested in the environment may have interests that differ from interests of those who believe the only purpose of a business is to make a sizeable profit. Success comes from working out strategies to overcome or satisfy these varying interests.

Table 2.1 sets out some of the major stakeholders of a business, together with their most likely interests and issues. These stakeholders are generally drawn from the internal and operating environment of the business.



Stakeholder	Interests and issues	Level of business environment
Shareholders (of a company) or owner	Profitability of the business To receive dividends (dividend yield) Increased share prices (capital appreciation) Ethical business operations Socially responsible behaviour	Internal environment
Directors of a company or partners in a partnership	To develop and direct strategy and major business decisions To ensure strict adherence to corporate governance, social responsibility, and ethical and honest behaviour To gain personal power and status by being a director/ partner of a business To be well remunerated (money and share options)	Internal environment
Management	To be involved in setting goals and objectives To achieve goals and objectives To secure their position within the business and work on their career development To receive a fair remuneration package (pay and **fringe benefits**) To gain job satisfaction To work for a business that is ethical and socially responsible	Internal environment

fringe benefits benefits received by employees in addition to their normal wage or salary; for example, company car, child-care, higher superannuation rates

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Stakeholder	Interests and issues	Level of business environment
Employees	To receive a fair wage or salary To work in a non-discriminatory and ethical workplace To have the opportunity of career advancement To gain job satisfaction To feel secure in the long-term survival of their job To work for a business that is ethical and socially responsible	Internal environment
Trade unions	To negotiate for their members fair wages, working conditions, working hours and other related work issues To be represented in the workplace To be involved in the decision-making with management over issues relating to employees To ensure the welfare of their members, both health and safety To be able to act as bargaining agents for employees when negotiating new collective agreements	Operating environment
Customers	To obtain quality goods and service To receive high levels of customer service (pre- and post-sale) To potentially establish a long-term relationship with the business To ensure that products are Australian made To support Australian-owned businesses To ensure that the business is acting in an ethical and socially responsible manner	Operating environment
Suppliers	To ensure their customers' business is profitable (so they get paid) To be paid promptly To be able to establish and guarantee a long-term preferred supplier relationship	Operating environment
Creditors/banks	To be paid repayments, both principal and interest, due on loans To be repaid loans in full To ensure all banking interests of the business are secured by that bank To be certain that customers are being open and honest in their financial dealings	Operating environment
Community/society	To benefit from the employment opportunities created by the business For the business to participate in their community To ensure that the business is a socially responsible corporate citizen To ensure the business is ethical in its operations To ensure the business operations are environmentally responsible and sustainable	Macro environment

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Stakeholder	Interests and issues	Level of business environment
Government	To receive taxation revenue from profitable businesses To provide incentives for businesses to relocate to benefit a community To provide a legislative framework to control business operations, such as the *Trade Practices Act 1974*, the *Environment Protection Act 1978*, the *Equal Employment Opportunity Act 1987*, the *Competition and Consumer Act 2010* and successive amendments To provide assistance to businesses to establish and run their operations	Macro environment
Competitors	To ensure they gain a competitive edge over the business To differentiate their product or services from their competitors To compare and evaluate their performance against other businesses	Operating environment

competitor a business rival in the same market for products or services offered by a business

Table 2.1 Stakeholders – their interests and issues and level of business environment

ACTIVITY 2.1

1 Identify and describe the stakeholders that you believe would have a particular interest in the operations of the following businesses.
   - **a** Local family-run fruit shop
   - **b** Shoe shop operating in a major shopping complex
   - **c** Pharmaceutical manufacturer
   - **d** Bank

2 Choose two from the four examples of businesses listed in Question 1. For each of these two business examples, identify two stakeholders and describe the conflicting interests they would have in each of those businesses. For instance, the customers of a local fruit shop would want that shop to be open seven days a week. However, the owners of that family business would not want to open every day, as they would not want to pay penalty rates to employees on Sundays, as well as because of the impact it would have on their family life if they opened the shop on Sundays and worked in the shop themselves.

Two important issues that are of increasing concern to stakeholders are:

- Is the business conducting its business operations in an **ethical** or fair manner?
- Is the business acting in a socially responsible manner?

Stakeholders want businesses to recognise the importance of these issues and incorporate them into their business objectives. Businesses must be ethical in the types of products they manufacture and services they provide. The *Competition and Consumer Act 2010* (Commonwealth) establishes guidelines for businesses relating to disclosure of information on product performance, composition, contents, design, construction, **packaging** and the form and manner in which this information is included with the goods when sold.

ethics a set of moral principles that a business needs to establish and follow

packaging physical protection given to a product that can also form an important part of its image and appeal to the customer

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Australian Competition and Consumer Commission (ACCC) government authority responsible for administering the *Competition and Consumer Act 2010* and for promoting and educating how to provide good business practices for a fair and efficient marketplace

The **Australian Competition and Consumer Commission (ACCC)** is responsible for administering the Act and for promoting the provision of good business practices for a fair and efficient marketplace. Many businesses take their responsibility to the community and the environment very seriously and have become signatories to the Australian Packaging Covenant.



Figure 2.2 Logo of the Australian Packaging Covenant displayed by signatories to the covenant

CASE STUDY 2.1

Ego Pharmaceuticals

Ego Pharmaceuticals Pty Ltd is a privately owned Australian pharmaceutical company specialising in the manufacture of dermatological products. Ego was founded in 1953 and today manufactures over 100 products for both Australian and overseas markets. Ego's product range includes well-known brands such as Sun Sense, QV, Resolve, MOOV, Pinetarsol, SOOV, DermAid and Aquim.

According to the company website:

> Ego meets and consistently exceeds regulatory reviews and commits to many voluntary self-governing practices including ASMI (Australian Self Medication Industry), the peak body representing companies involved in the manufacture and distribution of consumer healthcare products in Australia. It is also a signatory of the Australian Packaging Covenant (APC), a voluntary initiative by government and industry to reduce the environmental effects of packaging.

Ego does its best to minimise and continually improve processes that may impact on the environment in which it operates. It promotes sustainable practices, chooses environmentally sound packaging for its products, minimises the packaging of its products and has recycling procedures in place in its manufacturing plant and offices. Its rainwater tanks satisfy almost a fifth of its water needs.

Ego developed a 'Company Action Plan – January 2011–December 2015', which established the following three goals in line with its commitment to the Australian Packaging Covenant:

1. Optimise packaging to achieve resource efficiency and reduce environmental impact without compromising product quality and safety
2. Recycling – efficiently collect and recycle packaging with continuous improvement in the recycling rate
3. Demonstrate Commitment to Product Stewardship – working with others to improve packaging design and recycling and reducing waste in the litter stream

(Source: Based on Ego Pharmaceuticals, *APC Annual Report*, 2011.)

Analysis

1 Identify and explain the interests of stakeholders of Ego Pharmaceuticals Pty Ltd.

2 Identify and provide examples of actions that Ego Pharmaceuticals has taken that demonstrate its commitment to being an ethical and socially responsible business.

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FOOD BANK
FIGHTING HUNGER IN AUSTRALIA

Figure 2.3 Cadbury and Foodbank – jointly helping the community

Social responsibility requires a business to be working to improve its positive impact on society and to reduce any negative impact it may have. For instance, Westpac Banking Corporation makes the statement in its Community and Sustainability report that 'our priority is to fully integrate corporate responsibility, including best practice governance, into our business model. Adopting a total responsibility approach is now part of the normal way we go about our business and it is greatly enhancing our sustainability'. Westpac believes that it must conduct its business to meet its financial, social and environmental responsibilities. To do this it needs to establish a set of values and behaviour that underpin its everyday activities in how it conducts its dealings with its people (employees), customers and the community.

Another way for a business to demonstrate its commitment to being socially responsible is the way it interacts with its local community. The chocolate manufacturer Cadbury is involved in many community activities, one of these being the partnership it has entered into with Foodbank, the largest relief organisation in Australia. Cadbury supports this charity by donating a combination of critical stock (such as chocolate – stock that is critical to the Cadbury business) and staple items and providing volunteers to help in the Foodbank warehouses.

ACTIVITY 2.2

1. Name two businesses that demonstrate their social responsibility to the community, either at a particular time of year, such as Christmas, or for a special cause, such as cancer research. For instance, Telstra has established a foundation to provide assistance to a broad range of groups and activities.
2. Describe the type of activity in which these businesses are involved.
3. Analyse the effect that these socially responsible activities have on the business.

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CASE STUDY 2.2

ALDI

ALDI commenced operations in Germany in 1946 and since then has grown to be the eighth largest food retailer in the world. It is one of the world's largest privately owned companies. Its stakeholders include suppliers, customers, employees and the communities in which it operates. ALDI maintains a consistent business model wherever it is located and its core business strength has been its determination to offer shoppers a narrow range of very low-priced, good-quality, private-label grocery products which it sells from its small stand-alone sites.



Figure 2.4 ALDI is a socially responsible food retailer.

Taking care of the vested interests of stakeholders is very important to ALDI. It has developed long-term relationships with its suppliers and believes that securing a long and trusted relationship is essential to ensuring ALDI is supplied with high-quality and reliable products. Employees are valued and given training and career advancement opportunities. ALDI has created a corporate responsibility policy, which outlines its approach to having a responsible attitude towards the communities in which it operates.

Analysis

Visit the ALDI websites via Cambridge weblinks (http://cambridge.edu.au/redirect/?id=6934 and http://cambridge.edu.au/redirect/?id=6935) and answer the following questions.

1. Describe the approach ALDI takes to ensure its suppliers reduce the environmental impact of the supply chain.
2. Describe the approach ALDI has adopted to assist customers to compare prices.
3. Describe activities undertaken by ALDI that demonstrate its commitment towards acting in a socially responsible manner with its employees.
4. Describe activities undertaken by ALDI that demonstrate its commitment towards acting in a socially responsible manner to its community.
5. Analyse whether you believe that ALDI's approach to its suppliers, customers, employees and the community has assisted this business in becoming successful.

2.2 Corporate culture

Corporate culture is an internal factor, which management seeks to influence in the hope of optimising business performance. A positive culture that encourages productivity improvement, high standards of quality in products and services, and employee engagement is crucial to the competitiveness and success of a business.

corporate culture system of shared values and beliefs of people within a business

Management must be able to identify a desired **corporate culture**. Stakeholders and, in particular, employees should be able to discern the differences between the official and real culture that exists within a business. Strategies can be used by a business to develop and implement the desired corporate culture.

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Figure 2.5 No two businesses are the same.

No two businesses are exactly the same. If, as an example, you compare another secondary school to your own you will observe significant differences in physical environment, dress code, how people interact, address one another and generally what is assumed to be standard behaviour. By doing this you are observing cultural differences between your school and another. Similarly, every business has a unique corporate culture.

The internal culture of a business is in fact its personality and is an important determinant of how effectively and efficiently a business functions. It is the role of the leadership team to monitor and put in place strategies to develop and alter the culture of a business.

Corporate culture is often summed up with the phrase 'it's how we do things around here'. It is a system of values and beliefs shared by the people within a business. It determines how people behave, act towards one another and what is, or isn't, accepted behaviour. It reflects the shared view of the direction and values, priorities and commitments, as well as feelings of loyalty and personal worth within the business. Culture has both observable and non-observable elements.

Corporate culture is:

- a pattern of basic shared assumptions within a business
- developed and shared by a group
- representative of things that worked well in the past and are considered valid within the business
- taught to newcomers as the 'correct' way of thinking, feeling and doing.

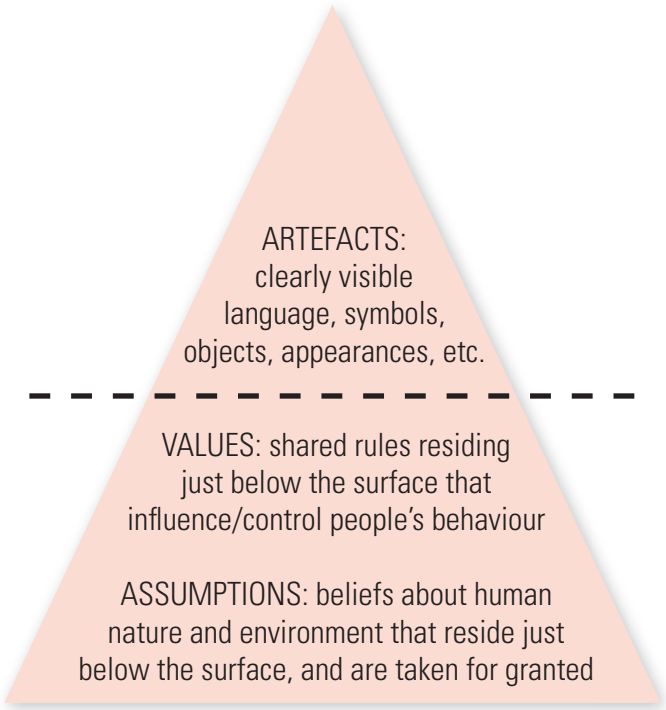


Figure 2.6 Corporate culture includes observable and non-observable elements.

Official and real corporate culture

official corporate culture
desired culture a business wishes to establish

Businesses are very aware of the importance of developing a positive corporate culture. The first step to developing and promoting a desired culture is to establish the '**official corporate culture**'. This is a set of values and beliefs that the business wants to present to the public as its own. Official corporate culture is visible through business or company documents, goals, mission and official

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real (unofficial) culture actual or prevailing culture that exists within a business

statements. Often slogans and logos are developed to represent official culture. The official or desired culture is, however, not always reflected in existing real or actual culture. The **real (unofficial) culture** is what actually prevails in a business. Real culture can be gleaned through observation of what actually occurs and the real relationships and interactions between people.



Figure 2.7 Many businesses use slogans and logos to promote a particular corporate culture.

ACTIVITY 2.3

Examine each of the following slogans developed by different companies. For each:

1 Outline the key company values being demonstrated in each slogan.
2 Explain how these in fact represent official corporate culture.

'Coming together is a beginning; keeping together is progress; working together is success.' – Henry Ford, Ford Motor Company

'We believe in work life, not work vs. life.' – Dharmesh Shah, HubSpot

'We want to understand what works here rather than what worked at any other organisation.' – Laszlo Bock, Google

'If you are lucky enough to be someone's employer, then you have a moral obligation to make sure people do look forward to coming to work in the morning.' – John Mackey, Whole Foods Market

(Source: Based on Julia Ingersoll, '10 corporate culture quotes from inspiring business leaders', *CultureTalk*, 6 March 2015.)

Strategies to develop corporate culture (official and real)

The culture of a business is a crucial determinant of its efficiency, effectiveness and therefore productivity.

strategy a plan of action that aims to achieve a specific objective

Developing the corporate culture for a business relies on the following **strategies** or factors.

The creation of formal written mission, vision and values statements

mission statement a written statement that defines a business's core purpose and focus

The **mission statement** defines the purpose of a business or its reason for being. It also indicates the way a business will be managed. The vision statement formally sets out the business's aspirations or what the business is actually trying to achieve. Creating a values statement outlines what the business wants to recognise as its corporate/business values; for instance, integrity, honesty, fairness, responsibility. The values identified in this statement are those that are held important to people within the business. For instance, if the corporate culture of a business strongly acknowledges its corporate social responsibility to society and the environment, it will be regarded more favourably by its stakeholders. This approach should help to drive better financial results. On the other hand, a strong corporate culture that is not in tune with the environment will hinder a business more than a weak corporate culture. These three documents act as the starting point for identification and establishment of a desired culture. They provide the purpose with which all decisions made in the business must match up, or align.

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Figure 2.8 The values of an organisation are the foundation of its corporate culture.

Establishing management structures

The way in which the different parts of a business are formally arranged in order to link management, employees and their functions can help to shape the corporate culture.

The structure of a business determines how work tasks are divided and coordinated. It also indicates who holds authority and the relationships between different parts of the business. The features of a management structure are:

- division of labour (i.e. who does what)
- segmentation of employees into departments or divisions
- outlines the **chain of command**, control and authority (i.e. who is responsible to whom and for what)
- indicates the communication channels (i.e. downward, upward, lateral)
- establishes the patterns of decision-making (centralised or decentralised)
- indicates number of layers in the management hierarchy.

chain of command the vertical line of authority that passes command down through the levels of a business's hierarchy

Traditional businesses have operated under a **hierarchical structure**, which features three distinct levels of management. **Senior/executive management**, the top level in the management hierarchy, is responsible for the strategic or long-term planning of the business. It is tasked to work closely with the board of directors (if a company) to establish the mission, vision and values statements. **Middle-level managers** are the next level in the hierarchy. They are in charge of one division or department. **Front-line managers**, often referred to as team leaders or supervisors, have responsibility for the day-to-day planning and decision-making in the business. It is the responsibility of all three levels of management to ensure that the official corporate culture of the business is understood by the workers.

hierarchical structure different levels of management and staff, with higher levels exercising greater authority and control

senior/executive management involved in the strategic planning and decision-making of the business

middle-level managers translate corporate objectives into special projects, monitor progress of projects and supervise front-line managers

front-line managers lowest level of managers, responsible for the work of operating employees only and do not supervise other managers

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Many businesses have moved away from the traditional hierarchical structure in an effort to become more dynamic in their operations, be more responsible to changes in the business environment and increase levels of productivity and competitiveness. Removing layers (**delayering**) of management has meant that some management roles and responsibilities have been taken over by employee work groups or teams. This change in structure has resulted in significant workplace changes, such as:

delayering reorganisation of a business by removal of one or more layers of management

- greater employee involvement in participative decision-making
- increased level of employee engagement
- decentralisation of power
- improved motivation
- improved communication flow
- less status distinctions (i.e. offices)
- management styles – a move away from autocratic styles to adopting consultative and participative styles
- values represented in the corporate culture (e.g. caring, sharing, autonomy).

Choice of management styles

Management styles refer to the different ways that managers in a business behave. The preferred style of a manager will depend on many factors, such as cultural styles of leadership and the type of business they are managing. For instance, an autocratic style will suit a highly structured business, where great emphasis is placed on achieving tasks and following established processes. These managers place little value on the level of job satisfaction employees gain when contributing to the overall performance of the business. The objectives, aims and operating environments reflect the ideas, beliefs and values of the manager.

In contrast, a manager who uses the participative style to manage their subordinates places emphasis on ensuring that workers gain job satisfaction as well as achieving their assigned work tasks. Greater emphasis is placed on the employees' contribution to the process of decision-making and communication is open.

A business that adopts a management style which is more employee-centred demonstrates that it values the contribution of its workers and places trust and faith in their abilities. This would result in creating a more positive corporate culture than an organisation that is totally task-oriented and adopts an autocratic management style.

Implementation of policies

A **policy** is a written statement detailing processes, procedures, rules and regulations that must be observed in a given situation. In effect, a policy tells employees what to do and how to do it in a given situation. In order to establish and reinforce the corporate culture of a business, the policies and practices within a business should reflect the values of that business. Policies are designed to establish standards of behaviour and guiding principles on actions that should be taken in a given situation. This assists in developing and reinforcing the corporate culture by:

policy a written statement of the processes and procedures, rules and regulations

- establishing consistency. For instance, a business sets out a 'social media usage' policy that establishes the guidelines for the non-usage of Facebook, Twitter and YouTube while at the workplace and during working hours. This means that any employee caught breaking that rule will be subject to the same sanction.
- setting out procedures, being a series of steps that must be followed to implement the policy. These procedures will guarantee actions that reflect the values and mission of the business.
- recognising the rights and obligations of people within the business
- identifying how potential conflict situations can be resolved
- complying with and accepting desired behaviours within the business.

ACTIVITY 2.4

Go to the DHS website via Cambridge weblink http://cambridge.edu.au/redirect/?id=6936.

The Department of Human Services has created a media policy for employees of its department, which provides guidance to employees about engaging in social media.

Identify the responsibilities for employees of the department relating to this policy.

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CASE STUDY 2.3

Cambridge University Press corporate policies



Figure 2.9 Cambridge University in Cambridge, UK. The Press is an arm of the University.

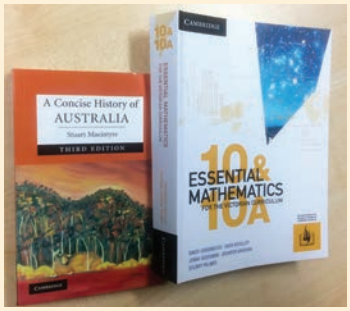


Figure 2.10 Some of the many published works from the Press

Environmental policy

At Cambridge University Press we recognise that we have a responsibility to the environment, and to future generations, to manage and continually improve our environmental performance at every stage of our operations.

We recognise that our activities, products or services may have an effect on the environment. It is our aim to reduce that effect to a minimum by implementing an effective system for managing our environmental impact.

By regularly assessing the significance of our interactions with the environment, we will set objectives and targets relating to our operations. In particular, we will continually strive to:

- Prevent or reduce greenhouse gas emissions and other pollutants
- Minimise consumption of natural resources and energy
- Reduce, reuse or recycle wastes
- Meet or surpass applicable regulatory and other requirements
- Adopt best practice guidance in our operations and activities where feasible
- Promote our environmental policy among our employees, our suppliers, our customers, our local community, our University and others in our industry.

This policy applies to all Cambridge University Press's activities, products and services, and is reviewed on a regular basis.

Sustainable Procurement Policy for Forestry Products

Cambridge University Press is committed to the responsible management of its own activities and to working with its suppliers in order to minimise negative impacts from business activities on the environment and local communities. The purpose of this policy is to communicate and embed this commitment within our operations and supply-chain partners.

Our goal is to manufacture and deliver products and services to our customers with integrity and respect for the environment and local communities.

All raw materials should be derived from legal and sustainable sources. In particular, staff and suppliers are encouraged to consider the use of papers and cover card that carry chain-of-custody certification such as FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification) or, where applicable, post-consumer recycled content; suppliers are encouraged to adopt practices that minimise their environmental impact and deliver community benefits in relation to their own activities and throughout their supply chain.

(Sources: Cambridge University Press website, 'Environmental policy' and 'Sustainable Procurement Policy for Forestry Products'.)

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CASE STUDY 2.3 continued

Analysis

1 Visit the 'Cambridge University Press at a Glance' page on the Press website. Write a description of Cambridge University Press, including the products it produces and size of the organisation.

2 Which aspects of the 'Cambridge University Press at a Glance' page indicate that corporate social responsibility is a key value at the Press?

3 Looking at the Press's policies, briefly outline the environmental objectives of this company.

4 Referring to the policies, describe two things that are likely to affect the practices (what is done) within Cambridge University Press for:
   - **a** employees
   - **b** management
   - **c** supply-chain partners (such as printing companies).

5 Explain how these policies may impact/affect the corporate culture of Cambridge University Press, outlining how people's actions, beliefs, values, etc. are likely to be shaped by these policies.

Official business documentation and forms of communication

The branding of a business is an important factor when developing the official corporate culture of that business. It represents the way the customers view the business. It is therefore important when designing business documentation, such as letterhead or a logo, that it clearly represents the image the business wishes to convey. The language used in the documentation can also indicate whether there is a formal or informal culture. Also, specific or specialist language, such as jargon and acronyms, can act to bind employees within a workplace. For instance, schools use educational jargon such as VCAA, VCE, GAT, SAC and ATAR.

People

The culture of a business is reflected in its people. Employees are an important determinant and indicator of culture. If a level of formality between management and employees is required in the workplace, the manner in which people greet each other can achieve this. For example, this can be achieved by using courtesy titles such as Mr, Mrs, Dr or Professor when greeting fellow workers. A less formal culture would place emphasis on greeting a person (manager or worker) using their first name.

diversity human characteristics that make people different from one another

If a business wants to create a corporate culture that celebrates **diversity** in its people, it can use its recruitment policies to achieve this objective. Diversity can be created by ensuring that there is a mix of workers with different ethnic backgrounds, differing ages, skills and levels of experience. Diversity actually acts to enrich the corporate culture.

Having the 'right' people who share the core values of the business or possess a willingness to embrace those values will assist the business to build a coherent culture. Thought, planning and effort must be put into attracting, retaining, rewarding and developing people (employees) with the right cultural fit and attitude.



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CASE STUDY 2.4

Bunnings



Figure 2.10 Bunnings Warehouse

Our Vision: 'We're building the best ... Our team makes it happen'

Who We Are

Our ambition is to provide our customers with the widest range of home improvement products at the lowest prices every day, backed with the best service.

Our team members are the heart and soul of our business.

Our team's guiding principles are integrity, respect, teamwork, achievement and innovation. Our guiding principles are the keys to our culture and to achieving our vision.

We pursue sustainability within our operations by striving to make them socially responsible and environmentally aware and economically viable.

We engage with the communities in which we operate and live and we actively contribute to causes and organisations that benefit these communities.

We seek to lessen our environmental impact in ways that are measurable including: achieving better and more efficient use of resources; ensuring our suppliers operate sustainably and ethically; encouraging and educating customers about environmentally friendly alternatives; and focusing on the 'reduce, re-use and recycle' waste management principles.

We value our team members' contributions, recognise and reward their efforts and provide a fun, satisfying and safe workplace.

By living our values and operating sustainably, we will continue to 'build the best' and earn the right to serve our customers tomorrow and into the future.

Our Culture

The best people to tell you about our culture are our team. Comments from the team include:

'Bunnings is a company that lives the values from the top. It allows us the opportunity to express ourselves as individuals as well as realise that we need each other to be successful.'
'Bunnings will challenge me at times, and push me to strive better as I move up with the business. It's about the satisfaction of success in service and team work.'

'I love working at Bunnings because they support me and help me to learn and achieve.'

(Source: Bunnings Warehouse website, 'Our Vision', 'Our Culture'.)

Analysis

1 Identify what you believe are the 'corporate values' of Bunnings.
2 Bunnings is known for employing people of varying ages and backgrounds. Describe the impact that this practice has on the corporate culture of this business.

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work–life balance the relationship between a person's work and the commitments in the rest of their life

In our current business environment it is important that businesses value their workers both for their contribution to the success of the business, but also as private individuals. The attitude of the business to assisting its workers create **work–life balance** can be used as an indicator of whether the culture of that business is positive.

Physical environment and material symbols

Physical environment is a significant indicator of culture. Open-plan offices, for example, promote lateral communication, team building and collaboration. The location of a business also affects its culture. For example, an inner city 'hipster' location will promote an entirely different culture to a business located in an outer suburban area. Similarly, a traditional CBD location will promote a different culture to a business in a rural location.

Material symbols representing status in an organisation are another physical indicator. For instance, do senior managers have bigger offices than middle managers? Is there a separate cafeteria for blue-collar and white-collar workers? Other physical indicators of culture can include colour and design of staff uniforms or the colour used in the decoration of the office space.





Figure 2.12 Corporate culture is often reflected in the dress code of the business – formal or casual.

CASE STUDY 2.5

Google: Our culture

It's really the people that make Google the kind of company it is. We hire people who are smart and determined, and we favour ability over experience. Although Googlers share common goals and visions for the company, we hail from all walks of life and speak dozens of languages, reflecting the global audience that we serve. And when not at work, Googlers pursue interests ranging from cycling to beekeeping, from Frisbee to foxtrot.

We strive to maintain the open culture often associated with start-ups, in which everyone is a hands-on contributor and feels comfortable sharing ideas and opinions. In our weekly all-hands ('TGIF') meetings – not to mention over email or in the cafe – Googlers ask questions directly to Larry, Sergey and other execs about any number of company issues. Our offices and cafes are designed to encourage interactions between Googlers within and across teams, and to spark conversation about work as well as play.

(Source: Google website, 'Our culture'.)

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Figure 2.13 Snapshots of the Google offices.

Analysis

1 Identify aspects of Google's culture in regards to the following:

- **a** People employed
- **b** Diversity
- **c** Management style and direction of communication
- **d** Values
- **e** The physical layout of the work environment

2 Watch the movie *The Internship* starring Owen Wilson and Vince Vaughan. Discuss how the main characters had to change in order to fit in with the Google culture.

ACTIVITY 2.5

1 Explain what each of the following indicates about the corporate culture of a business:

- **a** The receptionist is wearing jeans.
- **b** Staff address each other as Mr or Ms, never by first names.
- **c** Staff are rewarded for increased sales figures with bonuses.
- **d** Staff may work from home when caring for a sick family member.
- **e** Employees must make an appointment in order to speak with the manager.
- **f** Employees who contribute ideas at a weekly staff meeting are highly regarded.
- **g** Correct procedures must be followed without fail.
- **h** There are very few employees of a non-Anglo-Saxon background.
- **i** An environmental policy is on prominent display at the front office.
- **j** Work hours are very flexible.

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ACTIVITY 2.5 continued

2 Go to the website of two of the following businesses:

- **a** Schnitz
- **b** Coles
- **c** Concept Amenities
- **d** Australia Post
- **e** Virgin Airlines
- **f** Aussie Farmers Direct

For each business, write a paragraph describing what you can tell from its website about the culture of the business. Look at things such as uniforms, colours, website design, management structure, and the age and type of employees featured.

Stories, narratives and rituals

The importance of creating stories and narratives about significant events and/or people in the business, such as its founders, cannot be overlooked. The people about whom stories are told often then become 'heroes' for that business. Displaying pictures of these people in the foyer or reception area will show the pride and esteem in which they are valued.

Establishing and acknowledging rituals that express key values and expectations within a business should be encouraged. Examples of these are: recognition and reward ceremonies, weekly social get-togethers, participating in social club activities or the annual Christmas party. These rituals help to underscore the importance placed on the positive benefits gained through social interaction in the workplace and the celebration of a job well done.

A positive corporate culture is a vital component for any business in developing and maintaining its competitive edge. While a business will have developed an official corporate culture by implementing the strategies outlined in this chapter, observing the real culture will show what is actually occurring.



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Chapter summary

- Stakeholders are individuals or groups that have a direct or vested interest in the activities of an organisation.
- Stakeholders come from each level of the business environment (macro, operating and internal).
- Not all stakeholders have a positive interest in a business; some may in fact be in conflict with the operations of a business.
- Examples of stakeholders in a business are shareholders/owners, directors (company) or partners, management, employees, trade unions, customers, suppliers, creditors, competitors, community and government.
- Stakeholders are increasingly concerned that businesses operate in an ethical and socially responsible manner.
- Corporate culture is an internal factor management seeks to influence with a view to optimisation of business performance.
- Corporate culture refers to the shared values and beliefs of people within a business organisation.
- Official corporate culture refers to the set of values and beliefs desired by the management of a business.
- Real/unofficial culture refers to the culture that actually prevails in a business organisation.
- The following factors are keys to developing strategies with a view to developing the desired corporate culture within a business organisation:
  - organisational mission, vision and values statements
  - form of management structure
  - choice of management style
  - implementation and design of policies and the procedures within these
  - business documentation and forms of communication used within the business
  - the people within the business organisation
  - the physical environment and material symbols within the business organisation
  - stories, narrative and rituals shared within the business organisation.

Chapter summary questions

1 Define the term 'stakeholders' and use it in a sentence to demonstrate your understanding of the term.

2 Identify stakeholders that are in the macro environment of a business. Describe the area of interest or possible conflict they may have with the business.

3 Identify stakeholders that are in the operating environment of a business. Describe the area of interest or possible conflict they may have with the business.

4 Identify stakeholders that are in the internal environment of a business. Describe the area of interest or possible conflict they may have with the business.

5 Explain what the term 'culture' means in terms of a business organisation.

6 Describe how the culture of your school is different to another school that you know of. In your answer, refer to uniforms, policies, accepted behaviours, people, rules, language used, symbols and rituals.

7 Outline three observable factors that indicate aspects of the culture of a business organisation to an outside observer.

8 Outline three non-observable factors that indicate an aspect of the culture of a business organisation.

9 Explain what each of the following indicate about the real culture of a business organisation:

a staff wearing casual clothes

b management is 75% female

c the 'Employee of the Month' is always awarded to the person who has the best sales record for the month

d open plan offices

e everyone addresses each other by first names or nicknames

f company cars are all four cylinder or electric motors.

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Examination preparation

1 Discuss this statement: 'Businesses that choose to ignore the interests or issues of their stakeholders are doomed to fail.'

(5 marks)

2 Spik 'n Span Ltd is a cleaning company with 250 employees. It has recently employed a management consultant to investigate the reasons for a significant loss of market share. The consultant's report concluded that the corporate culture was poor. This, it was concluded, was impacting negatively on customer service, productivity and competitiveness levels. It was seen that the real culture was significantly different to the official culture.

a Define and explain the key differences between:

- real corporate culture
- official corporate culture.

(2 marks)

b Explain the connection between real corporate culture at Spik 'n Span and:

- productivity

(2 marks)

- customer service levels.

(2 marks)

c Discuss the effect each of the following is likely to have on the corporate culture, competitiveness and market share at Spik 'n Span Ltd:

- Staff commonly arrive late and leave early.
- The establishment of a policy setting out distinct procedures and steps that all staff must undertake while cleaning an office space.
- The introduction of a staff uniform which all cleaning staff are expected to wear.
- A new manager who encourages staff participation in decision-making.
- A vision/values statement that states 'Maximising profit will always take priority at Spik 'n Span'.

(10 marks)

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CHAPTER 3

Management styles, skills and their interrelationship

Overview

Managing a business of any size can be a complex and challenging task for the business owners and managers. The majority of businesses will establish as one of their main objectives 'growing the value of the business'. The leaders or senior managers of that business must set a clear vision and be able to continually communicate the vision. Their role is to then get out of the way and let the second-line managers do their job. The choice of management style and skills adopted by these managers will differ. Ideally, the style and skills adopted should be appropriate to the situation within the business that is required to be managed.

Key terms

- accountability
- analytical skills
- authority
- autocratic management style (authoritarian)
- centralised decision-making
- coaching
- communication
- consultative management style
- contingency (situational) management approach
- decentralisation
- decentralised decision-making
- decision-making
- delegation
- emotional intelligence
- formal authority
- harassment
- interpersonal skills
- laissez-faire management style
- leading
- management style
- operational planning
- participative management style
- persuasive management style
- planning
- responsibility
- skills
- strategic planning
- stress
- stress management
- SWOT analysis
- tactical planning
- team leader
- teamwork
- technical skills
- time management
- two-way communication

Key knowledge

Students will learn the following about the internal environment of a business:

- Management styles, including autocratic, persuasive, consultative, participative and laissez-faire.
- The appropriateness of management styles in relation to the nature of the task, time, experience of employees and manager preference.
- Management skills, including communicating, delegating, planning, leading, decision-making and interpersonal.
- The relationship between management styles and management skills.

What's ahead

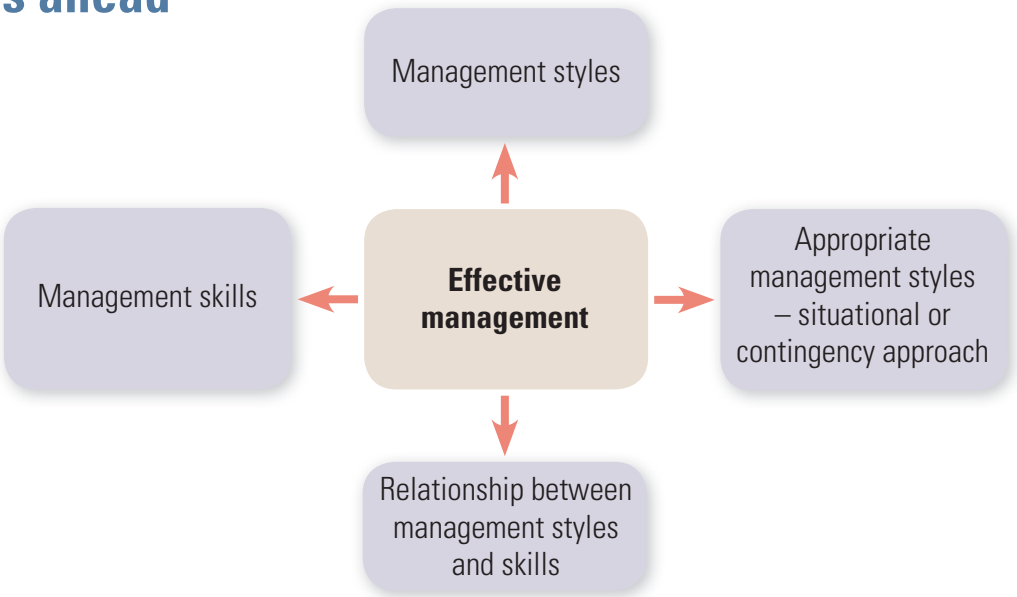


Figure 3.1 Four aspects of effective management

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3.1 Management styles

management style the manner and approach of providing direction, implementing plans and motivating people

A **management style**, broadly speaking, is the manner and approach of providing direction, implementing plans and motivating people that is adopted by a manager. There are distinctly different styles of management: autocratic, persuasive, consultative, participative and laissez-faire.

Management styles can have specific features. For example, the way managers interact with employees will depend on how they exercise authority, the degree of task or employee orientation, and the manner of communication ('top-down', 'bottom-up' or lateral). The type of management structure adopted by the business in order to achieve its goals and objectives, such as bureaucratic (multilayered), a flatter structure or a team-based structure, will also impact on the style chosen.

Most managers use a range of styles based on the situation that is required to be managed, their own (manager's) personality, the characteristics of their subordinates and any time constraints.

For instance, if a manager wanted to introduce 12-hour shifts to raise productivity by increasing the utilisation of expensive plant and equipment, it is unlikely that an autocratic task-oriented style would be effective in managing this situation. A participative or consultative management style, where employee input was sought and considered before making a decision, would be more appropriate.

Management styles can be demonstrated using a continuum of management approaches based on their orientation towards the task or employees/people. At one end of the continuum, the importance of the task outweighs that of the employee/people. The other end places greater importance on the people, while not forgetting the importance of task achievement.

Contrast of two styles: there is no one right way to manage people

Bill Gates and Warren Buffett are very well-known and highly regarded businessmen. While both are very focused on their businesses being successful, their management styles are very different. Bill Gates, co-founder of Microsoft in 1975, and possibly the most successful entrepreneur of the 20th century, bases his style on control and only doing things that he judges as being important. He has great concern for detail (almost obsessive), while also placing great importance on monitoring both staff and the expenses and finances of the business. In contrast, Warren Buffett, Chairman, President and CEO of Berkshire Hathaway, has a totally different management style. He encourages and empowers the managers of Berkshire Hathaway to think like they are the owners of the business and to treat it as though it is the only and most important asset their family owns.



Figure 3.3 Bill Gates and Warren Buffet – very successful businessmen with different management styles

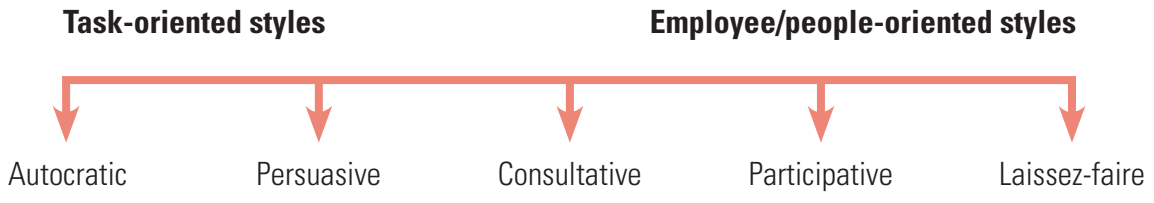


Figure 3.2 Management style continuum

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Types of management style

Management style refers to the different ways in which managers behave. The preferred style of a manager will depend on many factors, such as cultural styles of leadership and the type of organisation.

Autocratic management style

autocratic management style (authoritarian) management style where all decision-making is centralised, there is little delegated authority and communication is one way – downwards

centralised decision-making management makes decisions and passes on directions to those below them in a hierarchy; communication is downward and worker participation in decision-making is non-existent

Autocratic management style (authoritarian) is often referred to as the classical management style.

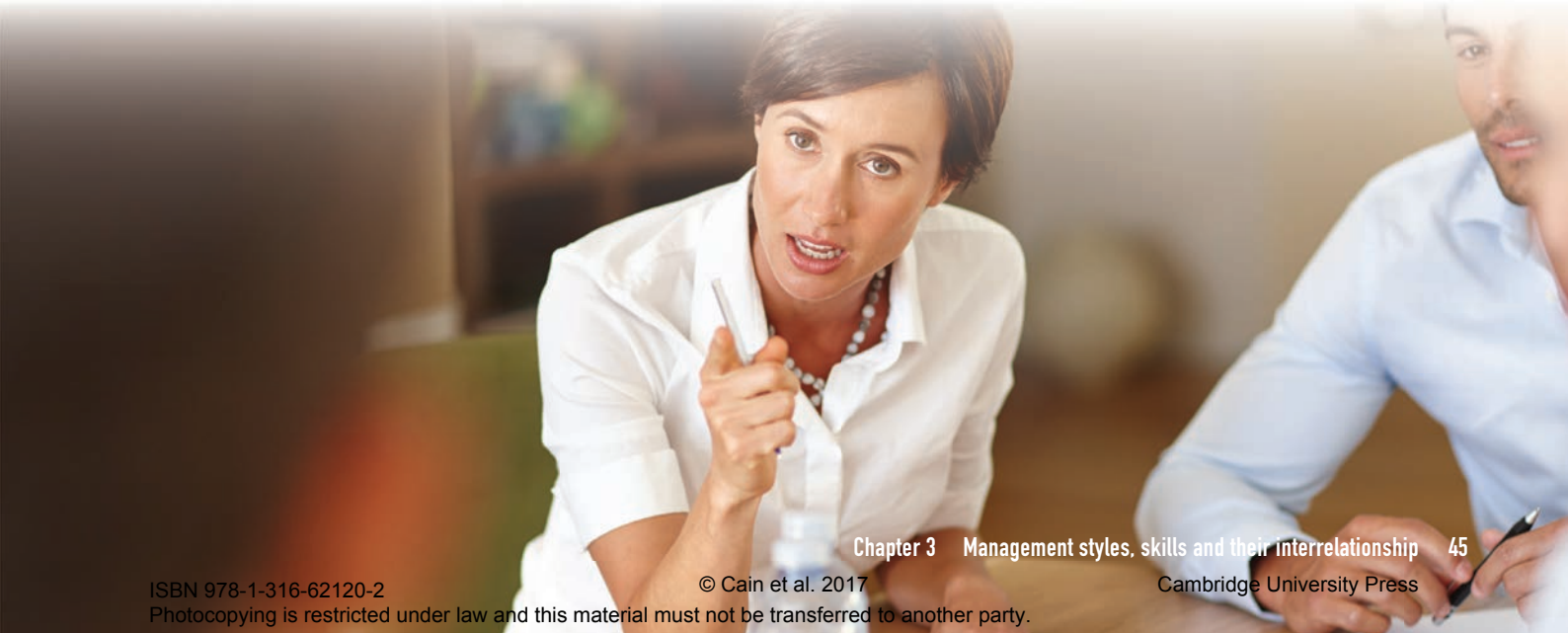
The characteristics of autocratic management style are:

- Managers have the desire to be in control and to retain authority. This is apparent when they are undertaking planning or coordinating various human and physical activities of the business. They like to be the main person guiding workers towards achieving the objectives of the business. They also like controlling the implementation and monitoring of the way activities are carried out to ensure the desired outcome is achieved.
- Managers place great importance on achieving the task and following the established process. Policies and procedures are maintained in detail and enforced by frequent checks.
- Managers have a belief or perception that payment (money) is the main motivator for work performance.
- **Centralised decision-making** is controlled by the manager, with the decision or order then passed on or told to subordinates.
- Managers place little value on the importance of the employees' contribution to the overall performance of the business. The objectives, aims and operating environments reflect the ideas, beliefs and values of the manager.
- Communication is centralised with a strict top-down or hierarchal chain-of-command approach to management.



Figure 3.4 An autocratic manager takes the stance of 'I'm in control'.

An autocratic manager has a high regard for production and efficiency (task-orientated). Managers expect team members to comply with their decisions and they are not concerned with the attitude or thinking of the group. This can result in passive resistance from team members and requires the manager to then apply continual pressure and direction in order to get things done. If this style is adopted by the CEO of a business it can result in high-potential employees and even members of the senior management team walking out the door because their ideas and views are not being heard. Managers adopting this style often use punishment and rewards to achieve their objectives.



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Advantages	Disadvantages
Decision-making is quick, as only one person needs to be involved	A quick decision is not always the best decision
Decisions are made by an experienced leader	Discourages teamwork; employees' opinions and input are not sought
Communication is direct	Does not allow for open communication and feedback on ideas
Employees' roles and expectations are defined and monitored	Low motivation and job satisfaction, as workers are not empowered; staff turnover may increase when staff feel undervalued
High regard for production and efficiency	Too task-focused, with insufficient regard for workers as people with needs; does not take account of needs of generations X and Y and the baby boomer employees
Suits high-risk or difficult decisions; e.g. closure of business operations, retrenchment of staff	Creates feeling of unease and being 'kept in the dark'

Table 3.1 Advantages and disadvantages of an autocratic management style

Rupert Murdoch at News International

Rupert Murdoch is regarded as the most successful media baron worldwide; however, many consider him to be a poor 'people manager'. He is known to be a bully and to be ruthless when it comes to managing people. He reportedly creates tensions among his executives and is known to terrorise his employees during his flying visits to his various media outlets. His actions, which vary between mild and ruthless, are based on his mood or the requirements of the business. News Corporation has a traditional management structure and its line of authority runs directly from Murdoch, who calls the shots and does not delegate to his subordinates. It is interesting to note, however, that Murdoch's powers have been on the wane since the widely publicised phone hacking scandal in the UK erupted in the 2000s.



Figure 3.5 Rupert Murdoch is an autocratic leader.

Persuasive management style

persuasive management style managers make the decisions, then persuade workers of the benefits of those decisions

A **persuasive management style** is that of a manager who uses their ability to interpret a situation, people's actions and dialogue, and then strongly urges or convinces them to do a task or achieve objectives the manager's way. This style has many characteristics in common with the autocratic style. The main difference between the styles, however, is that once a persuasive manager makes a decision, they then try to convince a subordinate that what was decided by the manager is in the subordinate's best interests. For example, a marketing department manager who has an idea for increasing sales targets will try to convince the rest of the marketing team that only this idea will improve the sales targets. This type of manager will try to bring people around to their own view, but will also stick to their decision with or without agreement. Under this type of management style, employees will have a better idea of what to do when there is a change externally or internally, because the manager has explained their intentions.

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The characteristics of a persuasive management style are:

- The manager has a centralised system of control and authority.
- The manager places great importance on achieving the task and following the established process.
- The manager ensures that policies and procedures are maintained in detail and enforced by frequent checks.
- The manager has the belief or perception that payment (money) for tasks performed is the main motivator for work performance.
- Decision-making is centralised or controlled by management, with the decision or order then explained or presented to subordinates.
- It places some value on the importance of the employees' contribution to the overall performance of the business. The objectives, aims and operating environments still, however, reflect the ideas, beliefs and values of the manager.
- Communication is centralised, with a strict top-down or hierarchal chain-of-command approach to management.



Figure 3.6 Persuading team members 'This is the right decision'

Advantages	Disadvantages
Decision-making is quick and still made by one person	No input from workers into decision-making process; undervalues benefit of teamwork
Suits high-risk decisions; e.g. closure of factory, redundancy	Workers can still feel alienated, as their opinions are not sought
Employees have a clear idea about what they have to achieve	Opportunities for employee initiative and commitment overlooked, leading to low levels of motivation and job satisfaction

Table 3.2 Advantages and disadvantages of a persuasive management style

Consultative management style

A **consultative management style** takes into account the opinions of team members before making a decision. This style is moving further along the continuum from being purely task-centred to taking the people/employees more into account. For example, a school principal may ask the student leadership group, parents and staff for their suggestions on a new uniform, then consider all the arguments and make a decision on the type of uniform that will be introduced.

consultative management style manager consults with employees when discussing an issue; however, the ultimate decision is made by the manager based on the suggestions and input received



Figure 3.7 A consultative manager seeks input from their staff.

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The characteristics of a consultative management style are:

- Control and authority exercised by the manager, while centralised, is more employee-based and less centralised than the autocratic and persuasive styles. The employees provide the ideas and concepts.
- The manager believes that task achievement is still an important driving factor, but is now balancing it with an understanding of the importance of the 'people' factor.
- The manager allows a reasonable level of employee involvement in decision-making, which results in employees becoming more motivated and wanting to perform at their best.
- Decision-making, while centralised with the manager, occurs after consultation with employees.
- It places value on the importance of the employees' contribution to the overall performance of the business.
- **Two-way communication**, being top-down by management to subordinates, and upwards from the subordinates to management when their opinion and feedback is sought.

two-way communication communication that is open and encourages discussion and feedback

Advantages	Disadvantages
Gain a variety of ideas from the suggestions of employees, which will lead to a better decision-making outcome	Employees may not understand the complexity of the problem being discussed
Reasonable level of employee involvement	Time-consuming if many stakeholders are consulted
Acts to motivate and increase an employee's level of job satisfaction	Employees may still not feel valued if they have provided their ideas, but these are overlooked

Table 3.3 Advantages and disadvantages of a consultative management style

Participative management style

Participative management style has become very popular because it focuses on the interaction between management and employees. This style keeps employees informed about issues that affect their work, with management and employees sharing in decision-making and problem-solving tasks. The manager is now acting more as a coach who gets their team of employees to work together to improve the overall performance of the business. The manager does not delegate away responsibility, as they still are entitled to have the final say.

The characteristics of a participative management style are:

- The manager undertakes a **decentralised** approach to control and authority. Corporate objectives, while determined by senior management, are followed by the setting of departmental, team and individual objectives, so allowing for group ownership of the corporate direction.
- Orientation or focus is towards people. If the employees are satisfied and productive, this will result in an increase in productivity.
- The manager holds the belief that motivation of employees relates to an understanding of how to satisfy the employees' broad range of needs.
- **Decentralised decision-making** with management and employees sharing in decision-making and problem-solving tasks, and decisions being made after consultation with employees.
- The manager places value on the importance of the employees' contribution to the overall performance of the business.
- Communication is two-way, being top-down from management to subordinates, and upwards from the subordinates to management when their opinion and feedback is sought.

participative management style decision-making is performed as a team with management and staff working together with the manager retaining responsibility and accountability

decentralisation power and decision-making authority are delegated from higher levels to lower levels in the hierarchy

decentralised decision-making workers are given responsibility for decision-making in their own areas

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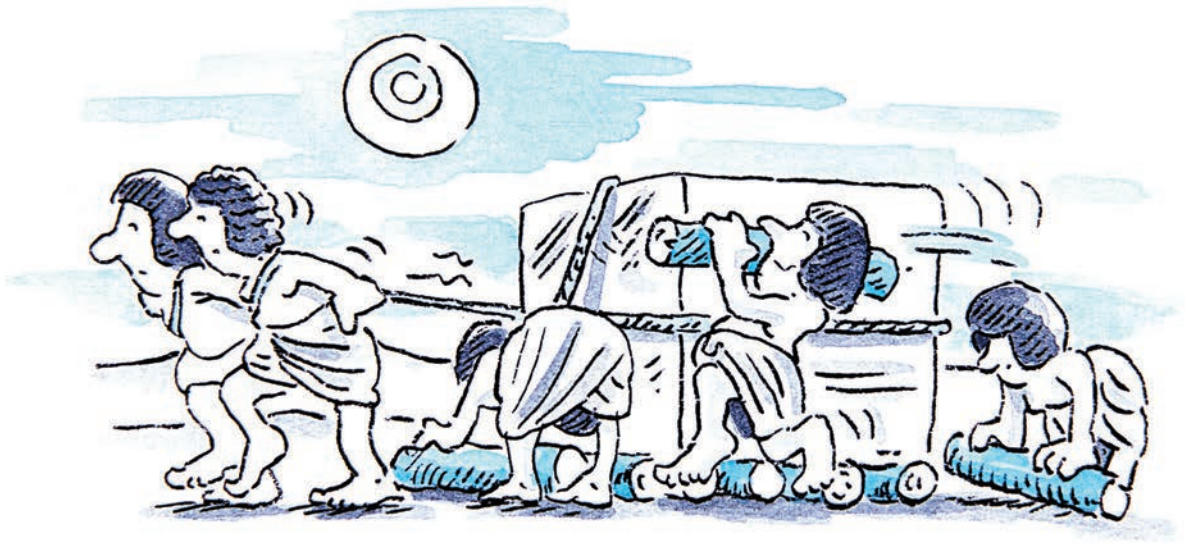


Figure 3.8 Participative management means 'working together'.

Advantages	Disadvantages
Manager demonstrates trust and faith in the ability of employees	Can give rise to conflict between employees who question the ability of their co-workers
Employee morale is increased, as employees feel part of the process of the business; this leads to an increase in motivation and productivity	Some workers would prefer to have their level of productivity (output) linked to money rather than job satisfaction
Employees feel a sense of ownership and empowerment as they are now decision-makers	Lack of contribution by all employees, as some would rather not be involved in decision-making, preferring to be told what to do
Decision-making, particularly at middle to lower levels of the business, is improved because employees are involved in making decisions on actions directly related to them; a diversity of viewpoints is evident in discussions	It can be time-consuming to seek the involvement of groups or teams when making decisions
Open communication within the business	Conflict may arise when there are varying viewpoints
Empowerment and **coaching** encourages opportunities for employee development	
Creates good employee relations	
Shared vision and direction between management and employees towards achievement of the objectives of the business	

Table 3.4 Advantages and disadvantages of a participative management style

coaching on-the-job approach to training where teaching is conducted on a one-to-one basis

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Laissez-faire management style

The **laissez-faire management style** can also be called 'free-rein' or 'hands-off' style. It is a style in which management provides little direction to employees. Management's involvement and responsibility often relates to outlining budgetary constraints, coordinating timelines and ensuring that broad corporate objectives are achieved. Employees are then empowered to determine their own objectives, solve their own problems and make their own decisions.

laissez-faire management style a leadership style that leaves the majority of decision-making and running of the business operation to the employees

This style is commonly found in workplaces where the employees are highly educated, skilled and experienced. This group of employees requires little direction and has their own motivation (drive) to accomplish and take pride in their accomplishments. It is also found in businesses that are in the 'start-up' phase or incubator phase of product development. Examples of businesses where the laissez-faire management style could work well are advertising agencies, product design firms, start-up social media businesses, specialised engineering or architectural businesses. For instance, a manager of a website development company could entrust the website designers to work independently with little interference from the manager when fulfilling the customer's needs. The group members are allowed to perform as they like, so far as this does not violate the objectives and policies of the business, and tasks are completed within budgets and agreed timelines. This style also suits the dynamic nature of an advertising company where creative freedom is very important.



Figure 3.9 Responsibilities can make an employee feel empowered at work.

Advantages	Disadvantages
High employee independence, as employees can set their own tasks with little involvement from management	Lack of guidance can cause some employees to have a sense of loss of direction
Strong motivation, empowerment and job satisfaction for employees	Some employees may feel unsettled by the freedom of this style
Good environment for encouraging creativity and innovation	Does not suit employees who are unskilled or need structure and routine tasks
Conducive to teamwork	
Decentralised and flatter structure encourages good communication, as ideas are openly discussed	

Table 3.5 Advantages and disadvantages of the laissez-faire management style



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Contingency or situational management approach

Business environments (external and internal) are constantly changing, including innovations in product development and fast delivery of goods. Businesses need to respond to these changes in order to compete against other businesses and this can then impact on the management style adopted by the manager. In a **contingency (situational) management approach**, managers must take into account all aspects of the current external and internal circumstances and act on those aspects that are important to the situation that has arisen. The manager demonstrates flexibility in these circumstances, which is a response known as 'contingency approach'. It benefits the business because it provides potential for managers to learn from specific situations and then use these vital experiences to influence their handling of future situations. The ability to adapt to external pressures and changes is also an advantage. Contingency theory may also produce more well-rounded leaders who are able to develop their skills in multiple areas.

contingency (situational) management approach use of a range of variables to determine the most appropriate management style required to attain organisational goals in different types of situations

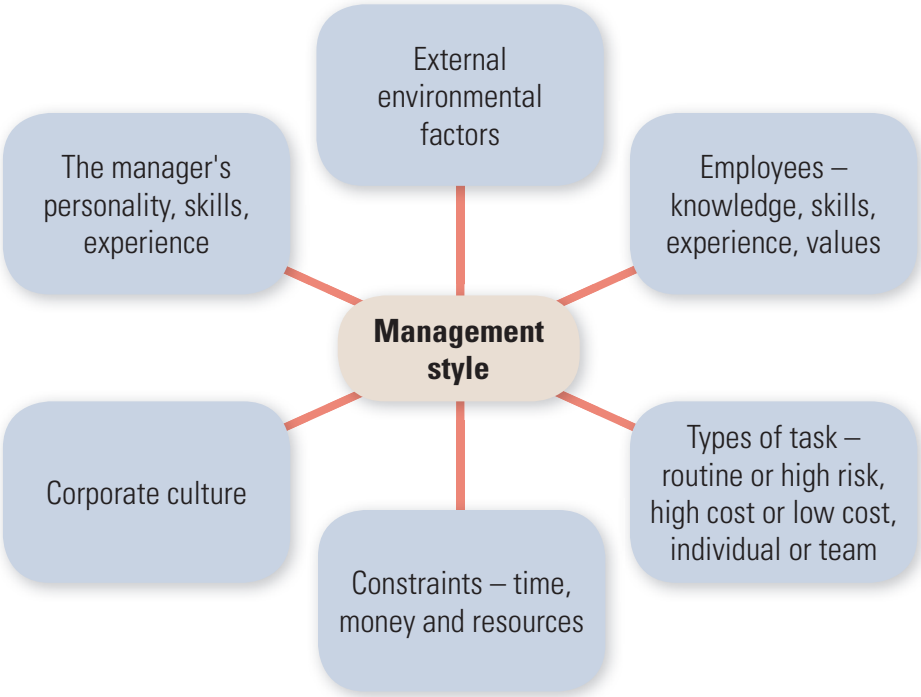


Figure 3.10 Variables influencing the choice of management style

This approach works by applying a range of variables to assist in selecting the most appropriate management style for managing a given situation. The following are considered:

- the manager's personality, characteristics or qualities, their values, skills and how they communicate with staff
- their subordinates' (employees') characteristics, such as their level of knowledge, skills, experience and values
- the tasks that need to be completed by the team or business – are they complex, simple or repetitive?
- the constraints, such as time, money and resource availability
- the corporate culture of the business and the relationships between management and staff.

As a result of various forces or situations, managers may not use any one particular management style. Rather, a manager could use a variety of management styles as outlined in the following situations:

- An authoritarian style would be appropriate where there are a number of new and unskilled employees who need to learn a job. The manager would need to keep tight control of the situation and teach the new employees what their job entails in as short a time as possible in order for them to become productive.
- The participative management style would best suit the project manager of a group of experienced, motivated employees working as a project team who are capable of accomplishing the project objectives within the established time frame.

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ACTIVITY 3.1

For each of the following scenarios, propose an appropriate management style, describe its characteristics and justify two reasons for your suggestion.

1. Jasmine is a business analyst at a major bank. She has been appointed as project manager of a team of seven employees who have the task of developing and implementing a new personal loans product. Her team members have been drawn from a variety of functional areas within the bank; for example, retail banking, info technology, risk management and credit control. All members of her team are highly skilled and knowledgeable and capable of working unsupervised. Jasmine does, however, feel that final decisions must be checked by her before they are implemented.
2. Fergus owns and operates a small business called WoodEdToys which designs and manufactures educational wooden toys for children. When he established the business Fergus designed the toys and they were manufactured locally. Due to the rising cost of raw materials and labour it has become uneconomic to continue making the toys in Australia. Reluctantly, Fergus had to rethink his business plans. He decided to continue designing the toys but outsourced their manufacture to a business in Pakistan. He has now found out that some of the painted wooden toys contain small amounts of lead in the paint, which can be poisonous to children. He has arranged an immediate recall of the affected product.
3. Tushar decided that he wanted to start up and run a social media company. At university he had started studying a Computer Science course; however, he felt that it was too theoretical and not sufficiently stimulating. He wanted to do something more creative and hands-on. He had always admired the way Mark Zuckerberg who, along with a fellow university student, had established Facebook. Tushar did not have any capital to start the business; however, a friend had advised him that he could try to gain his start-up capital for his business by proposing the idea and then seeking 'crowdfunding' for his proposal. A group of his fellow students from university, who were also very keen participants in using social media and excited by the boundless opportunities it could bring, decided to join Tushar in this entrepreneurial venture.

3.2 Management skills



Figure 3.11 Important management skills

skills the ability to do something well, gained through training and experience

Skills are the ability to do something well, gained through training and experience, in order to achieve the required goal. A close relationship exists between management styles and skills, with certain management styles placing greater emphasis on different skills.

In addition, effective management requires a manager of any business to be capable of producing an outcome that meets or exceeds accepted ethical standards. In achieving the outcome, the manager should not undertake activities that are against their deeply held moral values.

No matter what the size of the business, their management level (senior, middle or front-line management), or their area of management

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responsibility (operations, finance, human resource management, sales and marketing or technology support), managers will need to possess a range of skills, such as:

- communication
- delegation
- planning
- leading
- decision-making
- interpersonal.

Entrepreneurs who have founded a growing business or managers of small businesses need to look beyond their own skill set if they want their businesses to grow.

Communication skills

Communication skills are essential, as managers must be able to clarify with employees the tasks required to be undertaken and completed. The main forms of communication that managers will be involved in are:

communication a process of creating and exchanging information between people that produces the required response

- Personal communication – which involves sharing information and understanding between two people; the manager and a subordinate or a small group or work team. It is estimated that managers spend between 60% and 80% of their work time in conversation; therefore, it is extremely important that they are effective in their interpersonal communication.
- Internal organisational communication – where systems are used to inform and share information with employees (internal stakeholders) of the business. For instance, an organisational chart can be used by management to inform employees about how the business is structured, its functional areas, chain of command and communication channels. Policy and procedure manuals are also used to inform employees about the way that the business conducts itself.
- External operational communication – occurs when managers need to communicate with stakeholders external to the business. It involves transmitting information to customers, suppliers, investors, shareholders (if a company) and the community.



Figure 3.12 Main forms of communication used by managers

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Open communication is vital if a manager wishes to gain employee involvement in the expression and development of ideas in order to achieve the vision of the business. Weak or restricted communication flow can lead to frustration, lack of motivation, and inadequate direction and feedback between management and their subordinates.

The manager will be required to use a variety of forms of communication, such as:

- reading – which involves the manager locating, understanding and interpreting written data and information, such as letters, reports, emails, documents, policies, procedures, codes of practice, contracts and graphs
- written communication – which can express thoughts and ideas, information and messages through emails, word-processing documents, manuals and reports
- oral communication – which can enable the manager to communicate orally by talking to people individually or in groups (small or large) to disseminate information and gain feedback. Listening to oral messages is an essential form of communication as a manager receives, attends to, interprets and responds to oral messages. If managers do not develop the skill of listening, they may not hear the suggestions or information from the most valuable employees.

ACTIVITY 3.2

Read the following scenarios and recommend the form(s) of communication that you believe would be most effective. Justify your choice.

Scenario 1



David owns and operates a bakery which operates seven days a week. He employs two bakers, three apprentice bakers and eight shop assistants. To ensure that the business runs smoothly, David needs to plan to have sufficient basic supplies (flour, yeast) and any special ingredients, such as dried fruit, nuts, salami, pineapple and mushrooms in stock so they can prepare and bake their selection of baked items for sale each day. As David is not working at the bakery every day he needs to be able to communicate with his staff on matters such as their days and hours of work. He also needs to be advised at the end of trade each day of the bakery's daily sales. David is aware that he must ensure that his staff are trained and understand health and safety requirements as the business is regularly visited by the local council health inspectors.

Scenario 2

The human resource management department of an insurance company has drafted a policy that sets out the overall guidelines and procedures relating to creating a 'smoke-free workplace' at its Collins Street office. The HR department now wants to gain feedback from affected stakeholders before formulating the final version of the policy that will be presented to senior management of the company for approval.

Scenario 3

The general manager of an automotive parts business, which supplied steering wheels to General Motors, Ford and Toyota, needs to advise staff that due to the closure of these major automotive manufacturers in Australia, they will need to close down their business. This will result in all their valued staff being made redundant.

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Delegation

delegation passing of authority down the hierarchy to perform tasks or make decisions; responsibility remains with the person delegating

formal authority influence or authority derived from the position in the organisation (legitimate power)

Delegation is the process where **formal authority** is passed down the hierarchy of a business.

It can occur at all levels and types and sizes of business. For example, a senior manager will delegate to middle management, who will then delegate further down the chain of command to front-line managers, ultimately stopping with the workers receiving their task instructions. In a small business it may occur when the owner of a shoe shop authorises (delegates) to the floor staff to take delivery of the newly arrived stock, check that all stock stated on the delivery note is exactly what has been delivered, price the stock and then display it on the shelves ready for sale.

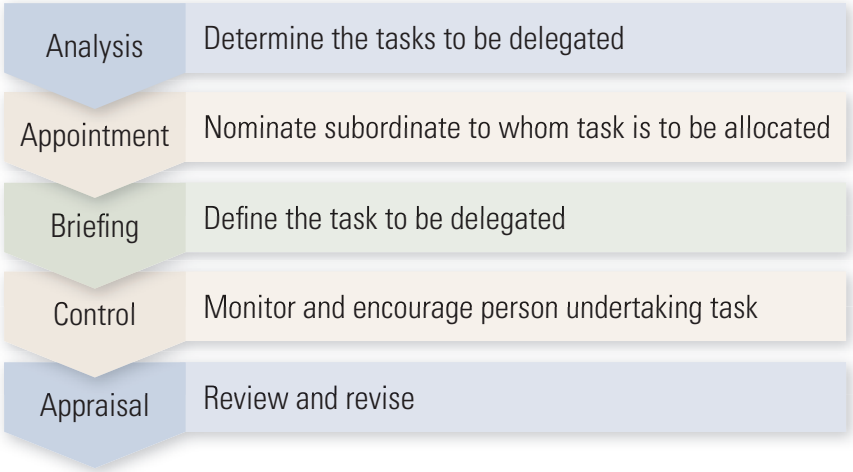


Figure 3.13 Five steps of the delegation process

authority the power and status to pass commands down a business hierarchy

responsibility the position or job requires a person to perform a task

accountability the extent to which a worker is held answerable to supervisors or managers for their work actions or performance

The **authority** to delegate needs to come right from the top of the business. If the business is a company, then the shareholders, upon electing the board of directors, assign to them the right or power to delegate to the chief executive officer and senior management the running of the business. If the business is a sole trader or partnership, then the authority will come from the owner or partners.

The acceptance of authority by a person indicates their acceptance of **responsibility** and **accountability**. Responsibility remains with the manager or person to whom it is assigned and the only way that manager or person can be released from that responsibility is if a superior takes it away.

If authority is retained by senior management or the business owner and not delegated, it is said to be centralised, whereas authority passed down to the lower levels of the business is said to be decentralised.

There are a range of benefits for a business if delegation of tasks occurs:

- It assists in the smooth flow of production and work processes, as work will continue even in the absence of the owner or manager.
- It acts as a time-saver, freeing management to be involved in longer-term planning and more important tasks.
- It provides an opportunity for skill training, personal development and job satisfaction for employees while also showing trust and faith in employees' abilities.

While delegation is a skill in itself, it is also a process that requires other skills to make it effective, such as:

- the ability to analyse a job and have a clear understanding of what authority is required to carry out the various parts of the job
- the ability to establish performance standards
- the ability to set realistic checkpoints and deadlines for tasks
- the ability to select appropriate people to perform the delegated tasks
- good communication skills
- the ability to assess completed delegated tasks and provide feedback, in the form of praise or further advice, to subordinates.

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Not all tasks and actions to be undertaken by management are suitable for delegation. Table 3.6 identifies some of those tasks that are suited to delegation and others where delegation would be ill-advised.

Tasks suited to delegation	Tasks not suited to delegation
Tasks that form part of a larger project	Strategic planning
Repetitive or time-consuming tasks	High-risk decisions
The collection or organisation of data	High-cost decisions
Training and development of subordinates	Confidential matters
	Highly specialised areas requiring specific training

Table 3.6 Examples of tasks suited to and not suited to delegation

Similarly, not all managers or business owners are good at delegating. There may be a variety of reasons for this, including:

- insecurity or fear that the subordinate to whom they have delegated a task may let them down
- feeling threatened that it might show up their inadequacies if the subordinate does too good a job
- being too disorganised or inflexible in how they organise their own work
- being focused too heavily on the short-term achievement of work deadlines and therefore thinking it is quicker to do the job themselves
- a lack of trust and faith in their subordinates' abilities
- a desire for their own power and therefore being reluctant to relinquish authority as it might make them feel less important
- subordinates lacking confidence, training or experience or perhaps not wanting to accept responsibility for any delegated tasks.

Planning

planning a formalised decision-making process that is future oriented

Planning is described as a decision-making process that is future oriented. It involves understanding the purpose or mission of a business and formulating the various levels of objectives for the business. Factors drawn from various levels of the business environment can cause uncertainty for a business. Undertaking planning assists a business to reduce these levels of uncertainty. The planning process has the following steps:

1 Set the goal(s) – when establishing these it is important to consider the values held by management and the approach of the business to its social responsibilities.
2 Gather information – this involves analysing the internal and external environment of the business. A SWOT analysis (see Figure 3.15) is a common tool used to undertake this information-gathering.
3 Establish promoting and restraining factors – determine the possible opportunities and threats or problems which currently or in the future face the business.
4 Develop the action plan to reach the goal(s) – create the strategies (courses of action) to take advantage of the opportunities. Contingency plans may be needed to deal with the identified threats.
5 Evaluate and review – after a set period of time the results need to be evaluated and reviewed to see if the plan was useful and accurate.

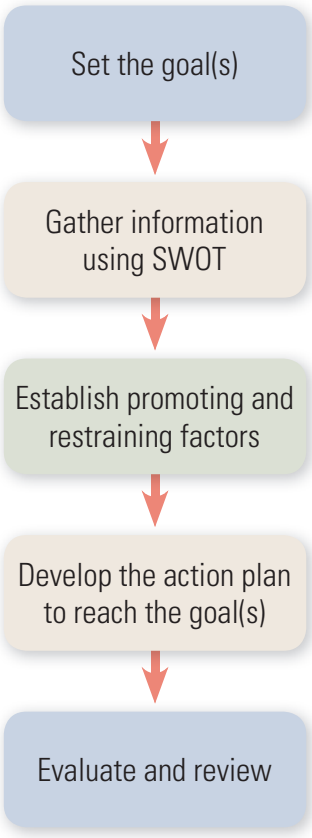


Figure 3.14 Five steps of planning

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SWOT analysis an assessment of the internal strengths and weaknesses and the external opportunities and threats for a business in a given situation

A **SWOT analysis** is a management tool used to determine the current state of a business. By identifying the current strengths and weaknesses of the business, together with the opportunities and threats from its external environment, the business gathers a lot of information. This will assist in creating an accurate plan, which will then be implemented. The information-gathering process is important and consulting stakeholders of the business, such as its employees and customers, assists in gaining input from those with a vested interest in the business, while also acting to overcome any resistance to the changes being made.

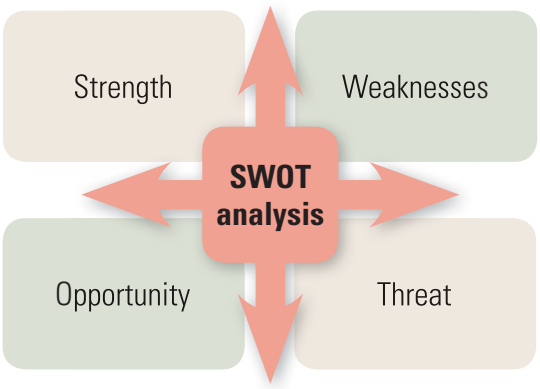


Figure 3.15 SWOT analysis – a vital planning tool

Planning is generally 'organised' in a hierarchical structure with the overall direction coming from the top level of a business. For a company, this is the board of directors and senior management, while for a smaller business the owner or business partners would represent this level. Planning is categorised into three levels: strategic, tactical and operational.

strategic planning long-term (two to five years) planning undertaken by senior management to achieve business objectives

tactical planning the planning undertaken by middle-level management to assist in implementing strategic decisions; its time frame is medium term (one to two years)

operational planning the detailed, short-term planning undertaken by a business

Strategic planning is the formal, long-term (two to five years) planning process that establishes the overall direction of the business. It is undertaken by the owner of a small business or the senior management team of a larger company. The planning decisions made at this level will impact on the type of structure the business adopts, its values, business philosophies, strategic direction and objectives.

Tactical planning is the formal, medium-term (one to two years) planning undertaken by middle management to implement the strategic plan of the business. This level of planning occurs within each department or functional area of a business and its aim is to bring the objectives of the business into reality.

Operational planning is the lowest level of planning and relates to setting goals and creating and implementing plans for small groups, teams or individual employees of a business. It involves the planning of operations on a daily, monthly or up to one-year basis by front-line managers or supervisors within the business. They will be making plans to achieve goals such as increasing efficiency, reducing mistakes and reorganising or improving the work processes of people within their work team. Planning at this level will relate to activities such as staffing rosters, ordering of supplies and production output schedules.

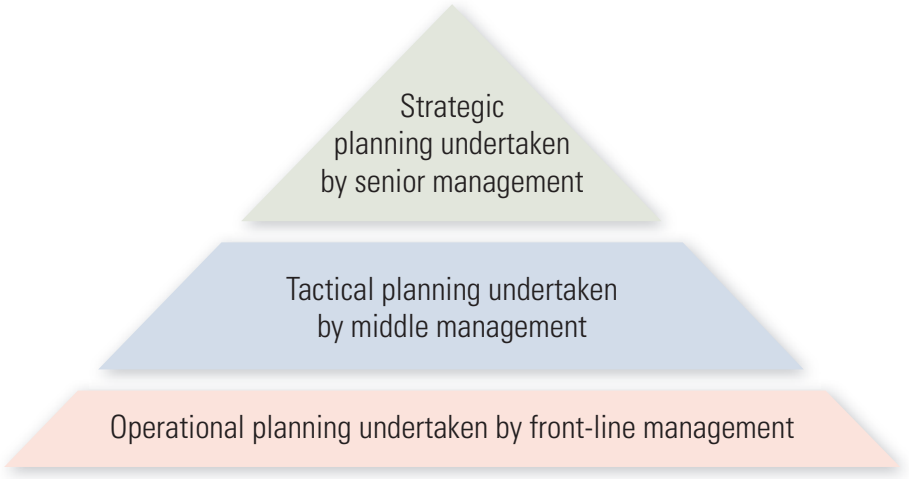


Figure 3.16 Levels of planning and management

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ACTIVITY 3.3

Complete the following table by indicating the appropriate level of planning and provide your reasons for choosing that particular level.

Planning activity	Level of planning	Reason for choosing
A major retail outlet currently operating in Victoria and New South Wales wants to expand its operations into South Australia.		
A soft drink manufacturer wants to expand its range of products to include fruit juices and water.		
A fruit shop operating in a local shopping centre has decided to extend its hours of operation to now trade seven days per week.		
An engineering business wishes to expand to Thailand, China and Vietnam. This expansion will mean establishing production facilities in these three countries.		
A team leader in the IT department of a major bank decides to monitor their team's progress over a three-month period.		
The sales manager requires the sales team to increase sales by 10% over the next six months.		
The marketing department is to relocate to a new office, separate from the head office of the business.		
A front-line manager (supervisor) at Organic Pasta wants to arrange weekly production meetings.		

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Leading

Businesses, regardless of size, need managers to be able to lead and control the business activities. A good leader knows when to step in and when to step away and allow talented people they have hired to achieve the business's future potential. Business people, whether they are entrepreneurs who founded a business or operators of small and medium-sized businesses, need to understand that if they cannot relinquish some control of their business, its growth will be stunted and its full potential never realised. David Thodey, former chief executive of Telstra (2009–15), states that 'leadership has changed in the world and the days of the all-knowing CEO [are] just not real'.

leading the skill of a manager when guiding workers towards achieving the goals of the business

Leading involves influencing others towards attaining the objectives of the business. Effective leading requires a manager to:

- establish conditions that motivate, engage and inspire subordinates
- be a good communicator
- act as a role model and effectively use power
- understand those whom they are going to lead, their personalities, values, attitudes and emotions
- be able to build teams
- inspire loyalty, dedication and commitment in those they lead
- resolve conflicts
- act as a mentor
- be able to respond quickly and appropriately to change and help others to do the same.

Renowned management and leadership theorist, Henry Mintzberg, states 'Leadership, like swimming, cannot be learned by reading about it'. He believes that the key to being an effective leader is by 'doing it'.

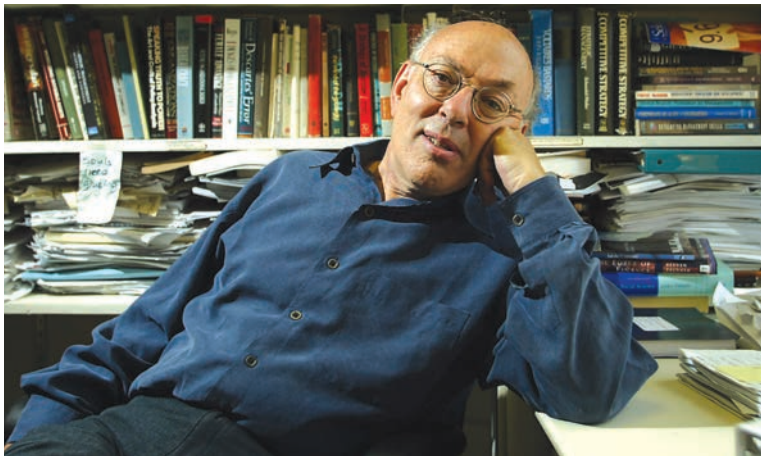


Figure 3.17 Leading management theorist Henry Mintzberg

emotional intelligence the ability to perceive, understand, monitor and regulate emotions in ourselves and others

Learning to lead takes time, and it can be assisted by understanding the theory of **emotional intelligence** (EI). In 2002, Daniel Goleman, a psychologist, helped develop this theory. The relationship between being effective in leading and emotional intelligence is very close. When leading, a manager needs to ensure that tasks are completed successfully and the team of subordinates under their control is kept together. In addition, they must ensure that each individual in that team is happy and contributing on an individual basis to the successful outcome of the team.

	Self	Social
Recognition	**Self-awareness** **Self-confidence** Emotional self-awareness Accurate self-assessment	**Social awareness** **Empathy** Organisational self-awareness Understanding the environment
Regulation	**Self-management** **Self-control** Trustworthiness Conscientiousness Adaptability Drive and motivation Initiative	**Social skills** **Influence** Inspirational leadership Developing others Influence Building bonds Teamwork and collaboration

Figure 3.18 Goleman's emotional intelligence model

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The EI theory incorporates a set of competencies, which allows a manager to perceive, understand and regulate emotions in themselves and in others. For a manager to be judged as having excellent leadership skills, attending to the following list of competencies would be essential:

- Emotional self-awareness – knowing what one is feeling at any given time and understanding the impact those moods have on others
- Self-regulation – controlling or redirecting one's emotions; anticipating consequences before acting on impulse
- Motivation – utilising emotional factors to achieve goals, enjoying the learning process and persevering in the face of obstacles
- Empathy – sensing the emotions of others
- Social skills – managing relationships, inspiring others and inducing desired responses from them.

Businesses function more effectively when they operate as a team. These teams may occur at various levels; for instance, the senior management team establishes the strategic direction for the business. Within any business there will be project teams and natural work groups. It is important that team leadership skills are exhibited by the **team leader**, whether leading a project team or a work group, to ensure the success of the team in achieving their objectives.

team leader someone who guides, instructs, directs and leads a group of other individuals (team) with the purpose of achieving the goals of the business

Team leadership involves the manager or team leader possessing the ability to:

- function as a coach and mentor to team members
- encourage contributions from all team members to achieve the objectives of the group/team
- build a cohesive and trusting group of team members
- facilitate resolution of any problems encountered by the group/team
- manage team dynamics and relationships.

Teamwork is best understood as a set of behaviours that two or more people demonstrate when working on some common task or pursuing a common objective. Employees are more likely to share the vision and objectives of a business if they participate as a team, particularly in the problem-solving and the decision-making processes.

teamwork when a group works together to complete a task it requires workers to be multiskilled and allows for worker empowerment

When people listen carefully to each other, seek and take seriously each other's opinions, and make use of each other's competencies and expertise, they are involved in teamwork. Teamwork encourages open communication, improves morale, workplace cooperation and productivity, and develops a positive corporate culture. Team leadership skills are therefore important for a manager to be able to guide and direct this powerful business tool, namely, teams.

ACTIVITY 3.4

1. Working in pairs, choose two people from your community – they could be involved in business, music, sport, politics, your school – who you consider to be 'good leaders'.
2. List five characteristics that you believe these two people possess that make them a 'good leader'.
3. Rank those five characteristics in order of importance. Explain why you have ranked them this way.

Decision-making

In the day-to-day operations of a business, a manager or business owner can be faced with numerous problems they need to overcome and decisions they need to make as a result of changes in the macro, operating and internal environments. Some of these decisions will in fact be routine and not require much deliberation. In other cases, **decision-making** may be more difficult or complex and require more time and thought to be put into the process before arriving at the final decision. These are the sorts of decisions that involve:

decision-making a multistep approach whereby a selection is made between a range of different alternatives

- uncertainty due to many of the facts being unknown
- complexity due to there being a number of interrelated factors that need to be considered
- high-risk consequences resulting from the outcome of the decision
- interpersonal issues related to how people involved in the decision will react
- numerous alternatives to review and choose from.

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Using a systematic process when trying to reach a decision reduces the likelihood of overlooking important factors that should be considered. Set out in Table 3.7 is a six-step process for effective decision-making. The decision-making skill requires managers to recognise problems and then become resourceful in seeking help from others to think critically, creatively and reflectively and to adapt to alternative solutions. Managers who undertake this process understand that a quick solution will not work to resolve a complex issue. They spend time analysing the problem from all angles and are open and honest in communicating with those involved.



Figure 3.19 A manager needs sound decision-making skills.

Steps	Explanation
1 Identify the problem and define the objectives	Make sure to identify and define the actual problem or issue needing resolution.
2 Gather the necessary information to establish the cause of the problem	Investigate the circumstances surrounding the issue and search for factors that may have created the problem. Once all the information is gathered, reassess the problem to see if it is the same.
3 Develop alternative solutions	The existence of some choice is necessary for effective decision-making. Develop creative and imaginative possible solutions to the problem. However, retaining the status quo is always one alternative.
4 Analyse the alternatives	Rank and sort the different alternatives. Each alternative must be evaluated in terms of its strengths and weaknesses, benefits, costs, advantages and disadvantages in achieving objectives of the team, department or business.
5 Choose an alternative and implement it	Management needs to decide the best outcome, given the conditions under which the decision has to be made. Management must communicate clearly the decision that has been taken, the required results and personnel associated with its implementation.
6 Evaluate the implementation	Provide feedback on progress, making the necessary adjustments. Evaluation enables managers to learn from experience and improve their further decision-making and problem-solving skills.

Table 3.7 Systematic approach to decision-making

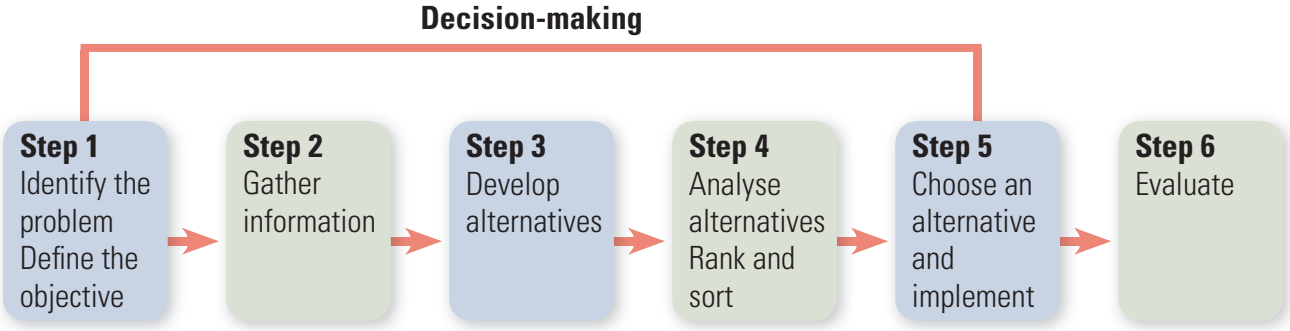


Figure 3.20 Decision-making steps

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In some cases, the decision-making process may reflect a strong team involvement at the discussion stage of the risks and alternatives. The overall decision may be a team effort or it may require an individual to make a decision. This depends largely on the complexity of the issue, the leader's management style and the structure of the business.

ACTIVITY 3.5

Scenario

Moorish is a local bakery that also operates a small cafe business at the front of its premises. The bakery opens at 7.30 a.m. and closes at 6 p.m.; however, the cafe's opening hours are between 9 a.m. and 4 p.m. Over the past year sales at the bakery have increased while sales revenue from the cafe has been decreasing. On investigation the owners of Moorish have found that their major competitors are the nearby supermarket and fast food outlets, which open earlier and remain open later in the day. Moorish wants to be a successful business and to achieve this it understands that sales revenue from both parts of the business must improve. Describe an action the cafe could take to increase sales.

Task

The owners of Moorish have asked you to assist them to decide what action the cafe should take to increase its sales revenue. Your answer must include the theoretical steps of the decision-making process as well as linking each step to the scenario.

Interpersonal

interpersonal skills those skills used every day to communicate and interact with other people, both individually and in groups

Interpersonal skills are those skills used by a manager when dealing with people on a personal basis, such as being able to lead, motivate, communicate, manage conflict and build team rapport.

As mentioned in the section on leading, emotional intelligence forms an important component of a manager's tool set in applying interpersonal skills. It is recognised that there are some core interpersonal skills, such as the ability to be:

- a team player and to work effectively with others both in the internal and external environments of the business
- both empathic (understanding a situation from another's point of view) and assertive (being able to state your own requirements)
- a good communicator
- able to motivate and encourage others
- ethical, honest and able to respect the values, beliefs, aspirations and contributions of others.

For interpersonal relations to be maintained on a positive level, managers need to be able to manage conflict with stakeholders (both internal and external). Often conflict can arise through differences in the expectations, goals, needs and wants of the manager and their subordinates. A manager may want something to be done; however, their subordinates want something else. Should the manager adopt an aggressive, win-at-any-cost approach? Alternatively, is it better to adopt an assertive, yet collaborative approach, where both parties to the conflict can gain a win? Adopting the second approach can turn the potential area of conflict into one of agreement between the parties.

In addition to the abovementioned skills, the skills discussed in the following sections are also very important for a manager to possess.



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Time management

time management the efficient utilisation of work time, which involves setting and prioritising tasks, allocating time and avoiding time-wasting activities

Time management involves the process of managing the things we do in the time we have available. Time is a fixed resource and it is the use to which time is put that separates effective and ineffective managers and workers.

There are three types of work time:

- Boss-determined – this is the time spent doing work initiated by your manager. It may be regular ongoing work or work delegated to you on an ad hoc basis.
- Organisation-determined – this is when you complete work initiated by the business. It includes demands upon your time by your colleagues, customers and other departments and external bodies.
- Self-determined – this is time spent completing work over which you have control.

Managers, no matter what the size of the business, cannot control all of their time, as they are frequently interrupted and have to respond to unexpected crises. The time spent responding to requests, demands and problems initiated by others is more difficult to control than the time directly under their control. The challenge for a manager is to know what time they 'directly control' and then to make that time more productive.

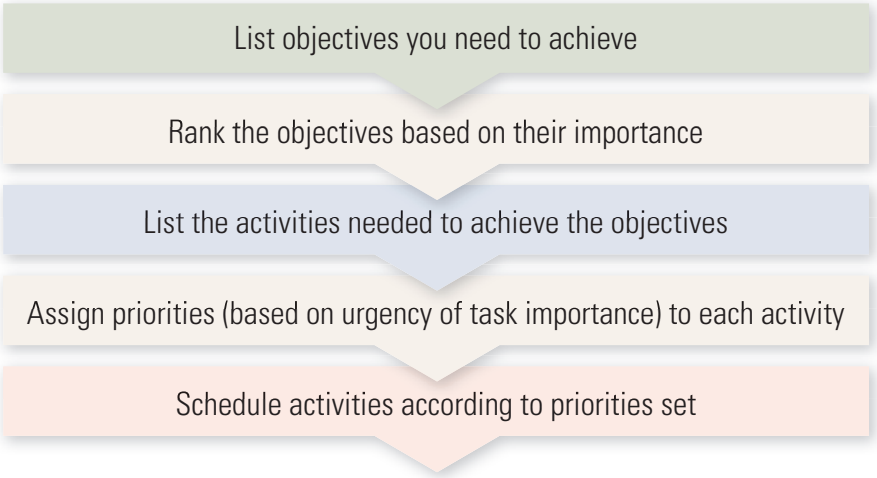


Figure 3.21 A systematic approach to time management

To be skilled in time management requires a combination of a systematic approach and one of self-discipline. This systematic approach involves five steps, as set out in Figure 3.21.

Many interruptions to an established 'action plan' are self-created (for example, socialising) or avoidable. If a manager used a log book or diary to record their activities over a set period of time, they would gain insight into areas where they could improve their time management and turn non-productive time into productive time.

ACTIVITY 3.6

Self-test

Using a diary or log book, record your activities for one school week.

1. Calculate the percentage of time you have spent on teacher-determined, school-determined and self-determined activities.
2. Identify your major work priorities.
3. Identify your major time-wasters and outline the strategies you could use to decrease or eliminate these.

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Stress management

stress physical, mental or emotional strain or tension occurring in response to adverse influences and capable of affecting physical health

stress management skills required by a manager to reduce the level of stress/distress in both themselves and their subordinates

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated or intimidated

Stress is a very real occurrence in the modern workplace. Managers must be aware of their duties and the significant cost the business can incur if they do not adequately address **stress management**. While stress is normal and can activate us to achieve, too much stress can lead to workers developing a range of medical symptoms, such as insomnia, headaches, back pain, gastrointestinal disorders, fatigue, anxiety, irritability and depression. Our individual capacity to cope varies and depends on our resources, skills and confidence. There are a range of factors that can lead to stress. These include:

- workload – lack of control over it, consistently having too much to do, long working hours, after hours and weekend work
- coping with organisational change, such as restructuring, management downsizing, job insecurity, redundancy, redeployment or relocation
- interpersonal conflict, which could occur between a manager and their subordinate, between managers in different departments, or between employees in a department or work team
- poor management practices, inappropriate management style and 'toxic' corporate culture
- shift work and associated fatigue, or lack of adequate breaks
- lack of communication or consultation
- bullying, aggression or **harassment**, threats and intimidation
- technology – being introduced or constant breakdown
- lack of training
- lack of job clarity and/or objectives.

Stress can have a major effect on work performance. Some of the consequences include absenteeism, diminished performance, negative attitude and cynicism, decline in commitment and creativity, and a decreased ability to concentrate, learn and interact with other employees. It will also have a direct impact on the bottom line of a business (i.e. profit) as stressed employees will cost the business due to lost productivity, poor motivation and staff absenteeism. Researchers from VicHealth and the University of Melbourne believe workplaces that are damaging to employees' mental health cost the Victorian economy $730 million per annum. (See 'Estimating the economic benefits of eliminating job strain as a risk factor for depression', VicHealth report, via Cambridge weblink http://cambridge.edu.au/redirect/?id=6937.)

Figure 3.22 Workers can experience stress when they feel they have no control over their workload.



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To help avoid workplace stress, managers can undertake the following steps:

- Provide support to employees by matching them with competent colleagues, coaches and mentors and professional networks.
- Assess the employee's workload through collecting information from peers, supervisors and managers. Clarify work roles and redesign particular tasks or reduce the workload.
- Implement any changes in a consultative manner, ensuring employees are fully informed and involved in the plans and progress at each stage.
- Establish training and a conflict resolution mechanism through which employees may address matters such as conflict with peers or supervisors, anger management, anti-bullying and harassment.
- Promote work–life balance and introduce flexible work options, such as paid parental leave, part-time work, flexible working hours and job-sharing.
- Have an effective counselling procedure in place for staff with personal needs; for example, alcohol or drug addiction, financial hardship, relationship problems.
- Introduce or encourage participation in activities such as a staff social club, community involvement and wellbeing services (gymnasium facilities or membership, or yoga classes).



Analytical skills

analytical skills the ability to analyse or study the nature of a given situation or set of circumstances

A manager needs to possess **analytical skills**: the ability to identify and solve complex problems and concepts and then make sensible and reasoned decisions based on the information available at the time. Effective analysis requires the manager to apply logical thinking to be able to understand what it is they are looking at or looking for, drawing on their expertise to then investigate the relevant facts, causes or issues.

At the conclusion of analysis, the manager will be in a position to develop the most effective and efficient course of action to be taken to achieve the desired outcome. The ability to analyse is judged as an important management skill, particularly for middle- and senior-level management. When selecting a new manager to join a business, the interview panel will normally pose questions that will require the applicant to use their logic to pick apart a problem or come up with a solution.

Technical skills

technical skills represent a manager's ability, knowledge of and proficiency in a specialised field; for example, accounting, IT, finance

Technical skills include the knowledge of and proficiency in a certain specialised field; for example, accounting, legal, marketing, information technology. Front-line and middle managers are heavily involved in the technical aspects of the operations of a business. The higher a manager progresses up the management hierarchy, the less important the technical skills become on a daily basis. Senior management will, however, draw upon their technical expertise when coming to grips with concepts and analysing key business plans and decisions. In addition to their original area of technical expertise, many senior managers complete higher qualifications in business administration from major business schools, such as a master's degree from Harvard University, the University of Melbourne or Monash University.

3.3 The relationship between management styles and management skills

It is important that businesses have tools in place to be able to evaluate whether the management style and skills adopted by a particular manager were appropriate when managing a range of business situations.

Set out in Table 3.8 are a range of situations where managers would need to determine which management style, and related skills, was appropriate for the given situation. It is also important to assess the effectiveness of a manager in their role in terms of managing both the tasks to be completed and the staff for whom they are responsible.

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Area	Style	Skill
Outcomes/results based on objectives	Did the manager adopt an appropriate style to ensure that the outcomes were reached in an ethical manner? Was the style chosen focused on task achievement?	Communication – was it open? Decision-making – centralised or decentralised? Delegating tasks – did it occur, were they for the appropriate tasks? Planning – appropriate levels Leading – did any conflict arise? Team management Interpersonal – were good relationships established and managed?
Relationship with external/internal environment	Was the correct (appropriate) management style adopted to manage the given situation?	Were the appropriate skills adopted; e.g. communication, interpersonal, decision-making?
Communication	Did the style chosen permit appropriate communication flow?	Communication flow – was it downward, upward, lateral, open?
Motivation and job satisfaction of staff	Was the management style chosen appropriate to ensure that workers (subordinates) were motivated to achieve? Were the correct motivational strategies implemented?	Were the manager's subordinates satisfied with their jobs and motivated to work? Were the tasks delegated by the manager appropriate? Did the manager lead the subordinates adequately, so creating a good relationship between the manager and the subordinates?
Level of teamwork within the business	Did the style chosen encourage this approach?	Did the manager show team leadership? What level of decentralised decision-making occurred?
Staff absenteeism and staff turnover; i.e. level of staff satisfaction	How did the level of staff absenteeism compare with other business units within the business and industry (in general)?	What skills were implemented to create a harmonious and productive workplace?
Training and development opportunities for staff	Did the style chosen encourage staff training and development?	Did the manager make available and oversee these areas for staff development?
Performance appraisal	Was the management style appropriate for ensuring that employees could demonstrate their strengths and assist them to overcome any weaknesses?	Communication – was it open and did it encourage honesty by all parties? Time management – did the manager allow sufficient time to work with employees to set goals and then provide feedback?

Table 3.8 Areas of assessment of a manager's effectiveness

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CASE STUDY 3.1

Naomi Milgrom's four pillars of leadership

Naomi Milgrom is the owner and executive chair of The Sussan Group, a private company which incorporates three well-known brands, Sportsgirl, Sussan and Suzanne Grae. Milgrom identifies the conditions that her companies currently face as coming from a combination of:

> difficult economic times, political uncertainty, over-supply, a generation of more frugal consumers and, of course, a global shopping environment, 24/7.



Figure 3.23 Leading Australian business figure Naomi Milgrom

That being said, Milgrom argues that the principles of the four pillars of her leadership style will continue to be useful well into the future. These are:

1 A culture that supports women

It is important to create a workplace culture that supports women. Of the 4,500 employees working in the companies in her group, 95% are women. Unlike other fashion companies, the CEOs of all three retail brands are women, and women make up the majority of the senior management level.

'A culture that supports women doesn't come about spontaneously; it only happens when the leaders of companies create policies and initiatives to stimulate such a culture,' she says. 'In my experience, mentoring women into leadership is fundamental.' This is an imperative for national productivity in Milgrom's view.

Milgrom mentored the CEOs of both Sportsgirl and Sussan, Elle Roseby and Carole Molyneux, into their leadership roles, and supported them during and after they had children. 'The CEOs of both Sussan and Sportsgirl were able to choose flexible work arrangements after their maternity leave,' she says. 'Other people in management, including myself, joined together to support these CEOs through this time.'

Flexibility is not a favour, she says. 'It is a compelling business strategy that promotes productivity. We measure work performance in results, not in time at the office, creating a relationship of trust that actually increases productivity.'

2 A beautiful work environment

Four years ago, Milgrom commissioned a new headquarters for the group in Cremorne, Victoria. With 5,000 square metres of offices, a private art gallery, 3,000 square metres of car parking, a corporate dining room, boardrooms and studios, the premises were designed by Durbach Block Architects. It took two years to complete, and won two architecture awards.

'What I am trying to achieve is a unique working environment that is beautiful, functional and inspirational,' Milgrom says. 'As we spend so much [of] our lives at work and as we want to promote ideas and creativity, I became convinced that a different kind of workplace would support our different kind of culture.'

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CASE STUDY 3.1 continued

The retail sector faces huge problems retaining staff and developing talent – for most, working in shops is a short-term job. Milgrom wanted to communicate her own passion for her businesses and to make a workplace that her staff loved. She specified a 'bright, healthy' space, contemporary design and architecture, plenty of modern art and views of the landscape. 'It was important that it expressed the things that I find uplifting.'

3 Management by conversation

Milgrom long ago rejected the authoritarian model of leadership, believing that it stifled innovation, creativity and agility. 'Hierarchies and authoritarian approaches are not conducive to the free flow of ideas,' she says. 'They also default to the conventional. They tend to prefer to do things as they have always been done.'

'The rigidity of hierarchy is totally inappropriate for the fashion business, where we have to adapt quickly to capture new ideas and constantly reinvent ourselves.' She talks with her staff, encourages them to say what they think and to try new ideas. 'I do recognise that as a leader I do not have all the answers. And therefore the best way of arriving at a solution is to bring together a diverse inventive team so that we can aspire to excellence.'

Pride in work comes in part from supporting causes that matter to the staff, which is also a priority for Milgrom. Leaving staff to select the cause and to determine how they want to help has resulted in the three businesses choosing different causes. Sussan works with the breast cancer network of Australia; Sportsgirl campaigns against eating disorders in young boys and girls and helped the Butterfly Foundation establish a wing for patients with anorexia at the Westmead children's hospital in Sydney; Suzanne Grae is in partnership with the White Ribbon foundation against domestic violence. She says: 'People want to be proud of the organisation they are working for, of the contribution they are making.'

4 A focused pursuit of excellence

Partnerships with world leaders in store design, retail innovation, brand building is one way Milgrom uses to challenge her businesses to achieve new and higher standards. Two of its Sportsgirl outlets have been revamped into 'flagship stores' designed by British architects, HMKM, each with 12 defined areas for consumer to explore. 'Two flagship Sportsgirl stores have won international awards,' she says. 'We have enlisted Mary Portas, who you will know as Mary Queen of Shops, as a creative collaborator for our brands.' Mary Portas, the host of a British TV series called *Mary Queen of Shops*, troubleshoots struggling fashion retailers by injecting glamour and sex appeal back into them. Milgrom says: 'We are constantly looking outside for examples of excellence and we enlist world leading authorities, collaborators and advisers of models for our businesses.'

Milgrom is confident that her leadership style will continue to give her the skilled staff, agility and innovation to overcome the challenges facing the retail sector, and keep her brands relevant in the future.

(Source: Kath Walters, 'Naomi Milgrom's four pillars of leadership', *Smart Company*, 28 June 2012.)

Analysis

1. Identify and describe five stakeholders of the Sussan Group.
2. Describe the four pillars of leadership that Milgrom believes will stand the test of time.
3. Identify and explain the characteristics of the management style which best fits with Naomi Milgrom's approach to running her businesses.
4. Evaluate whether you believe the approach adopted by Naomi Milgrom will continue to be effective into the future.

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Chapter summary

- Management style is the approach used to provide direction, implement plans and motivate people.
- There are a variety of management styles: autocratic, persuasive, consultative, participative and laissez-faire.
- The styles vary according to a range of characteristics. First, their degree of centralisation relating to authority and decision-making. Second, the focus or orientation they adopt, whether task achievement is of greater importance than having satisfied employees or a combination of both. Third, their belief in what acts to motivate employees: is it money or challenging and interesting tasks? Fourthly, the attitude of the manager to their subordinates: do they believe they need to be directed in everything they do or do they actually have trust and faith in their ability? Finally, the communication flow differs between the styles, varying from closed (downward) to a totally open flow in the participative style.
- The contingency or situational management approach applies a range of variables that can be used to determine the appropriate style for a given set of circumstances.
- The variables are the nature of the task, the time frame, the level of experience of the employees, any constraints (such as money or resources), the corporate culture of the business and finally the preferred style of the manager.
- Management skills are the abilities or expertise required by a manager to achieve their work.
- A range of skills are required by management regardless of their level in the management hierarchy: communication, delegation, planning, leading, decision-making and interpersonal.
- In addition to the above list, other important skills are time management, stress management, analytical and technical.
- The interrelationship that exists between management styles and skills provides an opportunity for assessing whether management is effective.

Chapter summary questions

1 Write definitions for the following terms and use them in a sentence to demonstrate your understanding of the term.

- **a** management
- **b** management style
- **c** autocratic management style
- **d** persuasive management style
- **e** consultative management style
- **f** participative management style
- **g** laissez-faire management style
- **h** situational/contingency management approach
- **i** skills
- **j** communication
- **k** delegation
- **l** planning
- **m** leading
- **n** decision-making
- **o** interpersonal
- **p** time management
- **q** stress management
- **r** analytical skills
- **s** technical skills
- **t** effective management

2 Create your own summary table setting out the five management styles and their characteristics based on the acronym **COMDAC** (**C**ontrol, **O**rientation, **M**otivation, **D**ecision-making, **A**ttitude, **C**ommunication).

3 Create a separate table showing the advantages and disadvantages of each of the five styles.

4 Identify and explain the management skills that an autocratic manager is likely to use.

5 Identify and explain the management skills that a participative manager is likely to use.

6 Evaluate whether adopting an appropriate management style is important if an organisation wants to be effective in achieving its goals and objectives.

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Examination preparation

Juliet Tuscan is the owner and Chief Executive Officer of an independent boutique supermarket called 'Tuscany' in the CBD of Melbourne. Her shop is designed to cater to the needs of the growing number of people living in inner city apartments. She offers a wide range of 'grab and go' foods such as sandwiches, salads, sushi and ready-to-eat meals such as lasagne, ravioli, beef and lamb casseroles and curries with rice. Juliet's shop also stocks a wide variety of fresh meat, fish, delicatessen products, bread, fruit and vegetables. The opening hours of Tuscany are 8 a.m. until 9 p.m. seven days per week.

Since opening the store five years ago the sales revenue of the shop has been steadily increasing. Juliet feels that it is now time to expand the management team, by adding three managers responsible for managing different areas of the store – fruit and vegetables; meat, fish and delicatessen; pre-prepared and snack foods – as she would like to spend more leisure time with her husband, who is currently working as the Operations Manager. The other members of her current team are her daughter Clarissa as their Finance Manager and Accountant and son Steven in charge of the store's IT systems.

The store employs 10 full-time employees who have worked at the store since its opening five years ago. These employees have a good understanding of how the business operates and act as supervisors for the casual staff. The remaining members of staff are students working on a casual basis, with their work rosters arranged to fit in with their study commitments at university or TAFE.

1 Define the terms – management style and management skill.

(2 marks)

2 What management style would you recommend Juliet adopts to manage the expansion of her management team? Identify two characteristics of this management style.

(3 marks)

3 Explain one advantage and one disadvantage of using this style.

(2 marks)

4 Describe two management skills that Juliet would need to use when organising the expansion of her management team. Justify their use in this situation.

(4 marks)

5 Establish two criteria that could be used to evaluate whether the current management style and skills being used by Juliet have been successful.

(4 marks)

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PART 2

AREA OF STUDY 2

Managing employees

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CHAPTER 4

Employees: business objectives and motivation

Overview

This chapter explores the important relationship that exists between the role that employees play in a business and the achievement of its business objectives. Three motivation theories currently being used by businesses will be examined. In addition, a range of motivation strategies will be studied, together with the advantages and disadvantages of these strategies and the impact they have in the short and long term to motivate employees to perform.

Key terms

- appraisal
- business objectives
- business strategy
- employee
- employee engagement
- esprit de corps
- Four Drive Theory
- functional manager
- Goal Setting Theory
- Hierarchy of Needs
- human resource management (HRM)
- job enlargement
- job enrichment
- job rotation
- line management
- management by objectives (MBO)
- motivation
- performance-related pay
- productivity
- promotion
- remuneration
- salary
- self-actualisation
- self-esteem
- staff manager
- wage

Key knowledge

Students will examine one of the essential factors involved in effectively managing employees during their time at the business, namely, motivation, to ensure that the business objectives are achieved. Students will learn about:

- The relationship between managing employees and business objectives.
- Key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria).
- Motivation strategies, including performance-related pay, career advancement, investment in training, support and sanction.
- Advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation.

What's ahead

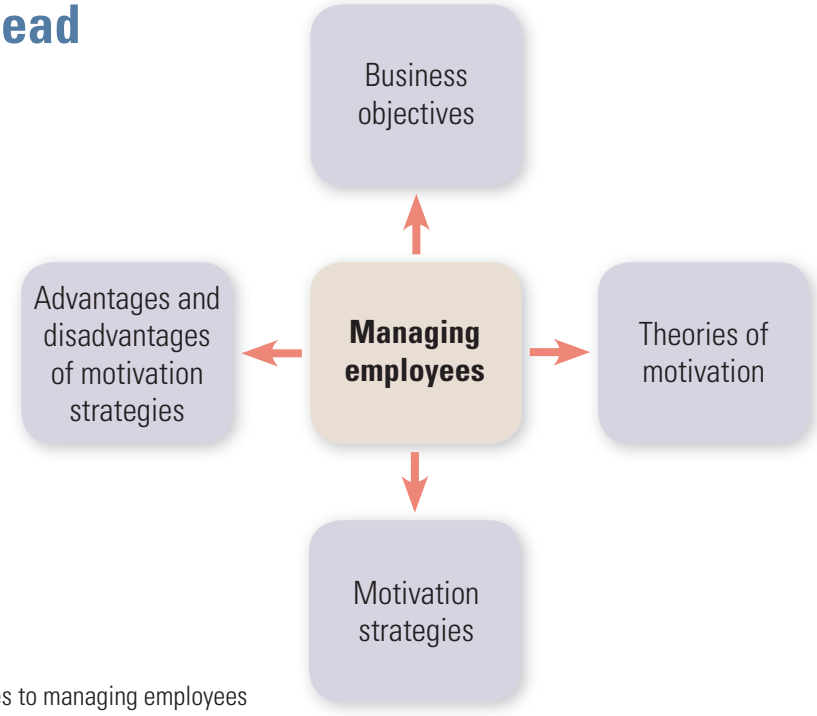


Figure 4.1 Approaches to managing employees

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4.1 The relationship between managing employees and achieving business objectives

business objectives the stated, measurable targets of how to achieve business goals

employee a person working for another person or a business for wages or a salary

Business objectives are the outcomes that a business sets out and which they want to achieve. Business plans are then created, strategies determined and actions undertaken to achieve these objectives. Business objectives and plans must take into account the requirements of various stakeholders of the business. Stakeholders are the individuals or groups that are affected by and have a vested interest in how the business is run and what it achieves. While every business has a variety of stakeholders, one stakeholder vital to the success of the business is its **employees**. It is therefore important that effective relationships are created between management and employees.



Figure 4.2 The right employees are central to business success.

No matter what the size of a business most will recognise that its success can be attributed to having properly managed its employees. This involves balancing the goals of the business with the goals and aspirations of the employees. A business will usually set goals and objectives which relate to its survival, gaining and growing market share and being profitable. Employees, as one of the most important assets of a business, play a vital role in ensuring the business prospers. They are an essential input in the production process for either manufacturing a product or providing a service.

Staffing of a business, whether it be micro, small, medium or large, is important for the day-to-day management of business operations. If a business has a positive relationship with its employees, they will assist in the growth and success of the business.

human resource management (HRM) the management of a wide range of responsibilities relating to the human (employees) function within a business in order to increase the efficiency of both employees and the business

In a small business, the owner will be responsible for ensuring that the business is properly staffed. As the size of the business grows, more formal **human resource management (HRM)** policies, procedures and practices will be adopted. These include recruitment and selection procedures, written occupational health and safety (OH&S) guidelines, and performance management and evaluation practices. The replacement cost associated with hiring the wrong person can be huge. Costs are associated with advertising, interviews, reference checking and induction. Added to this is the time taken to perform these tasks – it all adds up to being an expensive and time-consuming exercise.

For micro or small businesses, the decision to employ staff is a major one. Many choose not to employ staff as they believe that these employees will not have the same commitment to the business and its objectives as the owner does. For many small to medium businesses, as they continue to grow, employing more staff is a necessity and it is therefore vital that the 'right' person is employed. If a business clearly defines what is required, through undertaking a job analysis and preparing a job description and job specification to assist in the recruitment and selection process, they are proceeding along the right path to gaining an employee with the right fit for the business.

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Larger businesses will have established, as part of their functional organisational structure, a Human Resource Management Department. This department is staffed by personnel who are trained and experienced in managing employee-related issues and in providing support for both managers and employees. Human resource managers are responsible for ensuring that the business is properly staffed. Once the required workforce is in place, HR managers must ensure that employees are well motivated and trained, and that their performance is managed and assessed against the requirements of their role and their individual objectives. Human resource managers are referred to as **staff managers** when they offer advice and make decisions about policies, practices and procedures. They may also assist employees, other managers, such as **functional managers**, and the business as a whole. They do not, however, have authority to make decisions as to what work is to be done in other departments or to manage these departments. Human resource managers have staff authority to advise, but not to direct other managers. They hold a **line management** position within their own department as they are directly responsible and accountable for the department working towards its objectives.

staff manager a manager who provides specialist advice or assistance to functional managers

functional manager a manager responsible for just one organisational activity; for example, finance, HRM

line management managers working in a given position within the formal structure of a business, who have authority over subordinates within their area of authority

business strategy the long-term plan of action adopted by a business to achieve its goals and objectives

Human resource management, as a functional area of a business, must consider its external and internal environmental influences. This will assist in determining whether a proactive or reactive **business strategy** needs to be adopted to achieve the objectives of the business.

Figure 4.3 The human resource manager can support and educate those in management and leadership roles within a business.



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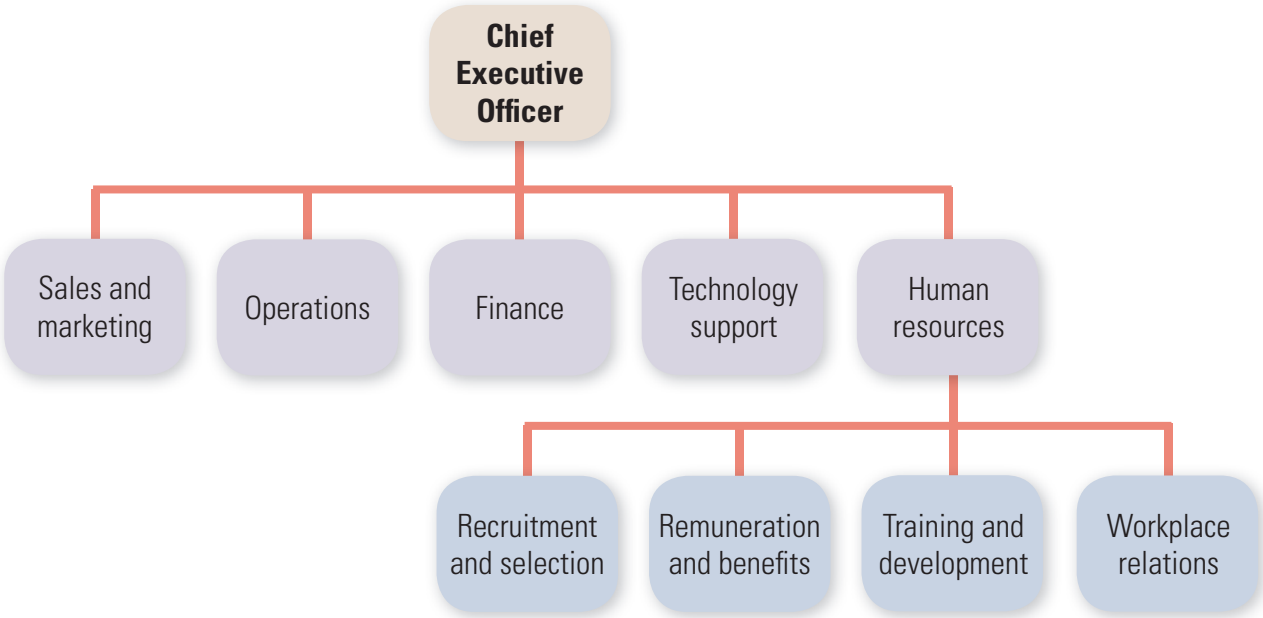


Figure 4.4 Organisational chart showing HRM as a divisional unit, part of a functional structure layout

Employees are the biggest line item expense (cost) for any business, as well as being their most valuable asset. For a business to achieve its objectives of being productive and profitable it is imperative that its staff are performing to their full potential. Numerous studies have shown that when a business sets and closely ties the goals or objectives of an individual employee to the goals of the business and the strategies it needs to undertake, the performance of both the individual and the business improves.

When establishing the objectives or goals for an employee, it is important to ensure that these are established using the *SMART* principle (see Chapter 1) and that the manager and employee meet periodically to ensure outcomes are on track. Regular feedback provides opportunities to clarify expectations, adjusting the level of difficulty of the goal and gaining recognition. As a reminder, when the goals are being set, the following characteristics must be addressed:

- The goals being set are **specific (S)**.
- The goals and their outcomes are **measurable (M)**.
- The goals, while difficult are **achievable/ attainable (A)**.
- The goals are understood and accepted by employees as **relevant (R)**.
- The goals are **time-bound (T)**.



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Figure 4.5 Effective relationships between management and employees are one key to business success, no matter what the size of the business.

management by objectives (MBO) a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.

The individual employee's objectives should then link to those of their team, department and the business as a whole. This approach when adopted business-wide is referred to as **management by objectives (MBO)** and was developed by Peter Drucker in 1954. If a business adopts MBO, it fits in perfectly with the goal-setting motivation theory and can also be used as a performance appraisal method. Adopting this management system requires managers and subordinates at every level within the business to set objectives relevant to their area of responsibility and to have their performance (outcomes) measured against these. MBO provides a way to focus the efforts of all members of the business on achieving both their personal objectives and those of the business. It creates a very close relationship in the way employees are being managed with the achievement of business objectives.

Employees who have a clear understanding of their individual goals and how they relate to the business become more engaged with their work as they feel they are making a direct contribution to its success. As employees feel a greater sense of ownership in what the business is trying to achieve, they will then often make suggestions to management on ways to improve processes that will result in **productivity** gains. An additional positive flow-on effect of engaged workers is a lowering in the rate of absenteeism. Workers who are happy with their job and the work environment are less likely to take unexplained days off work. It also makes it easier for a business to create a performance-related pay system linked to both the achievements of an individual employee and their team.

productivity a ratio of the output of goods and services to the inputs used to achieve that output

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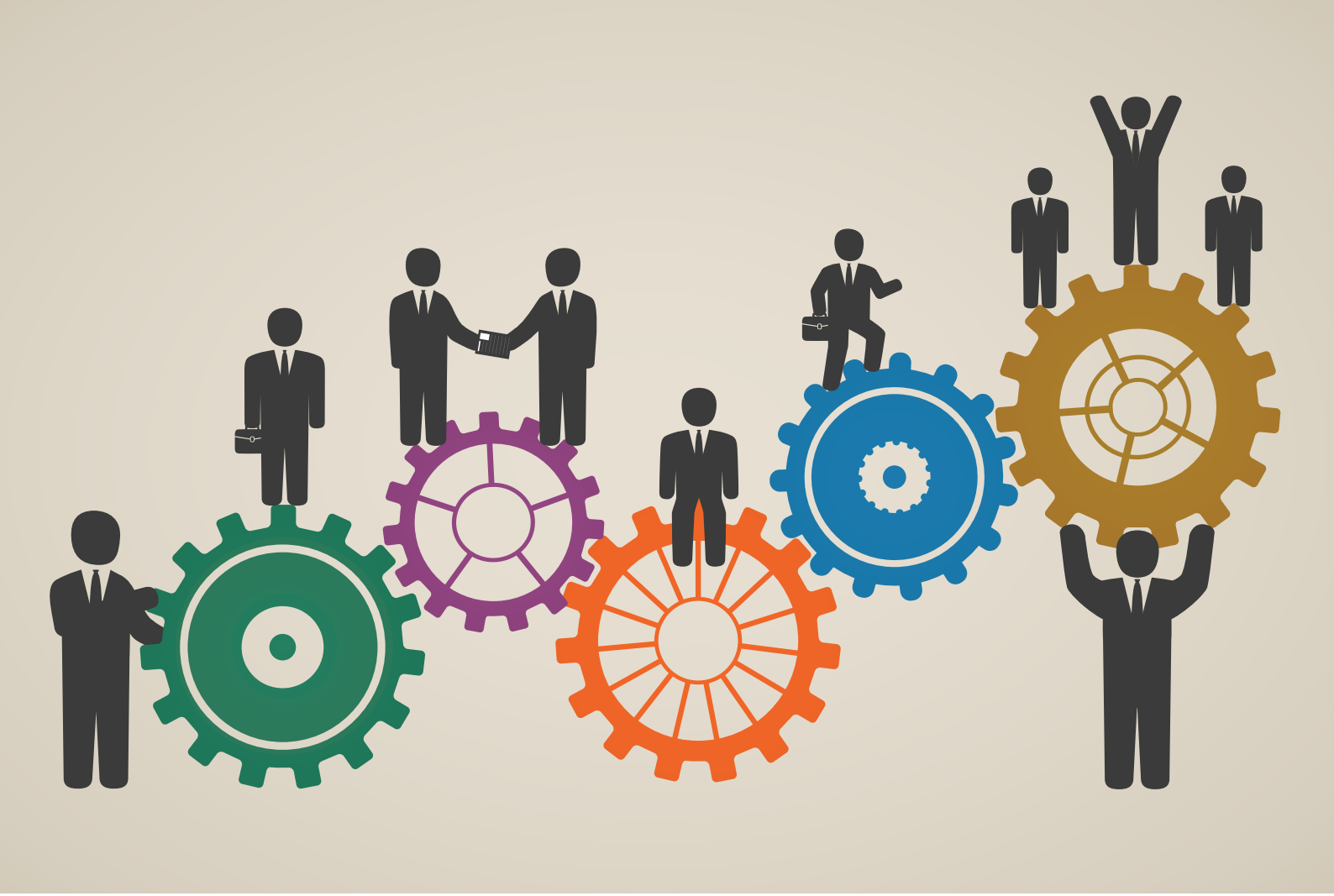


Figure 4.6 A motivated and engaged employee's impact on a business; that is, performance and productivity up, staff turnover down

employee engagement the commitment employees feel towards a business based on identifying with the values, vision, objectives and the way the business operates

Employee engagement can come from a feeling of connection with the business. An important step in developing this feeling of connection is by ensuring employees know and understand the goals and vision of the business and how their own job contributes to the attainment of these goals. Ensuring that open communication is practised, so employees know what is actually happening and that their opinions are sought, will help them to feel trusted and respected. These actions will all work towards establishing and maintaining the sense of connection. In addition, it is important that employees are performing their roles in well-designed jobs and are undertaking meaningful work. Opportunities for career development and advancement can also be factors that act to engage employees.

A manager's role in any business is to establish and promote a climate that motivates their subordinates to do the best possible job. It is one of the biggest challenges that managers will face. Creating well-designed jobs for employees will act as a motivating force while increasing the level of job satisfaction and, ultimately, productivity. Well-designed jobs motivate by:

- creating a sense of achievement in the meaningful work/tasks to be undertaken
- providing a level of control over the work and how it is to be undertaken
- establishing a level of workload and deadlines that are challenging, but manageable
- creating an opportunity to use current skills and expand skill levels
- clearly defining roles and responsibilities
- management having trust in employees' ability to perform the job
- establishing a remuneration package and stable work environment.

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4.2 Motivation

motivation the willingness of a person to expend energy and effort in doing a job or task

Motivation for individuals is the drive to achieve an objective. For a business, motivation needs to be seen as the willingness or drive to exert high levels of effort to reach business objectives, while also satisfying the individual employee's need to achieve.

A manager's role is largely seen as getting things done through other people. For a manager to gain the greatest work performance from their subordinates, they must understand what motivates them. It is the function of human resource managers (as staff managers) to support and advise line managers in their endeavours to achieve this. This is done by ensuring that jobs are correctly designed, a system of rewards is in place, an appropriate management style is being used, a positive corporate culture exists and the business is structured to allow employees to work to their optimum level. Understanding motivation is complex.



Key principles of three theories of motivation

It is part of a manager's role to provide the right organisational (business) climate to enhance their subordinates' motivation. If a manager can show subordinates that by working to achieve the objectives of the business they are in fact helping to achieve their own personal goals, then a very powerful motivating force has been found. Being familiar with key motivation theories can provide insight into human behaviour. Such insight is essential when attempting to motivate employees towards increasing performance. Three such theories are: Abraham Maslow (Hierarchy of Needs), Locke and Latham (Goal Setting Theory) and Lawrence and Nohria (Four Drive Theory).

Hierarchy of Needs (Abraham Maslow)

Hierarchy of Needs Abraham Maslow's representation of human needs in the form of a pyramid or hierarchy

Abraham Maslow developed a five-stage **Hierarchy of Needs**. Maslow (1908–1970) was a humanistic psychologist who believed that within all individuals exists a hierarchy of five needs, which can be arranged based on the importance of these needs. An employee's level of need in one level of the hierarchy must be substantially satisfied before moving up to the next level, which is then activated as a motivator. Once that level of need is satisfied, it is no longer effective in motivating an employee's behaviour. Table 4.1 outlines the five levels in the hierarchy, what they mean and how they relate to human resource management practices.



Figure 4.7 Psychologist Abraham Maslow

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Figure 4.8 Maslow's five-step Hierarchy of Needs

Level in hierarchy	What it means	Relevance to managing employees (HRM)
1 Physiological needs	Basic needs such as food, water, air, shelter and other physical requirements	• Providing the employee with a job • Payment for job; i.e. wages or salary
2 Safety needs	Security and protection from physical and emotional harm	• Creating job security • Ensuring the employee has safe and healthy work conditions (OH&S, sexual harassment and bullying policies in place) • Superannuation and insurance • Competent, consistent and fair management
3 Social needs (love and belonging)	Affection, affiliation, acceptance and friendship in peer groups	• Friendly work associates • Organised employee activities; e.g. birthday celebrations, meals, parties, sporting activities
4 **Self-esteem** needs	External needs of status, recognition and attention Internal needs of self-respect, autonomy and achievement	• Job title and task responsibilities • Good performance management rating • Merit rewards (bonus) • Promotion • Pay linked to status of position • Prestigious workplace facilities
5 **Self-actualisation**	Ultimate need: personal growth, achieving own potential, self-fulfilment, and using own creative talent	• Challenging work allowing for creativity • Participative decision-making • Opportunities for personal growth and advancement

self-esteem the feeling of satisfaction that someone has in themselves or their own abilities

self-actualisation the sense of fulfilment or highest level of human needs determined by Abraham Maslow (Hierarchy of Needs)

Table 4.1 Maslow's Hierarchy of Needs and its relationship to managing employees (HRM)

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ACTIVITY 4.1

Complete the self-test based on Maslow's Hierarchy of Needs. Though the statements are really aimed at adult professionals, they can still apply to your life as a senior student.

Read the following five statements and tick those that apply to you. There are no right or wrong answers. Then match the statements you ticked to the needs in the interpretation below.

A I am successful in life and/or work, and I'm recognised by my peers for being so. I'm satisfied with the responsibility and role that I have in life and/or work, my status and reputation, and my level of self-esteem.

B I am part of, and loved by, my family. I have good relationships with my friends and colleagues – they accept me for who I am.

C My aim is self-knowledge and enlightenment. The most important thing to me is realizing my ultimate personal potential. I seek and welcome 'peak' experiences.

D Aside from dieting and personal choice, I never starve through lack of food, nor lack of money to buy food. Aside from the usual trauma of moving house, I have no worry at all about having somewhere to live – I have 'a roof over my head'.

E I generally feel safe and secure – job, home, etc. – and protected from harm. My life generally has routine and structure – long periods of uncontrollable chaos are rare or non-existent.

Interpretation:

1 Physiological needs – D
2 Safety needs – E
3 Love and need to belong – B
4 Esteem/validation/affirmation needs – A
5 Self-actualisation needs – C

Maslow said that needs 1–4 are deficiency motivators and are generally satisfied in order when the previous need is fully or partially satisfied. If ticked above, they are probably satisfied. If a need ceases to be satisfied there is less or no motivation to strive to maintain or satisfy higher level needs. Need 5 is a growth motivator and if ticked this is likely to be a focus of motivation. This test is based on Maslow's Hierarchy of Needs.

(Source: see Business Balls website © Alan Chapman 2003.)

Goal Setting Theory (Edwin Locke and Gary Latham)

Goal Setting Theory a process theory of motivation that focuses on the process of setting and attaining goals

In the late 1960s, Edwin Locke and Gary Latham developed the **Goal Setting Theory** when they began looking at the importance of goal setting in motivation. It was noted that the setting of goals leads to increased effort, task focus and persistence of individuals. This 'open theory' relating to motivation has been adopted by businesses as an approach which can be used to motivate an individual employee or a team. When establishing the goals for an employee, the SMART principle is used: namely, the goals have to be specific, measurable, achievable, relevant/realistic and time-bound. Adopting this principle ensures clarity of the goals being set. Once the goals are set as a result of discussion between the manager and the employee, it is imperative that managers provide feedback to the employee on progress towards goals achievement. Regular feedback provides opportunities for expectation clarification, adjusting the level of difficulty of the goal and gaining recognition.

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Research shows that nearly every modern business is currently using some form of goal-setting program. A variety of these exist, namely:

- management by objectives (MBO)
- management information systems (MIS), a computer-based system which provides managers in a business with the tools to organise, manage and evaluate their department
- benchmarking, the process where the practices and performance of a business are compared to the best practice of other companies or an industry standard

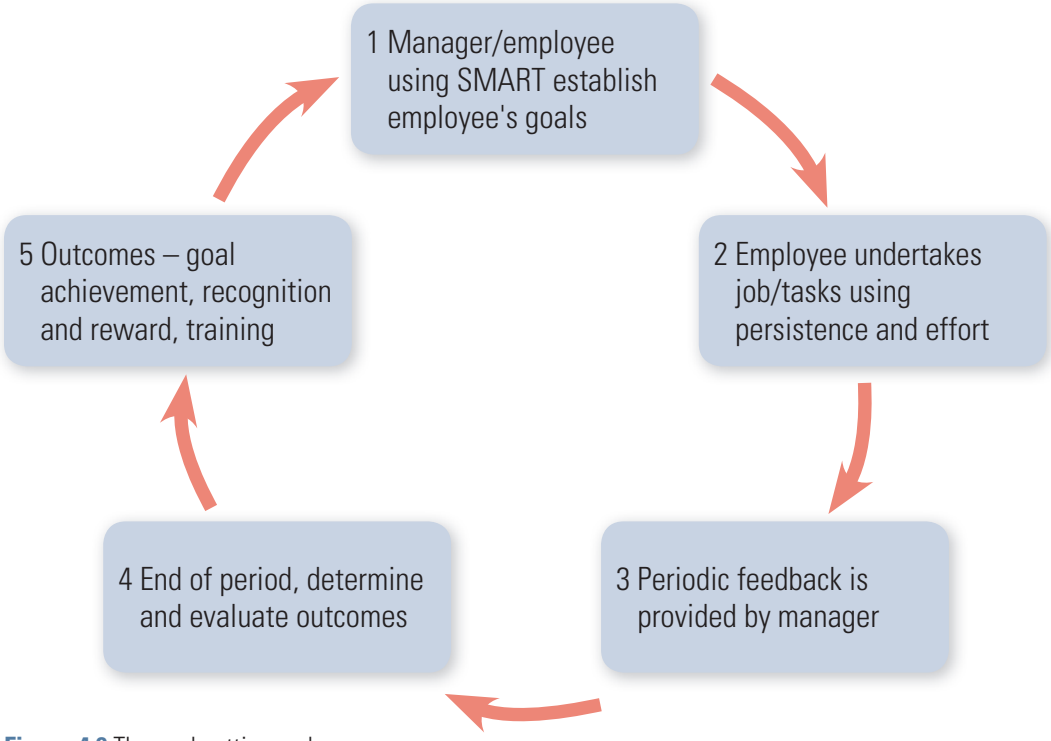


Figure 4.9 The goal-setting cycle

Figure 4.10 Goal setting for individuals and the team can be a motivating force.



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- stretch targets, goals that are high and difficult for an employee to achieve. Achieving these targets confirms the employee has gone beyond satisfactory completion of their work tasks.
- strategic planning, the process undertaken by a business to define its strategy or direction. It involves making decisions about what resources need to be allocated to pursue this strategy.

The value of goal setting is so well recognised that entire management systems have goal-setting basics incorporated into them. Application of the goal-setting approach involves participation between managers and subordinates at every level of the business and is directly linked to the formalised operations strategy of the business. Research based on the Goal Setting Theory has found that:

- Companies that ensure that all employees have closely-aligned goals enjoy much higher levels of financial success.
- Employees are energised and empowered when they are involved in the goal-setting process. Higher levels of buy-in into the organisational goals might lead to behavioural changes, for example, higher productivity and lower staff turnover.
- Specific team goals improve group cohesion and collaboration and tend to be more successful in increasing productivity than individual goals.
- While clear goals, which are understood and adopted by the employee, require less supervision from the manager, monitoring and feedback is crucial to the successful achievement of these goals.
- Goals set with a 'learning outcome' urge employees to demonstrate their newly acquired skills and competence, and they often lead to higher performance levels than performance goals.

Four Drive Theory (Lawrence and Nohria)

Four Drive Theory theory that identified four basic motivational needs (need to acquire, bond, defend and comprehend)

In 2001, Paul Lawrence and Nitin Nohria of Harvard Business School developed the **Four Drive Theory**, which identified four basic motivational needs that act to drive people and which result from our evolutionary past. The level to which these needs are satisfied directly affects our emotions and behaviour.

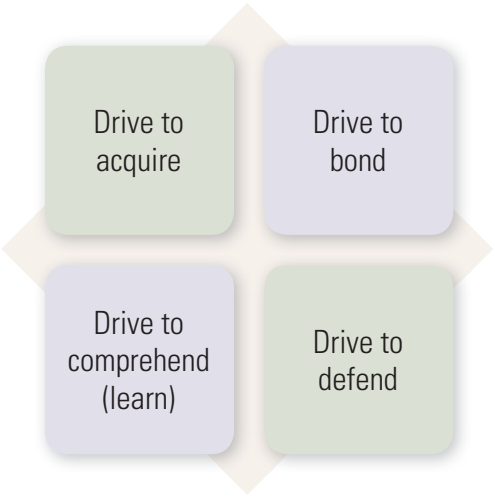


Figure 4.11 The Four Drive Theory

The four drives (needs) are:

1 **The drive to acquire.** This can be regarded as both a basic and complex need. For instance, basic as it relates to an individual gathering the necessities for survival (e.g. clothing, housing, money); complex when it relates to the acquiring of status, accomplishments and power (e.g. promotion and a private office).
2 **The drive to bond.** We all need to find, connect and seek others whether it is family, peer groups or being part of a business, association and our nation. Motivation receives an enormous boost when employees feel proud to belong to a business, but this plummets if the business does something to betray this feeling of pride.
3 **The drive to comprehend (learn).** People need to make sense of the world around them and contribute to it. This directly links to why learning and work both engage and energise employees.
4 **The drive to defend.** This stems from our natural instinct to defend ourselves, family and friends, property and our accomplishments, beliefs and ideas against external threats (i.e. fight–flight response). This drive directly links to people's fear and resistance to change.

This theory is based on an understanding of human psychology, and the relative strength of each drive therefore differs between individuals over time. Should one drive dominate, an imbalance can occur between the personal and business outcomes. For instance, should an employee's drive to acquire become too strong this may lead to a situation of

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being over-competitive and then negatively impacting on their work team. In addition, the four drives act independently of each other, unlike Maslow where you must satisfy one level to move to the next one in the hierarchy. You cannot, however, substitute one drive for another. For instance, paying employees a large wage or salary will satisfy the drive to acquire, while it will ignore their drive to bond.

Businesses and their managers need to understand that to satisfy these four drives (needs) of their employees requires action by an individual manager to find out the needs profile of each of their subordinates, as well as developing and implementing business-wide policies. Table 4.2 sets out examples of actions that can be used to motivate employees while satisfying these four drives.

Drive	Business	Manager
1 Drive to acquire	Develop a reward system clearly linked to performance. Offer best performers opportunities for advancement. Make sure that the reward system discriminates between good and poor performers.	Reward an individual employee with praise, recognition and interesting assignments.
2 Drive to bond	Develop and maintain a culture within the business that engenders a strong sense of 'us' and 'team spirit' (**esprit de corps**), collaboration, openness, friendship and pride.	Encourage teamwork within their area of responsibility.
3 The drive to comprehend (learn)	Job design is the key to satisfying this need. Employees will be motivated to perform if they are given challenging jobs that encourage them to grow, learn, explore, and stimulate their curiosity. This results in lower levels of staff absenteeism and turnover. On the other hand, dead-end, monotonous jobs act to demoralise employees and lead to higher levels of absenteeism and staff turnover.	Managers should ensure that jobs within their area of responsibility are meaningful, interesting and challenging.
4 The drive to defend	Creating fair, trustworthy and transparent processes within the business relating to the following areas will help to overcome fear and the need to defend: grievance resolution, decision-making, performance management, work–life balance and staff welfare.	Managers should assist their subordinates to overcome their fear of and resistance to change by using the participative management style, which encompasses open communication, delegation and decentralised decision-making.

Table 4.2 Actions to be taken by businesses and managers to satisfy the four drives

esprit de corps a feeling of pride and mutual loyalty shared by the members of a group

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ACTIVITY 4.2

Motivation quiz

1 Jocelyn owns and operates a small shoe shop employing four full-time and six part-time staff. She knows that Eric, one of her full-time employees, is now earning sufficient money to satisfy his basic survival needs. She has also noted that he has made many friends among his fellow workers. Jocelyn is wondering what factor (from the list below derived from Maslow's theory) she should now consider to motivate Eric to enhance his job performance and commitment to her business.

- **a** self-esteem
- **b** self-actualisation
- **c** safety
- **d** benefits and variable pay

2 The idea of taking into account the 'time' perspective issue attributed to goal setting is best addressed in:

- **a** the SMART principle
- **b** creating complex tasks
- **c** providing feedback
- **d** setting goals

3 Which is *not* a category of needs identified by Maslow?

- **a** self-actualisation
- **b** safety
- **c** power
- **d** esteem
- **e** social

4 Which of these is *not* a category of needs identified by the Four Drive Theory?

- **a** drive to bond
- **b** drive to exist
- **c** drive to acquire
- **d** drive to learn
- **e** drive to defend

5 Which of the following is *not* a characteristic of effective goals?

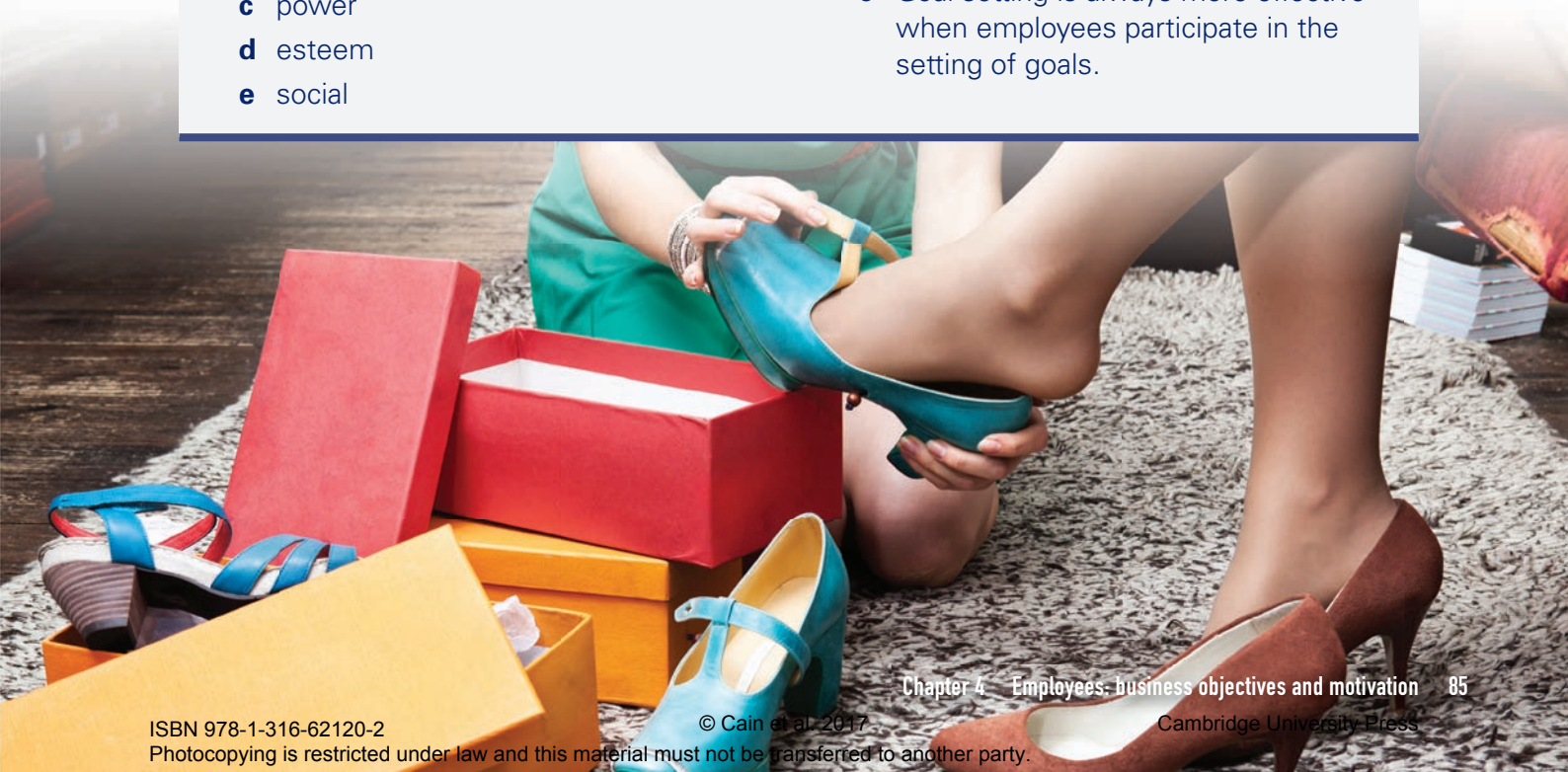
- **a** specific
- **b** relevant
- **c** challenging
- **d** ambiguous
- **e** feedback

6 Effective goals:

- **a** are usually set with participation by the manager and subordinate
- **b** are specific rather than general
- **c** are challenging rather than easy
- **d** are all of the above
- **e** are only 'a' and 'c'.

7 Decide whether these statements are true or false.

- **a** A satisfied need does not motivate.
- **b** The need for esteem appears at the top of Maslow's Hierarchy of Needs.
- **c** Goal setting is always more effective when employees participate in the setting of goals.



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4.3 Motivation strategies

It is important that businesses, and in particular their managers, ensure that the knowledge gained from the various motivation theories is turned into practical applications for the business. Business performance and productivity will always be mediocre without motivated employees. Strategies that can lead to a more motivated workforce are: establishing a performance-related pay system, career advancement, investing in training, providing support, and sanction. Threat, while recognised as a motivation strategy, is one that is not favoured as having a lasting positive effect.

Performance-related pay

performance-related pay a financial reward to employees whose work has reached or exceeded a set standard

Performance-related pay (PRP) is a financial reward to employees whose work is considered to have reached a required standard or is even above standard. This financial reward could also be given to the work group to which the employee belongs. The increased performance could be recognised and rewarded in a monetary form of sales commission, profit sharing, employees being allocated shares (in a company) or a bonus being paid.

There are several common features of performance-related schemes:

- A performance **appraisal** is undertaken (usually annually) where an individual employee's performance is reviewed against agreed objectives or performance standards.

appraisal any method of evaluating the performance of an employee against pre-set targets

- At the end of the appraisal period, employees are then sorted into performance level groups – met objectives, exceeded objectives, did not meet objectives – which then acts to determine what the reward (if any) will be.
- The method of reward will vary; however, it usually involves the employee receiving a cash bonus and/or an increase in their wage or salary or some other form of financial reward.

Performance-related pay can act as a reward and motivator to an employee whose performance has exceeded their job-related objectives, but is at the top level of the pay scale in their job ranking. They may be given a cash bonus or a share of profits, to recognise their efforts during the past year. Performance-related pay can act as a motivator for employees whose work directly relates to their output, which can be quantitatively measured. If their output has exceeded the predetermined standards both in number and quality of outputs they will receive additional pay for the extra output. A disadvantage of this is that in the quest for additional pay, safe work practices may be sacrificed. For instance, production lines may be set to run at unsafe speeds and protective safety equipment not used. Many businesses now operate on a team-based structure. If a business decides to reward one individual team member only, this may then have a negative impact on their teamwork. Similarly, if one member of the team is not seen to be pulling their weight, to equally reward all team members can lead to friction within that work group.



While performance-related pay is designed to motivate employees and to align their efforts more closely to the aims and objectives of their employer, studies have found that there is not one type of performance pay scheme that is universally successful or in fact unsuccessful. Performance-related pay, while not suitable for every business or work group, still does have a place as a strategy for motivating and rewarding employees. For instance, performance-related pay may be more successful as a motivator for employees who are junior in rank in the business. Applying Maslow's theory, these junior staff members would be motivated by their physiological needs being met in the form of rewards. However, as an employee becomes more highly paid, rewards become less important as other needs further up the hierarchy, such as esteem and self-actualisation, act to motivate.

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Advantages	Disadvantages
Provides a direct financial reward to an employee	Reduces equality in employees' pay
Tangible way of recognising achievement	Generates a 'performer' culture
Encourages goal setting to be not too hard	Acts to demotivate if goals set are too challenging
Can improve productivity levels	Difficult to measure productivity levels in some types of jobs Danger of sacrificing safety and quality in order to increase quantity
Rewards best performance	Short-term focus – quantifiable goals

Table 4.3 Advantages and disadvantages of performance-related pay

Career advancement

Promoting employees to positions that include more responsibility or authority is a motivational tool that can be used by managers. The possibility of job promotion meets the following motivational criteria for an employee:

remuneration the amount a person is paid for performing work tasks (i.e. job); it can take the form of cash and/or fringe benefits, it can be referred to as a wage or salary

salary an agreed amount of money paid to employees for their labour during a year, expressed as an amount per annum

wage the monetary reward for labour, paid on a weekly basis, calculated by multiplying the hourly rate by the number of hours worked

- The desire for increased **remuneration** – for an employee this could include increases in **wages/salary** and possibly other fringe benefits such as a company car or an expense account. This will provide the employee with a more comfortable lifestyle.
- Job experience – the employee will be motivated by a more challenging on-the-job experience.
- Ambition and status – the promotion motivates employees by appealing to their sense of ambition and status. If an employee seeks independence, authority and management skills and competencies, they will be motivated to position themselves for a promotion.

promotion an employee is moved to a higher-level position within the business

Employers understand that **promotion** can act as a long-term motivator. For employees to feel confident that they are working for a business that will allow them to be promoted and advance in their career, that business must have in place policies and procedures to administer promotions and manage the job/career advancement of its employees. The promotion policy should be openly and transparently based on the reward and recognition of the individual merit and performance of employees. It should also include opportunities for staff development through training, job enrichment, job enlargement and job rotation.

Motivational theorists all recognise that providing challenge in a person's job acts to motivate that individual. Businesses understand this, and in an effort to prepare employees for their 'next step up the ladder' they provide opportunities related to job design. These opportunities work to increase the skills base of employees while also developing them personally. Examples of these opportunities are:

- **job enlargement** – this involves making a job bigger or more challenging by combining various operations at a similar level (horizontal)
- **job enrichment** – this involves vertically expanding the job by increasing its depth of content as well as the degree of control the job holder has over their work. By creating a more challenging job, workers are required to use their full capabilities and gain personal growth.
- **job rotation** – workers are moved between different jobs to increase the variety of work and also to create a more flexible workforce. This acts to broaden the knowledge an employee has of the business and its operations and is used as a motivational tool for workers. Job rotation lessens the likelihood of boredom and disengagement.

job enlargement making a job bigger or more challenging by combining various operations at a similar level (horizontal)

job enrichment making a job more challenging so workers are required to use their full capabilities and gain personal growth

job rotation workers are moved between different jobs to increase variety of work and create a more flexible workforce

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Advantages	Disadvantages
Acts as a reward to employees for their past performance	Potential to demotivate employees overlooked for promotion
Helps the business to retain its talented employees	Employee promoted beyond their capability level
Retains intellectual property and continuity of knowledge	Creates feeling of unrest if promotion was not warranted or not carried out in a fair and equitable manner
Opportunity to increase employee's contribution to the business	Employee's level of productivity may decrease as they now have broader responsibilities due to their job being enlarged

Table 4.4 Advantages and disadvantages of promotion as a motivator

Investment in training

Employees gain skills and job knowledge through training and job experience. It is important to train employees in the skills they need to perform their job tasks properly. Training and coaching provide ideal opportunities for employees to feel that they are contributing to business outcomes. By creating an environment that encourages learning and sharing knowledge, training positively assists in team building and the overall health of the business. Creating this positive culture will aid in motivating employees.

Training, however, will not lead to employees being motivated if the business has inefficient systems which result in poor performance, or when its equipment and other resources are not up to the standard required to perform a job. Similarly, if employees have been placed in jobs for which they are unsuitable, training will not act to motivate them. In addition, if a business invests in training with the intention of it acting to motivate employees, but then does not follow through by providing the employees with suitable opportunities to use the newly acquired skills, those employees could become demotivated and leave the business.

Advantages	Disadvantages
Indicates the business values its employees and the contribution they make to the business	Expensive investment if business has inefficient systems, non-performing equipment
Demonstrates that the business wants to advance the careers of its employees	If employees are in wrong jobs, it won't act to motivate them
Creates a sense of loyalty and attachment to the business	If up-skilled employees are not given opportunities to use these skills it leads to disenchantment
Creates a positive corporate culture	May highlight areas in which the business is lacking

Table 4.5 Advantages and disadvantages of training

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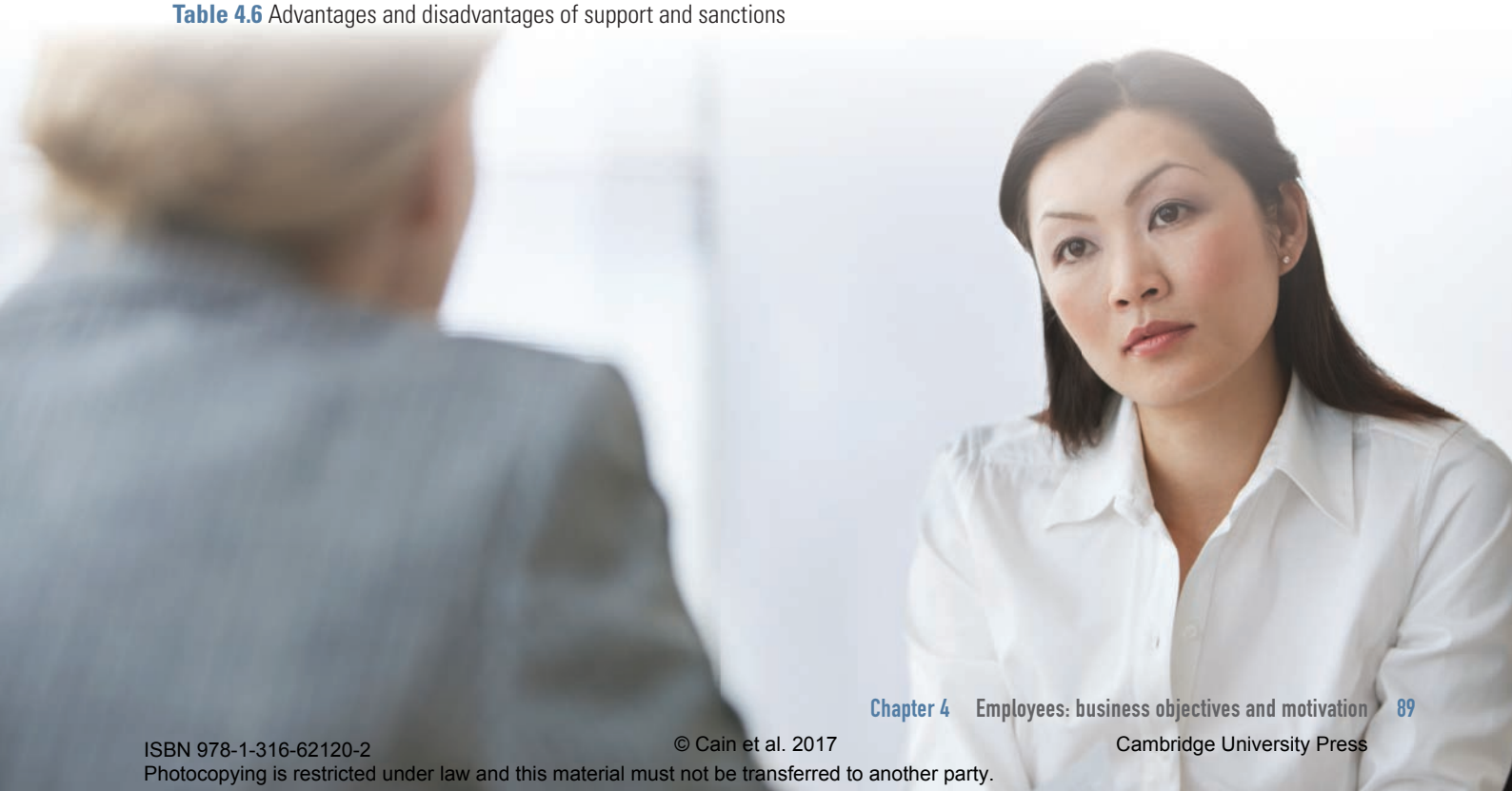
Support and sanction

For employees of any business, an important motivating factor is the feeling that they are supported, encouraged and acknowledged for their work performance and have job security. These employees will be more motivated to work diligently and identify with the mission (purpose) of the business, as they feel proud of the business they work for and are committed to the values and beliefs of the business. This positive atmosphere and corporate culture has the added benefit to the business of motivating employees to continue working at that business. In addition, frequent and positive communication between managers and subordinates can act to motivate and reinforce the good performance of employees. If problem areas arise, prompt discussions with the affected parties will help to prevent these problems from escalating.

Sanctions have been a traditional way of motivating employees to increase their performance. While financial bonuses (reward) recognise good performance, penalties (sanctions) can be specified as a condition in contracts of employment relating to work performance. Not all employees are motivated by the content and challenge of their job or the prospect of career advancement. Some employees can actually be motivated by discipline. Often these employees will not take their work tasks seriously until they are threatened with some form of sanction for their unacceptable or below par (inadequate) performance. Sanctions can take the form of a reprimand, disciplinary counselling or, as a last resort, dismissal. Evidence has shown that sanctions and coercion can work but only in the short term and rarely are able to turn an under-performing employee into a high-performing one. Once the employee has received their sanction, they should be encouraged to respond to positive motivators to encourage increased performance.

Advantages	Disadvantages
Employees who feel supported by their manager and the business are likely to work more diligently	Support needs a positive corporate culture at the business
Providing support can act as a long-term motivator	Support relies on manager exercising good communication skills
Sanctions can act as a motivator	Imposing sanctions acts only as a potential short-term motivator
Support does not cost the business money	

Table 4.6 Advantages and disadvantages of support and sanctions



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CASE STUDY 4.1

Virgin Australia



Figure 4.12 Virgin Australia is known as the place Australians would most like to work.

Virgin Australia employs 10 800 people around Australia and ranks number 79 of the top 2000 companies in Australia. Virgin is known for its strong workplace culture and was voted most attractive employer nationwide at the 2015 Randstad Awards.

Virgin Australia adopts a numbers of motivation strategies to not only make it a desirable company to work for but also one with a positive culture where employees are loyal and staff turnover is kept to a minimum.

Virgin Australia offers its employees:

- Competitive pay – linked to continuous reviews of market labour rates
- Performance based rewards – remuneration reviews linked to performance
- Team member development – we have our own in-house learning and development centre
- Diverse career paths – the sky is the limit … set your own course
- Travel – travel benefits for you, your family and your friends (domestic and international)
- Engagement surveys – we listen to you, as a team member, and take action on the issues that matter to you
- Employee Assistance Program – we have 24-hour support for our team members and their families
- Paid parental and adoption leave – 10 weeks paid maternity, two weeks paid paternity and three weeks paid adoption leave

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- Study assistance – we offer support for study linked to development
- Salary sacrifice options – options such as vehicles and superannuation
- Global brand – tap into the diverse offerings of the Virgin group

The financial rewards for Virgin Australia staff members are continuously reviewed and improved wherever possible. In 2015 the company announced a significant pay rise for its staff ranging from 4% to nearly 10% over a four-year period. Staff are also given longer rest periods between time away from home, $100 extra payments for working on public holidays and special leave in cases of family problems and domestic violence, all factors that help staff feel valued and supported.

Employees are encouraged to perform at a high level and in return they are rewarded and recognised for the work they do. Non-monetary rewards include offers, industry specials and access to the company's Team Travel program.

To better train and provide development and progression for its staff Virgin Australia partnered with Careers Australia to launch a program for Ground Operations. The program offers training across different skills, from technical and safety skills development to customer service. Taking this approach and investing in training and development for staff members improves quality standards both in the air and on the ground while also giving purpose to its employees.

Virgin Australia's CEO John Borghetti feels very strongly about staff motivation and believes Virgin encourages its staff to always look ahead and think about what is next for them within the company. He also believes in engaging staff in corporate events so that they become more engaged within the workplace as a whole.

(Source: Virgin Australia website, 'About us'.)

Analysis

1. Outline the motivation strategies used by Virgin Australia.
2. Identify the factors that make Virgin Australia a desirable place to work.
3. Suggest why long rest periods and special leave would be so important to this line of work.
4. Explain why 'looking ahead' would keep staff motivated.
5. Identify how Virgin Australia collects feedback from staff.
6. With reference to Virgin Australia, describe the relationship between employee motivation and increased performance.

ACTIVITY 4.3

Form groups of four to six students.

1. Create a list of strategies (actions) the group believes could act to motivate employees to improve their individual performance at work.
2. After 10 minutes, compare the suggested strategies of the group with those of other groups in the class.
3. Select the top five strategies and evaluate them based on their originality and effectiveness.

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Chapter summary

- Business objectives are the stated, measurable targets of how to achieve business aims. They involve a business creating plans, strategies and actions to achieve these objectives.
- Employees are important stakeholders of any business and need to be properly managed. If a business, regardless of its size, has a positive relationship with its employees, the employees will assist in the growth and success of the business.
- The SMART principle should be used when managers and employees establish the individual objectives/goals for an employee. They should be Specific, Measurable, Achievable, Relevant/Realistic and Time-bound.
- Management by objectives (MBO) is a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.
- A greater level of employee engagement is experienced by employees who can identify with the values, vision, objectives and how a business operates.
- Managers must be able to establish and promote a climate that motivates their subordinates to do the best possible job.
- Managers who can create well-designed jobs for employees will not only act to increase their motivation, but also their level of job satisfaction and productivity.
- Motivation for individuals is the drive to achieve an objective. To get the highest level of work performance from a subordinate, a manager must understand what motivates them.
- Motivation theories include Abraham Maslow's Hierarchy of Needs, Locke and Latham's Goal Setting Theory, and Lawrence and Nohria's Four Drive Theory.
- Maslow's Hierarchy of Needs: The five levels of needs are 1 physiological, 2 safety, 3 social, 4 esteem and 5 self-actualisation. An employee's level of need in the hierarchy must be substantially satisfied before moving to the next higher level which acts as the motivator. Managers need to understand how to apply these psychological needs into actions that can be implemented at the workplace.
- Locke and Latham's Goal Setting Theory states that the setting of goals leads to increased effort, task focus and persistence of individuals. The goals should be established using the SMART principle. Applying this theory acts to motivate both individuals and work teams due to its focus on setting goals, undertaking regular feedback and measuring the actual performance.
- Lawrence and Nohria's Four Drive Theory is based on four motivational needs which act to drive people. The four drive needs are: acquire, bond, comprehend and defend. The relative strength of each driver differs between individuals, as well as over time; however, it is not wise to allow for any major imbalance between them. It is important that both the business and individual managers recognise and implement the various actions that can be taken to satisfy the four drives.
- Motivation strategies that can lead to a more motivated workforce are: performance-related pay, career advancement, investment in training, providing support and sanction.
- Performance-related pay (PRP) is a financial reward given to employees or a work team who have reached or exceeded the pre-set standard.
- Career advancement can act to motivate employees who want increased remuneration, a more challenging on-the-job experience, are ambitious or seeking more status. A job can be made more challenging for an employee by enlarging its scope, enriching its depth or rotating employees to other departments to gain an increase in their depth of experience.
- Investment in training can create a greater sense of attachment, loyalty and commitment by an employee. If subsequently the business is not able to provide the employee with a suitable job

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or equipment, then this will not act as a motivator.

- Employees who feel supported, encouraged and acknowledged for their work performance will be more motivated to work diligently.
- Sanctions in the form of penalties or discipline can act to motivate some employees in the short term. Once the sanction has been received, the employee should be encouraged to respond to positive motivators to improve their performance.

Chapter summary questions

1 Define the following terms. Use each term in a sentence to demonstrate your understanding.

a motivation

b performance-related pay

c the drive to acquire

d the SMART principle

2 Identify the correct order of Maslow's Hierarchy of Needs:

a safety, physiological, social, esteem, self-actualisation

b physiological, safety, social, self-actualisation, esteem

c physiological, safety, social, esteem, self-actualisation

d physiological, social, safety, esteem, self-actualisation

3 Locke and Latham are responsible for:

a human relations theory

b Four Drive Theory

c Goal Setting Theory

d management by objectives

4 Career advancement is regarded as a motivational strategy. Identify and explain two actions a business can take directly related to work tasks (job) that would act to motivate an employee.

5 Discuss this statement: 'If a business wants to prosper the only thing they need to concentrate on is ensuring their workers are motivated'.

Examination preparation

1 Compare the ideas of the following motivational theories: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria).

(6 marks)

2 Using one of these motivational theories, identify and explain two strategies based on that theory which a human resource manager could implement to motivate staff, resulting in job satisfaction and increased work performance.

(4 marks)

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CHAPTER 5

Training, performance management and termination management

Key terms

- competency
- competency-based training
- development
- dismissal
- Fair Work Commission (FWC)
- outplacement
- performance appraisal
- performance management
- redundancy
- resignation
- retirement
- retrenchment
- self-evaluation
- training
- training (learning) needs analysis
- unfair dismissal
- voluntary termination

Overview

This chapter explores the importance that training, both on the job and off the job, plays in assisting both employees and the business to achieve their objectives. It also reviews the advantages and disadvantages associated with both forms of training. Managing the performance of employees during their employment relationship requires a variety of strategies to be used. For these strategies to be effective they are usually interlinked and continuous in their application. Managing termination represents the end of the employment relationship and can be brought about by the actions of either the employer or the employee.

Key knowledge

Students will examine training as one of the essential factors involved in both effectively managing employees and ensuring the business objectives are achieved. A range of performance management strategies are also examined to identify how they assist in the achievement of both business and employee objectives. Managing the termination phase of the employment cycle will be studied, together with identifying employee entitlements upon termination and transition issues. Students will learn about:

- Training options, including on-the-job training and off-the-job training, and the advantages and disadvantages of each.
- Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation.
- Termination management, including retirement, redundancy, resignation and dismissal, entitlement and transition issues.

What's ahead

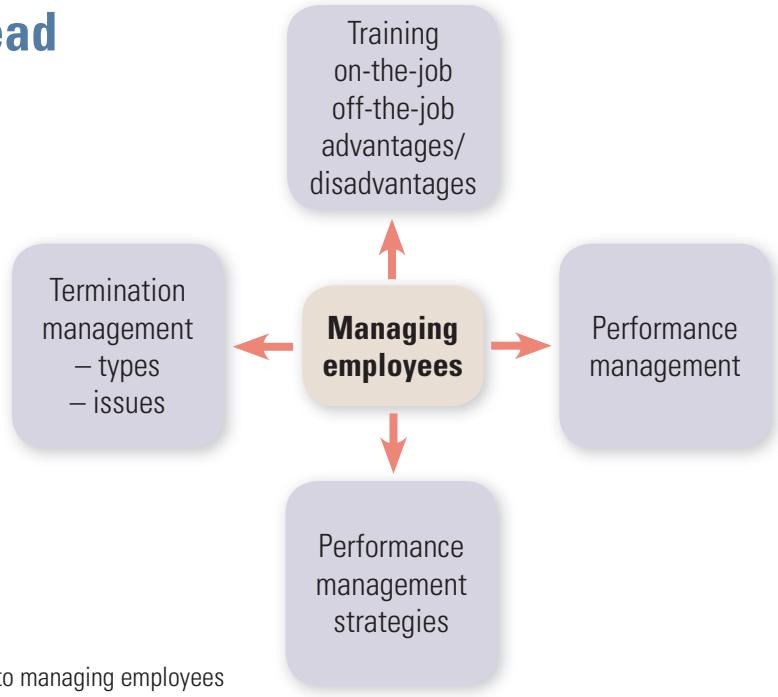


Figure 5.1 Approaches to managing employees

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5.1 Training

In the fiercely competitive global economy, the skills and knowledge of employees is a vital resource to any business. Employees need not only to gain technical skills for their current working environment, but need to have the ability to be innovative to help the business succeed in the future. Businesses now must concentrate on providing a learning environment for their employees. Employees new to a business may need to be trained in how to use equipment or computer software packages. Experienced workers need to extend or update their skills and knowledge so that they can perform better in their current roles while also becoming familiar with new products, policies and initiatives. According to a study conducted by the Australian Industry Group, nearly two-thirds of Australian companies use training and development to drive their innovation (see the AI Group 'Skilling for Innovation' report for more information).

training the process of providing staff with the knowledge or skills required to do a particular job. It can include a range of different activities such as on-the-job training to learn a new software package or how to maintain a new piece of equipment.

Training is the process of providing an employee with the knowledge or specific skills needed to do a job.

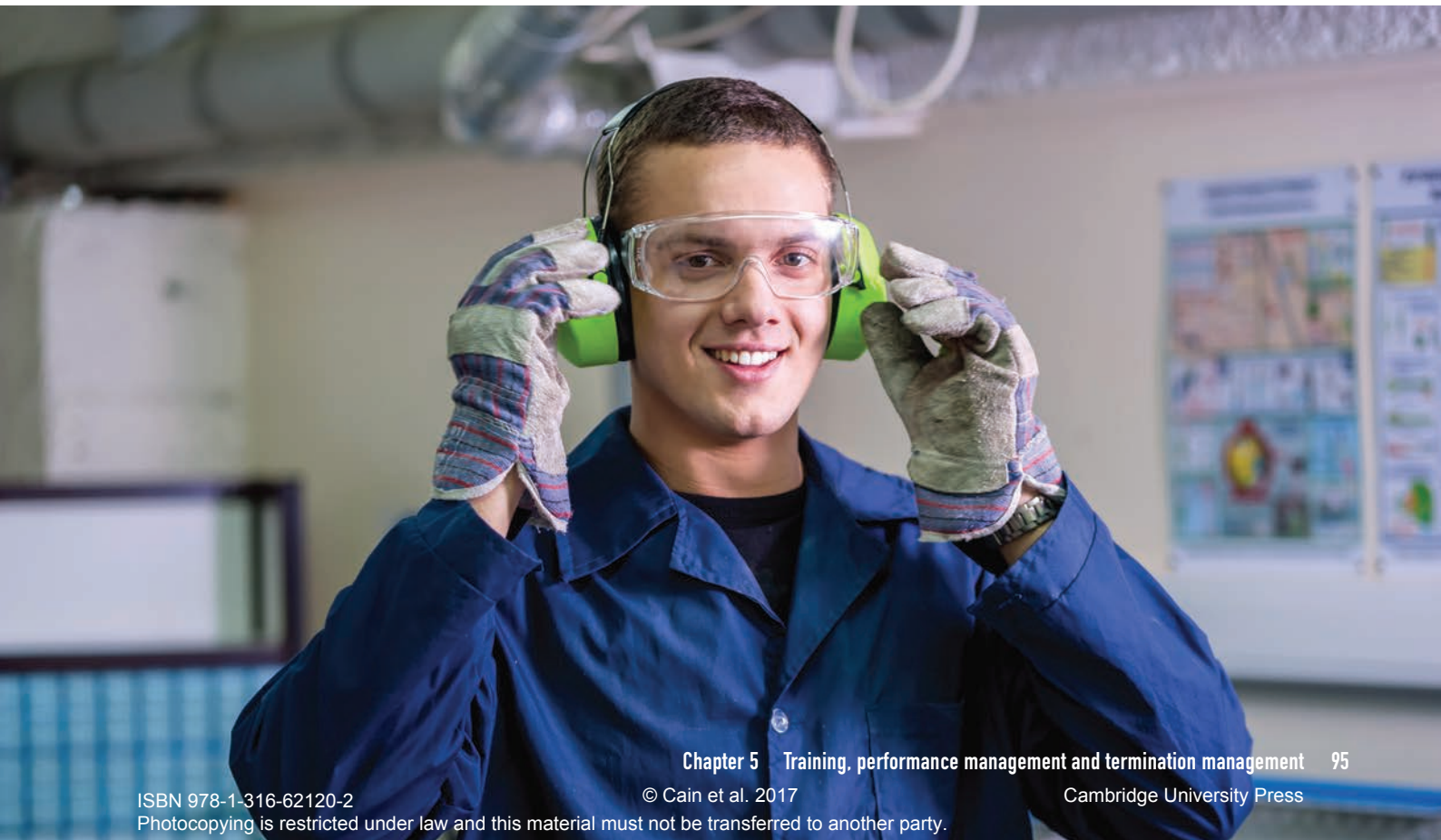
Development usually refers to preparing employees, often at management level, for longer-term opportunities. Development has a more general focus (not necessarily job-specific) than skills training. A business may decide that a manager needs to develop communication skills or improved conceptual and analytical skills to assist in the role of managing subordinates. Development could also extend to supporting an employee while they complete a postgraduate university course.

development process designed to build up skills necessary for future work activities and responsibilities

Employers see training as a valuable investment in their human resources assets. Depending upon the size of the business, it can be the role of the business owner or (in larger sized businesses) the role of the human resources manager to carry out **training (learning) needs analysis** to diagnose present shortcomings and future challenges facing the business.

training (learning) needs analysis diagnoses the current shortcomings and future challenges that need to be overcome through use of a training program

Figure 5.2 Training should be tailored to meet the needs of the individual.



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Three levels of analysis are used to determine what is required:

- **Organisational analysis** – the entire business is analysed to determine where training activities should be concentrated to best achieve its strategic objectives. For instance, if the business was to totally change its computer network and software applications, this could require a large-scale training program.
- **Task analysis** – the individual jobs and the tasks required to perform that job are analysed to determine whether any specific skills are required for successful performance.
- **Person analysis** – each employee is assessed to determine what kind of training is required. This analysis results in training and development objectives being established.

Identification of a need may arise when a new employee joins the business. They may need immediate training in how to use technology and complete work processes.

Performance appraisal of an existing employee may determine that an individual needs training in any of the following areas:

- basic skills of grammar, maths, safety, reading, listening and writing
- awareness; for example, equal employment opportunity, workplace diversity, risk management, sexual harassment and bullying
- technical, job-specific skills; for example, computer software course, product knowledge, OH&S compliance, customer service
- interpersonal skills, including communication, human relations, leadership, employee relations, collaboration and teamwork
- broader-based conceptual skills; for example, strategic planning, operational planning, organisational design and policy skills, decision-making skills.

Training and development may be conducted either at the workplace (on the job) or off the job in a more formal training environment. Apprenticeships combine both on- and off-the-job elements, with employees learning from experienced employees at work and attending regular classes outside work hours at a TAFE or other similar organisation.

competency-based training training that focuses on the ability to perform specific tasks to a predetermined standard

competency the ability to be able to perform a task

Competency-based training has also become popular, where units of **competency** can be individualised (or customised) by the registered training organisation to meet the actual needs of that workplace.

On-the-job training methods include:

- coaching, tutoring/mentoring that is provided by a supervisor or work colleague
- role modelling – this style of training imitates the behaviour of a manager/supervisor or work colleague
- apprenticeship – the employee learns from an experienced person
- participation in planned work activities, special assignments, committees
- job rotation within or between departments to provide broader experience and greater familiarity with the entire business and its operations.



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Advantages	Disadvantages
Employee is being trained on the specific tools or equipment they will be using in their role.	Training may be sub-standard if mentor/coach is not trained in how to act in this role.
They are able to practise under the supervision of more experienced staff acting as their coach or mentor.	Training may not be adequately planned and too disjointed in its delivery, making it difficult for the employee being trained to grasp some of the concepts.
Trainer/coach/mentor is on hand to train or guide them when needed. Not having to wait for an external training session.	Mentor/coach, while competent in some job skills because of many years' experience in performing that task, may then try to cram too much information into one training session. This may become counter-productive for the employee who needs to acquire these skills at a slower pace.
Training is tailored to meet specific needs of the business.	Bringing an external trainer into the workplace who, while they have knowledge and skills, may be completely unfamiliar with the equipment and working practices at that business.
Employee is actually working while learning and is therefore being productive.	Trainer may pass on bad habits to the trainee, often without realising they are doing so.
Cost-effective way to train as not paying for outside course provider.	

Table 5.1 Advantages and disadvantages of on-the-job training



Figure 5.3 An experienced employee coaching a colleague

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Off-the-job training methods include:

- information presentation style – lectures are held for a large number of attendees with little opportunity for interaction. Material is presented in written and visual format.
- information processing style – specialists from inside and outside the business are involved in conference and discussion groups. Greater interaction takes place and the trainee's input is sought. E-training (online) has also gained popularity, with employees being able to complete coursework both at work and in their own personal time.
- simulations – visual games and case studies are used to model real-life situations.
- role plays – for example, a manager may be asked to play roles on both sides (manager and union official) of an industrial dispute.



Figure 5.4 Employees at an information session

Advantages	Disadvantages
A wider range of skills can be taught/learned.	More expensive if paying course fees, transport and possibly accommodation.
Learning from specialists and experts.	Lost working time and potential output from employees while on training course.
Less opportunity to be interrupted by workplace issues – therefore able to focus on the course/training program.	Employees with these new skills/qualifications may leave the business to gain a job elsewhere, possibly for higher pay.
Provides opportunity for networking and information sharing with employees from other businesses or peer groups with similar requirements.	

Table 5.2 Advantages and disadvantages of off-the-job training

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ACTIVITY 5.1

1 Explain the differences between off-the-job and on-the-job training.
2 Outline how a business determines whether or not an employee needs training and what kind.
3 Justify the reason businesses should view training as an investment.

CASE STUDY 5.1

Training at ALDI

German supermarket chain ALDI opened its first store in Australia in 2001, and quickly found its niche as a discount supermarket in a market dominated by the two established big retailers, Coles and Woolworths. Today, ALDI has over 400 stores in Australia's eastern states, and more than 4000 worldwide. In Australia, ALDI has secured around 11% market share, and plans to open stores in both South Australia and Western Australia. The company's 'ALDI Academy' has instigated a full range of training courses within its stores for the following staffing positions:

- Retail Assistant
- Casual Stock Replenisher
- Assistant Store Manager
- Store Manager.

In addition, training programs are provided for employees in the areas of warehouse and logistics, corporate offices and graduates.

Analysis

Go to the Training section of the ALDI website and answer the following questions.

1 Go to the 'Assistant Store Manager' training program.
   a Outline the training program offered for this position.
   b Identify the personal qualities ALDI associates with the job holder.
   c Describe the rewards ALDI offers to the job holder.
   d Describe the challenges associated with this role.
   e Analyse whether you believe the in-store training offered by ALDI is comprehensive and would equip the job holder for career advancement.
2 Choose another position either from Warehouse and Logistics or Corporate and complete parts a–e above for this position.



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5.2 Performance management

performance management the system used to improve organisational, functional and individual performance through linking the objectives of each; it assesses all phases of the employment cycle

Performance management can be described as the practice undertaken by a business to drive decisions about employee performance, remuneration, promotion, transfers, disciplinary procedures, training and development needs and, ultimately, terminations.



It is vital for businesses, regardless of their size, to conduct a continuous process of evaluating how effectively employees are fulfilling their responsibilities and contributing to the attainment of the objectives of the business. The results of individual employees will help the relevant group or business unit to achieve its objectives. Similarly, the group must perform to meet its functional objectives in line with the organisational objectives and ultimately the overall mission statement of the business.

This overall performance management approach demonstrates the strategic link and key elements that must exist between organisational objectives and an individual employee's objectives and performance. If performance management is implemented correctly with specific objectives being tied to the strategic (long term) and operational plans, then performance outcomes for the business should experience a quick improvement. Communication should improve as management and employees are now frequently talking, consulting and agreeing on objectives. As management and employees will be conducting frequent reviews, more realistic objectives can be acted on and levels of performance attained. Finally, performance appraisal measures an individual's performance and is an important component of the performance management system of a business.

To achieve an effective performance management system, a range of strategies are used.



Figure 5.5 Performance management can be a difficult thing to monitor. DILBERT © Scott Adams. Used by permission of UNIVERSAL UCLICK. All rights reserved.

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Management by objectives

The setting of goals is the first stage of the performance management system. One form of goal setting used by business is management by objectives (MBO). Adopting this approach involves participative goal setting whereby the appraiser (manager) and the appraisee (subordinate/employee) jointly determine a set of employee objectives/goals at the beginning of the review period. These objectives/goals relate to either their key areas of responsibility or the tasks required to be undertaken to perform their job. As the employees are actively involved in the goal-setting activity, they are more likely to understand their responsibilities and the results expected of them. Consequently, they should then understand how their activities relate to the achievement of their team, business unit and the overall goals of the business. The mnemonic SMART is used when setting the objectives of the individual employee: **S**pecific: the objectives must be well-defined to inform employees exactly what is expected, when and how much. **M**easurable: provide milestones to track progress and motivate employees towards achievement. **A**chievable: success needs to be attainable (with a bit of a stretch) by an average employee. **R**elevant: the goals should focus on how they will give the greatest impact to the overall corporate strategy. **T**imely: any goal should be grounded within a time frame to create a sense of urgency for completion.

To be effective, management by objectives also needs managers to be aware of their employees' progress in achieving their objectives. This will allow them to offer assistance or additional resources or training if targets are likely to be missed. Employees also need to track their own progress against objectives, as this will then assist in the appraisal process. At the end of the review period, performance is then measured against those objectives. Assessment is made on what the employee has achieved and accomplishments are rewarded.

Adopting the MBO approach has the advantage of both manager and employee being aware of expected objectives and standards. To be entirely effective as a method or strategy, it needs to be adopted throughout the entire business.

Appraisals

Performance appraisal is the process for measuring of an individual's performance over a set period. Traditionally, performance appraisal is used to report on the past performance of both the business and the individual employee, in that it:

performance appraisal measures how well an employee has performed their job, provides feedback to employees and establishes plans to improve performance

- tells the business whether its staff selection devices have been effective
- gauges whether current training and development programs have been effective
- shows where training, development and motivational programs are required
- provides the basis for decisions relating to remuneration and reward, promotion and dismissal.

If a business wants to increase its performance, it should also adopt a dynamic approach such as a performance management approach, which has an emphasis on the growth and development of the employee and the setting of new objectives.

The evaluation or appraisal of the individual employee does not always have to be formal or system-based. It can be performed on an informal basis by giving either oral or written feedback on a particular activity or task conducted by an employee. This immediate evaluation or review is a management tool that, if used judiciously and objectively, will either act to affirm and encourage, or to rectify an undesirable situation before it gets worse. Formal or systematic appraisal usually occurs on an annual basis or on the completion of a major work project or assignment. If appraisal is incorporated into the performance management system of a business, it shifts the focus away from just being an annual event to an ongoing process. Conducting more frequent reviews allows for objectives to be adjusted or modified to reflect changing business conditions and encourages employee development.



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Self-evaluation

self-evaluation an employee self-assesses both their performance related to their predetermined objectives and their contribution to their business team or unit

Most businesses that adopt a performance management system incorporate **self-evaluation** as the first step in the review process. The employee is asked to self-assess both their performance related to their predetermined objectives and their contribution to their business team or unit. Often the results of the self-evaluation differ from those of their manager. This difference then creates an opportunity for two-way communication between the parties.

Both the business and the employee can gain from undertaking self-evaluation. For the employee it provides them with an active and engaged role in the performance management process and assists them to be more driven to achieve their targets. It allows the manager the opportunity to gain insight into the employee's perceptions of their performance, while also gaining an understanding of the strengths and weaknesses that the employee perceives they have. The employee in their self-evaluation could reflect on how their performance may improve with additional training. Similarly, the manager may identify that the employee would benefit from additional training or a development program.

Employee observation

If a business wants to gain a broader, more objective perspective on the performance of an employee, their strengths and areas for development, they may implement a 360-degree multisource feedback process. This can help overcome any bias, tension or a clash of personalities that may currently exist between a manager and employee. Feedback is collected on a regular basis from people who work with the employee such as other managers within the business, the employee's work colleagues, subordinates and often customers. To assist businesses wishing to adopt employee observation as one of their performance management strategies, computer software has been developed to automate the 360-degree feedback process.

The above strategies form part of the annual performance management cycle undertaken by a business. Set out in Table 5.3 is an example of the timeline for a performance management cycle based on a calendar year. The timing of the cycle differs between businesses as some may base their cycle on a financial year.



Date	Activity
November/ December	Manager and team members agree on their collective objectives.
December/ January	Each employee submits individual objectives to their manager for discussion and agreement; objectives are recorded and signed by both parties.
May/June	Mid-year checkpoint; progress is reviewed and the parties may agree on any corrective action required.
September/ October	Self-appraisal by employee of their objectives.
October/ November	Manager responds to employee's self-appraisal and the parties discuss short-term development needs. Employee is entitled to respond to manager's comments.
November/ December	Manager presents a performance rating of each employee to his/her own manager, recommendations regarding possible pay increase, bonus/incentive entitlements.
December	Manager reports back to employee with final performance rating, remuneration level and incentive compensation (if any). Employee has access to all written comments made by the manager and has the right to respond to them.

Table 5.3 Example of an annual performance management cycle

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5.3 Termination management

Termination results from decisions made by either the employer or the employee to end the employment contract and relationship. The relationship may be terminated either by voluntary or involuntary methods. It is important that both the business (as employer) and employee manage this process correctly to ensure legal compliance while also acting in an ethical manner. It is recommended that businesses create a termination management policy and procedures manual, which will incorporate provisions from relevant awards, collective agreements and legislation. Employers are required to keep employment, payroll and termination records for seven years following an employee's termination.

Regardless of whether the employee is leaving the business voluntarily or involuntarily, the employer is required to provide the employee with a detailed statement of their termination entitlements. This statement sets out calculations relating to: ordinary pay owed, severance pay (if any), long-service leave owed and tax deducted. If requested by the employee, the employer must also provide a Statement of Service. As many employees have in their possession company property (e.g. company car, mobile phone, computer, etc.), a checklist of these should be issued to the employee to ensure that everything is returned by the end date of their employment. In addition, the employee's access to the business computer network should be terminated and business documentation and correspondence should remain as the property of the business.

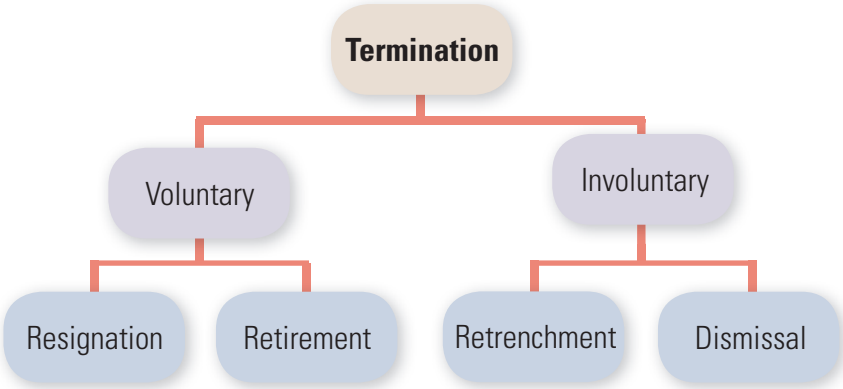


Figure 5.6 Termination types

Voluntary termination methods

One form of **voluntary termination** is **resignation**. This occurs when an employee voluntarily decides to leave a business, generally to take up another position. The employee should notify the employer in writing of their intention to resign and advise the ending date, commonly referred to as their period of notice. This period, if not stated in either an award or collective agreement, normally reflects the length of a pay period (e.g. two weeks or a month). An exit interview is recommended, as it helps to highlight if there are any problems in that business which have led to dissatisfaction causing the resignation and which need to be rectified by the business.

voluntary termination when an employee decides to leave a business either by resigning to go to another job or by retiring from the workforce

resignation voluntary termination that occurs when an employee leaves the workplace, usually to go to another job

retirement voluntary termination where an employee decides to leave the paid workforce

Another form of voluntary termination is **retirement**, which occurs when an employee decides to leave the paid workforce. It is not only associated with 'older' employees; it can also be younger employees who have decided they no longer wish or need to work. The employee must advise their employer in writing of their intention to retire. While a period of notice must be given by the employee, it often happens that the end date is negotiated between the parties, such as at the end of a calendar year or financial year. For long-serving employees this allows the business to make arrangements for a farewell function to be held to recognise the employee's contribution to the business.

Regardless of whether the employee is resigning or retiring they are entitled to receive from their employer their accrued entitlements, such as payment of untaken annual leave and long service leave.

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The impact of employees voluntarily leaving a business can be felt in the following ways:

- loss of talent
- cost of replacement
- decline in morale
- breakdown of effective teams
- productivity could increase or decrease (depending on the effectiveness of the departing employee).

Involuntary termination methods

retrenchment occurs to an employee whose employment is terminated by reason of his or her job becoming redundant

redundant an employee is redundant when there is no longer sufficient work for the employee to perform

Retrenchment is usually linked with redundancy. **Redundancy** is termination of employment by an employer because it no longer needs a particular job to be done by anyone or needs fewer people to do that particular type of job. Redundancies commonly arise when:

- an employer is closing part or all of its business
- an internal organisational restructure occurs
- new technology is introduced
- a business is relocating
- the duties of a position are reallocated to other employees
- the business merges with or is acquired by another business.

It is essential that if a business is retrenching an employee it is carried out in a lawful manner. The employer should notify the employee in writing of the reasons for termination, the period of notice, the actual date of termination (i.e. end date) and the redundancy payment that the employee will receive. Legislation sets out the minimum notice periods that must be provided by an employer to an employee.

Employee's period of service	Period of notice
Not more than 1 year	1 week
More than 1 year to not more than 3 years	2 weeks
More than 3 years but not more than 5 years	3 weeks
More than 5 years	4 weeks

Table 5.4 Minimum notice periods according to the *Fair Work Act*

'To be retrenched' is the expression used to describe what occurs to an employee when their job becomes redundant. In these circumstances, employees are also entitled to severance or redundancy payments as their dismissal is based on commercial and economic conditions. The National Employment Standards (NES) set out the scale of redundancy payments. Employees may also be entitled to additional payments if these have been negotiated as part of their collective agreement.

Length of service	Number of weeks redundancy pay
Less than 1 year of continuous service	Nil
At least 1 year but less than 2 years continuous service	4 weeks
At least 2 years but less than 3 years continuous service	6 weeks
At least 3 years but less than 4 years continuous service	7 weeks
At least 4 years but less than 5 years continuous service	8 weeks
At least 5 years but less than 6 years continuous service	10 weeks
At least 6 years but less than 7 years continuous service	11 weeks
At least 7 years but less than 8 years continuous service	13 weeks

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Length of service	Number of weeks redundancy pay
At least 8 years but less than 9 years continuous service	14 weeks
At least 9 years but less than 10 years continuous service	16 weeks
At least 10 years continuous service	12 weeks

Table 5.5 NES scale of redundancy payments

It should be noted, however, that the above scale of redundancy severance payments does not apply to employers with fewer than 15 full-time employees or if a person is a casual employee.



ACTIVITY 5.2

Is this fair and equitable?

For employers with more than 15 full-time employees the redundancy payment for an employee having at least 10 years' continuous service is four weeks less than for an employee who has nine years but less than 10 years' continuous service. The government has based this redundancy pay entitlement on the assumption that the employee would also be entitled to receive payment for long service leave.

1. Discuss whether you believe this is a fair and equitable way to treat a long-serving employee and/or employees who work for a business with less than 15 full-time employees.
2. Suggest how a business could ensure that they are both legally compliant with the NES redundancy payment schedule while also being more generous to their long-serving retrenched employees and/or employees working for businesses, regardless of their size.

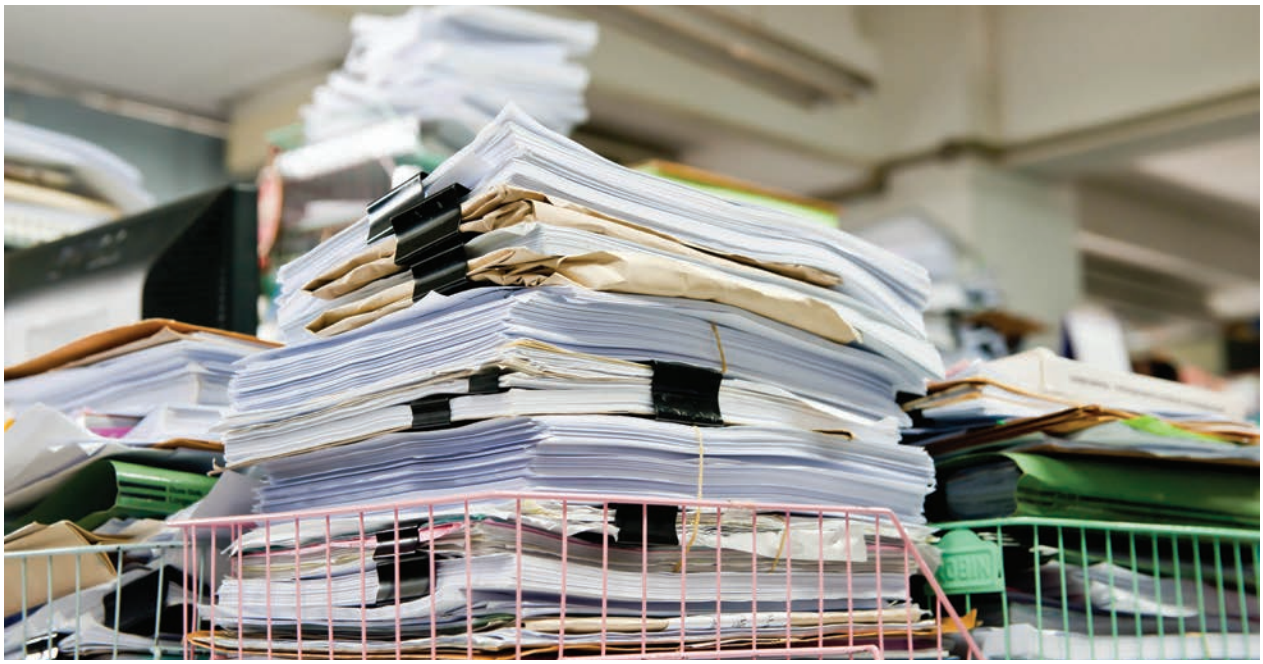


Figure 5.7 Increased workload for remaining staff is a negative effect of involuntary employee departure.

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dismissal termination of an employment contract due to incompetence or indiscipline

Dismissal is often referred to as being fired, given the sack or 'the flick'. The main reasons for dismissal are unsatisfactory work performance and/or illegal behaviour. A business must ensure that it has conducted appropriate counselling and disciplinary procedures before a dismissal takes place. An employer is required to provide an employee with written notice of termination and to provide the reason for such termination. The period of notice is based on the number of years of continuous employment by the employee. For example, an employee who has only worked at the business for a year is required to be given a one-week notice of termination. A long-serving employee (more than five years) is required to be given at least four weeks' notice. A business may also make payment in lieu of notice. This period of notice is waived in the case of summary dismissal (e.g. in the event of an employee's conduct amounting to serious misconduct), where no notice is required.



Figure 5.8 A business must ensure that when it dismisses an employee it is done ethically and appropriately.

The impact of employees involuntarily leaving a business can be both positive and negative on that business, as outlined in Table 5.6.

Positive	Negative
Culling of non-productive employees	Loss of talent
Reduction in costs; e.g. wages and overheads	Decline in morale
Change in structure of the business	Breakdown of effective teams
Removing employee undertaking serious misconduct at the workplace	Increased pressure on performance of remaining staff

Table 5.6 Positive and negative effects on a business from involuntary employee departure

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Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces. The FWC is an independent body that operates under the *Fair Work Act 2009*.

unfair dismissal dismissal of staff that does not follow legal procedures; employees may seek to be compensated or reinstated

An employee is eligible to make an application to the **Fair Work Commission (FWC)** for **unfair dismissal** if they have completed the minimum employment period of one year if the business is small (i.e. fewer than 15 employees) or six months for other employers. In addition, they need to either be covered by an award or collective (enterprise) agreement and earn less than the high-income threshold (from 1 July 2015) of $136 700 per annum. The employee must believe that their employment was terminated for harsh, unjust or unreasonable reasons. The employee needs to apply to the FWC within 21 days after their dismissal takes effect. When considering the case, the FWC must take into account:

- whether there was a valid reason for the dismissal related to the employee's capacity or conduct (including its effect on the safety and welfare of other employees)
- whether the employee was notified of the reason and given an opportunity to respond
- any unreasonable refusal by the employer to allow the employee to have a support person present to assist at any discussions relating to dismissal
- if the dismissal related to unsatisfactory performance by the employee, whether the employee had been warned about that unsatisfactory performance before the dismissal
- any other the factors FWC considers relevant.

The FWC first tries to conciliate the matter by helping both sides to resolve the matter by mutual agreement. If a resolution cannot be reached, an arbitration hearing will be held. Should it be found that the dismissal was unfair, the FWC can order the employer to reinstate the employee (i.e. give them back their job) or compensate them for up to 26 weeks' pay (up to a maximum amount of $68 350). In the period 1 July 2014 to 30 June 2015, 88% of applications for arbitration to the FWC were dismissed on the grounds that the dismissal was not found to be unfair.

Small businesses have different rules for dismissal. If the small business employer follows the Small Business Fair Dismissal Code and can provide evidence of this to the FWC, it provides additional protection for them against unfair dismissal claims.

CASE STUDY 5.2

Sacking over two cartons of beer ruled fair

James Farrelly worked for commercial air conditioning provider Seasonair as their Plumbing Manager. Mr Farrelly was employed by Seasonair from March 2014 until January 2015 before being dismissed by the company for the misuse of a company credit card.

Towards the end of 2014, Mr Farrelly sought permission from his manager, Mr Beatton, to hold a Christmas party for his department. As Seasonair already had plans to hold a party for all employees, Mr Beatton declined Mr Farrelly's request.

Then, on December 14, a charge of $114.98 appeared on Mr Farrelly's company credit card. The purchase was two cases of beer that Mr Farrelly had claimed was a 'supplier gift'. In reality Mr Farrelly had made the purchase for an unofficial work party, going against the instructions of Mr Beatton.

Mr Farrelly's deception went unnoticed for a month, until he was asked by Mr Beatton for a credit card reconciliation statement. At this point the nature of the purchase was revealed, and was raised by Mr Beatton. On January 15, Mr Farrelly replied to an email from Mr Beatton and claimed that the purchase was an accident. He also offered to immediately repay the amount in question in order to rectify the situation.

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CASE STUDY 5.2 continued

The very next day, Mr Farrelly was abruptly called into a meeting with Seasonair management where he was fired on the spot, having been given a week's pay in place of formal notice. The reason given to Mr Farrelly was that he had used his company credit card for unauthorised expenditure and was in violation of a company policy he had learnt about in an induction session in 2014.

Mr Farrelly believed that the reason for his dismissal was not valid, and that the process Seasonair had followed to fire him was procedurally unfair. He lodged a complaint with the Fair Work Commission (FWC) seeking to challenge the business's decision.

During the FWC hearing, presided over by Senior Deputy President Matthew O'Callaghan, both of Mr Farrelly's claims were investigated. On the charge of procedural unfairness the FWC found Seasonair to be in the wrong, stating that Mr Farrelly should have been told in advance what the meeting was about, and have had the opportunity to have someone accompany him.

However, the FWC also recognised that Mr Farrelly had tried to deceive Seasonair about the purchase on the company credit card. The FWC dismissed Mr Farrelly's claim that the purchase was an accident, finding instead that he had tried to cover up the purchase in both December and January.

On balance, the FWC ruled that Mr Farrelly's dismissal was fair. The procedural unfairness of the termination was less significant than Mr Farrelly's breach of company policy. In making this decision, the FWC cited that Mr Farrelly had undergone training on company credit card policy shortly before the incident and would have been well aware of proper procedure, as well as the relatively short time he had been with Seasonair.

Not everyone might agree with the action taken by Seasonair management or the decision by Senior Deputy President O'Callaghan. However, what is important to take away from this case is that organisations need to have correct policies and procedures in place and ensure that all staff members are fully trained on them. Should a breach occur, and disciplinary action be required, management must follow procedure so that their actions cannot be deemed to be harsh, unjust or unreasonable.

Analysis

1 Discuss whether you believe the action taken by Seasonair's Managing Director to dismiss James Farrelly was fair and just or whether he should have only received a warning and been disciplined for his actions.

2 Evaluate whether you believe the decision given by Senior Deputy President O'Callaghan was correct.

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Entitlements

When an employment relationship ends, employees are entitled to receive the following:

- remuneration (wages or salary) still owing
- accrued annual leave
- their long service leave entitlements.

In addition to the above payments, severance or redundancy entitlements will be paid to employees made redundant (retrenched). The amount received by the employee will differ based on their years of service at the business and if they are to receive any additional amounts agreed to in their collective agreement which is above the statutory requirement stated in the National Employment Standards (NES).

In the event that an employee is uncertain or believes they have not received all of their entitlements, they can apply to the Fair Work Ombudsman to investigate and take action to make sure that all their legal entitlements are actually paid. Should an employer be found to not have complied with their obligations they may be liable to a penalty of up to $54 000 for each contravention.

Transition issues

Employees who are retiring from the paid workforce often need assistance to organise their finances (superannuation, pension entitlements and investments). Guidance can also be provided to ease them into their change in lifestyle or to connect them with opportunities to give back to the community through volunteering. Having devoted a great part of their life to paid employment, employees often find it hard to completely cut themselves off from the business world. Some businesses establish ex-employees (generally retired) groups to keep the network going.

Transitioning to retirement has also become popular. It has become a trend for some older employees who still want to continue working to elect to reduce their number of working days or hours as they lead up to their retirement. This can prove advantageous both for the business and the employee. The business can build this into their succession planning and use the skill and knowledge of the transitioning employee to mentor their replacement.

Another transition issue arises when employees are being retrenched. **Outplacement** services can be provided by a business to assist these employees to gain new work and to cope with one of the top five most stressful events that can occur in a person's life. (See HealthStatus website via Cambridge weblink http://cambridge.edu.au/redirect/?id=6938.) Initially, the work involves counselling to counteract the negative feelings associated with retrenchment. It then progresses to skill development in how to look for employment opportunities. The individual employee is assessed on what assistance they require; some may need direction with résumé writing and interview techniques, while others may only need office space and a telephone to assist them in setting up interviews. The costs associated with this service are borne by the (former) employer and in some ways can be seen as rewarding the employee for loyal service. Providing this support also sends a strong message to remaining staff that the business does care about its people.

outplacement specialised assistance given to retrenched employees to assist them to find jobs with other businesses

ACTIVITY 5.3

1. Describe a scenario that may involve a voluntary termination.
2. Describe a scenario that may involve an involuntary termination.
3. Explain the purpose of the Fair Work Commission (FWC).
4. Suggest how a company can make an employee's transition into retirement easier.



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Chapter summary

- Training is the process of providing an employee with the knowledge or skills needed to do a job.
- Training needs analysis is used to diagnose present problems and future challenges facing a business. Three levels of analysis can be used: organisational, task and person.
- Training can be provided on the job with the following methods: coaching, tutoring, mentoring, role modelling, apprenticeship, participation in work activities, job rotation. There are advantages and disadvantages attached to this approach to training.
- Training can be provided off the job with the following methods: information presentation, information processing, simulations, role plays. There are advantages and disadvantages attached to this approach to training.
- Performance management is a practice undertaken to drive decisions about employee performance, remuneration, promotion, transfers, disciplinary procedures, training and development needs and, ultimately, terminations within any business.
- Strategies that can be used with performance management are: management by objectives, appraisals, self-evaluation and employee observation.
- Termination management involves making decisions to terminate (end) an employment contract and relationship with an employee. Alternatively, it can also mean managing the decisions that need to be made when the employee terminates the relationship with the employer.
- Voluntary termination occurs when an employee ends the employment relationship either by resigning or retiring from a business. Involuntary termination occurs when the employer ends the employment relationship due to making the employee's position redundant or dismissing them due to unsatisfactory work performance and/or illegal behaviour.
- Termination, whether voluntary or involuntary, results in impacting a business in both positive and negative ways.
- Legal procedures exist to ensure that workers receive their due notice of termination, entitlements and severance pay if made redundant. Employees have the right to have their termination reviewed by the Fair Work Commission if they believe their employment was terminated for harsh, unjust or unreasonable reasons.
- When an employment relationship ends, employees are entitled to receive any remuneration (wages and salary) owing and accrued annual leave. If they have worked at the business for a long period of time, they may also receive their long service leave entitlements.
- Transitioning for some employees may raise issues on how to manage their finances or lack of social interaction they have experienced while working.
- Outplacement services are often offered by businesses that retrench employees. This assists to counteract the negative feelings associated with the retrenchment while also preparing them for new employment opportunities.

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Chapter summary questions

1 Define the following terms and then use each in a sentence to demonstrate your understanding.
   - **a** unfair dismissal
   - **b** outplacement services
   - **c** transition to retirement
   - **d** training needs analysis
   - **e** remuneration
   - **f** long service leave

2 Describe five benefits a business would gain by training their employees on the job.

3 Implementing a performance management system will assist a business to make decisions which impact upon employees. Identify at least five areas (e.g. promotion) where such decisions need to be made.

4 Setting goals is the first stage of a performance management system. Describe one strategy that satisfies this requirement.

5 Performance appraisal reports on past performance of both the business and the individual employees. Identify which statement is correct – performance appraisal reports:
   - **a** tell the business whether its selection of employees has been effective
   - **b** show where training programs are needed
   - **c** indicate if the current motivational programs are working
   - **d** provide the basis for decisions relating to remuneration and reward, promotion and dismissal
   - **e** do all of the above.

Examination preparation

1 Distinguish between on-the-job training and off-the-job training. Choose two of the following businesses and recommend a variety of training methods that would be suitable for the employees at that business.
   - **a** Toyota dealership
   - **b** School
   - **c** Fruit shop
   - **d** Real estate agency
   - **e** Bank

(6 marks)

2 Explain the main purpose behind a business wanting to undertake an employee observation, using a 360-degree multisource feedback process, when assessing the performance of an employee.

(2 marks)

3 Outline the procedure a business should undertake prior to dismissing an employee for unsatisfactory work performance.

(2 marks)

4 Analyse the impact of voluntary and involuntary termination on a business.

(5 marks)

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CHAPTER 6
Workplace relations

Overview

Workplace relations is crucial to optimisation of business performance. This chapter will examine the role of different participant groups in the Australian system of workplace relations. The process of determining wages and conditions for Australian employees is explored, as is an overview of the dispute resolution process.

Key terms

- arbitration
- collective agreement
- collective bargaining
- conciliation
- deregulated labour market
- dispute
- dispute resolution procedure
- employer associations
- enterprise agreement
- modern awards
- shop steward
- trade union
- union executive/ official
- workplace relations

Key knowledge

Students will be introduced to workplace relations. The Australian system of determining wages and conditions and resolving workplace disputes will be a focus. Students will learn about:

- The roles of participants in the workplace, including human resource managers, employees, employer associations, unions and the Fair Work Commission.
- Awards and agreements as methods of determining wages and conditions of work.
- An overview of the dispute resolution process, including grievance procedures, mediation and arbitration.



What's ahead

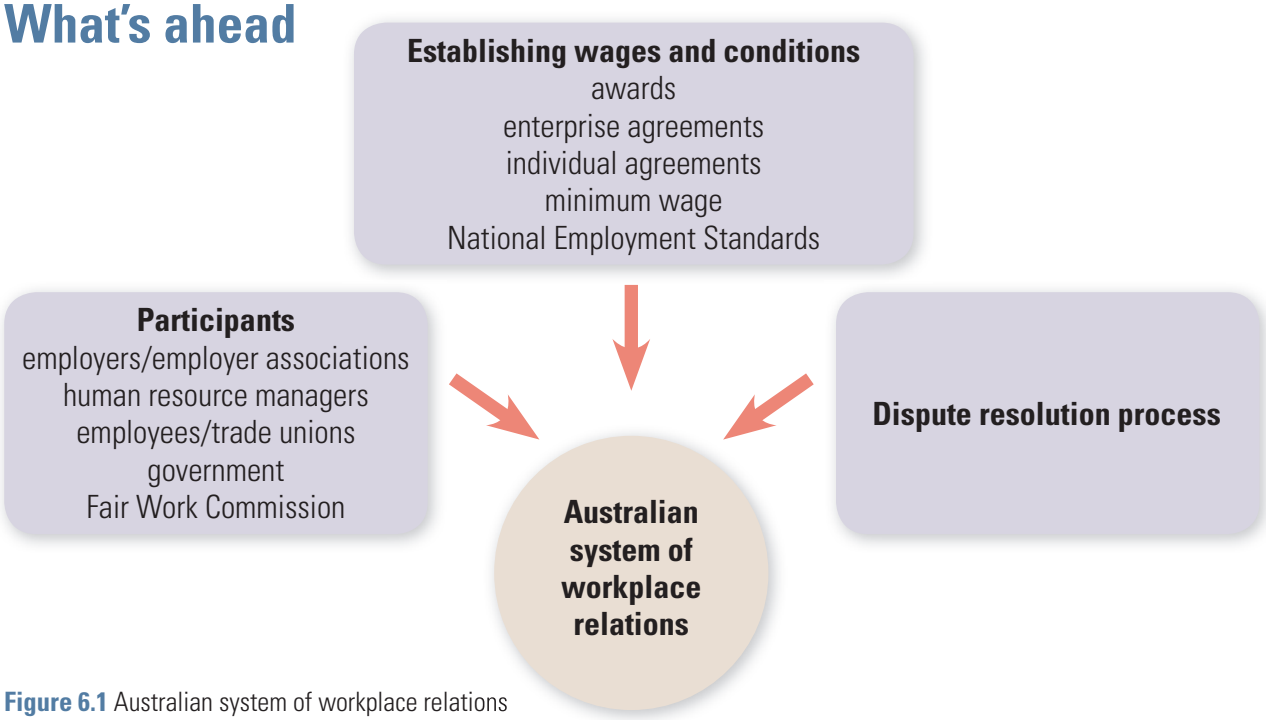


Figure 6.1 Australian system of workplace relations

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6.1 Workplace relations

The establishment of positive workplace relations is crucial to achievement of maximum productivity and therefore competitiveness. Workplace relations aims to achieve optimal working relationships between employees of a business and its management/owners. This will in turn maximise productivity and reduce waste, leading to greater business competitiveness. Overseeing workplace relations is a key responsibility of the human resources department with HR specialists responsible for development and implementation of a workplace relations policy. In Australia, state and federal governments regulate the system of workplace relations.

What is workplace relations? Why is it important?

The terms employee relations, workplace relations and industrial relations are often used interchangeably. Each refers to the relationship and communications shared between employees (and/or their representatives), and their employers (and/or their representatives). Significant aspects of workplace relations include the establishment of wages and conditions of employment as well as settling workplace grievances.

workplace relations historically referred to as industrial relations, workplace relations is concerned with the contractual, emotional, physical and practical relationship between employer and employee

The aim in **workplace relations** is to achieve an optimum working relationship between the employees and management. This in turn will create optimum worker and business productivity levels, leading to greater business competitiveness. The state of workplace relations within a business is therefore crucial to its chances of survival in an increasingly competitive world economy.

Since the 1980s, the Australian system of workplace relations has undergone significant change as governments have sought to inject greater flexibility into the system of determining and regulating wages and conditions for Australian employees. This occurred in an effort to increase the competitiveness of Australian industry. The consequence of significant reform over the past 25 years is that Australian workplaces now rely far less on legalistic, third-party intervention both when establishing wages and conditions for employees and during the resolution of industrial **disputes**. Legislative changes have created a more **deregulated labour market** where employers and employees determine wages and conditions at each workplace via **collective bargaining**. Dispute resolution now usually occurs via direct negotiation between employers and their employees.

dispute industrial disagreement between employees and employers

deregulated labour market where aspects of the employee–employer relationship are not subject to government control and regulation

collective bargaining the process by which wages, hours, rules and working conditions are negotiated and agreed upon by a union with an employer for all the employees collectively whom the union represents



Figure 6.2 Traditionally, employees and employers have tended to argue over the division of the spoils of profits. Each saw the other as an adversary.



Figure 6.3 The current workplace relations model aims to see employees and employers working together as a team to make the organisation more competitive and profitable.

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Workplace relations involves the total relationship and interplay occurring between employers and employees regarding all aspects of their working relationship, either through direct dealings and negotiation or via the use of an intermediary, such as a trade union or employer association.

Good workplace relations enhance workplace productivity through development of motivated, effective and highly skilled employees.

Basic cause of disputes between employers and their employees

Employers and their employees usually have different viewpoints as to how profits generated through their productive efforts should be shared or distributed. Employers wishing to promote business growth seek capital reinvestment in the business and payment of dividends to shareholders, while employees tend to seek better pay and working conditions. It is really about how the 'pie' is to be divided up. Government taxes on wages and profits further influence the distribution of wealth.



Figure 6.4 Traditionally, employer/employee disputes have centred upon how the 'profit pie' will be distributed or divided between them.

6.2 Participants in Australian workplace relations

To gain an understanding of workplace relations, it is important to be aware of the current key participants (stakeholders) and the role each plays.

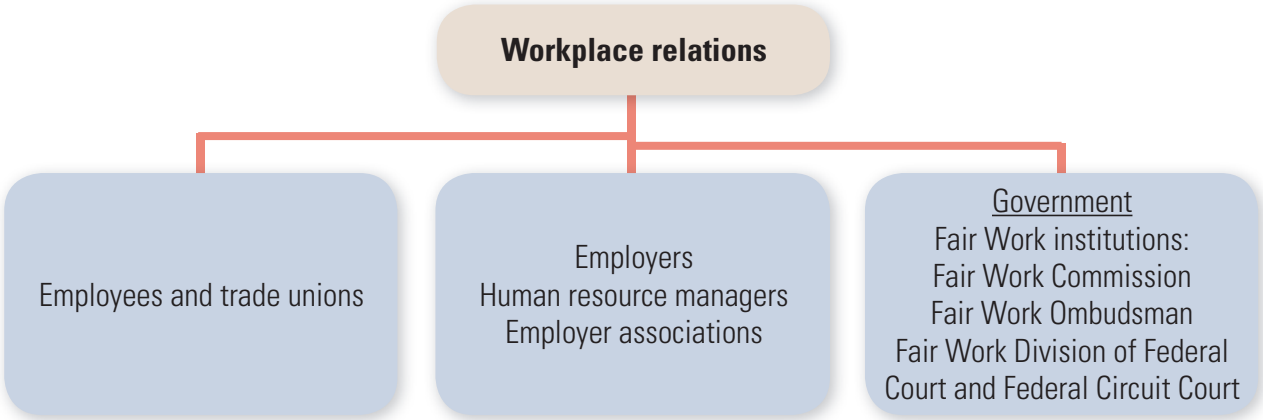


Figure 6.5 Participants (stakeholders) in Australian workplace relations

trade union an organisation formed to represent and protect the rights of workers in a particular industry

Role of employees and trade unions

A **trade union** is a group of employees, usually from the same or a similar industry, combining to protect common interests in all matters relating to their employment. The Australian trade union movement originated in the late nineteenth century, arising as a consequence of the poor working conditions experienced by many employees at the time. By mobilising and

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shop steward
locally elected union representative; an employee at a workplace is elected by local union members to represent them; they act as the first point of contact for an employee with their trade union

uniting groups of employees, trade unions have since achieved significant improvements in wages and working conditions for Australian workers, such as annual leave, pensions, superannuation, maternity leave and parental leave.

Employees who choose to join a union pay an annual subscription fee. The union then:

- negotiates and bargains on their behalf during the collective bargaining process
- argues employees' cases during hearings that determine awards
- provides support and advice to local union **shop stewards** and workers at the workplace level
- provides assistance and support to individual workers
- offers services and facilities to members, such as credit unions and health insurance
- provides information to members on matters relevant to their workplace situation
- acts as official spokesperson to the media on behalf of union members.

Members of a union at a worksite elect, from among themselves, a shop steward/union representative whose role it is to liaise with management and the union executive regarding workplace relations issues. An individual employee with a question or point to make approaches the local union representative first, who may choose to take the matter up directly with management, work through the HR department or go straight to the union executive, which may opt to take the issue further on the employee's behalf.



Figure 6.6 Trade unions are workers uniting in order to work towards improving their wages and conditions. Many of the benefits employees enjoy today have come about through trade union action.

Unions are run day to day by a **union executive**, which comprises full-time elected union officials. The entire membership of the union elects the executive to represent them at either a national or state level.

union executive/official
officials elected by union members to run the organisation (union) on a day-to-day basis; they act to represent members in negotiations with employers



Figure 6.7 The Victorian Trades Hall building in Carlton is home to a number of trade unions in Victoria.

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For workers in Victoria there are two key union organisations:

- The Australian Council of Trade Unions (ACTU) is the national peak body of the Australian union movement. It was formed in 1927 and operates much like a national parliament of trade unions. The ACTU elects an executive, which represents the trade union movement in the media and during negotiations at a national level. The ACTU also represents the union movement in dealings with governments and at Fair Work Commission hearings.
- The Victorian Trades Hall Council (VTHC) is responsible for implementing ACTU policy within Victoria. The Victorian branch of each union elects representatives to attend monthly VTHC meetings. The elected administrative body of VTHC is known as the Executive Council.

Since the 1980s there has been a significant decline in Australian trade union membership. In August 2013, 17% of all employees (1.7 million) were trade union members in relation to their main job.

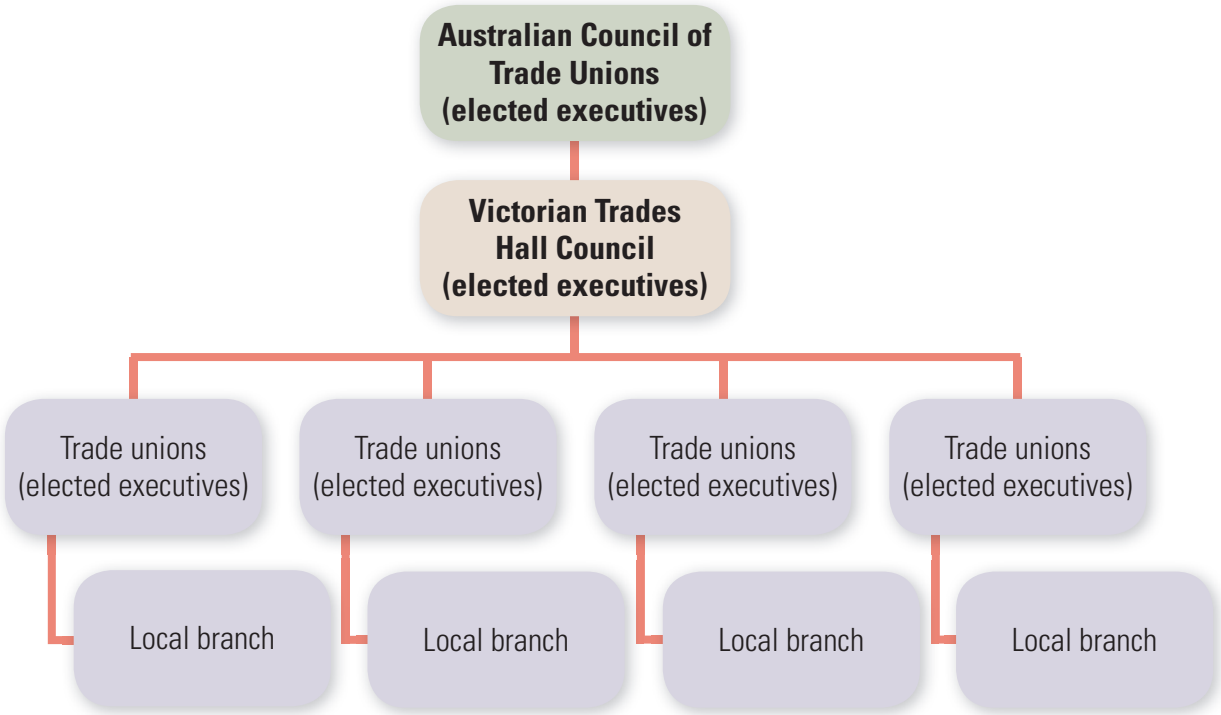


Figure 6.8 Structure of the Australian union movement

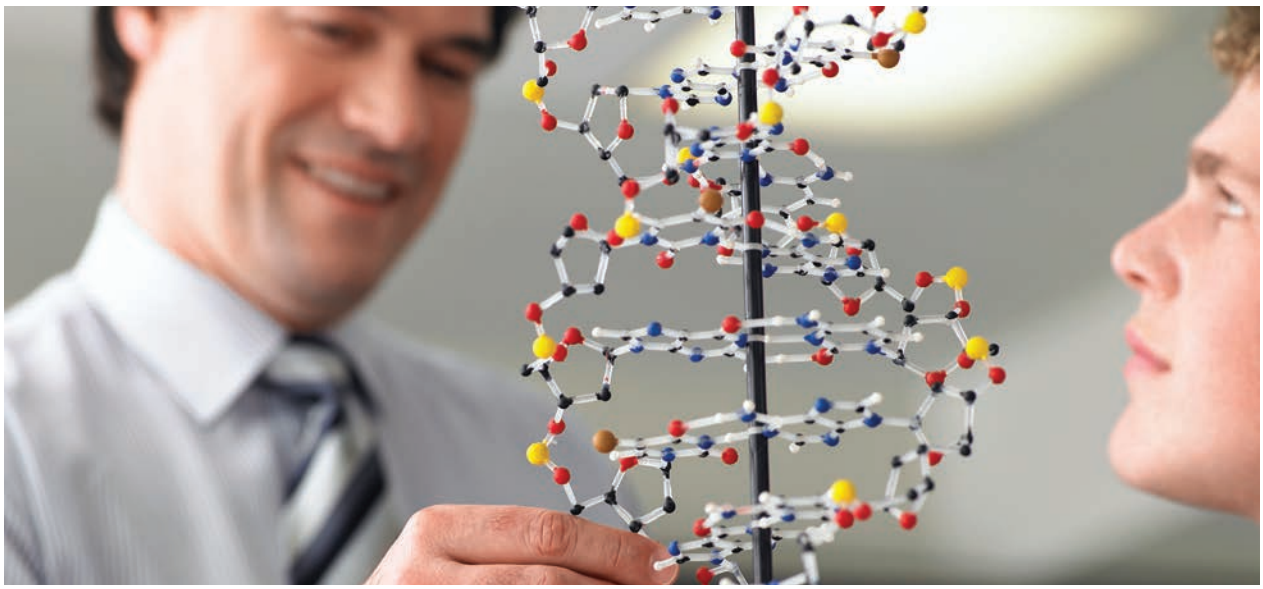


Figure 6.9 Teachers in Victoria are represented by union bodies such as the Australian Education Union (AEU) or the Independent Education Union (IEU).

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ACTIVITY 6.1

Using the internet, research a particular Australian trade union. Prepare a report covering the following elements:

1. Brief history
2. Number of members and occupations covered
3. Current campaigns being undertaken
4. Names of some of the officials of this union
5. Cost of membership and who is eligible to join
6. Benefits of membership

(*Hint*: Start with the ACTU and VTHC websites. Both offer links to the sites of particular unions. Possible unions to investigate are: Australian Workers' Union, Electrical Trades Union, Australian Services Union, Australian Education Union, Australian Manufacturing Workers' Union, Maritime Union of Australia, and Miscellaneous Workers' Union.)



Figure 6.10 Australian Workers' Union members wave the AWU flag in Sydney during a strike to protest against propsed public sector cuts in 2011.

ACTIVITY 6.2

Interview someone who is a local union representative in his or her workplace. Find out:

1. What the role entails.
2. The types of issues they might deal with on a day-to-day basis.

(*Hint*: Ask who the teachers' union representative at your school is.)

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CASE STUDY 6.1

Membership – trade unions

In the past two decades, union membership has fallen from 40% of the workforce to approximately 15%, with one in nine private sector employees opting to join a union. According to data released in 2015 from the Australian Bureau of Statistics (ABS), public servant union membership was 39% and private sector membership was only 11%.

The industries with a higher percentage of union members are manufacturing, transport, warehousing, construction, health, education, public safety and retail. In late 2015, the union movement had been receiving some bad publicity, which may have impacted the data. At that time, there was a productivity commission on workplace reforms, a backlash from employers with respect to penalty rates, and a royal commission on union corruption.

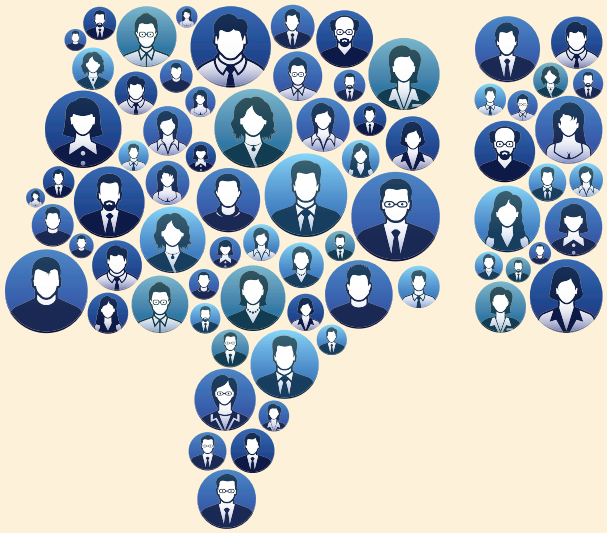
Coupled with this is the view of the Australian Chamber of Commerce and Industry (ACCI), which is that trade unions exert a significant amount of influence on the Labor Party and on preselection that is 'disproportionate' to their declining position.

Union membership is often a topic for discussion in the workplace. On one side of the debate is the discussion 'for' membership. Australian Council of Trade Unions (ACTU) secretary Dave Oliver stated that the statistics referred to were from back in 2014. At that time there were 1.6 million members recorded nationally. However, recent data obtained from 46 associated unions indicated 1.8 million union members. Dave Oliver emphasised that the figures also indicated that union members earned higher wages than non-union members. 'Every day unions are looking for ways to represent Australian workers and it has become very clear that as workplaces modernise so must unions,' he said.

The opposing point of view is from Kate Carnell, head of the ACCI. She stated that the recent ABS data revealed that many employees did not believe that union memberships were 'value for money'. 'Australians are pretty smart ... they don't buy things that aren't value for money, whether they be products or services or union membership.'

Analysis

1. What percentage of Australian private sector employees belong to a trade union?
2. What percentage of public sector employees belong to a trade union?
3. Suggest possible reasons for the disparity between public and private sector trade union membership rates.
4. Which industry sectors have the highest trade union membership rates?
5. Who is represented by the ACCI, headed by Kate Carnell? (Google this.)
6. What is Kate Carnell's explanation for the decline in union membership rates? Do you agree with this? Give reasons for your response.



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Role of employers and employer associations

employer associations provide a range of advice to employers and represent their interests on employee relations issues

Employer associations are groups of employers who unite to promote a common interest in workplace relations issues. They share information and provide mutual support much in the way that trade unions do for employees. There are three types of employer association:

1 **Industry associations:** Are made up of employers from the same industry, such as Master Builders Australia and the Mining Council of Australia.
2 **Professional associations:** Are made up of members of a profession such as the Australian Medical Association (AMA).
3 **Broad-based or peak bodies:** Are comprised of large numbers of employers from varied industry types. Examples are the Australian Industry Group and the Victorian Chamber of Commerce and Industry. These often act as a spokesperson for employer members as a bloc.

The role of employer associations is to:

- represent employers in Industrial Relations Commission cases
- represent employers during collective bargaining over wages and conditions
- advise employers of their rights and obligations
- act as spokesperson for members of their organisation as a bloc.

Victorian Chamber of Commerce and Industry

Figure 6.11 Victorian Chamber of Commerce and Industry

MASTER BUILDERS AUSTRALIA

Figure 6.12 Master Builders Australia

AMA

Figure 6.13 Australian Medical Association

Ai GROUP

Figure 6.14 Australian Industry Group

ACTIVITY 6.3

Go to the Fair Work website via Cambridge weblink http://cambridge.edu.au/redirect/?id=6939 and complete the following.

1 Name at least one employers group representing employers in each of the following industry sectors:
   a Building and construction
   b Cleaning services
   c Entertainment
   d Food manufacturing
   e Retail

2 Name one union representing employees from each of the industry sectors in Question 1.

3 Go to the Australian Industry Group website. Outline five services AIG offers to its members.

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Role of human resource managers in workplace relations

HR managers play a crucial role in workplace relations. Employee relations specialists within HR liaise closely with other departments to create a harmonious and productive workplace staffed by motivated, skilled and fulfilled employees.

The human resource manager has a significant role in workplace relations. The role of the HR manager includes:

- administration of day-to-day procedures, ensuring employees receive correct wages and entitlements
- negotiation with employees and/or representatives (unions) regarding workplace relations issues, such as establishment of collective agreements through enterprise bargaining
- participation in the dispute resolution process
- responding to workplace relations queries from employees and management
- acting as an intermediary between employees/unions and senior management.

ACTIVITY 6.4

Read the advertisement and answer the questions that follow.

National Employee Relations Manager

- Unique opportunity to influence strategy and execution
- Broad business and commercial exposure

Buntings is one of Australia's largest retailers, with over 25 000 team members and in excess of 250 stores. We support our retail and trade customers through an extensive warehouse, store and distribution centre network and are continuing to grow in both metropolitan and regional locations in Australia and New Zealand.

Our working environment and culture are very important to us. As a result, Buntings' approach to Employee Relations can be best described as being focused on culturally aligned and commercially pragmatic outcomes, that lead to engaged Team Members working in an environment that enables them to deliver great Customer Service. Reporting to the General Manager – HR, a unique opportunity now exists for an energetic and experienced ER practitioner to join the senior HR Team.

The successful applicant will be able to demonstrate a solid understanding of current IR legislation nationally and a track record in dealing with industrial matters such as the negotiation and implementation of agreements, dispute resolution, representation in the Industrial Courts, management of union relationships as well as in the development of Employee Relations strategies. This experience should ideally include an influential ER role within a large, geographically diverse organisation in a service industry environment, where you have taken a lead role in coaching managers around effective employee relations behaviours.

Tertiary qualified in an HR discipline, your personal skills and attributes include strong negotiation skills, good commercial understanding, excellent communication and coaching skills, a pragmatic and hands-on leadership style as well as the ability to work in a flexible structure where teamwork is paramount.

A competitive salary and benefits package, including short- and long-term incentives reflective of the seniority of this role, will be negotiated.

Information about Buntings is available by visiting www.buntings.com.au.

Applications can be emailed by clicking on the apply button below or posted to General Manager HR, 12 Snubbins Street, Melbourne, 3000.

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1 Name the organisation advertising this job. How many employees does it have?
2 Distinguish the main features of the job being advertised, including the job title, the department in which the successful applicant will be employed, and who they will be reporting to.
3 Define each of the following terms used in the article.
   a employee relations
   b engaged team members
   c negotiation skills
   d communication skills
   e teamwork
4 Explain why the successful applicant will require negotiation, communication and teamwork skills.
5 List and explain the skills and experience that are being sought in the successful applicant.
6 Describe the types of tasks that the successful applicant will be expected to undertake.
7 Locate another advertisement for a similar position. Identify and explain the differences and similarities between the two jobs.

What does good workplace relations require of management?

Good management aims to facilitate positive, productive relationships with employees. This will in turn create improved productivity and employee commitment to the organisation as employees feel more valued. The skills of the HR manager are vital to achieving this.

Employees inevitably have complaints about their workplace. Management should attend to these in such a way that they do not escalate. Small problems will become large if not dealt with quickly and effectively.



Figure 6.15 The relationship between management and employees is crucial to business competitiveness.

Generally, the following factors allow for optimal workplace relations:

- Commitment of both management and employees to the achievement of organisational objectives, creating a common purpose and teamwork.
- Allowing employees to feel their contribution is valued and part of the decision-making process conveys a sense of ownership of decisions. The adoption of a participative management style facilitates this. A team approach to planning and decision-making develops employee trust, and employees who are consulted feel valued and in turn develop loyalty to the business organisation.
- Treating employees and their complaints seriously will usually prevent more serious problems developing.
- Promotion of the concept that change is both inevitable and essential for organisational survival helps create a flexible mindset in relation to both workplace reform and workplace relations issues in general.
- Effective communication skills and methods will alleviate and avert workplace relations disputes. Management taking time to explain the reasoning behind decisions will give employees the opportunity to see things from management's viewpoint (empathise) and vice versa. Employees who interact openly with management, and feel valued, are less inclined to resort to industrial action when faced with workplace conflict.

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- Provision of fair pay and working conditions and recognition of employee achievement and effort create a positive workplace atmosphere.
- Maintenance of good working relationships between management and union officials. Personal hostilities often fuel workplace disputes. Teamwork builds a sense of shared purpose, making industrial action and workplace disputes far less likely.
- Establishment of fair and accessible grievance procedures. The more effective the grievance procedures are at a workplace, the less chance there is of a dispute escalating.
- Participative and open management styles improve workplace relationships.

Role of government

The federal government has an enormous influence on Australian workplace relations through enactment of legislation controlling how it is conducted.

Australian governments have felt it necessary to actively intervene in the conduct of employee relations as interaction between employers and employees can have significant repercussions for both the Australian economy and the general public.

A multitude of laws have therefore been passed that directly affect the employer–employee relationship. Areas such as employee contracts, taxation, occupational health and safety, equal opportunity and guidelines relating to pay and working conditions for employees all significantly affect Australian workplace relations. Government responsibility for economic management also has an impact on employee relations as wage levels affect inflation and economic activity rates.

A series of federal workplace relations laws set out how workplace disputes are to be dealt with, as well as how wages and conditions of employees are to be established and protected.

Fair Work institutions

The *Fair Work Act 2009* established three independent government bodies to oversee and operate the Australian system of workplace relations.

1 Fair Work Commission: Australia's national workplace relations tribunal or industrial court. The Fair Work Commission has the power to make legally binding decisions and orders relating to workplace relations. The Fair Work Commission is responsible for:

   a creating and maintaining a safety net of minimum wages and working conditions for Australian employees. These are set out in 122 industry and occupations awards. An award covers all employees in an industry and sets out minimum wages and conditions all employers are legally obliged to provide.



Figure 6.16 House of Representatives, Parliament House, Canberra

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b providing assistance with resolution of workplace disputes

c providing support for enterprise bargaining. Ensuring the process is fair.

The Fair Work Commission can vary awards, make minimum wage orders, approve (ratify) workplace agreements, determine unfair dismissal claims, make orders on industrial action (such as whether it is legal or not) and resolve workplace disputes.



Figure 6.17 Modern awards

2 **Fair Work Ombudsman:** The role of the office of the Fair Work Ombudsman is to promote harmonious, productive and cooperative workplace relations and to ensure that all workplaces are in compliance with Australian workplace laws. The Fair Work Ombudsman enforces the *Fair Work Act*, related legislation, awards and registered agreements. It also assists both employees and employers through providing advice and education on the pay rates and workplace conditions that employees are entitled to. The Fair Work Ombudsman is a point of contact for information, as well as for assessing and investigating complaints and suspected breaches of workplace laws, awards, and registered agreements. Fair Work Inspectors are employed by the Ombudsman to investigate, resolve complaints and conduct workplace audits. They also bring court proceedings to enforce employee rights and obligations.

3 **Fair Work Division of the Federal Court and Federal Circuit Court of Australia:** The Fair Work Division of the Federal Court and Federal Circuit Court have jurisdiction to hear matters arising under federal workplace relations laws. The courts have the power to make orders considered appropriate to remedy a contravention. Breaches of the *Fair Work Act* usually incur fines and/or orders to reimburse employees who have been underpaid. Unfair dismissal cases can result in court orders to reinstate those who have been dismissed.

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CASE STUDY 6.2

Failure to comply with National Employment Standards

In the recent matter of *Cerin v ACI Operations Pty Ltd & Ors* [2015] FCCA 2762, the Federal Circuit Court ordered the employer and its HR manager to pay a penalty to the employee for failing to give him adequate notice of termination, therefore breaching s 44 and s 117 of the *Fair Work Act 2009*.

The employee, who was on workers' compensation, was given 28 days' notice of termination of employment and the employer argued that this complied with s 58B of the *Workers Rehabilitation and Compensation Act 1986* (SA).

However, the Court found that this was in breach of s 44 of the *Fair Work Act*, which required the employer to comply with the National Employment Standards (NES) and give the employee five weeks' notice. The employee was therefore entitled to a further two days' notice and suffered a loss of $181.66 as a result of the breach.

The Court found that the employer's conduct in terminating the employee's employment without proper notice or payment in lieu was bizarre since no satisfactory excuse was given for not complying with the *Fair Work Act*. Further, the HR manager admitted that she was aware of the NES under the *Fair Work Act* and its requirements as to the amount of notice to be given on termination depending upon length of service of the employee.

…

In an attempt to reflect the seriousness of such breaches, the Court imposed substantial penalties on the employer and the HR manager. The maximum penalty for a corporation at the relevant time was $51 000 and $10 200 for an individual. The Court ordered the employer to pay $20 400 and the HR manager $1 020 to the employee.

(Source: Cooper Grace Ward Lawyers, 'Failure to comply with National Employment Standards – employer and HR manager fined', *Workplace Relations & Safety Risk Management Adviser*, December 2015.)

Analysis

1. Write a short summary describing the following:
   - **a** the name of the employer
   - **b** the court the hearing was held in
   - **c** the law that was found to have been breached.
2. Describe what the court found had occurred and how this was in breach of the National Employment Standards.
3. Identify the penalty imposed by the court.

Awards and agreements for determining wages and conditions of work

The system of establishing wages and conditions for Australian employees is set out in the *Fair Work Act 2009*. An employee's wages and conditions may be determined via an *award*, an *enterprise agreement* or through an *individual employment contract* with their employer. The Fair Work Ombudsman and Fair Work Commission are responsible for monitoring and enforcement of minimum entitlement requirements.

National Employment Standards (NES)

The *Fair Work Act 2009* sets out 10 minimum employment entitlements known as the National Employment Standards (NES), a copy of which must be provided to all employees.

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enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

An award, employment contract or **enterprise agreement** cannot provide for conditions that are less than the national minimum wage or the NES. All employees are legally entitled to the NES.

What are the National Employment Standards?

The *Fair Work Act 2009* contains the National Employment Standards or 'NES'. The NES are the minimum standards of employment and cover:

1. **Maximum weekly hours** – 38 hours per week, plus reasonable additional hours
2. **Flexible working arrangements requests** – certain employees can request a change in their working arrangements
3. **Parental leave** – up to 12 months' unpaid leave per employee, as well as the right to request an additional 12 months' leave
4. **Annual leave** – four weeks paid leave per year, plus an additional week for some shift workers
5. **Personal/carer's leave and compassionate leave** – up to 10 days per year paid personal/carer's leave
6. **Community service leave** – unpaid leave for voluntary emergency management activities and jury service
7. **Long service leave** – paid leave for employees who have been with the same employer for a long time
8. **Public holidays** – an entitlement to a day off on a public holiday, unless reasonably requested to work
9. **Notice of termination and redundancy pay** – up to five weeks' notice of termination and up to 16 weeks' redundancy pay
10. **Fair Work Information Statement** – a document that must be provided to all new employees.

(Source: Fair Work Commission, 'National Employment Standards'.)

Awards

Awards are legally binding minimum requirements for wages and conditions applying to specific industries. Awards are reviewed by the Fair Work Commission every four years and are legally enforceable. They establish terms of employment for various occupations and levels in a particular industry. There are 122 industry and occupation awards that cover most Australian employees. Each award specifies:

- minimum wages
- working conditions and overtime
- meal breaks
- holidays and leave
- penalty rates and allowances
- procedures for resolution of grievances and termination of employment
- superannuation
- annual leave and leave loadings.

An award does not apply when a business has an enterprise agreement or other registered agreement with its employees. Awards serve as a safety net guaranteeing minimum wages and conditions.

Enterprise agreements

Enterprise agreements are made between one or more employers and two or more employees with their chosen representative(s), usually a trade union. Enterprise agreements are reached via a process of *enterprise bargaining* (negotiation). Enterprise agreements can therefore be tailored to meet individual needs of one or a number of employers and/or a group of employees.



Figure 6.18 An enterprise agreement is a legally binding contract between an employer and a group of employees regarding wages and conditions for a specified period.

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An enterprise agreement must be ratified/approved by a majority vote of employees affected. It must also be registered and approved by the Fair Work Commission. In order to gain approval of the FWC an agreement must meet the following criteria:

1 Employees to be covered must be better off overall than under the relevant modern award (called the better off overall test).
2 No unlawful terms included.
3 The agreement runs for a specified time of up to four years.
4 A dispute settlement procedure is included.

Once an enterprise agreement is in place both employer and employees are legally bound to adhere to it. Industrial action such as a strike is usually illegal and subject to prosecution. (This is referred to as *unprotected action*.) Strikes are now only legal during a period of enterprise bargaining; that is, after the previous enterprise agreement has lapsed and before the new enterprise agreement has been reached. Legal strike action is known as *protected action*.

Awards apply to employees depending on the industry they work in or the job that they do. Enterprise awards apply to specific businesses (employers).

ACTIVITY 6.5

FAIR WORK COMMISSION NOTICE

Sydney, 24 August 2012

Application for approval of the Essential Media Communications Agreement 2010.

[1] An application has been made for approval of an enterprise agreement known as the *Essential Media Communications Agreement 2010* (the Agreement). The application was made pursuant to s.185 of the *Fair Work Act 2009* (the Act). It has been made by Media Entertainment Arts Alliance. The relevant employer to the Agreement is Essential Media Communications Pty Ltd. The Agreement is a single-enterprise agreement.

[2] I am satisfied that each of the requirements of ss.186, 187 and 188 as are relevant to this application for approval have been met.

[3] Media Entertainment Arts Alliance has given notice under s.183 of the Act that they want the Agreement to cover them. In accordance with s.201(2), I note that the Agreement covers the organisation.

[4] The Agreement is approved and, in accordance with s.54(1)(a), will operate from 31 August 2012. The nominal expiry date of the Agreement is 31 July 2013.

VICE PRESIDENT WATSON

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[2012] FWAA 7305

(Source: Fair Work Commission.)

Above is a notice from the website of the Fair Work Commission detailing ratification/approval of an enterprise agreement. Find answers to each of the following:

1 Name the enterprise agreement that has been approved by the FWC.
2 Name the trade union that had negotiated this agreement on behalf of its members.
3 Name the employer who had negotiated this agreement.
4 Explain the conditions that had to be met in order for this enterprise agreement to have been approved by the FWC.
5 Name the date the enterprise agreement was set to expire.

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Figure 6.19 Negotiation is an important aspect of establishing an enterprise agreement.

Individual employment contracts

An individual employee may sign a legal agreement with their employer regarding wages and conditions. For an individual employment contract to be legally valid it must not provide wages and conditions less than the minimum set out in either the National Employment Standards or any relevant awards or enterprise agreements that may apply. An employee may also sign an *individual flexibility agreement* (IFA). All awards and enterprise agreements may be varied or tailored to suit individual circumstances or need by the inclusion of an IFA clause.

National minimum wage orders

The Fair Work Commission sets the national minimum wage, which is reviewed annually. The minimum wage applies to all Australian employees not covered by an award or enterprise agreement.



Figure 6.20 Mediation is often an important step in solving an industrial dispute.

ACTIVITY 6.6

1 Conduct an internet search to find the current national minimum wage for an adult employee who is not disabled:

- **a** For a 38-hour week
- **b** Hourly rate
- **c** Minimum loading that must be paid to a casual employee
- **d** What percentage of the national minimum wage must be paid to a:
  - 16-year-old
  - 18-year-old
  - 20-year-old?

6.3 Process of determining wages and conditions

The Australian system of workplace relations is decentralised. This means power lies with individual employers and their employees, represented by trade unions, to negotiate agreements using enterprise bargaining.

If agreement cannot be reached the Fair Work Commission may institute a process of mediation, where the negotiating employer and trade unions come together to discuss their differences with an impartial mediator, who may be either appointed by the FWC or chosen jointly by negotiating parties.

If mediation fails to produce agreement, then **conciliation** may occur. This is a similar process to mediation, but is conducted by a member of the FWC or one of its conciliators.

conciliation a third-party (conciliator) facilitates agreement between management and employees in relation to a dispute



Figure 6.21 Arbitration produces a legally binding resolution to a workplace dispute.

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Characteristics	Modern award (FWC)	Collective agreement (FWC)	Individual employment contract
Who makes them?	• Fair Work Commission	• Employer/employees (collective group) or employer/trade union/ employees	• Employer and individual employee
How do they arise?	• Submissions to FWC by employer, unions and other peak bodies • FWC determined	• Negotiated after enterprise bargaining at the workplace between employee representatives and the employer • Submitted to FWC for approval	• Negotiated between the parties
Content	• Pay and working conditions (for employees in an industry or occupation) • 10 minimum standards (NES) – working week (38 hours), flexible working arrangements, five leave entitlements (parental, annual, personal/carer's and compassionate, community service, long service), payment for public holidays, notice of termination and redundancy pay, provision of Fair Work Information Statement	• Pay and working conditions (for employees at a workplace) • 10 minimum standards (NES – see previous column) and additional conditions as negotiated • National minimum wage order and modern awards make up a safety net for employees	• Pay and working conditions for individual employee • 10 minimum standards (NES) • National minimum wage order and modern awards make up a safety net for employees
Duration	• Ongoing, to be revised periodically (every four years)	• Up to four years	• Period determined through negotiation (e.g. one year)
Annual leave	• Four weeks of paid leave for each year of service paid at base rate of pay • Shift worker is entitled to five weeks of paid leave paid at their base rate of pay	• Four weeks of paid leave for each year of service, paid at their base rate of pay • Shift worker is entitled to five weeks of paid leave paid at their base rate of pay • Cash out of leave is available, but illegal for employer to force employee to take it	• Period determined by employer or through negotiation

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Characteristics	Modern award (FWC)	Collective agreement (FWC)	Individual employment contract
Applies to	• Australian workers in an industry or occupation	• Australian workers at a workplace/enterprise	• Individual employee
Industrial action and dispute resolution	• Allowable only during protected period or after an order from the FWC for a protected action ballot authorises the industrial action • Unprotected industrial action results in mandatory minimum deduction of four hours' pay	• Allowable only during protected period or after an order from Fair Work Commission for a protected action ballot authorises the industrial action • Unprotected industrial action results in mandatory minimum deduction of four hours' pay	• Both parties would have terms in contract relating to dispute resolution and contract cancellation
Role of union	• Must apply for entry permit to workplace – 24 hours' notice • Union representation as bargaining agent	• Must apply for entry permit to workplace – 24 hours' notice • Union representation as bargaining agent	• None
Protection provided to employees	• NES act as minimum legal employment standards • Protection bodies: Fair Work Commission (tribunal) and Fair Work Ombudsman, Fair Work Inspectors and Federal Court Specialist Division and Federal Magistrates Court • Unfair dismissal protection against harsh, unjust or unreasonable treatment by employer	• NES and national minimum wage and modern awards act as minimum legal employment standards (i.e. safety net for employees) • The Better Off Overall Test (BOOT) checks the agreement against the award • Protection bodies: Fair Work Commission (tribunal) and the Fair Work Ombudsman, Fair Work Inspectors, Federal Court Specialist Division and Federal Magistrates Court • Unfair dismissal protection is provided to protect against harsh, unjust or unreasonable treatment by employer	• Cannot provide for less than legal minimum as set out in the NES, awards and other agreements that may apply • Contracts enforceable through courts

Table 6.1 Characteristics of modern award, collective agreement and individual contract

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6.4 Workplace conflict and dispute resolution

dispute resolution procedure a formal, systematic process that permits employees to complain about matters that affect them and their work

modern awards set out minimum conditions of employment for employees doing a particular job

Disputes, or conflict, arise in all workplaces. Complaints may relate to calculation of wages, working hours, personality conflicts, or in some cases the need for disciplinary action due to workplace bullying. A business must have in place a **dispute resolution procedure** that parties follow to resolve disputes.

If a dispute cannot be resolved at the workplace level, it may be necessary to involve a third party to conciliate on the matter. **Modern awards** and enterprise agreements must contain a dispute resolution clause.

Effective dispute resolution helps employers maintain good relationships with employees through dealing with disputes at an early stage. Disputes may be resolved through:

1. a negotiated outcome where a settlement is reached within the business
2. a mediated outcome where an independent mediator helps the parties talk about the issues and arrive at their own agreement
3. an arbitrated outcome (arbitration) where an independent arbitrator or court determines how the dispute is to be resolved and makes a binding decision.

The FWC will only deal with a dispute if one of the parties to the dispute applies for it to do so. The conciliation process may be undertaken by a commissioner or conciliator appointed by the FWC. The conciliator will convene a conference where the parties will meet and attempt to resolve the issue.

In the event that the conciliation process fails to reach an agreement, the matter may then be referred to **arbitration**. The Fair Work Commission, in its role as an independent tribunal, will arrange an arbitration hearing, which is conducted along similar lines to a court case. The Commissioner presiding will listen to each party make their case, and will make a legally binding order as to how it must be resolved.

arbitration a method of industrial dispute resolution where an independent third party listens to both sides of the agreement, then makes a decision based on these arguments, which is legally binding on both parties

collective agreement enterprise bargaining agreements that result from negotiations between an employer and union (employees) and are registered (ratified) by the Fair Work Commission

Employees have restricted rights as to when and how they can take industrial action. The right to take 'legal' industrial action is restricted to a 'protected period' during which a new **collective agreement** is in the process of being negotiated (enterprise bargaining period). Employees may flex their industrial muscle using a range of actions, with employers having the ultimate action of being able to conduct a 'lock out' of employees. Table 6.2 sets out examples of the forms of industrial action available to employees, ranking them from the least disruptive to most disruptive.

Form of action	Explanation	Initiated by
Passive resistance	General lack of cooperation by employees to complete tasks, taking days off (absenteeism).	Employees
Work to rule	Workers refuse to do anything more than the bare minimum required and follow every rule to the letter.	Employees
Boycott	Employees refuse to do something or deal specifically with someone (e.g. refusal to deal with a specific supplier).	Employees
Stop-work meeting	Employees hold a meeting during normal working hours to discuss an issue. Production ceases during the period of the meeting.	Employees
Picket line	Employees physically demonstrate outside the premises of their employer. It is aimed at stopping production by deterring other employees and suppliers from crossing the picket line.	Employees
Strike	Employees withdraw their labour and production ceases.	Employees
Lock out	Employer/management does not allow workers to enter a plant or building to perform their work.	Employer

Table 6.2 Forms of industrial action

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Employee/s and/or their representatives meet with management to outline and discuss the problem.

Management listen and try to resolve problem. If resolution not possible, matter is referred to senior management.

If still no resolution, dispute is referred to an independent body for mediation.

If mediation fails, matter is referred to FWC for conciliation.

If conciliation fails, matter is arbitrated by FWC. Legally binding decison made by FWC.

Figure 6.22 Typical process of dispute resolution



Figure 6.23 The Fair Work Commission annually publishes a report to outline any recent changes, successes and general performance information.

Assessment of workplace relations

Workplace relations audits are performed to measure the health of workplace relations in a specified workplace. The following key performance indicators are used:

- Levels of employee participation in decision-making. Worker empowerment enables employees to feel a sense of control over their working lives. If they feel valued as part of a team, workplace disputes should decrease as the 'us versus them' mentality dissipates.
- The degree of consultation in a workplace demonstrates worker empowerment levels.
- The quality of communication channels within a workplace. Industrial disputes can often be averted by use of open and inclusive communication between employees and employers.
- The values held within a business organisation indicate attitudes of employers and employees towards each other.
- Productivity levels demonstrate employee motivation and satisfaction. Increased productivity positively impacts upon business profitability.
- Staff morale levels are a strong indicator of employee commitment to a workplace as well as levels of teamwork within an organisation. These can be measured through levels of employee satisfaction, staff turnover and work satisfaction.
- Incidences of strikes and other industrial action. Rates of union membership indicate general employee feelings.

The ideal HR workplace relations manager would therefore possess excellent:

- communication and listening skills
- negotiation skills
- people skills
- team-building skills
- planning and leadership skills
- understanding and knowledge of workplace relations laws and how they apply
- problem-solving skills
- decision-making skills.

Generally, adoption of a participative style of management, when feasible, is most effective in the modern workplace. A participative style allows for employee input, ownership of decisions and easier negotiations. Flexibility when choosing a management style is desirable – for example, the autocratic style may need to be adopted when difficult and/or speedy decisions, such as retrenchments, need to be made.

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ACTIVITY 6.7

1 Working in groups of two or more, your task is to devise a role play demonstrating how a manager might deal with one of the following situations in the best possible way.
   - **a** A shop steward and manager, who do not like each other, must come to an agreement about new starting times in a factory.
   - **b** It is time to negotiate a new enterprise agreement.
   - **c** Employees are unhappy with a new uniform they are required to wear.
   - **d** Management intends to make 100 employees redundant.
   - **e** The CEO's son is accused of sexually harassing female employees.
2 Now think about the worst possible way of dealing with the situation. Perform both scenarios to the class, and then discuss the differences in process and outcome you noted.
3 Finally, identify which of the above skills would be required in order to deal effectively with each scenario.

CASE STUDY 6.3

Coles

Fair Work Commission orders Coles to lift wages

Nick Toscano, Workplace Reporter

Published: July 10, 2015

Supermarket giant Coles will have to pay millions of dollars more in casual and junior staff wages after Australia's industrial umpire intervened in a deal covering 75 000 workers.

The Fair Work Commission has sought changes to the three-year workplace agreement struck between Coles and the conservative shop assistants union, which had been criticised as a sweetheart deal.

First revealed by Fairfax Media, major flaws in Coles' proposed nationwide deal meant thousands of low-income workers would not be 'better off overall' compared to the retail industry award, the basic wages safety net.

The Fair Work Commission ruled on Friday that the Coles deal must increase casual loading from 20 to 25 per cent. Thousands of casual staff will secure 5 per cent pay rises and junior workers aged 19 or under will receive higher rates.

Workers aged 17 will receive 60 per cent of the adult pay rate, while 18-year-olds will receive 70 per cent.

Josh Cullinan, a tertiary education union official whose analysis of the wage deal identified that younger workers would be hardest-hit, said Fair Work's decision was 'remarkable'.

'It is a positive outcome that the intervention of the broader community has seen casual staff secure 5 per cent more pay and junior workers paid more,' Mr Cullinan said.

'Never before have so many low paid workers benefited from the intervention of the broader community in spite of a deal done by an employer and a so-called union.'

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The Fair Work Commission's decision will embarrass the Shop, Distributive and Allied Employees Association, confirming the union negotiated a deal that would have underpaid many thousands of workers.

Coles operations director Andy Coleman said the new Store Team Agreement would deliver increased benefits including a 3 per cent basic wage rise to more than 75 000 staff.

He said Coles had been happy to accommodate the changes requested by the Fair Work Commission.

The agreement also includes extra support for families, including five days' compassionate leave and a newly introduced leave entitlement for domestic violence victims, Mr Coleman said.

(Source: Nick Toscano, 'Fair Work Commission orders Coles to lift wages', *Sydney Morning Herald*, 10 July 2015.)

Analysis

1. Identify the industrial umpire named in the article.
2. Explain why the Fair Work Commission has rejected the enterprise agreement made between Coles and the Shop, Distribution and Allied Employees Association. (What criteria did the agreement fail to meet?)
3. Outline the probable consequences of the Fair Work Commission order on:
   - Coles as an employer
   - Coles employees.
4. Explain why this particular decision has been described as 'remarkable'.

Chapter summary

- Workplace relations is the total relationship and interplay that occurs between an employer and their employees.
- Workplace relations is a key responsibility of the human resources department.
- The aim of workplace relations is to optimise the working relationship so that it results in an increase in productivity and business competitiveness.
- The Australian system of workplace relations has undergone significant change over the past 20 years. The reforms made aim to improve flexibility and competitiveness in the Australian workplace.
- There are four main participants in Australian workplace relations: employees/unions, employers/human resources management/employer associations, government and Fair Work institutions.
- The *Fair Work Act 2009* sets out the framework of the Australian workplace relations system.
- Australian employees' wages and conditions may be determined via an award, enterprise agreement or individual workplace contract.
- An award is a basic safety net of wages and conditions established by the Fair Work Commission. Workplace agreements are negotiated by employees and employers at the individual enterprise level.
- Enterprise agreements and individual contracts must be registered with the Fair Work Commission.
- In order to be approved by the Fair Work Commission a registered agreement must guarantee employees the 10 National Employment Standards set out in the *Fair Work Act 2009*. It must also meet what is specified in the appropriate award.
- Industrial action is only permitted during the renegotiation or bargaining period of a collective agreement.
- A workplace agreement includes a grievance procedure (dispute resolution procedure) to resolve conflicts within the workplace.

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- Managers need to adopt a participative management style and employ a range of skills, especially in times of workplace conflict.
- A range of performance indicators can be used to measure the state of health of a workplace in relation to its workplace relations.

Chapter summary questions

1 Define each of the following terms.
- **a** workplace relations
- **b** enterprise bargaining
- **c** shop steward
- **d** trade union
- **e** employer association
- **f** union executive
- **g** ACTU

2 Identify the aim of workplace relations.

3 Explain why industrial disputes are inevitable.

4 Distinguish between the following terms.
- **a** Enterprise bargaining and an enterprise agreement
- **b** Employee and a union member
- **c** A trade union and an employers' association
- **d** An award and an enterprise agreement

5 Explain why it is important for a business to establish and maintain positive workplace relations in order to maintain competitiveness.

6 Explain what this statement means: 'An award is a safety net rather than the main determinant of an employee's wages and conditions'.

7 List and describe the three means by which employee wages and conditions can be established.

8 Identify when industrial action such as striking is permitted.

9 Explain what a minimum wage order is, including details such as how frequently they occur, who makes them and to whom they apply.

10 In the context of the *Fair Work Act 2009*:
- **a** List the roles of the Fair Work Ombudsman.
- **b** Outline the role of the Fair Work Commission.
- **c** Describe the role of unions in the establishment of wages and conditions.

11 Using the media (TV, radio and print), your task is to follow an industrial dispute for a period of at least one week. At the end of the dispute, list the following information.
- **a** Name the industry involved and the employer/s.
- **b** Name the union, if any.
- **c** List the key players in the dispute; that is, spokespersons for both sides and names of management and union officials.
- **d** Briefly describe why this dispute started.
- **e** Summarise the arguments of both sides to the dispute.
- **f** How do you believe the dispute should have been resolved? Give reasons for your answer.
- **g** Is this dispute linked in any way to globalisation? In other words, has it been caused by reforms aimed at making the workplace more competitive?
- **h** Discuss how this dispute might have been handled differently if it had occurred 20 years ago.

12 Explain what is wrong with each of the following statements.
- **a** Joe and Dot have signed individual collective agreements.
- **b** The Australian government has no role in our workplace relations system.
- **c** Workplace relations is only about dispute resolution.
- **d** The Master Builders Association is an example of a trade union.
- **e** Strikes are now always illegal.

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13 Indicate whether the following statements are true or false.

a Trade union membership is optional in a closed shop.

b Australia's new workplace relations system has made for greater workplace flexibility.

c A shop steward is not elected.

Examination preparation

Read the case study and answer the questions that follow.

Richard is human resources manager at a large retailer. The business is currently in a period of enterprise bargaining with the retail workers' union in an effort to establish a new enterprise agreement. During this period there have been several strikes and a picket line has formed at the store's entrance.

Several employees have approached Richard to ask if they could sign an individual agreement. In the meantime, Richard has decided to contact the Fair Work Ombudsman in order to ascertain the wages and conditions employees are entitled to under the Shop Workers' Award.

1 Define workplace relations. Explain why workplace relations are important in terms of business productivity and competitiveness.

(2 marks)

2 Define enterprise bargaining. Describe what a period of enterprise bargaining entails.

(2 marks)

3 Outline the role of a human resources manager in terms of workplace relations in Australia.

(2 marks)

4 Is the industrial action as described in the case study likely to be legal? Explain by giving reasons for your answer.

(2 marks)

5 Outline the process that must be taken in order to create a new workplace agreement regarding wages and conditions.

(2 marks)

6 Explain the role of each of the following groups in Australian workplace relations:

a Trade unions

b Employer associations

c Fair Work Commission

(6 marks)

7 Discuss the advantages and disadvantages of setting wages and conditions through each of the following for both employees and employers:

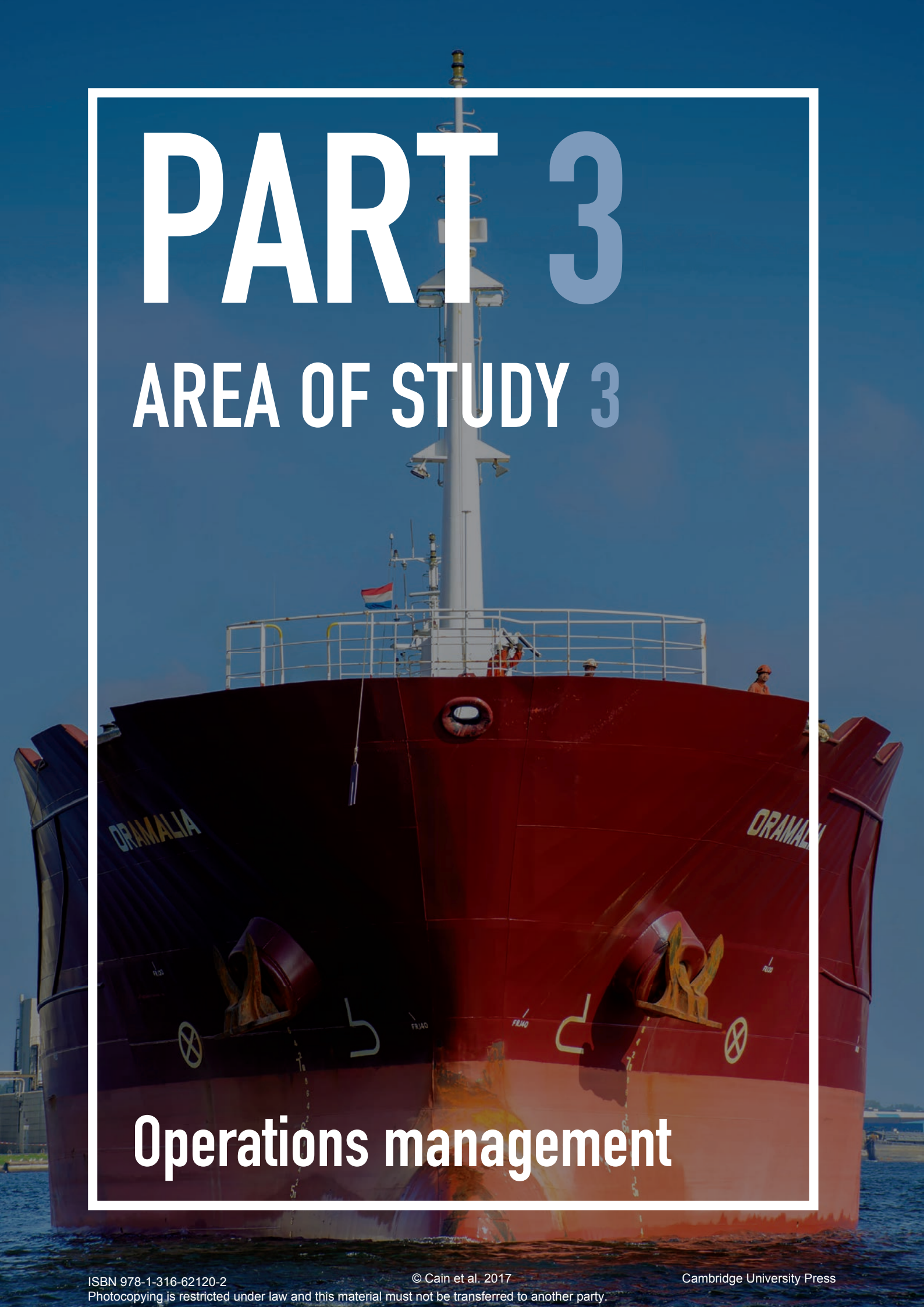
a Enterprise agreement (collective)

b Individual agreement

c Modern award

(12 marks)

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PART 3

AREA OF STUDY 3

Operations management

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CHAPTER 7

An introduction to operations management

Overview

In this chapter students will be introduced to operations management and its importance in optimisation of business performance. The role of an operations manager is examined. The key elements of the operations system are introduced and analysed. The operations systems of service and manufacturing businesses are compared.

Key terms

- capacity planning
- capital intensive
- competitive advantage
- customised
- downtime
- equipment
- gross domestic product (GDP)
- facilities
- inputs
- labour intensive
- operations
- operations management
- operations processes
- operations system
- outputs
- plant
- production process
- standardised
- transformation

Key knowledge

Students will become acquainted with operations management and the importance of this area to business success. The three elements of the operations system will be introduced. Students will also compare the characteristics of the operations systems of service and manufacturing industries.

Students will learn about:

- The relationship between operations management and business objectives.
- Key elements of an operations system: inputs, processes and outputs.
- Characteristics of operations management within both manufacturing and service businesses.

What's ahead

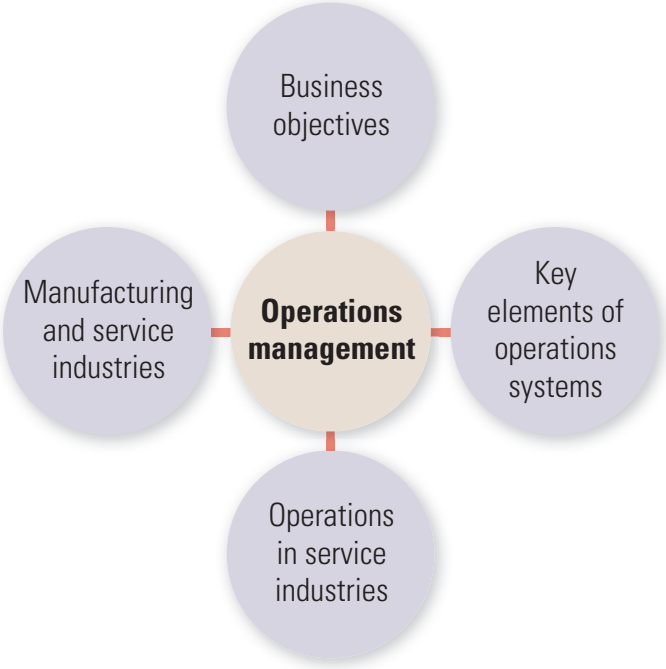


Figure 7.1 Operations management: an introduction

7.1 Operations management

'Business operations' refers to actual work done transforming inputs into finished outputs, thereby preparing and delivering goods and services for customers/clients to purchase. The operations of a business are its core function, or purpose. **Operations management** involves overseeing/managing an aspect of an operations system.

operations management management of resources and functions within a business to achieve efficient output of finished goods or services in a way that adds value to customers and creates a profit margin for the business

Operations management was previously referred to as production management and revolved around manufacturing industries. As manufacturing has decreased in importance to the Australian economy, however, service industries have increased their relative

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contribution to **gross domestic product (GDP)**. Production management has therefore evolved to become operations management. Operations management covers all three primary, manufacturing and service industries. Good operations management is vital to achievement of organisational objectives.

gross domestic product (GDP) total market value of production in a country over a period of time minus the costs of production







Figure 7.2 Operations is the actual work done by an organisation in preparing goods and services for sale.

7.2 The relationship of operations management to achievement of business objectives

Businesses strive to achieve corporate objectives through the operations system. Decisions made by operations managers have a direct impact on the levels of business competitiveness and attainment of corporate objectives.

The operations system determines the costs of production and quality of finished products. It therefore directly impacts on revenue, costs, quality of output and ultimately profits. The same applies to businesses run on a not-for-profit basis that aim to produce services and are judged on how well they satisfy the community with prompt and effective service delivery.

Therefore, improving business competitiveness requires operations management to establish and achieve objectives such as increasing productivity, improving quality in processes and output and adopting a sustainable approach to operations. Any business, regardless of whether it is a manufacturer of goods or service provider, must aim to improve competitiveness.

Aspects of the operations system that affect competitiveness include:

- Levels of operational efficiency affect productivity and therefore competitiveness. Optimising efficiency/productivity levels involves establishing reliable supply chains, minimisation of wastage and defects, application of technology where it can offer advantages, as well as an appropriate facilities design and layout.
- High standards of quality built into operations processes, both at input and transformation stages, will improve quality of output and therefore competitiveness.
- An operations system with ethical and socially responsible priorities during both planning and operational phases will attract investors, high-quality staff and customers. The community increasingly places expectations of socially responsible behaviour on businesses. Consequently, consumers base purchasing decisions on levels of social responsibility exhibited by a business. Investors increasingly use the same criteria.

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Operations management aims to maximise productivity and quality through the operations system. The transformation of inputs into finished products (output) with the aim of minimising costs of production (productivity) and maximising the quality of output produced is the goal. The human resources department must support operations management through ensuring sufficient, trained, motivated, skilled workers are available to meet operational needs. Similarly, the information technology department provides support and advice relating to the technology issues that arise within the operations department. Marketing and sales departments are responsible for the promotion and sales of finished products.

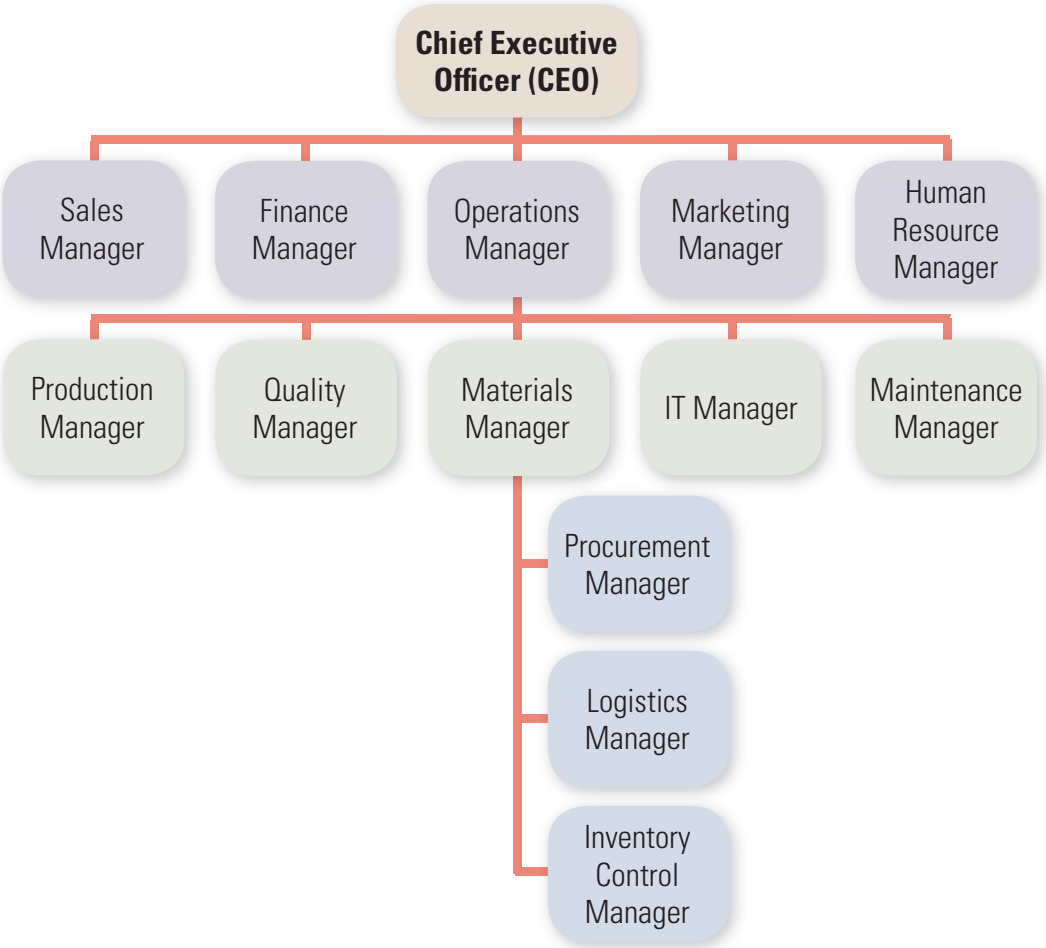


Figure 7.3 Functional organisational structure chart

The optimal system will create maximum quality and quantity of output at the lowest possible cost, thereby maximising competitiveness. The ability of an operations system to offer customer value is determined by:

- **productivity levels:** producing maximum quantity at minimum cost
- **quality:** degree of excellence in final products
- **speed:** of production in response to customer demands
- **reliability:** in meeting customer demands
- **flexibility:** the ability to change the quantity, timing and types of production as the need arises. It includes how quickly the operations system can change to meet changing customer demands and the adaption of new technologies, etc. (This is covered in Unit 4.)



Figure 7.4 Optimising an operations system is vital for maintaining business competitiveness.

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Figure 7.5 An operations manager oversees all aspects of the operations system in order to achieve the objectives of the business.

An operations manager's role involves making sure the operations system of the business serves to meet the business's objectives. This will include tasks such as:

- **strategic decision-making:** in relation to planning and design of the operations system; e.g. design and layout, product design and development, process planning, **capacity planning**, location, human resources, quality management

capacity planning operations decision concerned with the quantity of goods or services to be produced

- **overseeing operations as they occur:** involving the establishment of plans, processes and methods of production control, making decisions on day-to-day management of the operations system; e.g. stock levels, work rosters, production schedules, maintenance, quality control (i.e. tactical and operational planning).

Specific aspects of operations management

- **Inventory management** – this involves determination of the quantities of inputs required in order for customer service requirements to be fulfilled. Requirements to be kept in storage/inventory are then calculated. From this, the frequency and size of deliveries are determined.
- **Manufacturing** – determination of production rates required to meet budget forecasts, managing direct labour costs, controlling cost of wastage, defects and rework.
- **Quality** – determining required standards, documentation of quality procedures, standards and codes of practice, overseeing enactment of these.
- **Maintenance/engineering** – ensuring that equipment is reliable, in working order and regularly maintained, controlling maintenance costs and keeping up-to-date and accurate maintenance records.

Measuring operations efficiency

The primary aim or objective of an operations manager is to enhance operational efficiency and productivity. Productivity refers to the ratio of output obtained from a level of input. Put simply, it is what you get out for what you put in. Productivity improvements will in effect reduce costs of production and allow the organisation to produce the same level or a greater level of output for lower input costs.

$$\text{Productivity} = \frac{\text{Value of outputs (O) obtained (per unit of production)}}{\text{Cost of inputs (I)}}$$

Figure 7.6 Productivity equation

If a worker produces 10 units of work per hour at the same cost as another worker who is only able to produce eight units per hour, the first worker has 20% better productivity. Similarly, imagine a shoe factory is able to produce 5000 pairs of shoes at a cost of $10 000 in one month. If the factory changes its work practices by bringing in computerised equipment, this halves its workforce and results in the factory producing 10 000 pairs in the next month for the same cost. The productivity of the factory has increased by 100%!

Examples of productivity measures (key performance indicators):

- units of production produced per employee
- crop tonnage per hectare planted
- number of clients attended to per hour or per unit of wage cost
- units of production per unit of money.

Productivity and quality improvements are key to achieving international competitiveness. A business will attempt to establish a **competitive advantage** based on one or both of these.

competitive advantage point of difference or superiority over one's competitors

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ACTIVITY 7.1

Using the productivity formula, calculate the changes in productivity.

1. Oliver is a VCE student. During Term 1 he completes an English essay at home in two hours. During Term 3 he writes an English essay, for the same grade, in one hour.
2. Sophie has a business cleaning houses. On average it takes her three hours to clean a house. After purchasing new equipment she is able to clean a house on average in two hours.
3. Zippo's Bakery is able to produce chocolate cakes at an average cost of $2 per cake. After changing the layout of the kitchen and deciding to purchase flour in bulk it is now able to produce each cake at an average cost of $1.80.
4. After a restructure of its workforce a business has reduced its wages bill from $150 000 per week to $110 000 per week, while still maintaining the same level of production.
5. A wheat farmer harvests on average 1.5 tonnes per hectare each year. One year, the weather conditions were favourable and the output increased to 1.9 tonnes per hectare.

Factors determining productivity

- **Technology** – implementation of new technology, such as robotics, scanning, wireless communications, teleconferencing.
- **Research and development** – offer scope for the development of innovative work practices, as well as new, more efficient technologies.
- **Equipment and facilities** – the quality of the working equipment and facilities and their regular maintenance will affect reliability and reduce the likelihood of breakdowns and downtime.

equipment machinery and other tools

facilities capital items which facilitate or assist production

- **Tasks and processes** – the types of tasks and the methods used in undertaking these will affect how much is produced at what cost. Simple task analysis and the resulting sequencing and reordering of tasks will produce significant productivity improvements.
- **Layout of facilities** – often simply redesigning a workstation, moving equipment or fittings, or relocating stock storage areas can generate efficiency savings.
- **Communications processes** – when information flow is restricted, so too is productivity. Enhanced communications processes will improve accuracy in the processing of orders.
- **Workplace safety** – Australian occupational health and safety legislation has decreed that all Australian employees have the right to a safe workplace and employers are obliged to provide this. Failure to take account of occupational health and safety requirements could see a worksite closed down until breaches are rectified. Machinery **downtime** or industrial accidents can have significant effects on productivity.

downtime period during which production is not occurring



Figure 7.7 All Australian employees have the right to a safe work environment.

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7.3 Characteristics of operations management

operations system the three stages of production: inputs, transformation, outputs

outputs transformed inputs that are returned to the external environment as products or services

transformation the processes involved in converting inputs into outputs

inputs resources such as raw materials, labour, plant, equipment, capital, information and time used in any organisational production system

operations a series of procedures and processes undertaken in order to create outputs

The **operations system** has three stages involving a series of procedures and processes undertaken during the creation of **outputs** of finished goods and services through the **transformation** of **inputs**, including raw materials, capital, labour, knowledge and technology through a series of processes. **Operations** are a business's revenue generator as well as its most visible feature, defining the business's identity.

An operations system facilitates transformation of resource inputs into finished goods and services through a series of processes. While both goods and services are potential end products of an operations system, there are distinct differences between these product categories, and therefore also between manufacturing and service industries.

Manufactured goods are tangible. They physically exist and can been seen and touched. Goods may be stored before distribution to customers. Once created, goods cannot be altered or customised to suit individual customer needs. Manufactured goods may be either a finished product, such as a motor vehicle, or a component part to be used as an input in other manufacturing systems. For example, a windscreen is an output from one manufacturer, but then becomes a component part for another manufacturer. The manufacture of goods is usually **capital intensive**, meaning it involves greater use of machinery and equipment than labour.

A service business produces an intangible or non-physical product, such as finance, education, recreational or legal services. Services are performed rather than produced and usually involve provision of labour or expertise in return for payment. Service provision is usually much more **labour intensive** and requires significant interaction with clients, who generally consume the service as it is being performed. Consequently, services are easily **customised** for individual client requirements.

capital intensive makes greater use of capital (machinery and equipment) than labour

labour intensive makes greater use of labour than capital during production process

customise to alter the features of a product to suit specific and precise client/customer preferences



Primary sector industries extract or harvest products or raw materials from the natural environment.

- Agriculture (farming and grazing)
- Mining
- Fishing and hunting

Primary products are known as commodities.



Secondary/manufacturing sector industries create finished goods (tangible products) through combining factors of production in a **production process**.

- Construction
- Engineering
- Factories
- Craft

Manufactured products are known as goods.

production process the process of transforming resource inputs into finished goods and services

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Tertiary/services sectors produce intangible products known as services. People sell their labour and expertise. 85% of Australians work in service industries.

- Retail
- Professional services
- Media
- Tourism
- Banking
- Health

The quaternary sector is the branch of the tertiary sector that provides intellectual activities. Parts of this sector include government, education, scientific research and IT.

Figure 7.8 The three industry sectors: primary and secondary sector industries generally create goods, whereas tertiary sector industries create services.

Goods	Services
	
Tangible: Can be seen and touched. Quality and productivity is therefore easy to measure.	**Intangible:** Quality levels are more difficult to measure. Productivity also difficult to measure with services being customised differently for different customers.
Production and consumption occur separately; e.g. manufacture soft drink, then distribute to retailer, customer purchases and consumer drinks.	**Production and consumption often occurs simultaneously**. Patient goes to see a doctor who performs the service; i.e. provides medical treatment at the time of consultation.
Can be **stored as inventory**.	**Difficult to store**, however record of service is maintained; e.g. medical history, legal advice on file.
Can be easily **standardised** and mass produced, ensuring consistent quality; e.g. food items, cars, clothing.	Often specifically **customised** to meet individual client/customer requirements; e.g. tax advice.
Minimal customer contact; e.g. manufacturer will deal with wholesaler/ distributor – not generally final consumer.	**High degree of customer contact** established.
Produced **Capital-intensive production process**	**Performed** **Labour-intensive production process**

Table 7.1 Differences between goods and services

standardised where one finished good is generally the same as the next produced

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Figure 7.9 Operations management occurs in both manufacturing and service industries.

Similarities between goods and services

While significant differences exist between manufacturing and service providers they also share similarities. Both:

- utilise technology
- deal with customers and suppliers
- plan and develop organisational objectives
- require decision-making about how to optimise the productivity and quality levels through the operations system
- aim to produce high-quality products or services at the lowest cost.

7.4 Key elements of the operations system

Operations systems vary in complexity according to the types of goods and services produced. For example, a modern car has more than 10 000 parts and components, and its production process involves more than 8000 tasks. The transformation of millions of parts into a large passenger aircraft must be planned, managed and carefully coordinated by the operations management team.

All operations systems can be broken down into three stages or elements. This applies to primary, secondary and service industries:

1 Inputs (resources) required to produce the required goods/services are gathered.
2 Those inputs are put through a series of procedures/processes to become finished goods/services (transformation).
3 The final output is generated.

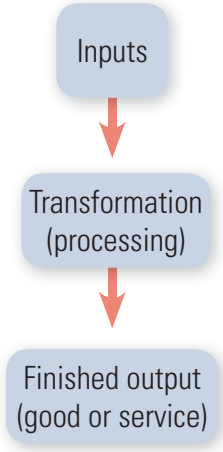


Figure 7.10 Every operations system can be broken down into three distinct stages.

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Resource input	Production process	Outputs
• Materials (raw and components) • Human resources (labour) • Technology • Capital (**plant**, equipment, etc.) • Utilities • Information and knowledge/entrepreneurial skills • Time (non-renewable)	Transformation process which adds value	Products/results of process in the form of goods and services

plant capital items that are large and/or difficult to relocate once in place or installed

Table 7.2 The key elements of an operations system

Inputs

Goods and services are created (produced) for consumption by consumers by combining inputs or economic resources (*factors of production*) in a production process. Inputs are classified as follows:

- **Raw materials:** unprocessed resources taken directly from the environment such as unprocessed minerals or farm produce.
- **Component parts:** processed materials usually purchased from another producer or manufacturer. For example, car manufacturers use components like ready-made windscreens, engine parts, tyres and processed steel.
- **Utilities:** basic services such as gas, electricity and water supply used in the production process.
- **Labour:** work, efforts and skills of people utilised during production. Labour (human resources) are employed by businesses to oversee and enact the **operations processes** that create the output.

operations processes transformation stage of an operations system

- **Capital resources:** human-made objects that contribute to the production of finished products such as machinery, buildings and vehicles. Also includes technology such as robotics. Money/cash is often classified as capital as it can be readily converted into capital items.
- **Entrepreneurial resources:** people known as entrepreneurs, who possess the skills and resources required to successfully start and manage a business. An entrepreneur is willing to risk personal resources such as money and time in the expectation of making a profit at a later date.
- **Information and knowledge:** specialised knowledge and skills required in order to enact the operations system and produce the final products; for example, knowledge of computer programs. This input category is intangible and may be easily overlooked by management. Often it is not until an experienced employee leaves an organisation that their experience and specialised knowledge is actually appreciated. Employee specialist knowledge is a major contributor to an operations system's efficiency and effectiveness. Knowledge, in the form of data or information, may also be obtained from a source external to the organisation – for example, statistics sourced from the Australian Bureau of Statistics.
- **Time:** a non-renewable resource, which, if wasted, will add to production costs and cause productivity to fall.





Figure 7.11 Raw materials and components

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Figure 7.12 Human resources are integral to an operations system.

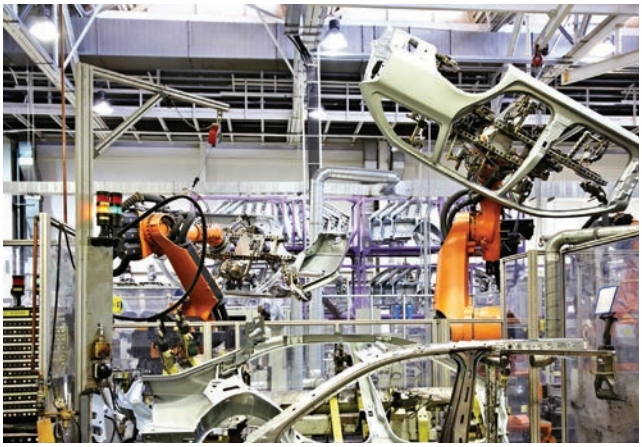


Figure 7.13 Robotic technology



Figure 7.14 Pieces of machinery and equipment are examples of capital items.



Figure 7.15 Time is a non-renewable resource, which, if wasted, will add to production costs.

The transformation process

At this stage, inputs are transformed into finished outputs. While going through this process, they are referred to as 'work in progress'. The operations manager plans the transformation process, organises its implementation and leads implementation of the plan. They also control its execution.

While manufacturing organisations have clearly identifiable production/transformation systems, service providers nonetheless still have distinct transformation processes that create a service product output from a group of inputs. The transformation stage for services is, however, often not as easily identifiable.

The transformation stage is the point where value may be added to inputs and where productivity gains can be made through efficiencies in processes and procedures undertaken.

Decisions made by operations managers should be geared towards optimising operational efficiency and effectiveness which, in turn, will increase organisational competitiveness in increasingly competitive world markets.



Figure 7.16 Process, produce, plan, people

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Outputs

Outputs are final products, or results, of the operations process. These outputs can generally be divided into two categories: tangible goods and intangible services.

In order to maximise competitiveness, management must ensure that the type of output is responsive to market needs. In other words, it must be what the market wants to buy or requires. This is called a 'pulled system' as it is responding to the pull of the consumer for the product, rather than a 'push system' where the manufacturer produces goods that are not responding to a demand from the marketplace. The manufacturer will then try to create demand for this product. A business must measure the efficiency of its operations and effectiveness in achieving its objectives. As an organisation does not operate in isolation, environmental factors must be taken into consideration.



Figure 7.17 Manufacturing operations system: a footwear factory

The following example depicting the operations system of a hospital illustrates the range of inputs involved, and the likely processes in the transformation process, resulting in a treated patient as the output. It is important that a business receives feedback on the efficiency and effectiveness of its operations system. In a hospital this could be in the form of patient feedback, occupancy rates and the number of days taken to treat a patient. Such feedback is vital in assisting the hospital to determine ways to maximise productivity/efficiency as well as the quality of its services. External factors also impact on an operations system. With a hospital this could be factors such as levels of government funding, availability of qualified staff or unforeseen circumstances such as a disaster or major accident.

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Inputs

- land and raw resources
- labour (nurses, doctors, admin, orderlies, etc.)
- entrepreneurial skills (e.g. management expertise)
- capital items (machinery, technology, beds, computers, etc.)
- time
- utilities (water, electricity, gas)
- information and knowledge (employee skills such as medical knowledge)
- time



Transformation

- transformation of inputs into finished product
- includes medical treatments such as nursing, X-rays, surgery, etc.



Final output

- Treated patients



Figure 7.18 Operations system for a service industry: hospital

ACTIVITY 7.2

1 Using the same format as outlined in the diagrams in Figures 7.17 and 7.18 describe the inputs, transformation and final outputs for two of the following types of businesses:
   - **a** Car dealership
   - **b** Butcher shop
   - **c** Accountancy firm
   - **d** Supermarket

2 Explain how each of the businesses mentioned in Question 1 could measure:
   - **a** Productivity levels (efficiency)
   - **b** Levels of quality in goods or services produced

3 Describe three external environmental influences that may affect the performance of:
   - **a** The inputs of an operations system
   - **b** The transformation phase of an operations system
   - **c** The outputs of an operations system and their delivery to customers

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CASE STUDY 7.1

Operations evolution: Ford Motor Company

At the beginning of the twentieth century the automobile was an item affordable only to the super wealthy. Henry Ford, through the development of the modern assembly line and his determination to build a simple, reliable and affordable car, changed all of that. In short, the development of the Model T Ford and the assembly line revolutionised the USA and, in turn, the rest of the western world.

Prior to 1908 cars were individually crafted by teams of skilled workers who built them as stationary objects. A fixed position layout was used. This was both slow and expensive.

In 1908 the Ford Motor Car Company began production of the Model T Ford, which had a purchase price of $950. During the following few years work was done on perfecting the production, or assembly, line. Instead of workers going to each car, each vehicle was transported on an assembly line to workers who remained stationary. Each employee was only required to perform one or two tasks repetitively. This reduced wage costs as they only needed to be paid as unskilled employees. Workers were no longer craftsmen.

The new Highland Park plant in Detroit was purpose built to incorporate the new assembly line. The production process began at the top floor of the four-storey building where engines were assembled. These then progressed level by level to the ground floor where the car's body was attached to the chassis.

By 1912 the price of a model T Ford had fallen to $575; by 1925 it was less than $300. The time taken to assemble a car had reduced from more than 12 and a half hours in 1908 to less than six by 1925.



Figure 7.19 The old-fashioned way – limousines are assembled at individual stations by a Pittsburgh manufacturer, 1912.



Figure 7.20 Early assembly line

Ford began production of the Model T in 1925 in Geelong. The first assembly line was a crude affair with vehicles being pushed by hand from one area to the next as they were being assembled.

The only model available was the Model T.

Huge crates were offloaded at the nearby wharf from Canada. Chassis components, engines, transmissions and rear axles were unpacked and stacked. Workers used hand tools to bolt the components together and a block and tackle to lift the assembled body onto the chassis. Upholstery was hand stitched. Body frames were made of wood.

As each car was built, it was pushed out the door and across the street to be collected by a dealer or placed on a train.

In 1936 the wooden body was replaced with an all-steel frame. In 1937 a massive stamping press was installed, marking the development of the complete steel body.

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CASE STUDY 7.1 continued

Over the years improvements enabling productivity growth occurred. In 1925 around 30 vehicles were assembled per day. By 2005 Ford was producing approximately 500 per day. By this stage the whole process was controlled by a master computer and up to 20 different models were being built on the one production line. A Just In Time supply system was also in use. Other innovations included robotics. High-tech robots had replaced hand tools. Painting of the vehicles was also fully automatic.

(Source: Ford Motor Company.)

Analysis

1 When did the production of the Model T Ford begin?
2 Describe how the production methods used by Ford to produce the Model T differed significantly from previous car manufacturing methods.
3 Explain how Ford was able to significantly reduce the cost of car manufacturing through its use of the assembly line.
4 When did Ford begin production of the Model T in Australia?
5 Outline the evidence that demonstrates that considerable productivity and quality improvements have been made at Ford since 1925.
6 Describe how the first Australian Ford assembly line operated.
7 Suggest what is likely to have occurred if Ford had not adopted innovations that improved its productivity since 1925.

ACTIVITY 7.3

Virtual tours of operations systems

1 Go to the factory tour section of the Chrysler website via Cambridge http://cambridge.edu.au/redirect/?id=6940.

   This is a website that will take you on a virtual tour of the operations systems production of Chrysler cars. Watch the virtual tour and fill in the following table.

2 Go to the Stihl website via Cambridge weblink http://cambridge.edu.au/redirect/?id=6941. This site takes you on a virtual tour of the Stihl Chainsaw factory. Watch the virtual tour and complete the table.
3 Draw up a table showing differences and similarities between the two operations systems.

Inputs	Transformation steps	Product (output)

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Chapter summary

- Operations covers the actual work done transforming inputs into finished products (outputs). Businesses must manage their operations system in the most efficient and effective manner possible in order to become and remain competitive in an increasingly competitive global business environment.
- There are two categories of finished outputs:
  - Goods are tangible objects that are produced in manufacturing facilities, are easily stored in inventory, produced and consumed separately and involve minimal customer contact.
  - Services are performed intangibles, are not storable, and are often produced and consumed simultaneously.
- The operations system has three key elements:
  - Inputs: raw materials, component parts, human resources, information and knowledge, capital plant and equipment, technology, time.
  - Transformation: The operations manager plans the transformation process. They then organise and lead its implementation and control the production process.
  - Outputs: The final product of the system can be either goods (tangible) or services (intangible).
- Successful operations management and competitiveness: operations management affects competitiveness through costs of production, quality of finished products and the delivery of services associated with products (warranties, for example). An efficient and effective operations system: maximises efficiency, produces high-quality standards, includes ethical and social considerations and assists in the achievement of organisational objectives.
- Productivity is a measure of the ratio of inputs to final outputs and is an important objective of operations management.

Chapter summary questions

1 Define each of the following terms and then explain the relevance or role of each to operations management.
- **a** operations managers
- **b** competitiveness
- **c** goods
- **d** services
- **e** productivity

2 Compare the features of manufacturing and service industries in terms of:
- **a** the features of their products and/or service
- **b** their operations systems
- **c** their objectives.

3 Discuss and explain the importance of maximising productivity and quality levels for business competitiveness.

4 Explain how each of the following factors within an operations system can impact on the level of business competitiveness:
- **a** speed of production
- **b** maintenance of equipment
- **c** quality of inputs

5 Suggest and justify an appropriate measure of productivity for each of the following:
- **a** a hospital
- **b** a brewery
- **c** a secondary school
- **d** a police station
- **e** a market gardener growing tomatoes

6 Differentiate between each of the following:
- **a** production and productivity
- **b** inputs and outputs
- **c** human resources and capital resources
- **d** service industry and manufacturing industry
- **e** raw materials and component parts

7 List and explain the three key elements of an operations system of:
- **a** a school
- **b** a bakery
- **c** a wheat farmer
- **d** an airline.

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Examination preparation

Sunnydayzz Ltd is a manufacturer of solar panels designed for domestic electricity generation. Sunsavers Pty Ltd is a business that installs solar panels on the roofs of its customers. Sunnydayzz Ltd is a supplier to Sunsavers Pty Ltd. Both businesses aim to improve competitiveness through improved productivity.

1 Classify each of the businesses (Sunnydayzz and Sunsavers) according to industry sector and types of products produced.

(2 marks)

2 Compare the features of one good and one service mentioned in the scenario.

(4 marks)

3 Identify and explain the three key elements of the operations system of:

a Sunnydayzz Ltd

b Sunsavers Pty Ltd.

In your answer provide one example of each key element of the operations system of each business.

(6 marks)

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CHAPTER 8
Optimising operations

Overview

The primary goal of the operations manager of a business is to extract maximum productivity and standards of quality from the operations system, while at the same time achieving ethical and social responsibility objectives. They are responsible for optimising, or getting the best out of, the operations system.

In this chapter we examine some of the strategies used by organisations to optimise the operations system. This aims to improve levels of competitiveness in the global market.

More specifically, we look at strategies used to optimise operational performance in terms of both productivity and quality improvement. Strategies involving the following will be examined: technology, materials management, quality management and waste minimisation.

The production system known as 'lean management' will also be studied as a means of minimising waste, increasing productivity and improving levels of quality.

Key terms

- automated production line
- automation
- computer-aided design (CAD)
- computer-aided manufacturing (CAM)
- computer-integrated manufacturing (CIM)
- ecommerce
- inventory
- inventory control
- Just In Time (JIT)
- lean management
- master production schedule (MPS)
- materials requirement planning (MRP)
- mcommerce
- proactive
- product recall
- quality
- quality assurance
- quality circle
- quality control
- robotics
- scanner
- technology
- Total Quality Management (TQM)

Key knowledge

Students will examine strategies used by business in order to optimise an operations system with a view to maximising productivity, quality and levels of social responsibility, and thus competitiveness. Strategies relating to technology, materials and supply chain management, quality management and waste minimisation (lean manufacturing) will be a focus. Students will learn about:

- Strategies to improve the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development.
- Strategies to improve the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just In Time.
- Strategies to improve the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management.
- Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including the principles of lean management.

What's ahead

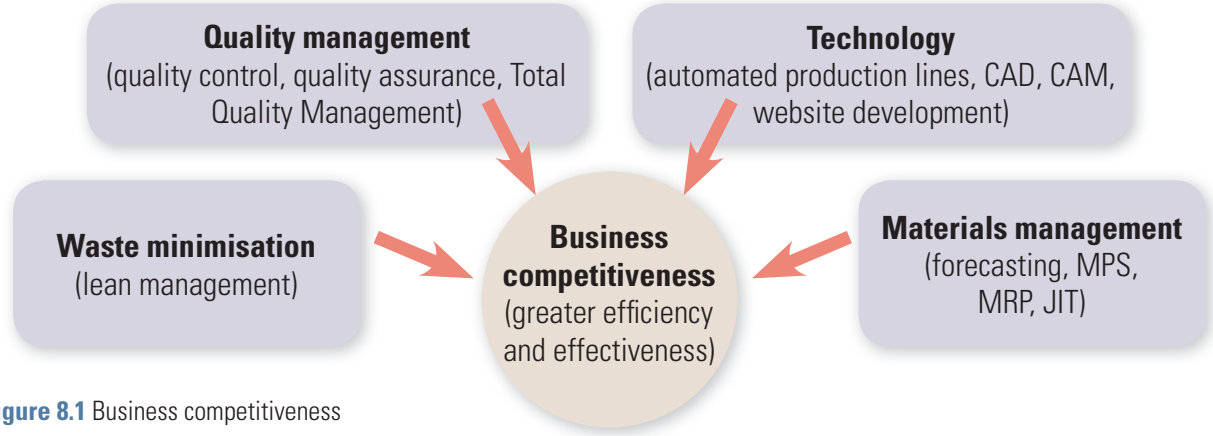


Figure 8.1 Business competitiveness

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8.1 Strategies to optimise operations

Technological development

technology practical application of science to achieve commercial or industrial objectives

A major influence on business operations comes from technological development. **Technology** is the equipment and knowledge available to assist a business to function and create products. Developments in technology may facilitate new methods of production being introduced or new equipment being used to quicken or lower costs of production.

Introduction of new technology into an operations system may offer significant efficiency and quality improvements. While adoption of new technology can mean initial increased costs in its development or acquisition, this must be weighed up against potential improvements in productivity (efficiency) and quality (effectiveness) that the new technology can bring to the business.

A business that fails to keep up with the latest technological advancements will rapidly lose competitiveness. Following are several examples of technological innovation, each of which has added significantly to operational efficiency and the effectiveness of operations.

Automation

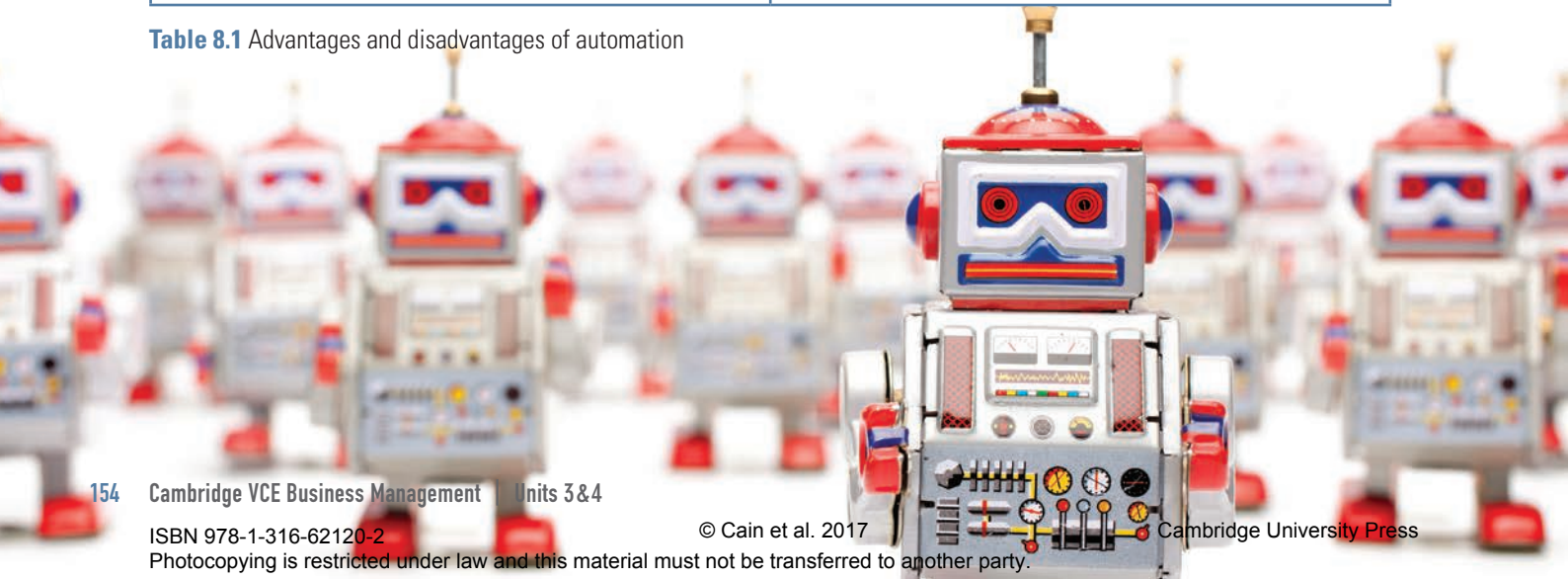
Automation involves replacement of human effort by machinery and technology. Automation has resulted from engineering, mechanics, hydraulics, electric, electronic and computer advancements. Complicated automated systems such as modern factories, aeroplanes and surveillance systems use a combination of these things.

automation replacement of human activity with technology

Most modern manufacturing operations systems and their production lines involve degrees of automation.

Advantages of automation	Disadvantages of automation
Increased production speed	Security threats. An automated system is not able to think 'outside the square' and is therefore more vulnerable to computer hackers and viruses.
Potential to remove dangerous and boring work/tasks	Development costs can be excessive
Reduction in human labour costs	High initial set-up costs – the automation of a plant involves significant capital outlay
Greater precision and accuracy of work done	Social responsibility implication in removal of human employment opportunities
Consistent and improved quality of final output	
Reduction in material waste	
More efficient use of time	

Table 8.1 Advantages and disadvantages of automation



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Figure 8.2 Automation replaces human labour with technology.

Examples of automation

Automated production lines

automated production line process where raw materials enter and finished products leave with little or no human intervention

Automated production lines are utilised in manufacturing industries, usually those that involve mass production such as in the manufacture of automobiles. It is worth noting that the world's most successful manufacturing economies, notably Japan and Germany, have high investment in automation.

An automated production line is comprised of a series of workstations linked by a transfer system and an electrical control system. Each station performs a specific operation and the product is processed step by step as it moves along the line in a predefined production sequence. Each workstation is linked to the next by an automated transfer system which moves products between stations and is designed to perform a specific processing operation or task. The product is constructed step by step at each workstation.

All of the operations, transfers and activities on an automated production line must be sequenced and coordinated for the automated line to operate efficiently. Computers do this by facilitating connections between the equipment. Timing and sequencing of all equipment is controlled by computers.

The requirement for labour as an input in the operations system is reduced significantly with an automated production line. The human role is reduced to the areas of system design, making adjustments to equipment, supervision and monitoring rather than controlling the system directly.



Figure 8.3 Automated production lines are controlled by technology. Human involvement in the production process is minimised.

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An automated production line offers the advantages of improved productivity through lower labour costs, reduced production times and overall lower unit costs of production. Production is faster, more stable and accurate with reduction in human error. Automation also offers greater levels of workplace safety as dangerous tasks such as those involving toxic materials or situations, such as mining, can be performed by technology rather than humans. Repetitive, boring and difficult physical jobs may also be replaced by automation.

However, there are disadvantages with the adoption of automated production lines. The most significant is the huge initial costs involved in purchase and development of automated systems. Ongoing maintenance of equipment is also likely to be high as it involves employment of a highly skilled group of maintenance workers with IT training. This creates significant labour costs. The social costs of automation in reducing available employment opportunities are another drawback.

Computer-aided design (CAD)

computer-aided design (CAD) computer program that facilitates creation and modification of design

Computer-aided design (CAD) is a computer program that streamlines the creation and modification of product design. It has become standard in most manufacturing and design businesses. CAD speeds up the process of product design and increases accuracy. It is costly to introduce but saves time and money in the long term.

This software has allowed for the creation of three-dimensional diagrams from given data, thereby allowing for more accurate predictions of what the final product will look like from all angles, as well as more accurate cost analysis. CAD allows architects, engineers and designers to draw and adjust three-dimensional designs based on client requirements. Email allows a client to review a CAD from anywhere in the world, make comments and request alterations. CAD may be linked directly to a manufacturing process using CAM (computer-aided manufacturing) software. Product specifications can be passed onto the CAM system to subcontractors and suppliers.

The development of CAD means that technical documents can be produced three to four times faster than by using manual methods. CAD takes the tedium and errors out of product design. CAD documents are also more accurate, flexible and manageable.

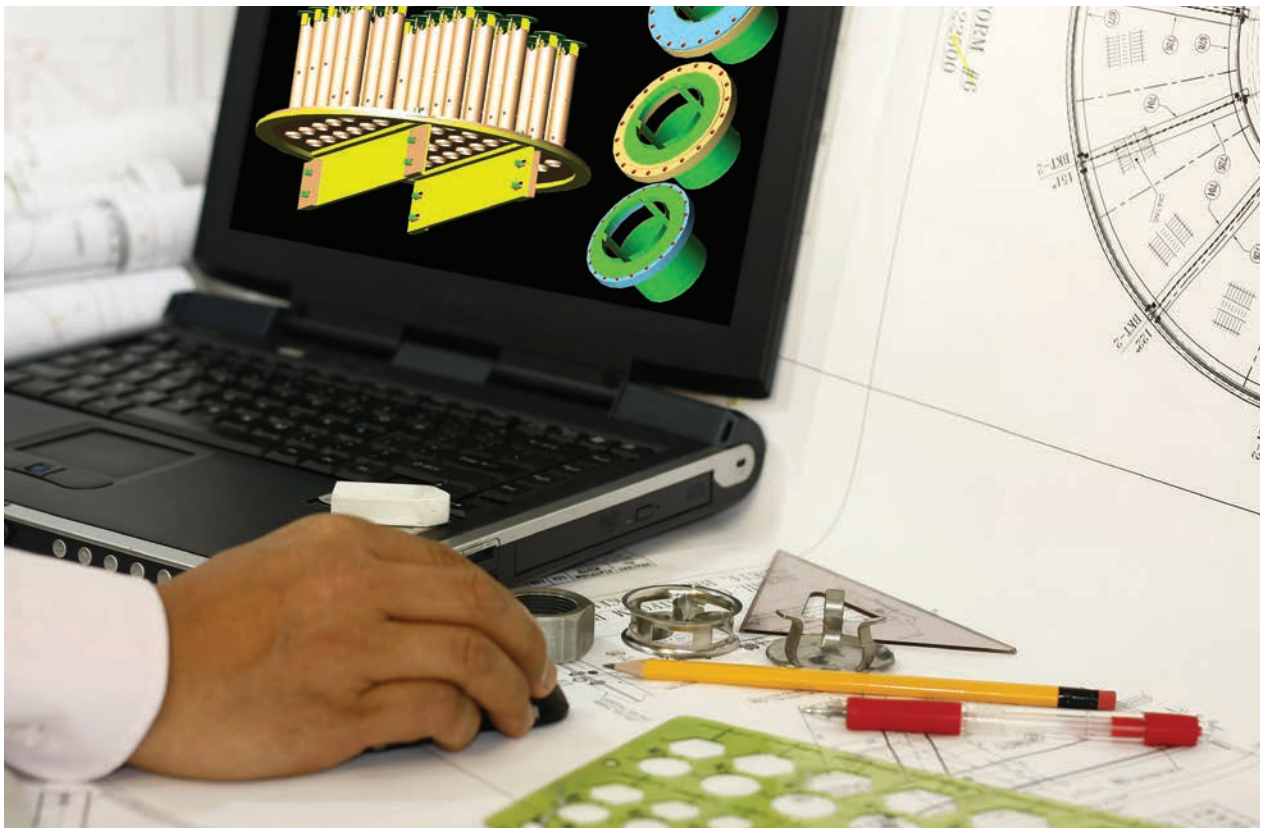


Figure 8.4 CAD has meant that 3D technical documents can be produced three to four times faster.

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Computer-aided manufacturing (CAM)

Computer-aided manufacturing (CAM) involves control of machinery, tools and equipment through a computer. Machines are fed programmed instructions from a central computer, allowing for greater precision and less margin for error. CAM also reduces the need for manual resetting of machinery, which saves on time and labour costs. Using CAM, large sections of production can be controlled with greater efficiency, fewer errors and less staff. Time is saved and fewer mistakes made.

Computer-aided manufacturing (CAM) computer-controlled manufacturing



Figure 8.5 Computer-aided manufacturing controls machinery tools and equipment through a computer.

Computer-integrated manufacturing (CIM)

CIM, a combination of both CAD and CAM, is a computer program which controls and directs production from start to finish. CIM directs planning cost estimations, inventory planning and control and quality control systems.

Flexible manufacturing systems (FMS)

FMS creates total computer control of all aspects of the operations system involving CAD-based equipment, with automated transport systems delivering component parts and raw materials in the correct quantities just as they are required. Computers detect things such as machine breakdown and notify operators about the correct replacement parts required. They also reset equipment when it is required in order to produce different product types according to different specifications within reduced set-up times and allow far greater flexibility.

ACTIVITY 8.1

Research Amazon's warehouse system and complete the following tasks. (*Hint*: Search 'Amazon warehouse robots'.)

1. Describe how this system might increase productivity at Amazon.
2. Describe the disadvantages you can see with this system.

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Robotics

Robots are programmable machines with the ability to detect changes in the environment. Initially built to complete repetitive tasks, modern robots are beginning to have a degree of artificial intelligence.

Robots offer significant cost savings and efficiencies. They reduce labour costs and are not subject to human error. Robots work without breaks and do not, as human employees do, suffer from boredom, require breaks, become ill or demand to be paid a wage.

Robots do, however, incur costs via maintenance requirements and may experience mechanical failure.

robotics use of robots to perform manual tasks; a form of automation

The use of **robotics** has become widespread in industry. Initially, robots were introduced in Japan to complete tasks such as precision assembly of circuit boards. Car manufacturers also understood the benefits of introducing robots to their assembly lines. They not only reduce the costs of labour, but are able to continue working for long hours without breaks. Robots on production lines are programmed and controlled by computers. They can be programmed to handle a number of different products which are being assembled on the production line. The mining industry has replaced a large part of its labour force with robots and automated (driverless) trucks. Warehouses such as Amazon have deployed automated robotics systems to load and select stock.

ACTIVITY 8.2

Select one of the following types of technology.

- personal computers
- smartphones and hand-held devices
- social media
- robotics
- cloud technology
- scanners

1 Research and write a brief history about the development of the technology.
2 Identify and summarise how this technology is used in twenty-first-century business.
3 Outline the benefits this technology has brought in terms of productivity and product quality.
4 Identify and explain two disadvantages that the technology brings.



Figure 8.6 The personal computer means storage costs have been significantly reduced and filing cabinets are redundant.

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Technological developments in the service industry

Technology has also impacted significantly on the operations of service-based industry.

- Computerisation of the workplace has reduced operating costs and made significant time economies. Businesses are able to create and easily access data bases. Information is now easily and quickly accessed through computers. The need for storage space has also been reduced as filing cabinets are no longer required to hold business records.
- Global positioning systems (GPS) have assisted businesses with their logistics. They can track vehicles, such as delivery vans, buses and taxis. Logistics company Brambles is planning to place GPS chips into the pallets it supplies to other businesses so they are able to track the movement of these pallets. This will be a cost saving for Brambles as in the past it has lost large numbers of pallets, costing it considerable sums of money.
- Booking and appointments are increasingly being made via the internet.
- Business-based intranet has improved communications and time required to locate and access data.
- **Scanners** have reduced costs and transaction times in retail stores. Many large retailers have reduced staff by introducing self-serve checkouts. A scanner can take a variety of payment methods, dispense change and determine if an item has not been paid for. Staff are only required to monitor and correct problems, thereby reducing labour costs.
- Portable hand-held devices with access to the internet at broadband speed, such as tablets and mobile phones, have also greatly increased productivity levels.
- Mobile apps have proliferated. Businesses use these in multiple ways; for example, sharing documents and making voice calls. These can also be useful for marketing a business.
- Easy access to the internet has meant that many employees are able to work from home, saving office overheads. This also means that a business is accessible to customers/clients 24 hours a day, thus improving productivity.
- Web conferencing and webinars allow for face-to-face meetings and seminars when people are in different locations, thus reducing travel costs and increasing productivity.

scanner a device for sensing recorded data (as in a bar code; for example, a supermarket scanner

Figure 8.7 Self-service checkouts have revolutionised large retail businesses.



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- Email has become the dominant form of written communication. It has the advantage of being instantaneous and free. Email has advanced the global market with immediate information transfer. It is self-documenting and provides an audit trail.
- The cloud: Cloud computing involves storing and accessing data and programs over the internet instead of a local computer hard drive (local storage and computing). Cloud computing can be done anywhere and anytime. When something is in the cloud, it means it is stored on servers on the internet instead of a computer. It allows access to calendars, emails, files and more from any computer that has an internet connection. Businesses sign a contract with an external service provider who provides storage and is usually responsible for maintaining the cloud application, including software updates and settings. Some providers also maintain physical computer hardware.

Cloud computing offers the following potential benefits to an operations system:

- A virtual office can be set up anywhere, allowing the flexibility of connecting with files anywhere and anytime. The increasing use of web-enabled devices such as smartphones and tablets allows immediate access to data outside the office. For example, a builder on-site would be able to access designs and legal documents online.
- Reduced IT costs in managing and maintaining IT systems; fewer IT technical staff are required.
- Reduced energy consumption required to run servers.
- Fewer time delays.
- Data stored in the cloud is backed up and protected in a safe and secure location and is not lost when an internal server goes down. Data is protected from natural disaster and power failure.
- Increased ability to communicate and share information. If working on a project in several locations cloud computing gives employees, contractors and others access to the same files immediately.
- Greater flexibility, as data can be accessed from home, while on holidays, overseas and during a commute to work. This increases productivity.

Website development

In the twenty-first century the development and maintenance of an accessible and easily locatable business website is vital to competitiveness. Whereas in the past, potential customers used print such as the Yellow Pages to locate and access information about businesses, nowadays the first port of call is an internet search engine such as Google or Bing.

Customers invariably research businesses, their products, menus, location, special offers and product benefits via business websites. For this reason a business website is a vital marketing tool which must



Figure 8.8 Cloud computing offers significant productivity improvements.

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be easily accessible and visually appealing. A website establishes credibility and is often a competitive advantage. It also offers improved communication with customers and suppliers. A business website is also an increasingly important avenue of sales through ecommerce.

Ecommerce and use of the internet

It is easier than ever for a business to set up an online shop. Most businesses have their own 'home page' used to provide information and services to their customers. Potentially billions of people have immediate access to any website. People are increasingly choosing to make purchases online; therefore, the website has become a vital aspect of any twenty-first-century business. At the very least a business requires a website in order to reinforce it is are modern and accessible. **Ecommerce** has grown exponentially. In the past two years, more than 30 of Australia's top 50 retailers have established an eBay shopfront. Myer, Officeworks and Target have chosen this strategy as a way of reaching customers already familiar with using eBay while having the added benefit of being a low-risk and low-cost investment.

ecommerce buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet

Effectiveness and efficiency improvements offered via ecommerce

- Costs are significantly less than those of setting up and running a 'bricks and mortar' business. An online business can be established for minimal cost. Marketing costs are also significantly less.
- A website is accessible to customers worldwide 24 hours a day every day of the year. In effect you can sell while you sleep! Selling online allows a business to reach a wider audience worldwide. Online business is environmentally friendly. There is less petrol usage and less paper. This also reduces costs and improves efficiency. Customer feedback is easy to obtain. It is also easy to track how customers found you (which search engine they used, etc.). This reduces market research costs and therefore enhances efficiency.
- Marketing costs are reduced through the use of e-newsletters and email marketing. This improves productivity (efficiency).
- Customer service can be provided more effectively and immediately, thereby improving business effectiveness.

Online trading is increasingly important to business. A business website is therefore important to business competitiveness.



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CASE STUDY 8.1

The growth of online commerce

Australians love shopping with smartphones. Research conducted by PayPal and IPOS on more than 17 500 Australian and overseas online shoppers found the following:

- Mobile (m) commerce accounted for more than 30% globally of ecommerce transactions. Of this 33% was on fashion and luxury items and 27% on travel.
- **Mcommerce** was growing at almost three times the speed of online retail as a whole (ecommerce).
- From 2013 to 2016 mobile commerce in Australia was expected to increase by 204% compared to 43% worldwide.
- Globally from 2013 to 2016 retail online sales were expected to grow by 13% worldwide overall.
- Fifty-nine per cent of Australian smartphone users who engage in mobile commerce are 18 to 34 years old.
- Forty-four per cent of online sales to Australians are to customers 18 to 34 years old.

mcommerce the use of wireless hand-held devices such as mobile phones and laptops to conduct commercial transactions online



Figure 8.9 Mcommerce has been growing in Australia.

Analysis

1. Define:
   - **a** ecommerce
   - **b** mcommerce.
2. What percentage of retail ecommerce sales worldwide is in fact mcommerce?
3. By what percentage were Australian mcommerce retail transactions expected to grow during 2013 to 2016? Evaluate how this compares with:
   - **a** the rest of world growth in mcommerce
   - **b** online retail sales overall (ecommerce).
4. Identify the age group in Australia responsible for the largest number of mcommerce transactions and explain why you think this is the case.

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8.2 Materials management

Effective and efficient management of the materials requirements of a business has a direct link to how competitive a business is in the marketplace. Materials management relates to the inward flow of materials including movement and storage of raw materials, work-in-process inventory, and finished goods from point of origin to point of consumption.

Aspects of materials management include forecasting, the procurement of supplies, master production scheduling, materials requirement planning, managing inventory using Just In Time (JIT) and distribution of finished products to customers (logistics).

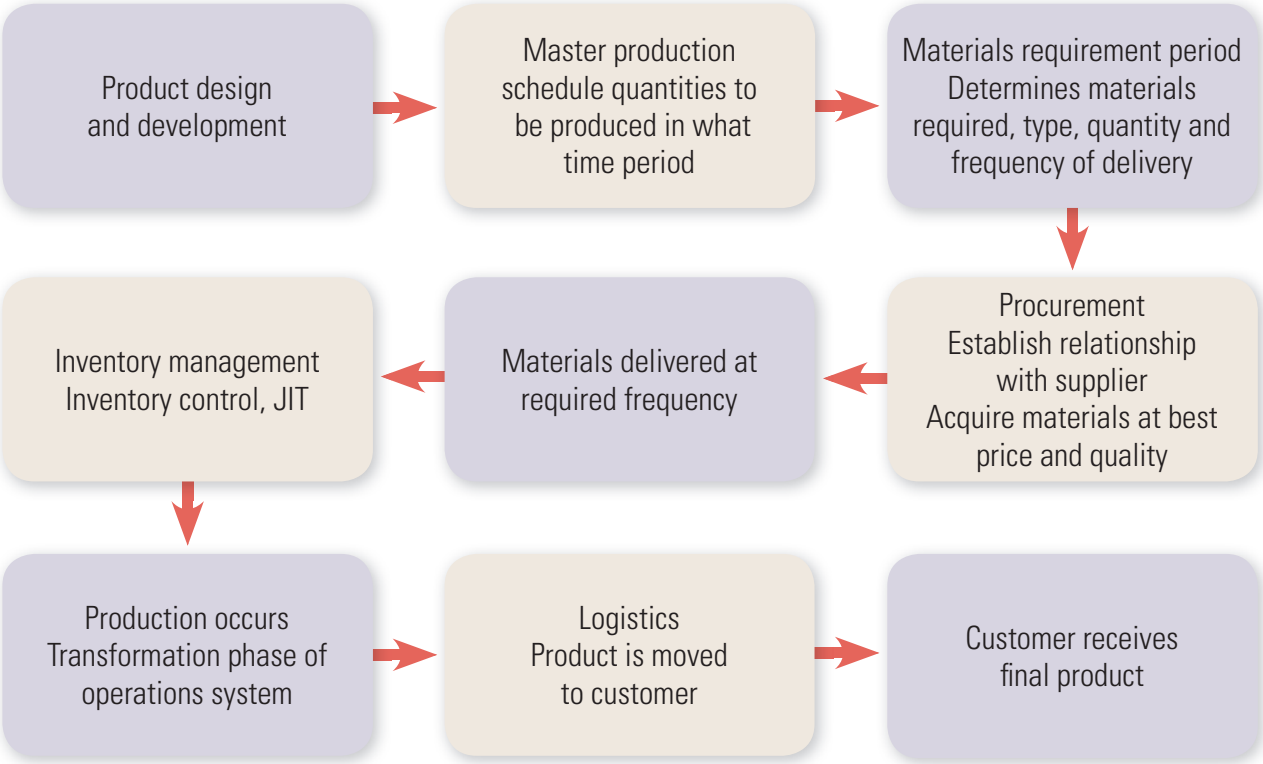


Figure 8.10 Effective and efficient materials management is vital to maintaining competitiveness.

Forecasting and procurement of inputs

The job of a materials manager is to provide the right materials in the right quantities and levels of quality at the right time, at the right price from the right source. Locating and acquiring a regular and reliable supply of high-quality inputs is vital to efficient operations management. Contracts need to be established with reliable suppliers of high-quality inputs.

In order to do this an operations manager must locate sources of supply, negotiate the best price, place purchase orders, follow up, maintain good relations with vendors, approve, evaluate and rate vendors.

The first step is forecasting which materials will be required and in what quantities. Timing of orders and reordering must also be planned. The following factors must be considered.

- **Supplier lead-in time:** Suppliers require prior warning of orders. Component manufacture, for example, may take some time so orders must be made in advance to allow for this.
- **Future price changes:** This possibility must also be considered. Prices may change due to seasonal variations, world market conditions, changes in the value of the Australian dollar or potential industrial action at a supplier's production facility.



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Tools designed to optimise materials forecasting and planning

Master production scheduling

master production schedule (MPS) a statement of what a business intends to produce, in what quantities over a set time frame taking into account forecast customer demand and production costs

Production scheduling involves setting out the production requirements and breaking these down into stages. A **master production schedule (MPS)** shows exactly what will be produced in what time frame. It outlines delivery dates and when contracts are to be met. The MPS allows the operations manager to analyse production capacity requirements ahead of time and to allocate additional resources if required.

MPS specifies the:

- quantities and types of production over daily, weekly and monthly periods
- quantities of inputs that will be required to meet these output levels over each time frame.

Computer software has been written to assist businesses to generate a plan that sets out exactly what will be produced and in what quantities over a designated time period. Quantities to be produced within a time frame are detailed, as are the levels of input required.

Materials requirement planning and scheduling

MRP is a computer-based inventory management system designed to assist the operations manager with scheduling and placing orders for materials. Working backwards from the MPS, the MRP develops material requirements for input materials so the correct quantities of product are produced within the desired time frame. The MRP determines what materials will be required in what quantities and when. It assists productivity levels by:

- ensuring sufficient inputs are on hand to meet production requirements
- minimising inventory costs
- planning operational activities, delivery schedules and purchasing activities.

A schedule containing an itemised list of the types and amounts of input materials required to meet the MPS requirements is drawn up using anticipated and real customer orders. The following factors should be considered in doing this:

- Supplier lead-in time: Suppliers will take time to obtain or produce an order. Component manufacture, for example, will take time; similarly transport and delivery times must be taken into account.
- The exact amounts of materials required: Opportunities to take advantage of reduced prices for buying in bulk may be considered.
- Possible future price changes in materials caused by seasonal variations, changes in the value of the Australian dollar or other reasons should be factored in.
- Planning must occur to ensure that sufficient quantities of materials are kept in storage (inventory) to enable production to continue.
- Contracts with suppliers should be established to ensure regular and reliable supplies of input materials.
- Systems must be established, to keep inventory at required levels and avert theft and loss of materials while in storage (e.g. JIT).



Figure 8.11 Management supply chain

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Optimising operations through inventory management and Just In Time

inventory the holding or storage of raw materials, component parts, work in progress and finished goods

Inventory is storage of:

- raw materials and component parts
- unfinished production
- finished goods ready for distribution.

Inventory takes up storage space and is therefore a cost. The aim of inventory management is to ensure that correct quantities of parts and materials are available for the operations system to keep running, while simultaneously ensuring that there are sufficient finished products to satisfy demand. This must, however, be balanced against the costs of storage.

If inventory fails to hold sufficient quantities of a required input the entire operations process could come to a halt. On the other hand, excess inventory takes up space and is a cost to the business. Optimal inventory levels must be clearly identified and monitored, and re-ordering procedures put into place. Acquisition of materials must be planned to ensure timely and uninterrupted supply of the necessary inputs and components. Sources of supply for raw materials and components must be identified.

Inventory management and planning necessitates decisions regarding:

- how much to order (quantities to replenish)
- timing of ordering (when to order)
- control of the stock security system.

There are two important aspects to optimising inventory:

- Developing a reliable and accurate inventory system that determines what items to order, in what quantities. The goals are to maintain a level of inventory that allows production to continue without any delays, while avoiding the cost of excess stock.
- A system of **inventory control** that determines how and when to store items, that is capable of tracking movement of raw materials, components and part-completed units while protecting against loss from theft or damage.

inventory control system of overseeing the contents of an inventory; usually involves maintaining correct levels of stock as well as averting stock loss and theft



Figure 8.12 Careful planning is involved in inventory management.

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Most organisations have computerised inventory records, resulting in vastly improved accuracy of recording systems and reduced opportunity for stock damage, loss and theft. The use of a barcode scanning system has largely replaced the physical stocktake.

Examples of improvements in inventory management and control are:

- New mechanical and automated warehousing equipment has significantly improved efficiency through easier stock movement.
- Computerised stock control systems with bar coding, enabling greater control over order assembly, stock availability and monitoring.
- The **Just In Time (JIT)** system of inventory management from Japan has grown in popularity.

Just In Time (JIT) an inventory management system which aims to avoid holding any stock (either as inputs or finished goods). Supplies arrive just as needed for production, and finished products are immediately despatched or sold to customers.

JIT involves the reduction/minimisation of inventory levels in the supply chain, thereby reducing inventory costs. Inherent to JIT is the availability of products in the required amounts at the right time at every stage in the production process, while at the same time minimising the use of materials, equipment, labour and space. JIT systems eliminate waste and storage costs by having all operations completed just in time for the next stage to commence, thereby reducing production costs via reduced lead times, reduced inventory holdings and subsequent decreased inventory storage space requirements. For retailers, JIT means only carrying enough inventory on hand to meet the immediate needs of customers.

JIT processes are driven by technology. Buyers and suppliers commonly use electronic data integration to synchronise computers. This allows automatic alerts to be sent to suppliers when product inventory reaches a critical level. A supplier receives the message and sends out a new order. Removal of manual processes of monitoring inventory and calling in orders is vital to JIT. While JIT offers great potential for productivity improvement and cost savings, it does have potential drawbacks.

Disadvantages

- JIT depends on reliable and frequent deliveries of materials. Inputs must be received just as they are required and less inventory is held as a buffer. Any factor affecting delivery schedules has the potential to completely shut down the production process. Industrial action at a manufacturer of one component used by all of Australia's car manufacturers has, for instance, resulted in all car production closing down in Australia at the same time.
- JIT allows less time for checks on the quality of materials as they arrive.



Figure 8.13 A Just In Time system of inventory management aims to reduce inventory costs.

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- Ordering and administration costs may increase with the requirement for more frequent orders.
- Bulk buying discounts may be lost.

Key elements of the Just In Time system

- JIT aims to reduce costs through minimisation of inventory.
- Small quantities of inputs, such as raw materials and component parts, are delivered more frequently with a view to meeting immediate requirements. Large stockpiles are therefore avoided.
- Inventory is replaced as it is used.
- Employee participation is required to identify wasteful work practices and eliminate these on a continuous basis.



CASE STUDY 8.2

ALDI

ALDI has more than 4000 supermarkets in over 18 countries. ALDI's competitive pricing strategy is the way that it stands out from the competition. For example, its home-branded products are often cheaper than its rivals, by 30% or more. To achieve these prices, ALDI relies on being highly productive and efficient. This competitive strategy is also known as 'lean thinking'.

An important aspect of 'lean thinking' at ALDI is the use of a Just In Time system of inventory management.

ALDI stores only hold stock immediately required for sale. Consequently, less capital is tied up in idle stock not generating income. Warehousing costs are reduced as smaller areas are required to hold stock and fewer staff and equipment are needed to operate warehouses as a result. Products are delivered to ALDI in display ready cases. These can be placed on display immediately without the need for unpacking and stacking of shelves. This is both quick and efficient.

McDonald's

McDonald's stores also employ a system of JIT inventory management. Staff do not commence cooking burgers until a customer has placed a specific order. There is also use of sophisticated technology in kitchens enabling the making of an order in shorter time. This has resulted in reduced wastage as fewer unsold items are made and uncooked materials have a longer shelf life. Quality improvements have also been possible through customisation of burgers to suit individual customers.

Analysis

1 Describe what JIT inventory management is and the principles on which the system operates.

2 Explain how ALDI implements JIT in its stores.

3 Describe how McDonald's stores use JIT.

4 Analyse the potential benefits of using JIT for ALDI and McDonald's.

5 Analyse the potential disadvantages the use of JIT may bring to businesses like ALDI and McDonald's.

6 Write a paragraph about JIT including several 'deliberate mistakes'. Share this with at least two other people. Identify the deliberate mistakes in each other's work.

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Figure 8.14 An effective and efficient supply chain is vital to business success.

Transport and distribution (logistics)

An efficient system of transporting finished products to customers is required. This may involve contracts with transport specialists such as couriers. Frequency of deliveries must be established, as must routes to be taken.

Quality management

quality the degree of excellence in a good or service and its ability to satisfy the customer

Quality is the degree of excellence in a product and its ability to satisfy client/customer requirements Consumers generally base purchasing decisions on quality and price, looking for the best possible quality at the lowest price. Organisations with a reputation for quality products and service have a distinct competitive advantage. Similarly, those who are able to develop operations systems of a higher quality standard enjoy significant advantages in terms of operating costs through minimising waste and defect rates.

Quality management programs are therefore a means of enhancing organisational competitiveness.

Quality management may take one or a combination of quality control, quality assurance and **Total Quality Management (TQM)**.

Total Quality Management (TQM) a concept whereby all staff in a business have responsibility for its process and output

• durability • maintainability • speed of service • design • features • reliability	• performance • responsiveness • aesthetics • consistency • ease of use • uniformity • dependability	• customer satisfaction • availability of spare parts • conformance to standards/ specifications • after sales service

Table 8.2 Factors determining quality

Quality management programs aim to:

- minimise waste and defect rates in production, thereby maximising operational efficiency and productivity
- obtain consistently high standards of product and service at every stage of production
- achieve set quality standards or benchmarks.

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ACTIVITY 8.3



Figure 8.15 Platinum credit card



Figure 8.16 Product quality and discount labels



Figure 8.17 Qualification



Figure 8.18 Gourmet burger



Figure 8.19 Business wear



Figure 8.20 Smartphone

List and explain the characteristics you would look for in each of the following products/services for it to be judged as 'high quality'.

1. a hospital visit involving surgery
2. a pushbike
3. a fried chicken meal
4. a pair of sunglasses
5. a kitchen renovation
6. a hair dryer
7. a visit to a restaurant

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Figure 8.21 Quality control: recall of suspected hazardous products

Quality control

quality control process of checking the quality standards of work done or quality of raw materials or component parts

product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

Quality control involves the use of a series of physical checks at different stages of production to ensure that products and services meet designated standards and errors are eliminated post-production. Defective products are rejected and may be sold as 'seconds'. Quality control is reactive and aims to detect and eliminate defects after they occur. Once detected, operations management decides whether production needs to be halted to fix the problem's cause or not. At times, a **product recall** becomes necessary to rectify problems with units already sold. For example, the Smith's Snackfood Company issued a recall on its salt and vinegar chips as a precautionary measure after some packs were found to have pieces of rubber in them.

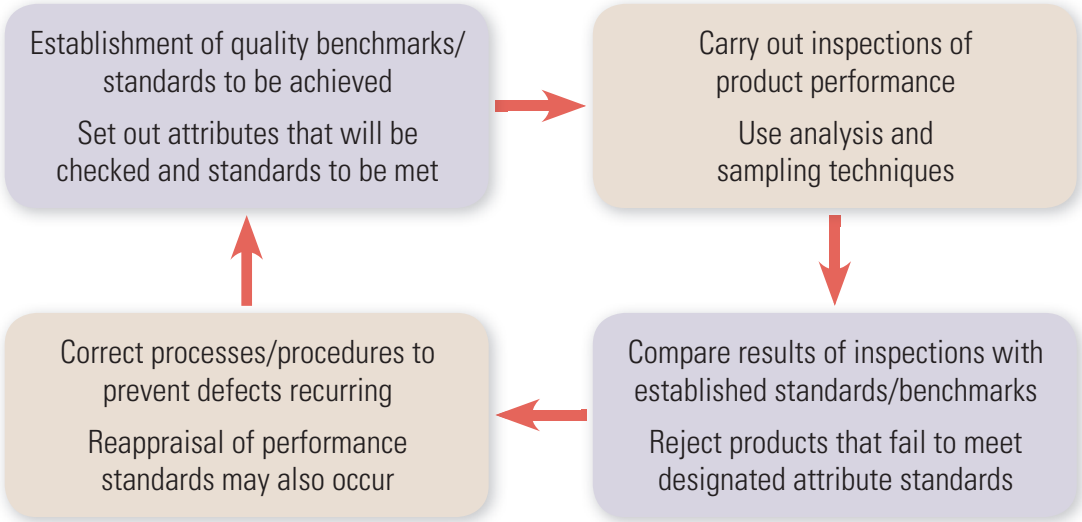


Figure 8.22 Quality control stages

Quality assurance

quality assurance a system established to ensure that predetermined quality standards are achieved

proactive using initiative to gain an opportunity; acting in anticipation

A **quality assurance** system aims to build quality into work processes, thereby avoiding errors before occurrence. It is a **proactive** process that may involve use of an external organisation called a 'certification body', which audits against published national or international standards. Attaining certification entitles an organisation to display certification marks. SAI Global is the best-known Australian certification body which issues certification against published International Organization for Standardization (ISO) standards. The right to use recognised certification marks provides confidence to an organisation's stakeholders, adds great potential for selling into export markets and demonstrates a huge competitive advantage in globalised markets over its non-certified competitors.

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While different quality standards apply to different types of organisations, standards usually cover aspects such as:

- specific processes to be adopted in regards to customer satisfaction, continuous improvement and the production process
- training of staff
- documentation of processes
- controls
- corrective action
- auditing of processes.

Quality assurance is growing at a rapid rate among Australian organisations as globalisation increases international competition and the quality expectations of Australian consumers.

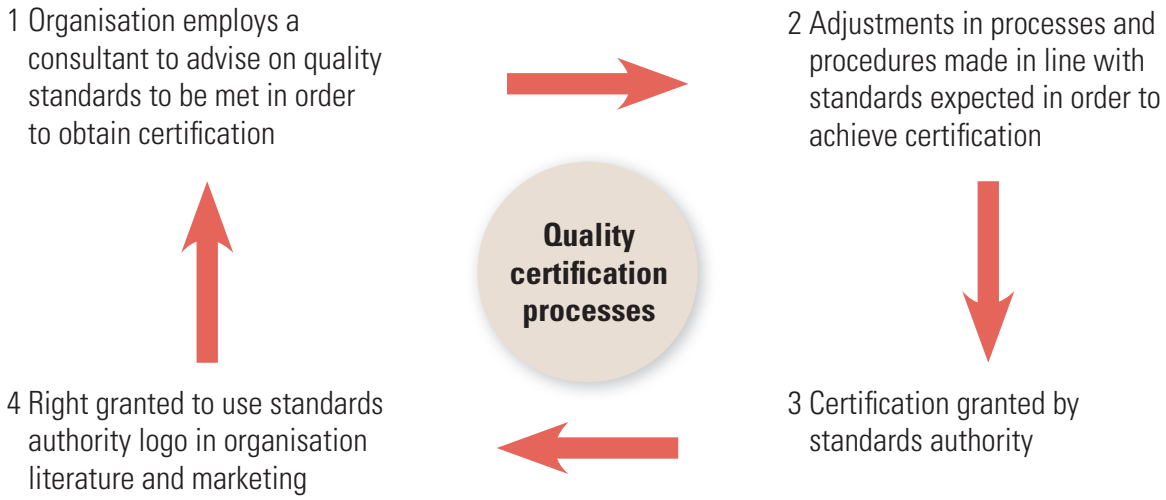


Figure 8.23 Quality certification processes

Certified System™
Quality
ISO 9001
SAI GLOBAL

Figure 8.24 This is a certification trade mark owned by SAI Global Limited. Only parties certified by SAI Global to ISO 9001 on SAI Global's terms and conditions have the right to display this mark in the context of the goods or services subject of certification.

Certified Product™
Australian
Standard

Figure 8.25 Quality assured mark

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ACTIVITY 8.4

Go to the International Organization for Standardization website and answer the following questions

1 Explain what an ISO standard is.
2 How many ISO standards exist?
3 Click on 'Learn about ISO 9000 Quality Management'.
   - **a** List and outline the standards in the ISO 9000 family.
   - **b** How many companies use the ISO 9001 standards worldwide?
   - **c** Describe what ISO 9001 aims to achieve.



Figure 8.26 International Organization for Standardization

Total Quality Management (TQM)

TQM is a holistic approach to quality where all members of an organisation aim to participate in ongoing improvement of organisational culture and production processes. All organisational members are required to have a commitment to ongoing, incremental quality improvements in everything they do. Employees are placed into a work group known as a **quality circle**, and are required to work together to achieve quality improvements on an ongoing basis.

TQM is a totally integrated, management-led effort aimed at improving performance at every level of the enterprise and in every aspect affecting competitiveness and customer satisfaction.

quality circle a group of workers who meet regularly to discuss quality and production issues. Any proposed changes to production methods are then put forward to management.

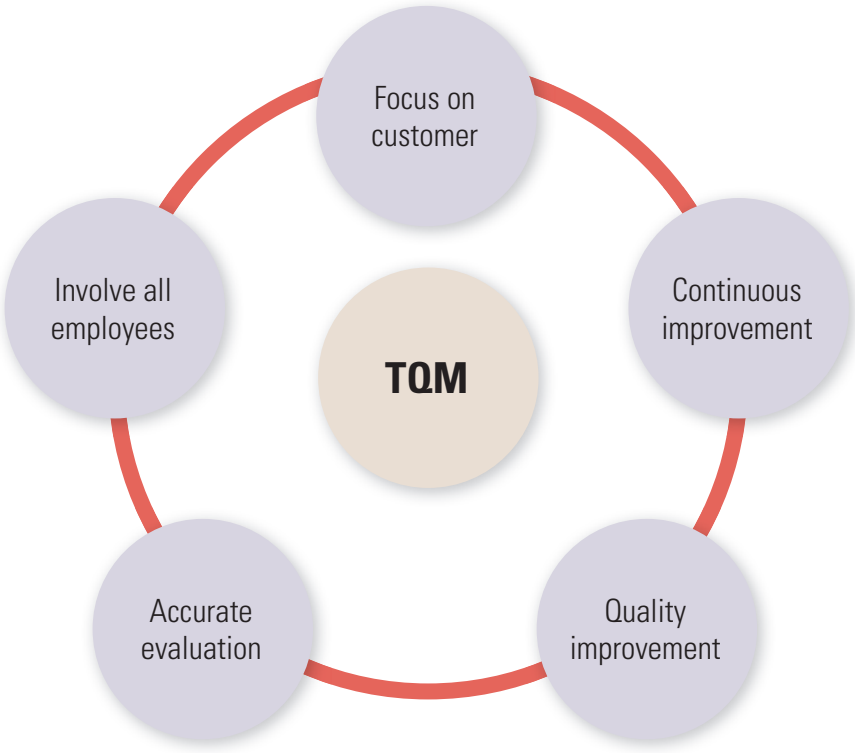


Figure 8.27 TQM essential components

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W Edwards Deming

An American statistician named William Edwards Deming developed TQM after World War II. He had been sent to Japan to assist in rebuilding its industry base after it had been devastated by wartime bombings. He introduced new quality control concepts to the Japanese, with his central idea being to change the production system to prevent defects rather than simply detecting and throwing out the defective products after they had been made.

Deming's definition of quality was 'meeting or exceeding the needs and expectations of the customer'. The goal of a business is to ascertain what customers want, and then fine tune processes to ensure they get it. 'Customer' refers to both internal and external customers. Every work group has a customer: the person who receives their output. TQM states quality should be the responsibility of everyone in the organisation.

The Japanese adopted Deming's ideas and developed these. The application of process improvement was extended so that the quality concept applied to an entire organisation.

Japanese industries now have a worldwide reputation for high standards of quality and workmanship. Much of this improvement can be traced to the adoption of quality management practices and procedures. During the 1980s, western manufacturers began to adopt quality concepts and added other management techniques in the area of employee motivation, measurement and rewards in response. This blend of quality management techniques and philosophies is generally referred to as Total Quality Management.



Figure 8.28 Statistician William Edwards Deming

Core TQM concepts

1 Continuous process improvement

- People view their work as one step in a continuous process rather than in isolation.
- A process is a sequence of tasks, which together produce a product or service. Every workgroup has a supplier and a customer before and after them in the process.
- The way to improve quality is to ascertain who the customer is and what they need, and improve processes to meet these needs.
- Teams are established to analyse problems and processes and implement solutions.
- Continuous improvement takes place in small, incremental steps and never stops. You are always looking for a better way of doing things.

2 Customer focus: everyone has a customer

- External customer – person who purchases the final product.
- Internal customer – those who use what your workgroup provides.
- Workgroups determine ways of providing greater value to customers.
- Involves finding out exactly what the user needs and wants, and ensuring that the process provides it.

3 Defect prevention

- TQM is proactive. It aims to prevent defects in products before they occur.

4 Universal responsibility

- Quality is not just the responsibility of the inspection department. Every workgroup is concerned with seeking ways to improve the quality of their own product.

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CASE STUDY 8.3

The Toyota culture of continuous change

TPS, or lean, has been around for a few decades – the concepts and tools are not new. Companies embrace the lean tools but do not understand how they work together as a system. They will adopt a few of the lean tools but always fail to recognize the most powerful principle that Toyota recognized decades ago: a continuous improvement culture is needed to sustain lean.

At Toyota, everyone within the organization, from executives to shop-floor workers, is challenged to use their initiative and creativity to experiment and learn. We often hear labor advocates criticize assembly line work as being oppressive, and claim that menial labor robs workers of their mental faculties. However, this could not be further from the truth with respect to lean. When Toyota sets up assembly lines, it selects only the best and brightest workers, and challenges them to grow in their jobs by constantly solving problems. All areas of the organization (including sales, engineering, service, accounting, human resources, etc.) are staffed with carefully selected individuals, and the company gives them directives to improve their processes and increase customer satisfaction.

Toyota invests time and money into their employees and has become the model for a true learning organization. The importance of teams and teamwork is a way of life: team-building training is required, and it is put to practice daily. This investment in its employees far exceeds that of the typical organization that focuses on making parts and counting quarterly dollars.

...

To truly understand the power of a continuous improvement culture, we again look to Toyota. Toyota employees generate more than one million process improvement ideas annually. The more astounding number is the fact that 90 percent of those ideas are implemented. There is no secret to why this occurs. Toyota executives have created a culture that encourages and rewards this behavior.

Whether you are beginning or continuing your lean journey, the transformation to a continuous improvement culture is vital to your success.

(Source: David McBride, 'The Toyota culture of continuous change', Reliable Plant website.)



Figure 8.29 Through its efficient work practices, Toyota is considered to be a 'learning organisation'.

Analysis

1. Describe how Toyota employs the Total Quality Management program in their production process.
2. Describe the importance of each of the following to the quality management program of Toyota.
   - **a** Employee participation in decision-making
   - **b** Work teams
   - **c** Corporate culture

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8.3 Improving productivity through lean management and waste minimisation

Optimisation of an operations system in order to improve productivity can also be brought about through the introduction of waste minimisation strategies. A focus on waste reduction can help address high raw material prices, rising costs of hazardous waste treatment and disposal, and pressure to increase the sustainability of operations. Faced with regulations, public pressure, landfill shortages and the need for increased resource efficiency, companies are moving away from the waste treatment approach and towards waste prevention.

Businesses are being forced to change the way they manage waste. Waste prevention techniques are increasingly utilised in business. These are commonly summarised as the so-called 4Rs: reduction, reuse, recycling and recovery.

- **Reduce** the use of resources.
- **Reuse:** If waste is produced, effort is made to reuse it where practical.
- **Recycle:** To recycle waste material into useable products.
- **Recovery:** Sometimes it is possible to recover materials or energy from waste which cannot be reduced, reused or recycled.

By practising waste prevention, reusing products, recycling and making environmentally conscious purchases, businesses can cut costs and increase profits. Cost savings take the form of:

- lower waste disposal costs
- lower waste treatment costs
- lower energy costs
- savings on materials and supplies
- a reduction in regulatory compliance costs
- lower storage costs
- cost recovery through the sale of recyclable materials
- cost recovery through sales of 4Rs technologies developed through research and development.

Reduction of waste generated by a business organisation will usually result in significant cost savings and productivity improvements. Waste removal and disposal can be significant expenses. Unused scrap and other material that are not used efficiently are also unnecessary costs. Time and equipment used in fixing mistakes is not productive. Unnecessary storage and transport are a direct cost and can contribute to energy and fuel costs. Purchasing items that are not used or producing items that are not sold can also be costly forms of waste.

ACTIVITY 8.5

1 Go to the website of the Alto Hotel on Bourke and read about the waste minimisation strategies employed by this business.

2 Fill in the following table in your workbook:



Figure 8.30 Reduce, Reuse, Recycle

Category of waste minimisation in operations system	Specific activities at Alto Hotel re waste minimisation in operations	Explanation of potential cost and/or productivity savings resulting	Effects on levels of business competitiveness
Reduction of use of resources			
Reuse of resources			
Recycling of resources			

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Lean management systems and waste minimisation

lean management the term given to a range of measures traditionally used by Japanese businesses in an attempt to reduce waste and costs in production

Lean management (commonly referred to as lean production) is a manufacturing system mostly derived from the Toyota Production System (TPS) or Just In Time production. Lean management involves a systematic process for the elimination of waste in the manufacturing system.

It is based on the principle that productivity improvements will come through a continuous process of identifying and eliminating areas of waste in the operations system. It involves identifying and removing all activities and processes occurring in an operations system that do not add value to a product as it is being produced. This will increase productivity levels.

The development of lean management can be attributed to engineer Taiichi Ohno. Working for Toyota after World War II, Ohno developed the process to help eliminate waste, reduce inventory, improve productivity and empower workers. This is in contrast to the production line method used by Henry Ford around the same time: materials were kept on hand in anticipation for future orders, and workers were assigned a single task to complete repetitively. Making use of multi-skilled employees meant that Toyota were able to flatten their management structure, allowing them to adapt to change faster than their competitors.



Figure 8.31 Key terms of lean production/management

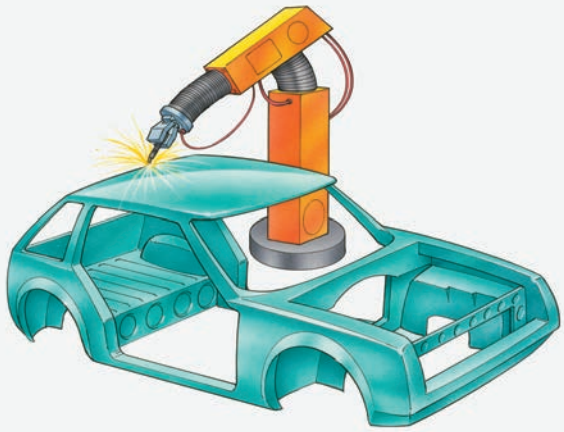
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The steps in lean production are:

1 Identify what customers will pay for a product (value).
2 Identify all steps taken in the operations system (process mapping).
3 Make everyone in the organisation responsible for identification of areas of waste/improvement on a continuous basis (continuous improvement – *Kaizen*).
4 Implement improvements to:
   - minimise inventory levels
   - maximise production flow
   - produce items when required (pull production from customer demand)
   - do it right the first time (quality).
5 Empower workers and make them responsible for developing strategies to eliminate waste.
6 Partner with suppliers.

Lean production is based on:

1 **Just In Time:** materials are delivered just as they are required in the production process so inventory costs are kept to a minimum. (See earlier in this chapter for more detail.)
2 **Kaizen:** the notion of continuous improvement. A strategy where employees at all levels of the company work together proactively to achieve regular incremental improvements in the production process.
3 **use of automation.**



ACTIVITY 8.6

Lean production: Toyota

Go to 'Toyota production system' on the Toyota website via Cambridge weblink http://cambridge.edu.au/redirect/?id=6942 and answer the following questions after reading the information about the operations system of Toyota.

1 What do the letters TPS stand for?
2 State the desired outcomes of TPS.
3 Explain how each of these goals addresses issues important to corporate social responsibility.
4 Define the term 'standardisation'. Explain the link between standardisation and maintaining consistently high standards of quality.
5 Define Kaizen and explain its basic principles.
6 Discuss the link between Kaizen and employee empowerment.
7 Outline the key aspects of the Just In Time (JIT) system at Toyota.
8 Explain how JIT improves efficiency and acts to ensure that neither over- nor underproduction occurs.
9 Describe the main characteristics of a Kanban system, including how it acts to regulate production.
10 Identify and explain how the Jidoka production line differs from that originally developed by Henry Ford.
11 Toyota suppliers have also been obliged to adopt the principles of TPS. Discuss the effect of this.

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Chapter summary

- The optimisation of an operations system involves extraction of maximum levels of productivity and quality of production while at the same time achieving ethical and social goals. This maximises business competitiveness.
- Strategies designed to optimise an operations system include:
  - Technological developments such as automation of production lines including strategies like computer-aided design, computer-aided manufacturing and robotics; also, use of the internet and a business website for improved marketing and sales strategies and ecommerce; and use of IT advancements such as the cloud.
  - Materials management strategies involving forecasting and procurement using tools like MPS and MRP.
  - Inventory management strategies and technologies such as inventory control systems and Just In Time.
  - Quality management programs including quality control, quality assurance and Total Quality Management.
- Waste minimisation strategies such as lean management reduce business operating costs and increase levels of competitiveness.

Chapter summary questions

1 Define the meaning of each of the following terms and then use each in a sentence to demonstrate your understanding.

a quality

b automation

c FMS

d JIT

e virtual factory

f Total Quality Management

2 Outline the three approaches to quality management which may be adopted by an Australian large-scale organisation. Use examples to explain and illustrate how each approach operates.

3 Distinguish between each of the following terminology pairings:

a automation and technology

b JIT and inventory

c quality management and TQM.

4 Explain how the introduction of each of the following strategies has the potential to improve operational productivity levels and business competitiveness:

a robotics

b CAD

c scanning technology

d JIT

5 Identify the technology which has enabled each of the following operations improvements to occur. Explain how each technological advancement has enabled these to occur.

a a reduction in machine downtime due to breakdown

b the increase in speed and accuracy of product design

c a reduction in labour costs

d instant communication from one workstation to another

e the integration of product design, engineering, manufacturing and inventory

f the ability to keep up-to-date records of inventory stocks and the movements of these

6 Explain and discuss how the principle of universal responsibility underpins each of the following programs:

a TQM

b EMS

c JIT

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Examination preparation

Sugafixxx Ltd is a large manufacturer of confectionary looking to expand its export markets. It has recently brought in a consultant to examine ways of improving operational efficiency and effectiveness. The consultant's report recommended that:

- production lines be automated and robotics be introduced in order to reduce labour costs and improve quality of production
- a new quality management program be implemented
- improvements be made in the area of materials and supply chain management in order to improve business competitiveness.

1 Explain the relationship between:

a Business competitiveness and productivity

(2 marks)

b Quality and competitiveness

(2 marks)

2 Identify two KPIs that could be used by Sugafixxx Ltd in order to measure:

a Productivity levels

(2 marks)

b Quality of production

(2 marks)

3 Explain what automation of a production line is. Give an example to illustrate.

(2 marks)

4 Recommend and describe two quality management strategies that could be introduced.

(4 marks)

5 Describe and discuss potential effects of the introduction of robotics to the production line. (*Note*: A *discuss* question requires examination of both positives and negatives.)

(6 marks)

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CHAPTER 9

Corporate social responsibility and global issues in operations management

Key terms

- corporate social responsibility
- environmental management system (EMS)
- environmental sustainability
- logistics
- purchasing policy
- supply chain
- supply chain management
- sustainable procurement
- triple bottom line reporting

Key knowledge

Students will look at the importance of social responsibility strategies and considerations within an operations system. Specific operations strategies in the areas of environmental sustainability will be examined. The features plus costs and benefits of global supply chains will also be covered. Students will learn about:

- Corporate social responsibility considerations in an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs.
- Global considerations in operations management, including global sourcing of inputs, overseas manufacture, global outsourcing and an overview of supply chain management.



What's ahead

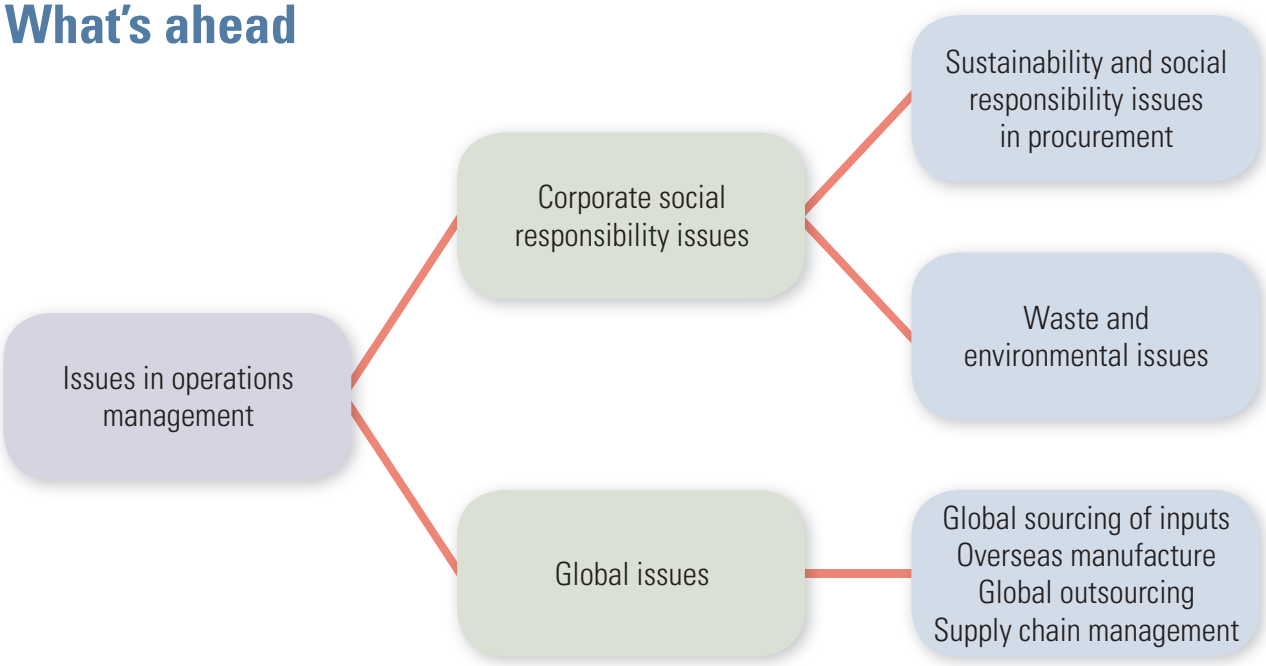


Figure 9.1 Issues in operations management

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9.1 What is corporate social responsibility?

Corporate social responsibility is a concept whereby organisations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment.

corporate social responsibility the commitment by organisations to conduct their business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities, and to be accountable to a wide range of stakeholders, including employees, customers and suppliers – now and in the future

The World Business Council defines CSR as 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community and society at large'.

In order to be seen as behaving in a socially responsible manner, a business organisation must adapt practices to ensure it operates in ways that meet or exceed the ethical, legal, commercial and public expectations that society has of them. This includes questions about what a business can do for society.

Pressures to adopt ethical and socially responsible business practices come from a variety of sources both internal and external to a business. These include:

- **Employees** often choose to work with employers who are known to have CSR policies and practices in place.
- **Customers** are more likely to buy from a business that demonstrates social responsibility.
- **Shareholders** often make investment choices based on the level of social responsibility demonstrated by a business (aka 'green investment').
- The **community** is increasingly concerned about and aware of social responsibility issues and expects greater corporate responsibility from its corporate citizens.
- The **media** highlights CSR issues and companies that 'infringe' risk, incurring damage to reputation.
- **Suppliers** often choose to give preferential treatment to CSR businesses.

CSR has a positive impact on the corporate culture of an organisation. This will reduce staff turnover and increase productivity generally.

Ethical and socially responsible management of operations

Social responsibility is a commitment to give back to the community, aid its development and take account of the interests of *all* stakeholder groups (not just shareholders). Ethical and social responsibility considerations are crucial in establishing and running an operations system. Socially and ethically responsible behaviours involve doing what is 'morally right' and taking account of the economic, social and environmental impacts on the wider community and ecosystem. To attract and retain customers a business must be seen to have practices, policies and actions that are both environmentally sustainable and responsible towards the societies in which they operate. Failure to do this will usually involve negative consequences such as legal action, fines, loss of investors, negative media attention and loss of customers.

As the community has become increasingly aware and concerned about social and environmental problems, an increased expectation that large organisations consider the economic, environmental and social impacts of their actions has emerged. In the twenty-first century a business is expected to act in the interests of the wider community as global citizens, and not simply meet the financial expectations of shareholders. Merely meeting legal requirements for social responsibility, such as laws regarding the environment, is not sufficient. Corporate social responsibility covers five main areas:

- **Corporate governance and accountability:** a company is accountable for its actions and its impact on shareholders, government, employees, customers and community.
- **Sustainability and environment:** business is accountable for its environmental impacts.
- **Employees should be treated ethically:** fair pay and conditions, equal employment opportunity, provision of safe workplaces and work–life balance are examples.
- **Human rights:** use of ethical suppliers and fair trade issues are examples.
- **Community involvement:** volunteering programs and philanthropy are examples.

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Figure 9.2 Corporate social responsibility

A socially responsible organisation builds community goodwill and subsequently a positive reputation, is easily able to both attract and retain good employees, and is often able to gain cost advantages. A reputation as a socially responsible business may be important to organisational survival. Socially responsibility operations systems include processes that:

1 do not endanger or harm the physical environment
2 enhance and do no damage to the societies in which the business operates.

Aspects of a socially responsible operations system might include:

- waste minimisation schemes, such as recycling
- strategies that reduce carbon emissions, such as green technology
- provision of enhanced quality of life for employees through safe working environments and respecting employee rights
- taking responsibility for the environmental, social and economic impact of the organisation's activities.



Figure 9.3 Values underpinning corporate social responsibility

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CASE STUDY 9.1

Investing ethically

Through ethical investments and their morals, investors are advancing their wealth progressively, with results that are inflated by roughly a quarter over the past year.

Similar to ethically-minded consumers who decide to buy only fair-trade coffee and take their own bags when they go shopping, both retail and institutional investors are considering the environmental, social and ethical impact of their investments. That this is a fast growing trend is substantiated by the 2015 Annual Report released by the Responsible Investment Association Australasia (RIAA), where it was reported that managed funds in ethical and sustainable investments grew 'significantly in the year increasing to $31.6 billion at December 2014, a 24% increase from the previous year's total of $25.6 billion'.

The RIAA report lists funds that apply an 'ethical screening' process to exclude companies that test products on animals or produce alcohol, weapons and gaming products and quotes the example of 30 super funds that had divested tobacco stocks from their entire funds during the previous two years.

As Australians are alerted to corporate involvement in environmental pollution, governance issues, the abuse of human rights or of animals, there is a growing need to invest in 'clean' shares that will grow their funds but not compromise their principles and be harmful to the environment or to others. Examples are funds that have a green or sustainability focus, like renewable and clean energy companies, attracting more than $21.3 million in 2014, and sustainable green technology stocks, attracting more than $8 million in the same period.

According to RIAA chief executive, Simon O'Connor, 'There's a growing understanding from the public that there are ways they can invest their retirement savings in line with their values and beliefs.' He adds, 'There's a very good investment case for doing this and responsible investment has become the benchmark of good investment practice. We're seeing that when companies mismanage social and ethical issues it's really damaging their shareholders' value.'

Should responsible investment funds continue to outperform the ASX300 as they had been doing in the past decade, the RIAA's prediction of a boom that awaits the sector is bound to come true.

Analysis

1 Explain what is meant by the first sentence of this article in your own words.

2 Cite three pieces of evidence from the article that show that corporate social responsibility is increasingly important for businesses in terms of attracting investors.

3 Describe three types of businesses that:

- **a** would be negatively impacted by the increase in ethical investment
- **b** would be positively impacted by the rise in ethical investment.

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Figure 9.4 Ethical behaviour involves doing what is morally correct.

The United Nations Global Compact: corporate social responsibility

The United Nations oversees the world's largest voluntary corporate sustainability and citizenship initiative. Signatory business organisations adopt 10 principles covering:

- human rights
- labour
- environment
- anti-corruption.

Known as the *Global Compact*, this program currently has more than 8000 business signatories worldwide and seeks to align business operations and strategies with the 10 principles. Businesses that sign up to the Compact report annually on their progress.



Figure 9.5 The United Nations Global Compact aims to encourage businesses to adopt sustainability and citizenship initiatives.

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The 10 principles of the UN Global Compact

Corporate sustainability starts with a company's value system and a principled approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption.

Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another.

By incorporating the Global Compact principles into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.

Human rights

- **Principle 1:** Businesses should support and respect the protection of internationally proclaimed human rights; and
- **Principle 2:** make sure that they are not complicit in human rights abuses.

Labour

- **Principle 3:** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- **Principle 4:** the elimination of all forms of forced and compulsory labour;
- **Principle 5:** the effective abolition of child labour; and
- **Principle 6:** the elimination of discrimination in respect of employment and occupation.

Environment

- **Principle 7:** Businesses should support a precautionary approach to environmental challenges;
- **Principle 8:** undertake initiatives to promote greater environmental responsibility; and
- **Principle 9:** encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

- **Principle 10:** Businesses should work against corruption in all its forms, including extortion and bribery.

(Source: United Nations Global Compact website, 'The ten principles of the UN Global Compact'.)

Corporate social responsibility and operations management

Why be socially responsible?

Communities increasingly expect businesses to act in a CSR manner. Failure to do so will see both customers and investors turning away, as well as possible legal sanctions. Shareholders and institutions controlling shareholder investments examine the performance of corporates based on social and environmental performance as well as their economic performance. A business with a reputation for not behaving in a socially responsible manner risks gaining a negative reputation, and deterring both customers and investors.

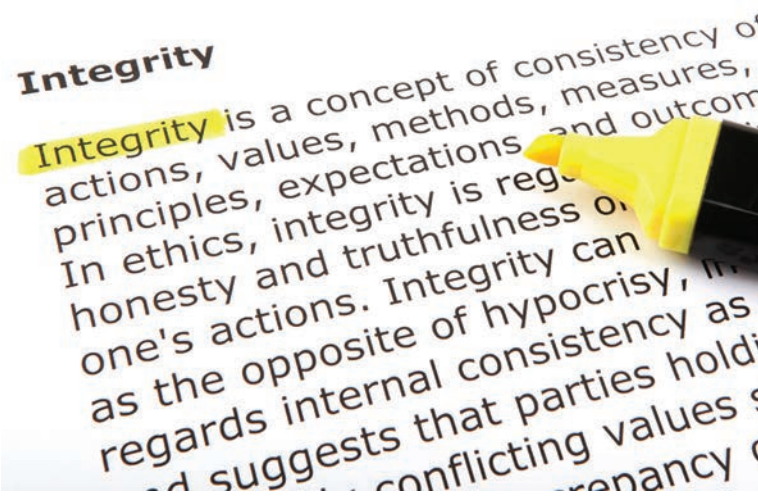


Figure 9.6 Integrity is an important aspect of social responsibility.

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triple bottom line reporting where a business organisation reports on social outcomes and environmental impact as well as financial performance

It is increasingly common to assess business performance based on its **triple bottom line reporting** results. This involves assessment based on environmental and social performance as well as its economic results (profits).

Measuring social responsibility: triple bottom line reporting

Traditionally, business organisations measured performance purely in financial terms. Financial key performance indicators, such as net profit and share value, were primary tools for performance measurement. Non-financial measures were less important. Growing community expectations that businesses operate in a socially responsible manner and act as 'good corporate citizens' has, however, resulted in the rise of triple bottom line reporting.

Triple bottom line reporting involves a business measuring its performance in three areas. Economic performance, or generating sufficient levels of financial return, is only one of three criteria against which business performance is judged.

Economic performance is measured using financial key performance indicators (KPIs), measuring profits, financial turnover, market share and monetary value of assets held.

Social performance is measured through examination of impacts the business has on people both within (employees) and outside the business (community). A business applying triple bottom line reporting will act in a way that benefits the community and ensures people are not exploited or endangered by the operations of the business. Social factors considered include wages and conditions, and contribution to the community.

Environmental performance is measured through impact on the natural environment. Limiting or reducing negative environmental impacts is assessed. This includes levels of waste generated and the overall environmental impact a business organisation and its operations system has on the environment overall. Triple bottom line reporting allows a business to gauge its level of corporate social responsibility.



Figure 9.7 Triple bottom line reporting

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Aspect measured	Measures	Examples of KPIs used
• Organisational financial/economic performance 	• Monetary gains/ losses • Inflow of resources to the organisation as a ratio of outflow • Business net worth • Earnings/profits	• Net profit • Turnover • Market share • Share price • Value of assets held
• Organisational social performance 	• Impact of the organisation on people. Both: – Employees (internal stakeholders) – Community (external stakeholders) • Net benefit to the community • No exploitation or endangerment to any stakeholder group is the aim	• Labour utilisation • Staff morale • Number of complaints • Wage levels • Working conditions • Community living standards
• Organisational environmental performance 	• Total organisational impact on the natural environment. Including waste/ emissions levels • Aim to improve the natural environment where feasible or to, at the very least, minimise/reduce/ limit negative effects	• CO_2 emission levels • Rates of recycling • Waste levels • Waste disposal costs

Table 9.1 Triple bottom line reporting: components

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Strategies to maximise social responsibility

Environmental management systems and waste minimisation

An **environmental management system (EMS)** is a tool for managing the environmental impact of the business and its activities. Comprising a series of policies and practices focusing on environmental issues, an EMS sets out the approach to environmental and sustainability issues to be adopted. An EMS:

environmental management system (EMS) series of policies and practices that focuses on an organisation's approach to environmental issues

- sets out how environmental performance will be monitored
- integrates environmental management practices into everyday operations. Policies which are followed by all within the organisation set out how things will be done in the most environmentally sustainable manner.
- sets out plans containing strategies and tactics with a view to meeting environmental goals.

ISO standards ISO 14001 set out criteria for an EMS system. This set of standards maps out the framework a business can follow to set up an effective EMS. As with other quality assurance standards, organisations apply for certification in environmental management.

Components of an EMS

An EMS will contain the following.

- **Environmental policy:** a statement of what the organisation wants to achieve with the EMS, including targets.
- **Environmental impact identification:** showing actual and potential environmental impacts of the organisation. Done after an audit.
- **Consultation** with stakeholders: to ensure all are supportive and working towards the stated targets.
- **Environmental management plan** detailing methods and procedures to be used to achieve targets.
- **Documentation** of all targets, policies, responsibilities, as well as information on performance.
- **Responsibilities and reporting structures and processes.**
- **Training of staff.**
- **KPIs to be used to measure performance.**
- **Continual improvement.**

To develop an EMS, an organisation must assess its environmental impacts, set targets to reduce those impacts and plan how to achieve the targets.

The environmental performance of an organisation has become increasingly important due to:

- growing consumer awareness and concern about environmental issues
- government legislation and scrutiny regarding environmental issues. Government bodies such as the Environment Protection Authority monitor and evaluate business environmental effects.
- improved environmental performance causing productivity gains offered by newer, cleaner and environmentally friendly practices, processes and equipment.

An organisation with a sound EMS built into its operations has a considerable competitive advantage. It will avoid negative publicity, reduce input costs and attract investors and customers with a preference for 'green' companies and their products.

ACTIVITY 9.1

Woolworths sustainability policy

Visit the Woolworths website and click on About Us > Environmental Commitment to complete the following tasks.

1. List goals and targets set by Woolworths regarding environmental performance.
2. List the areas that have been targeted for improvement.
3. Describe the key community programs being financed and undertaken by Woolworths in order to improve its social performance.

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Figure 9.8 Environmental management systems components

Operations strategies for social responsibility

Designing and operating an operations system, taking into account ethical and socially responsible considerations, must incorporate all three stages of the operations system. The following strategies might be considered.

purchasing policy a policy within an organisation placing requirements for employees seeking to acquire goods or services by use for the company

environmental sustainability ability of an ecosystem to maintain itself into the future; involves using the earth's resources at a rate they can be replenished

sustainable procurement a system of procurement of inputs that allows a business to meet its economic needs while minimising damage to both the environment and society

Inputs

Sustainable and socially responsible procurement of inputs

Sustainability and socially responsible considerations are important criteria in the selection of suppliers. Many businesses adopt a **purchasing policy** stipulating **environmental sustainability** and social responsibility criteria to be applied when choosing suppliers. An environmental management system sets out a **sustainable procurement** process.

Suppliers are frequently selected using social responsibility criteria. Simply having the lowest price is no longer the only criteria for a successful tender. Evaluation of a supplier's environmental and social performance is usually done before awarding a contract. Known as prequalification, this may be done via a questionnaire checking whether a supplier meets set standards on environmental and social issues. Factors to be considered may include:

- Use of environmental management practices. Does the supplier have an EMS? Does the supplier meet ISO 14001 environmental management standards and practices?
- Is there legal compliance with environmental legislation?
- Does the supplier have appropriate environmental and social responsibility policies in place?
- Is the supplier a signatory to the UN Compact?

An audit of suppliers and their social responsibility practices and policies may also be done to assess which suppliers satisfy the criteria.

Local suppliers are often given first consideration as these will have a lesser impact on CO_2 emissions as less distance will need to be covered with deliveries.

Social responsibility considerations may include *treatment of employees*. Do they pay fair wages and provide adequate working conditions? Suppliers who are found to use child labour or exploit third world workers may be excluded on these grounds.

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CASE STUDY 9.2

Fairtrade



Figure 9.9 Products bearing this mark are Fairtrade certified.

Fairtrade is a certification scheme that sets out to tackle poverty and empower primary producers in developing countries. Suppliers who purchase from certified producers are entitled to use the Fairtrade Mark on their products, in return for ensuring the conditions below are met.

Producers (farmers) must meet designated economic, social and environmental standards. In return they are guaranteed sustainable and fair prices for their products to guard against fluctuations in world markets. The price is guaranteed to cover their costs of production. Farmers also receive an additional sum of money known as a Fairtrade Premium on top of the guaranteed price. This is designed for investment in local communities in social, economic and environmental developments, such as schools and hospitals. The use of this money must be decided democratically.

Fairtrade aims to deliver a better deal to farmers and producers in the developing world through:

1. fair and stable prices
2. the security of long-term contracts
3. investment in local development
4. improved working conditions through a prohibition on use of forced and abusive child labour
5. development of environmentally sustainable farming methods
6. support in gaining knowledge and skills needed to operate successfully in the global economy.

Fairtrade (one word) is used to describe the certification and labelling system governed by Fairtrade International. The Fairtrade system allows consumers to identify commodity goods (including tea, coffee, rice, cotton, cocoa and sports balls) that have met internationally agreed standards according to the Fairtrade system.

Analysis

1. Go to the Fairtrade website.
   - **a** Locate and outline the story of one Fairtrade certified producer. Explain how they have benefited from being part of the Fairtrade system.
   - **b** Find five businesses near you that use Fairtrade suppliers.
2. Outline how Fairtrade works in your own words.
3. Explain how the scheme might affect the triple bottom line results of a business (economic, social and environmental results).
4. Outline how adoption of Fairtrade might affect the operations system of:
   - **a** a cafe
   - **b** a coffee grower in Papua New Guinea.
5. Discuss the advantages and disadvantages of Fairtrade for:
   - **a** producers
   - **b** Australian businesses who use Fairtrade certified suppliers
   - **c** customers.

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Selecting sustainable and socially responsible inputs

Every product has an effect on the environment. Purchase of sustainable inputs will minimise the effects a business operation has on the natural environment, as well as on community health and social conditions.

Sustainable procurement practices will offer the following advantages:

- reduced impacts on the natural environment with less waste and associated costs such as landfill
- increased productivity through new, cleaner technology choices
- improved business reputation
- reduced utility bills.

These advantages must, however, be balanced against the initial cost of purchasing and developing the new socially responsible practices.

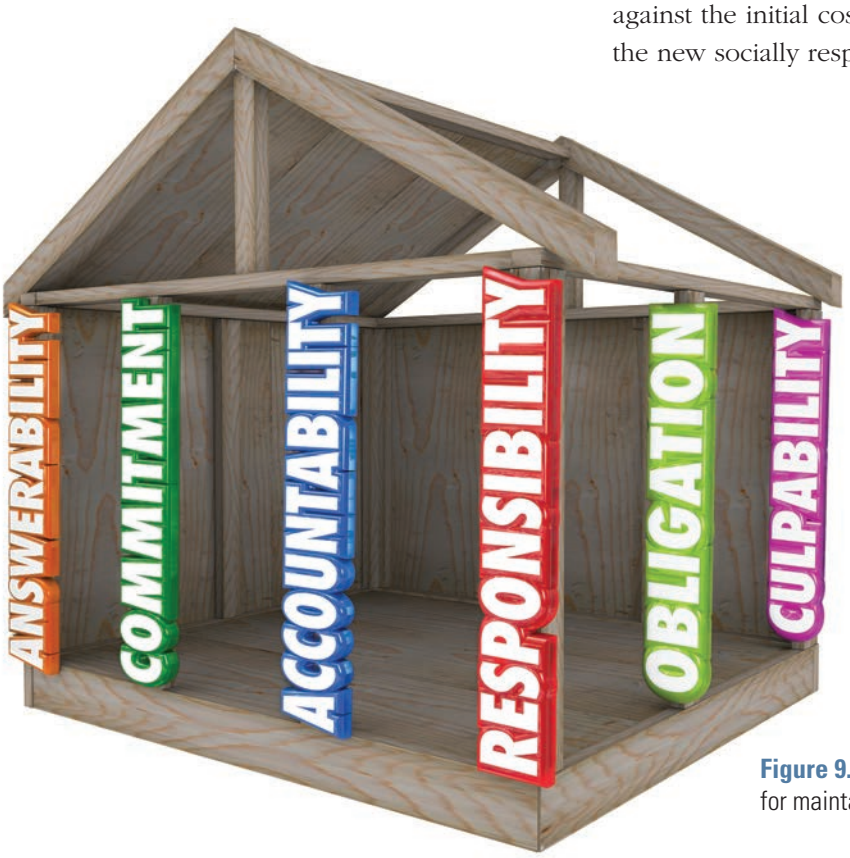


Figure 9.10 Social responsibility is important for maintaining business competitiveness.

Examples of environmentally sustainable input strategies

- Purchase and use of green energy options: this will reduce carbon emissions and minimise energy use.
- Purchase of sustainable technology and equipment options: Energy-efficient equipment will save on energy use. Green company vehicles, for example, with smaller hybrid engines will save on fuel costs, reduce Co_2 emissions and improve business image.
- Purchase of the most sustainable input options; for example, recyclable materials.
- Choosing local suppliers to reduce carbon footprint and transport costs.



Figure 9.11 The use of green energy options during the transformation process will save on energy costs and improve the reputation of a business organisation.

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Social responsibility is an important consideration when planning the transformation stage of the operations system. Legislative compliance with environmental and social laws will allow a business to avoid legal sanctions; however, conducting an operations system in a socially responsible manner is more than just a legal duty as it affects a business's bottom line and therefore its long-term success.

Sustainable business practices use fewer resources, have lower emissions, less waste and reduce costs. For example, the use of biofuels in a production process will reduce emissions, fuel consumption and therefore costs.

Businesses that adopt sustainable operations processes will use fewer resources, reuse resources where possible and recycle resources after use. This will reduce business costs and increase productivity. Business reputation will also improve. Consequently, competitiveness will improve.



Figure 9.12 Social responsibility

Examples of environmentally sustainable and socially responsible processing/transformation

- Utilisation of practices that minimise/reduce use of resources
- Reuse of resources
- Recycling of resources
- Ensuring that all employees have access to training and development.
- Utilisation of green technologies
- Retaining all processing within Australia. This will ensure Australian workers are employed. It will also reduce carbon emissions associated with transport.
- Ethical treatment of employees. Ensuring all employees:
  - are paid a fair wage
  - are not exploited
  - work in a safe and secure environment where facilities, technology and working conditions contribute to their health and welfare. Includes the establishment of regular maintenance of machinery and equipment to ensure it remains in safe working order and the storage of toxic materials in a safe manner (occupational health and safety)
  - are not exposed to toxic substances.

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CASE STUDY 9.3

Social responsibility and operations

Aussie jobs head overseas but results are inferior

Nearly one in three businesses in Australia outsources some part of their work overseas yet a massive 77% of Australians believe that the quality of overseas outsourced work is inferior to that done at home, according to a survey by Talent2, Australia's leading human resources and recruitment firm.

Contracting work to overseas firms has become an increasingly common practice as globalisation takes effect yet 66.4% of the 1713 respondents to the survey say that sending work overseas hurts the Australian economy.

Mr Mark Condon of Talent2 says the jobs most at risk to going overseas are in manufacturing, customer service/sales and IT. 'We live in a global society today and Australian businesses have been embracing the competitive advantages such as lower staffing costs that international outsourcing can bring.'

'Forty-five per cent of Australians say they would reconsider signing up for a service such as a mobile phone or internet contract if they found out that the provider had outsourced their customer service overseas. Businesses need to weigh up whether or not the financial benefits of sending work out of Australia is balanced by the backlash they may face from customers who want a fully Australian made product or service.

'Record low unemployment, however, has meant that many firms are forced to outsource work internationally as they simply cannot find the right people willing or able to do certain jobs. The trend of outsourcing poses a challenge for workers all over the Western world: as workers become more educated they do not want to do some of the more menial jobs which are being outsourced overseas, yet the number of jobs they do want to do is finite.'

(Source: Femail website, 'Aussie jobs head overseas but results are inferior'.)

Analysis

1 What percentage of Australian businesses outsource work to overseas firms?
2 List the *business sectors* that outsource most commonly.
3 Explain the reasons why Australian firms choose to outsource to overseas contractors.
4 Explain the potential effects the practice of offshore outsourcing by Australian businesses could have on:
   a Australian employees
   b the Australian economy.
5 According to the survey cited in the article, how do Australians view the practice of offshore outsourcing? Describe the potential negative ramifications of a business outsourcing.
6 Explain the potential backlash faced by Australian employers who outsource offshore.
7 Suggest why this backlash has not occurred as yet.
8 Explain how the issue of offshore outsourcing could become a social responsibility concern for Australian employees in terms of the following:
   a rising unemployment in Australia
   b the issue of 'sweatshops' and poor working conditions in overseas countries.

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Operations management strategy	Potential influence/impact of social responsibility
Waste minimisation	**Reduction of operating costs through:** • reduced landfill • reduced use of materials/inputs • need for special equipment and procedures to handle toxic wastes • improved reputation.
Recycling of materials	**Reduced costs through lower use of materials means:** • improved reputation • lower landfill costs.
Lean manufacturing	**Improvements in:** • productivity • quality • employee motivation through empowerment • competitiveness.
Inventory management systems	**Greater efficiency and productivity through:** • reduced waste • productivity improvements.

Table 9.2 Examples of socially responsible operations management strategies



Figure 9.13 Ergonomic workplace design contributes to optimisation of a transformation process.

Outputs

Social responsibility and environmentally sustainable considerations are important when considering final output.

- Quality outputs add real value for consumers (fit for purpose).
- Non-harmful: Social responsibility entails selling products that are non-harmful to society. Unsafe products, either poor quality or simply unethical, have the potential to cause community/social harm by injuring and/or causing distress to consumers or the environment. Product recalls may be required to remove unsafe products from the marketplace. Similarly, the sale of products with potential to cause harm, such as alcoholic drinks, must be managed to minimise social harm. Business organisations that produce unsafe or ethically questionable product lines are often subject to adverse publicity and their reputation suffers as a result.

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- Honest marketing: Truthful and non-deceptive marketing campaigns are important to maintaining a socially responsible image. Businesses that engage in unethical marketing practices risk damaging reputation and competitiveness.
- Packaging: Product packaging with minimal environmental impact and which is non-offensive will help maintain a reputation for ethical and social responsibility.
- Recyclable and/or biodegradable options are used as packaging materials. Non-offensive packaging design is also an important consideration.



Figure 9.14 Animal testing can be an ethical concern.

ACTIVITY 9.2

Product recalls

Go to the recalls website via http://cambridge.edu.au/redirect/?id=6943.

1 List five products that have been recalled by their manufacturers during the past 30 days.
2 For three of these products:
   a Describe the reasons why the product has been recalled.
   b Outline the potential effects on the business selling each product of the recall in terms of:
      - reputation
      - sales and business competitiveness.

   Give reasons for your answers.



Figure 9.15 Environmentally friendly packaging

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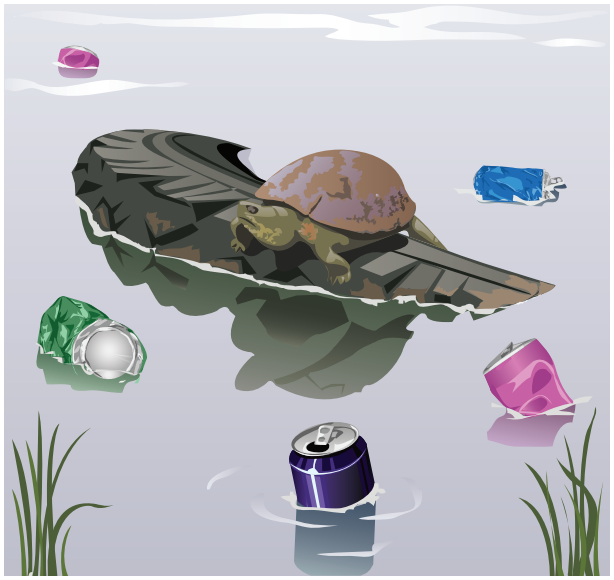


Figure 9.16 Often business decisions have both positive and negative consequences with regard to CSR.

The most socially responsible option is not always clear cut

At times the most socially responsible option is not clear cut. For example, while it may be socially responsible to choose ethical local suppliers who employ local labour, thus retaining high Australian employment levels and avoiding the exploitation of workers in less developed countries such as Bangladesh, it could be argued that it is not socially responsible to deprive workers in Bangladesh of any employment at all.

Similarly, importing new, greener technologies from overseas may reduce carbon emissions but would also have a negative effect on Australia's balance of payments.

ACTIVITY 9.3

Draw up the following table in your workbook and complete it, identifying the advantages and disadvantages for a business adopting each of the following operations management strategies.

Operations strategy	Advantages	Disadvantages
• Adoption of new, cleaner/ greener technology imported from overseas		
• Adoption of a purchasing policy that stipulates that only local suppliers will be used		
• Use of recyclable packaging		
• To use green energy rather than that produced through burning coal		
• To close a manufacturing plant that has been found to have produced large amounts of waste and carbon emissions		

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CASE STUDY 9.4

Ethical and socially responsible operations management

Concept Amenities is a business that supplies and manufactures guest bath and body products for the hotel and hospitality industries. The business was founded in Melbourne in 1983 and has customers in Australasia, North America, Europe and Asia.

Concept Amenities describes itself as being 'values driven' and that it 'infuses every action with a highly principled and ethical approach'. Several aspects of its operations system bear this out.

- **Soap Aid:** Every day thousands of hotels discard millions of pieces of soap, much of which has only been used once. This ends up in landfill which contaminates groundwater systems. At the same time more than 2.6 million people worldwide lack adequate sanitation and an estimated 1.8 million children die annually due to hygiene-related illnesses, 40% of which could be averted by the provision of soap for hand-washing. Soap Aid is a program where used soap is collected from hotels by Concept Amenities and reprocessed. The reprocessed bars of soap are then redistributed, along with educational materials to impoverished countries and other places such as homeless shelters.
- **Environment:** Ever conscious of the growing environmental awareness of clients, Concept Amenities does the following:
  - All packaging, such as plastic bottles, are made from biodegradable plastics.
  - No finished product is tested on animals.
  - All products are created from vegetable based and/or biodegradable products.
  - All products are certified as Environmentally Responsible Products (ERP).
- **Supply chain:** Concept Amenities will only deal with suppliers of palm oil that are certified as sustainable producers. This means they don't use land from deforestation, pay fair wages, provide fair working conditions and protect wildlife.
- **Production:** Production is highly automated. Concept Amenities has been awarded ISO certification in Cosmetics (quality assurance standards). It also uses a system of strict quality control checks throughout its operations.

Analysis

1 Identify and describe four aspects of the operations system of Concept Amenities that could be described as being socially responsible. Justify your answer.

2 Identify and describe three potential disadvantages that might arise from the ethical and socially responsible activities identified.

3 Identify and describe three advantages that the ethical and socially responsible activities identified might bring to Concept Amenities.

4 Describe the competitive advantage that might arise from the activities as described.



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9.2 Global issues in operations management

Management of an operations system in the twenty-first century requires a global perspective. The global economy and its associated technology have meant that a business organisation must look beyond the borders of its country of origin when looking to both resource and run its operations system while optimising competitiveness.

Supply chain management: an overview

A **supply chain** is a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers/customers. The supply chain takes natural materials and components and transforms or processes them into a finished product.

supply chain a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers

As part of the supply chain a number of activities have to take place. These include planning and organising parts and raw materials to ensure that they are available and ready to be used. This is particularly important when the raw materials and components need to be sourced from another country and through other organisations.

Often there are many exchanges in the supply chain between different business organisations. Each business will try to maximise its revenue and profit from its contribution to the process in a supply chain.

The coordination of a supply chain on a global scale can be challenging. Sourcing and moving goods and materials around the world involve operating in a variety of political and economic conditions. This is often complex and requires a great deal of coordination. Ethical and social responsibility considerations such as treatment of employees and environmental sustainability considerations must be taken into account by a business organisation, as well as productivity and efficiency when planning and operating a global supply chain.

Supply chain management involves meeting consumer demands for goods and services while making the most efficient use of input resources in both the production process and the distribution of the finished product. **Logistics** refers to the distribution of products, or the movement/delivery of materials and products from one location to another. In a global supply chain, logistics becomes far more complex as movement of products over greater distances and between different political and economic regions (countries) is involved. For this reason, *outsourcing* of logistics to specialist transport and logistics companies is now commonplace.

supply chain management meeting consumer demands for goods and services while making the most efficient use of input resources in both the production process and the distribution of the finished product to the customer

logistics the distribution of products, or the movement/delivery of materials and products from one location to another



Figure 9.17 Global logistics involves the movement of goods and materials worldwide.

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Participants in the global supply chain

There are a number of stakeholders in the global supply chain. A business organisation must take account of the interests and expectations of each.

- **Consumers:** Purchase products and determine levels of demand for products in a market economy. A business organisation must be aware of changes in patterns in consumer demands and expectations. The growth of the global economy has seen consumers increasingly expect that they have access to a wider range of products. Online shopping by consumers has also increased. As a result, many businesses now have a worldwide market, increasing the complexity of their logistics. Consumers are also placing increasing demands on business organisations to be socially and environmentally responsible.
- **Producers:** Production at all stages of a good or service has become increasingly complex as business organisations source resources from all over the world. Producers must therefore source and sign contracts with reliable suppliers of materials and logistics services. Producers must also take account of consumers' environmental and social expectations.
- **Employees (workers):** Many business organisations are managing employees and workforces in different countries. This means that the management of employees has become complex as there are different rules, laws and regulations covering employees depending on the country in which the business is being conducted. Different cultures also have different norms and ways of working. A business organisation must adapt to these when operating in the global economy.
- **Governments:** Legal and political systems vary between nations, as does the level of government involvement in the national economy. A business organisation needs to consider these factors when operating across national borders.

Multinational organisations

A multinational business organisation (corporation) needs to be able to manage its supply chain and business activities across the world. All multinational corporations have their own supply chain management processes, which are often extremely complex.

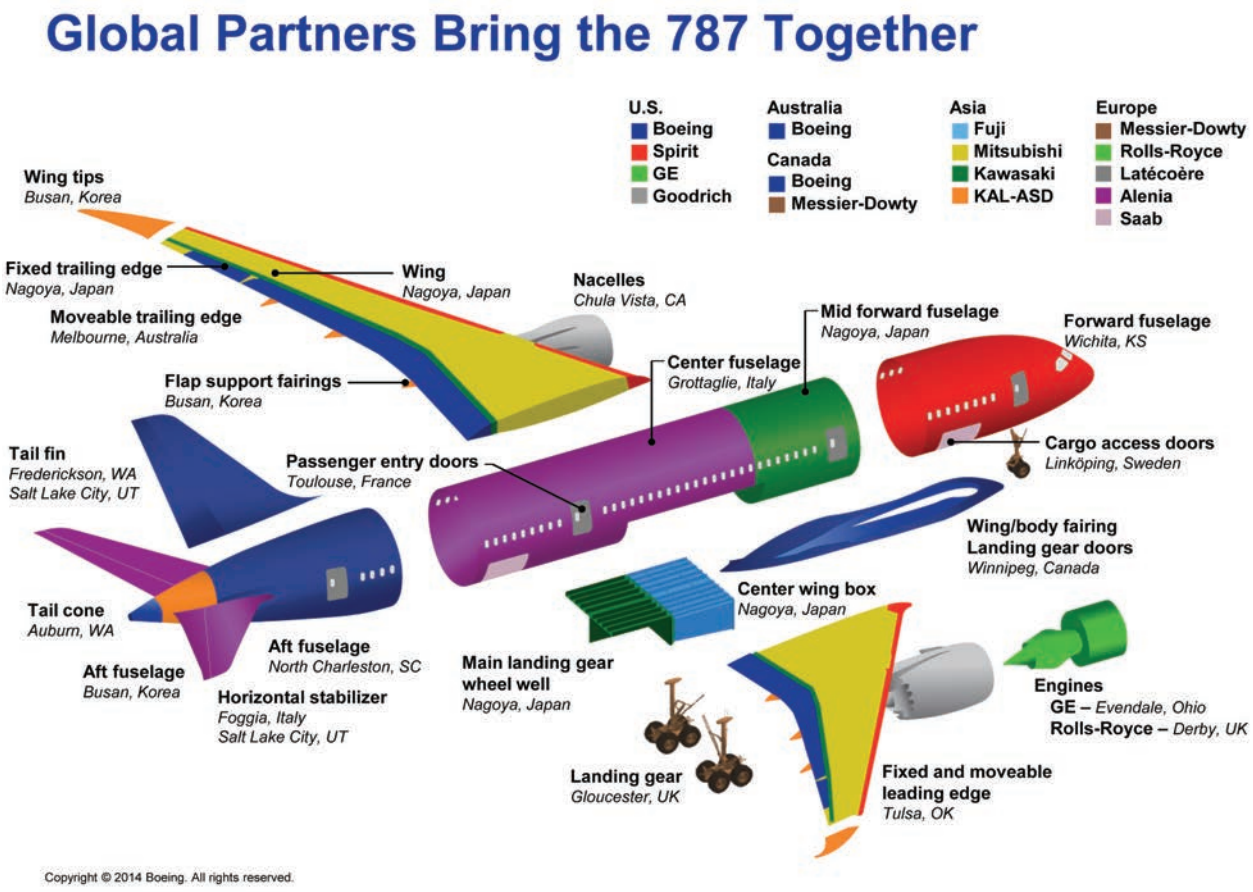


Figure 9.18 The Boeing global supply chain is extremely complex.

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Global supply chain issues

Business participation in a global supply chain is referred to as global sourcing. This usually takes one or more of the following forms:

- **Global sourcing of inputs:** Involves selection and use of suppliers from an overseas location.
- **Overseas manufacture/processing:** When the transformation/processes stage of the operations system is conducted in an overseas location.
- **Global outsourcing:** When a business organisation contracts another overseas business to perform some of its roles or functions. For example, IT is often outsourced.

Advantages offered through global sourcing

- **Opportunity to take advantage of global efficiencies:** Due to differences in the amount, types and quality of their economic resources, some countries have a natural advantage in the production of specific products; this is known as the national comparative advantage. Australia, for example, is able to produce farm commodities such as wheat and fine wool at a lower cost and higher quality than other nations. Similarly, many Asian countries have access to a large pool of labour at a lower cost than developed nations like Australia. This gives them a comparative advantage in the production of manufactured items.

Lower input and production costs in general can often be found overseas. Most Australian clothing and footwear business organisations have moved their manufacturing operations to South-East Asian countries for this reason. Similarly, many businesses have outsourced their IT and call centre functions to India where skilled employees can be found at lower cost. Reduced costs of production improve business competitiveness.

- **Skills and resources not found in the home nation can be tapped:** Ripcurl, for example, manufactures wetsuits in tropical areas such as Brazil and Thailand. Both nations have plentiful supplies of rubber and rubber trees. This also reduces transport costs.
- **Jobs and economic opportunity are provided in economically disadvantaged areas:** Global sourcing creates employment opportunities and assists in the economic development of less-developed economies.



Figure 9.19 Many Australian businesses have outsourced call centre operations offshore in order to improve business efficiency.

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CASE STUDY 9.5

Outsourcing employees

Outrage over poor working conditions has prompted Australian consumers to demand better working conditions for outsourced employees of clothing manufacturers, a report from Oxfam found.

The disastrous working conditions bring to light the necessity for organisations to have a deep understanding of their supply chain and the moral decisions of suppliers, clients and customers.

Of the people surveyed, 83 per cent stated they wanted clothing retailers to be more transparent about the locations of their supplier's factories. Additionally, almost 70 per cent said they would gladly pay more for goods if it meant for better conditions for the workers involved.

The concerns and reports stem primarily from the collapse of the Rana Plaza in Bangladesh on 24 April. The collapse of the illegally built factory claimed the lives of more than 1,000 workers, as reported by *The Sydney Morning Herald (SMH)*.

The disaster is simply one of many, with the poor conditions of buildings carrying over to the inhumane living conditions of the workers. *SMH* reported on the one-room home of a sewing machine worker, who earns the equivalent of $69 per month. The man lives with his wife, and the couple share four toilets with more than 100 others.

Coles, Target, Cotton On and Forever New have all been named as companies that have outsourced to illegal and dangerous factories in Bangladesh. However, Cotton On, Target and Forever New recently signed on to *The Bangladesh Accord on Fire and Building Safety* along with Kmart.

This accord results in the creation of publically available, independent reports on the working conditions, as well as allowing employees to refuse dangerous work.

Coles has said they will be pulling out of Bangladesh for the most part, and if they choose to return will only do so if conditions improve, *The Guardian* reported. Coles also stated they are prepared to sign *The Bangladesh Accord* if they return.

'Corporations have to take responsibility for the supply chain, and that comes out in lots of different ways,' Katherine Teh-White, managing director at FutureEye, told *HC*.

The development of corporate social responsibility (CSR) as a core part of an organisation's culture is crucial, as it is too late once lives have already been lost.

(Source: 'Outsourcing atrocities rock Australia', HC Online, 26 June 2013.)

Analysis

1. Identify the corporate social responsibility issue discussed in the article.
2. Explain the relationship of this issue to global supply chains.
3. Outline the main findings of the Oxfam report discussed in the article.
4. List the business organisations named and explain why they have been named.
5. Analyse the effect the Oxfam report findings would be likely to have on the reputation, levels of competitiveness and financial performance of the companies named.

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Disadvantages of global sourcing

- **Hidden costs** related to time zones and language barriers: Often these factors create inefficiencies.
- **Financial and political risks** associated with emerging economies: Political and economic instability in a host nation may often disrupt production or supplies. If a war breaks out or a political coup occurs business may be disrupted.
- **Risk of losing intellectual property** such as patents and copyright: Laws regarding intellectual property vary from country to country. Sometimes there is no recourse if a patent, copyright or brand is misappropriated by someone in another nation.
- **Time:** Reliance on supplies and products from other countries can result in delays and hold-ups. Shipping schedules, weather conditions, government regulations and the time taken to clear customs can cause blockages and delays in a supply chain. This in turn impacts on business productivity and competitiveness levels.
- **Loss of Australian jobs**.

Issues to be addressed in global sourcing

When involved in global sourcing a business must consider the following:

- **Local labour costs and conditions:** These may be lower than in Australia. As a result, a business must take social responsibility factors into account. As shown earlier in this chapter business reputation and levels of competitiveness can be negatively impacted if they are found to be using unethical suppliers who exploit employees.
- **Environmental impact:** A business must take into account the environmental impacts of sourcing globally. Factors such as greenhouse gas emissions generated by transport and manufacture, environmental impacts, such as pollution in local communities, and use of resources such as fuel in transport must be factored in.
- **Exchange rates:** The often-changing value of the Australian currency compared to that of other nations affects the costs of doing business overseas.
- **Tariffs:** Taxes on imported products all impact on the final cost of a product.
- **Location of overseas suppliers:** Suppliers must be close to transport links so products can be easily moved about.



Figure 9.20 Intellectual property laws vary between nations.

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Chapter summary

- Ethical and social responsibility considerations are crucial to optimisation of an operations system.
- Customers and markets take CSR into account when making purchases. Employees often choose to work for an employer with good CSR credentials.
- CSR covers corporate governance, sustainability and environment, ethical treatment of employees and customers, human rights and community involvement.
- The United Nations has established a Global Compact aimed at encouraging businesses to adopt 10 principles covering human rights, labour, environment and anti-corruption.
- Triple bottom line reporting is used increasingly by businesses to measure their CSR levels and progress.
- Many businesses have adopted an environmental management system (EMS).
- CSR in an operations system involves sustainable and socially responsible procurement of inputs, selection of socially responsible inputs, adoption of sustainable operations processes, which reduce the use of resources and waste, and production of socially responsible outputs.
- Businesses are increasingly participating in global supply chains involving global sourcing of inputs, overseas manufacture and global outsourcing.
- Advantages of participation in a global supply chain include:
  - ability to take advantage of cost advantages offered by national comparative advantage
  - access to skills and resources not available in the home country
  - provision of jobs and economic opportunity in other nations.
- Global sourcing, however, raises ethical and social responsibility issues such as environmental impacts of transport and treatment of employees in other countries.
- Other factors to be considered in global sourcing include:
  - impact of currency exchange rates
  - tariffs and import restrictions
  - legal and cultural differences such as intellectual property laws
  - political stability in developing nations.

Chapter summary questions

1 Define the following terms.
- **a** social responsibility
- **b** ethics
- **c** environmental sustainability

2 Identify and explain how each of the following stakeholder groups might pressure a business to adopt socially responsible policies and behaviours.
- **a** suppliers
- **b** investors
- **c** government
- **d** customers
- **e** media

3 Describe the key purpose and objectives of the United Nations Global Compact. Outline the 10 principles of the Global Compact.

4 Explain what is involved in triple bottom line reporting. Discuss the reasons why a business might decide to adopt this type of business reporting.

5 Explain what a purchasing policy is.

6 Define sustainable procurement. Describe three practices or principles that might be included in a purchasing policy that involves sustainable procurement.

7 Discuss the potential advantages and disadvantages of adopting sustainable procurement principles when sourcing inputs.

8 Describe four strategies from the transformation phase of an operations system that would be seen as socially responsible.

9 Describe four criteria a finished product should meet in order to be classified as socially responsible.

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10 Discuss the implications of becoming a certified Fairtrade business.

11 Discuss how ethical and socially responsible management practices could affect each of the three stages of an operations system.

12 Explain what a global supply chain involves.

13 Discuss the advantages and disadvantages of a business participating in a global supply chain.

Examination preparation

'Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it, … but because it is good for our business.' – Niall FitzGerald, former CEO, Unilever ('Cleaning agent', interview with Larry Elliott, *The Guardian*, 5 July 2003.)

1 Discuss what this statement means. In your answer, consider both the positive and negative effects that the adoption of corporate social responsibility policies and actions might have on organisational productivity levels. Use specific examples to illustrate your answer.

(10 marks)

2 In your opinion, would the adoption of an organisational environmental policy be a sound business decision or merely an ethical one? Justify your point of view.

(6 marks)

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UNIT 4
TRANSFORMING A BUSINESS

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PART 1

AREA OF STUDY 1

Reviewing performance: the need for change

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CHAPTER 10
Reviewing performance

Key terms

- benchmark
- components
- effectiveness
- key performance indicators (KPIs)
- level of wastage
- net profit
- number of customer complaints
- number of sales
- number of workplace accidents
- percentage of market share
- rate of staff absenteeism
- staff turnover

Overview

Students will learn about the key performance indicators (KPIs) as a source of data to evaluate business performance. In everything we do, our performance is evaluated. An athlete or swimmer, for example, wants to know the time taken to complete the race. Similarly, after taking an assessment task a student wants to know the result. In the same way, all those with an interest in a business want to know how it has been performing. Managers also need to develop strategies and actions to respond to KPIs and other data. Strategies to respond to KPIs will be discussed in more detail in Chapter 13.



Key knowledge

Students will be introduced to methods used to analyse the performance of a business. Students will learn about:

- Key performance indicators as sources of data to analyse the performance of businesses, including percentage of market share, net profit figures, rate of productivity growth, number of sales, rates of staff absenteeism, level of staff turnover, level of wastage, number of customer complaints and number of workplace accidents.

What's ahead

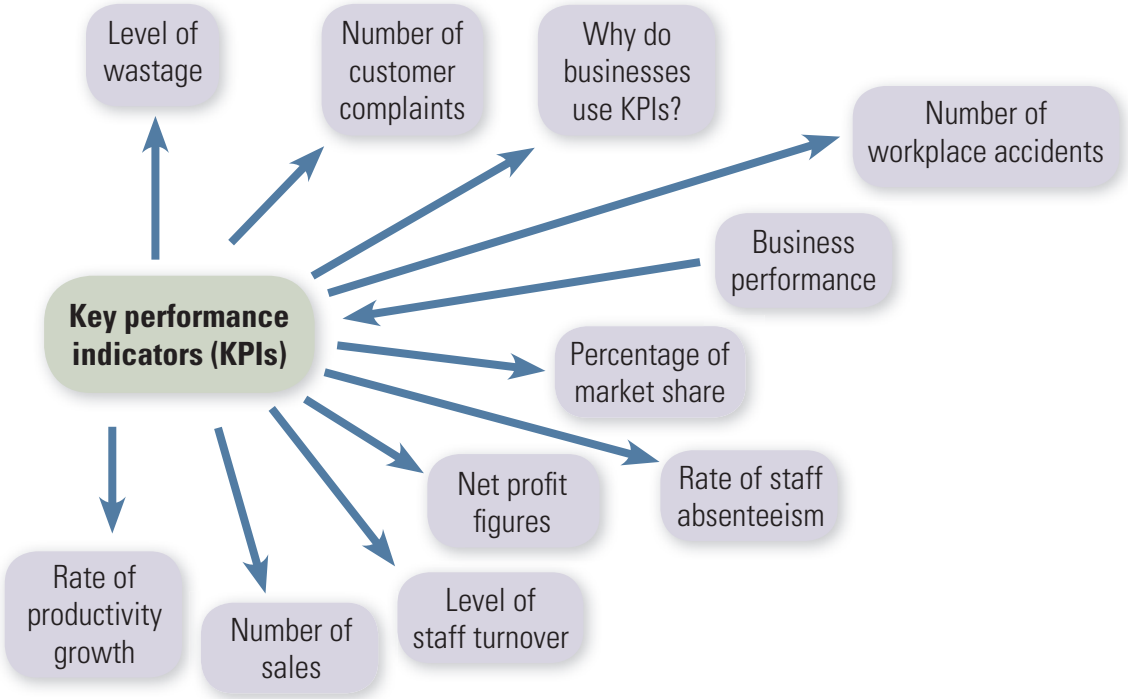


Figure 10.1 Businesses use these 10 KPIs to guide their decisions and increase their performance.

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10.1 Key performance indicators as sources of data to evaluate business performance

Part of a manager's role is to analyse the efficiency of all activities within the business, including the production processes, service delivery and the productive use of technology, the quality of products or services and the effectiveness of staff, management and procedures. The efficiency and effectiveness of such processes and activities can be measured against a range of data sources and **key performance indicators (KPIs)**. KPIs and other data can be used to evaluate both resource efficiency and objective effectiveness.

key performance indicators (KPIs) measures or a set of data that allows a business to determine whether it is meeting its business objectives

Efficiency and effectiveness

The management process requires the efficient and effective combination of resources to produce goods or to successfully deliver a service. These resources can include:

components the parts and resources used in a production process

- financial resources such as cash and loans
- material resources such as raw materials and **components** or parts
- human resources such as skills and contribution of the employees and managers
- information resources such as knowledge about a product or market
- forms of technology to assist in processes
- records of time to complete a process
- quality strategies to aid production.

Efficiency is judged as the best use of resources in the production of goods and/or services. It also relates to being able to accomplish a task with the minimum expenditure of time and effort. The outcome can be judged on both the quality and quantity of the goods or services produced. Efficiency can be measured in a number of ways and is important to consider. Businesses will use measures to determine efficiency according to the nature of the business. Examples of efficiency include:

- a bus line operator changes the routes along which its buses run so that it overcomes the time lost while waiting at traffic signals and busy intersections
- the number of barrels of wine produced per harvest of grapes without loss of quality
- in an attempt to become more efficient in their operations the local supermarket has decided that it will allocate a quick check-out lane for customers who have purchased fewer than five items.

Another important concept for businesses is **effectiveness**. This can be defined as the ability of the business to achieve its previously determined objectives or goals. These objectives are developed at all levels of the business and are written in line with the overall mission and vision statements and strategic plan.

effectiveness the degree to which a business achieves its stated objectives; 'doing the right things'; the ability of a business strategy to achieve an intended or expected outcome

Why do businesses need to evaluate performance?

Everyone needs to evaluate or make a judgement as to how they are performing. Business owners and managers make plans and set objectives that need to be measured. It is not advisable to wait until the end of a business or financial year before making a judgement; it may be too late.

All businesses should regularly assess the performance of a business and use a range of data and KPIs to ensure that information is relevant, accurate, reliable and timely. Businesses will often make major and strategic decisions using the information they have collated. Therefore it is critical that a business, regardless of its size, gathers and uses financial information.



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CASE STUDY 10.1

Evaluating performance – Woolworths and Masters

Gordon Cairns, chairman of Woolworths, has announced that the group will be closing down or selling off its subsidiary company Masters. In four years the home improvement business has lost over $600 million dollars. Woolworths has undertaken a strategic review of the business and decided it can no longer support this.

The sharemarket responded positively to this announcement, with prices rising shortly after trading commenced for the day. It was clear shareholders were happy with the decision, with an analyst from Merrill Lynch saying Woolworths was taking the best approach for investors.



Figure 10.2 Only five years after opening the first store in Braybrook, Victoria, Masters will close down 62 stores.

It will be about six months before Woolworths has completed their assessment, and Masters will continue operations during this time. But this will lead to an estimated 2016 loss of as much as $290 million.

Employees of Masters have been assured they are not facing unemployment. If the business closes down, rather than being sold, the staff will all be offered jobs elsewhere in the Woolworths group.

The intention is to ensure that all stakeholders have as much certainty as possible for the future.

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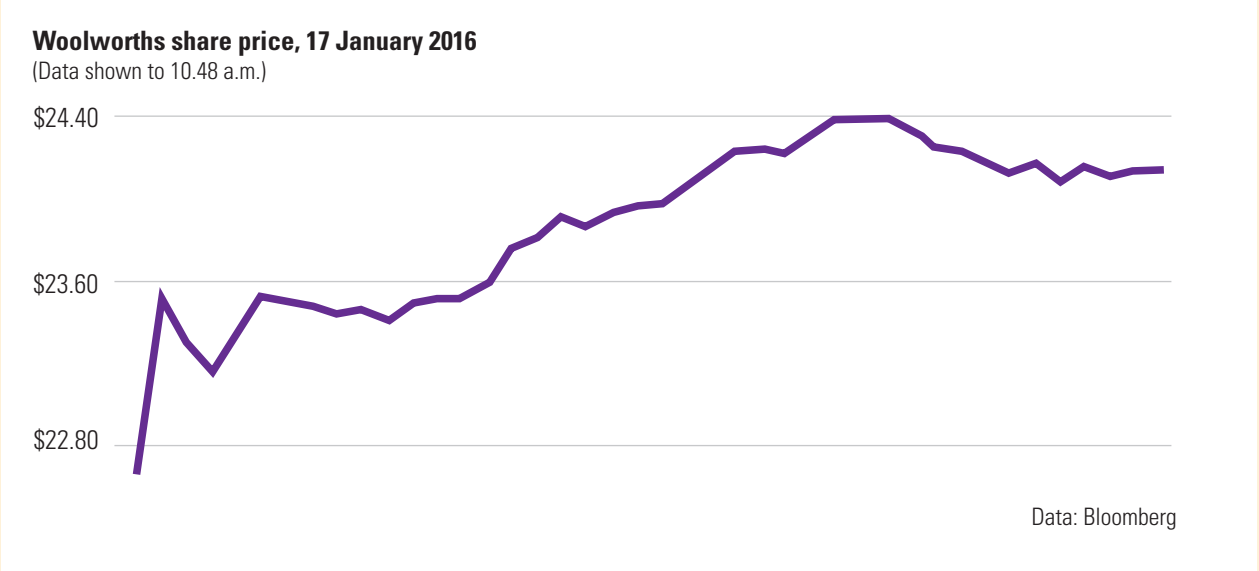


Figure 10.3 Woolworths shares climbed when the closing of Masters was announced.

Analysis

1. Describe the information that Woolworths used to make its decision to wind up Masters.
2. Explain why a business would use this type of information to make decisions.
3. Identify the stakeholders who may have been affected by the decision, and discuss how they would be impacted.

Indicators used for measuring business performance

Key performance indicators (KPIs)

A performance indicator is a tool used to measure progress towards the achievement of business objectives. A key performance indicator (KPI) can be defined as a measure or a set of data that allows a business to determine whether it is meeting its business objectives. To enable a business to make accurate evaluations about performance it should use a range of indicators and data.

A range of KPIs will allow a business to make sound judgements and provide a wide overview of business performance. Any KPI or data source must be:

- relevant – does it provide the information required by users?
- valid – has the data been collected correctly?
- reliable – what is the source of the data? Has it been based on measurable data or is it anecdotal?
- deliver valuable information – will the KPI provide useful information that will help decision-making?

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Figure 10.4 KPIs allow a business to determine whether it is meeting its business objectives.

KPIs should also be comparative and this can include:

- changes over time – did the rate or amount increase or decrease over the past year?
- comparing it to other businesses or **benchmarks** in the industry sector – does the business meet or exceed benchmarks set by the best in the industry?
- budgets, estimates or targets set by the business – did performance match or exceed budgets?

benchmark a level of quality or achievement used as a standard of comparison for others; a point of comparison used to evaluate success levels

10.2 Key performance indicators used to evaluate the performance of a business

There are a number of ways to evaluate business performance. Some of the important KPIs are outlined below.

Percentage of market share

The **percentage of market share** can be defined as the proportion or amount of the market. If the proportion of market share increases, the business has a greater percentage of the market and sales. Some industry sectors are dominated by a few large businesses which have substantial market share and a large number of customers. In other sectors of the economy there may be more competition and businesses will vie for market share and customers. Some small and medium businesses may be in a niche industry or market and, despite their size, have a large percentage of the market.

percentage of market share the portion of sales (units or revenue) of a product that a company achieved in relation to the sales of the same product that other companies achieved



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CASE STUDY 10.2

2015 a bumper year as Lego gains market share



Figure 10.5 Lego is one of the world's most popular toy brands.

In the global toy market, Danish company the Lego Group has reported astonishing growth – with reported profits for 2015 up 25% on the previous year. The company reports that it achieved double-digit sales growth in most of its regions in the financial year, while analysts believe the traditional toy market in most countries grew by mid-single digit rates.

The company estimates that over 100 million children worldwide had a 'LEGO experience' in 2015 – and with its extensive range of construction sets and toys, popular licences such as *Star Wars* and *Frozen*, video games, movies, and increasing popularity in new markets like China, this is not hard to believe. With merchandising rights to accompany years of planned *Star Wars* film releases, a *Frozen* sequel, as well as Lego's own follow up to its 2014 blockbuster *The Lego Movie* on the cards, Lego's potential for increasing its profits seems very likely.

Lego reported annual sales of $5.2 billion (US) in 2015. However, in the toy game Lego can't yet claim the title of world's largest company. Mattel, maker of Barbie and Hot Wheels, has reported $5.7 billion in revenue for 2015. That being said, the company's profits dropped 5% from 2014, with analysts blaming a global decline in the popularity of Barbie dolls. Hasbro, the owner of Transformers and My Little Pony, ranks third in the toy industry, with around $4.5 billion in revenue for 2015.

Analysis

1. Define the concept of the percentage of market share.
2. Explain why Mattel would be concerned about its loss of market share.
3. Predict where it is likely that Lego Group will attract new markets and customers, and most likely greater market share.

Net profit figures

net profit the amount left after all expenses (e.g. costs, taxes) have been paid, also referred to as the bottom line

Net profit is the difference between revenue and expenses. If a business makes a profit, it may be considered to be successful. Usually, a certain level of profit will be determined as acceptable by the business (in terms of its objectives and the expectations of investors, owners and other institutions).

What an acceptable net profit figure is will differ depending on the size and complexity of the business. A small business might be happy with a small net profit as long as the owner can draw a regular wage. A large business, on the other hand, would have pressure from shareholders to deliver substantial and ongoing profits.

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CASE STUDY 10.3

Article 1

Profit results for Godfreys forces CEO to step down

An unfortunate consequence of less than anticipated profit is that Tom Krulis, Godfreys chief executive, resigned in January 2016. A revised profit forecast of $8.5 million and $9.2 million had been submitted from the previous figure of $12.9 million. This was due to the first six months recording a net profit of $4.3 million and $4.5 million, as opposed to $6.4 million for the previous period. The less than satisfactory net profit result can be attributed to a failure to make the most of buyers' changed preference for leaner stick cleaners, according to Godfreys chairman Rod Walker.

Article 2



Figure 10.6 Qantas has managed to change its fortunes from a loss-making company in 2014.

Qantas revenue set to take flight and see more returns

After a very good first-half underlying profit before tax of around $900 million, Qantas chief executive Alan Joyce said that the airline's board was optimistic about the capital return to shareholders.

Mr Joyce's comments followed the airline announcing that it expected to report a first-half underlying profit before tax between $875 million and $925 million, which was greater than most analysts' expectations.

This forecast optimism, a significant increase on the $367 million reported in the previous financial year, was attributed to revenue growth and cost-cutting as well as benefits from lower fuel prices.

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CASE STUDY 10.3 continued

Matthew Spence, a Merrill Lynch analyst, said, 'Qantas continues to generate revenue growth and cost outs in a generally tough environment for Australian industrial companies.'

Mr Joyce said that business had improved across the whole company, including the once-suffering international market, which had expanded its coverage to include flights to the United States, Hong Kong, Singapore and Japan.

Mr Joyce said that he expected the resources sector in the domestic market to remain weak for at least the next 18 months notwithstanding the extra resources put into east-coast leisure markets, which was benefiting from Asian and North American tourism, and a greater number of Australians taking domestic holidays.

Analysis

1. Define 'net profit'.
2. Outline why businesses focus on profit.
3. Determine the information that this KPI provides businesses with.
4. The CEO of Godfreys has resigned. Discuss how the business could use the information that caused his resignation in the future.
5. Describe how Qantas worked on increasing profit and overall performance of the business.

Rate of productivity growth

Productivity measures the business's ability to transform inputs into outputs; and the rate or change, increase or decrease gives an indication of the rate of growth. Inputs include any resources required for the production of the good or service. An output is the finished good or service. A business that increases the rate of productivity growth uses resources more efficiently.

If, for instance, employees are able to increase the number of mobile phones produced each day by 10% using the same amount of inputs, then productivity has increased.

It is important for a business to evaluate whether the rate of productivity growth has met objectives.



Figure 10.7 A company's productivity depends on making sure that every employee performs to their full potential.

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CASE STUDY 10.4

Productivity Commission suggests ways to improve productivity in the public service

According to a landmark review of Australia's Public Service (APS) by the Productivity Commission, bosses in the government sector should be replacing business trips with video conferencing technology, and workers should not bother performing overtime.

The review suggests that government bureaucrats should use technology to streamline the performance of their department's 'core activities' to see genuine gains in productivity. According to the commission, this 'relates more to the adoption of new processes and technologies, rather than simply working harder or changing the mix of entitlements in a worker's overall compensation'.

'A well-publicised example is scope for the reduction in travel expenditures resulting from more widespread use of video and teleconferencing, fuelled by technological improvements, and the complete demise of the large typing pools that existed in the 1980s,' the review stated.

In terms of industrial relations laws, the heavily anticipated review of Fair Work laws by the commission advised a re-imagining of currently accepted philosophies regarding public service 'productivity' in order to benefit future bargaining processes by the APS. Interestingly, the commission found that public service bosses who asked employees to hang around the office longer in exchange for pay rises might do more harm than good. 'Paying an employee to work more could harm productivity, if the worker's effectiveness falls in those additional hours,' the review states. Also noted were the genuine productivity gains that emerged from measures currently making the rounds of APS departments, such as making an end of longer working hours and loss of entitlements like Christmas. However, the review states that these gains become redundant if employees were paid to reverse these changes.

Finally, the Productivity Commission also claimed that departments must get 'hard-headed' on their approach to sacking underperforming staff, suggesting that policy decisions on the matter would be best made at the individual department or agency level.

Analysis

1. Define the concept of productivity.
2. The article states that the adoption of new processes and technologies might increase productivity. Explain what is meant by this.
3. Explain the argument relating to how working extra hours might lead to reduced productivity.
4. Go to the Australian Government Productivity Commission website. Describe three different ideas or information you found on the website relating to productivity growth.



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Number of sales

number of sales the total quantity of sales of a particular product or service

The **number of sales** can be defined as the total quantity of a particular product or service sold. The level or number of sales of a product or service will allow a business to determine whether it is meeting sales forecasts and whether the business has to look at ways to increase sales in both the short term and longer term. Taking note of trends in sales, particularly for a specific product or service or in a region or at different times of the year, will all assist a business in planning, budgeting and changing the mix of products and/or services as required.



Figure 10.8 The number of sales will determine whether a business is meeting forecasts.

ACTIVITY 10.1

Harry and Adam have established the Shearers Hub, a small take-away food business in rural Victoria. The business has started to build up regular customers who stop on the way to Sydney. Harry has been checking the number of sales each month and has found that there has been an increase in the number of sales on Fridays and the weekend.

1. Describe how Harry and Adam can use the information Harry has collected.
2. Outline decisions the business could make using the information about the increased sales on Fridays and the weekends.

Rates of staff absenteeism

rate of staff absenteeism a percentage indicating the number of workdays lost due to unscheduled staff absence from work, especially without a good reason

The **rate of staff absenteeism** measures the number of times staff are not at work, and who may be using sick or personal leave and not attending the workplace. If staff are absent from the workplace this is a cost for the business. Rates of productivity may reduce as the staff member is not there to complete their tasks; and it can be a cost to the business as other staff may have to be employed to take over the job as well as the staff member receiving payment if they are taking personal or sick leave. In a small business, high rates of staff absenteeism may mean the business cannot carry out its operations on some days and this may result in lost sales and revenue.

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Figure 10.9 Staff absences are a cost to a business.

If a business has high or increasing rates of staff absenteeism this may indicate that staff are unhappy in the workplace and with their job. Businesses need to monitor rates of staff absenteeism and take steps to reduce rates if it is seen as an issue across the business.

The rate of staff absenteeism can be measured as a percentage of time lost:

- $\frac{\text{Total time lost due to unscheduled absence}}{\text{Total time available for production}} \times 100$

A business can compare its rate of staff absenteeism for a period with rates for other periods or against an industry standard to determine how it is faring.

Ways to reduce the cost of employee absences

Employee absences are a large cost for many businesses. It is important for businesses to measure the cost and impact of employee absenteeism. Knowing the reasons for employee absenteeism can assist a business in dealing with the issue if it is causing managers and other employees concern. There are five ways that staff absenteeism can be reduced.

These include:

1. Track staff absences. This may help a business determine if there are patterns or concerns about particular employees. Some employees may have other issues going on and these may be addressed when discussing absences.
2. Make sure that the business has employee wellness programs to support employees.
3. Help employees to return to work. Sometimes it can be difficult for employees to return to work after injury or illness. This may include a range of activities including modifying work, allowing people to work from home or flexible work hours.
4. Eliminate workplace stress. Sometimes people feel overwhelmed and take time off work.
5. Offer employees flexible time off and holidays. This might include allowing employees to take time off around a public holiday.

ACTIVITY 10.2

1 Explain why the rate of staff absenteeism is an important KPI for businesses to monitor.

2 Explain why a business should look at ways to reduce staff absenteeism.

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Level of staff turnover

staff turnover measures the number of employees who had to be replaced within a given period

Staff turnover measures the number of people or employees permanently leaving a business. If the level of staff turnover is high (for example, higher than other similar businesses), it may indicate dissatisfaction in the workplace. Staff turnover means that a business incurs a number of costs, including costs for advertising, recruiting and training new employees. There is also a cost to the business when staff leave as many people take knowledge and experience with them.

Often the competitive edge and difference between one business and another is their staff. If a small business loses only one key staff member it can have an adverse impact on the performance of the business. Larger businesses can also be severely affected by high rates of staff turnover. The cost of advertising, recruiting and training staff can be high. A business may also gain a reputation as one that is not desirable to work at and therefore the quality and number of applicants may decrease when positions are advertised.

There are a number of ways that a business can reduce staff turnover. These include:

- choosing good managers who have developed interpersonal and communication skills
- providing employees with clear expectations, including vision, goals, expected behaviours, standards, priorities and agreed actions
- encouraging employees to use their skills and recognising them
- providing support for employees when needed
- encouraging employees to get involved in decision-making
- providing opportunities for employees to provide feedback
- encouraging employees to upgrade their skills.



Figure 10.10 High staff turnover is costly.

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CASE STUDY 10.5

Don't wait for the exit interview to discover how they feel

Most companies are aware of the visible costs of replacing employees, but other, hidden, costs could be much higher. For example, it takes time for new employees to become as productive as the ones they replaced, they are likely to make some errors while in training, and especially if there is high staff turnover, other staff may become demotivated and less productive. It is therefore crucial for companies not only to recruit the best possible employees but also to retain them.



Yet Adapt to Survive, a global study by PWC and LinkedIn into the value gained by a better talent fit, revealed that more than 23% of employees leave their positions within the first year of employment! The report further states that staff turnover costs Australian companies $385 million in recruitment costs and $3.8 billion in lost productivity.

How, then, are companies to find the best employees and retain them for as long as possible? Here are some questions they should consider:

- Before employing people, do we ensure they understand exactly what the position entails – both the positive and the negative aspects?
- Do we have a thorough induction process to settle new employees?
- Is our training individualised to get each new employee to be productive as soon as possible, and do we allocate them mentors (or buddies) for support?
- Are employees' skills and experience fully utilised in their roles?
- Do we appreciate and acknowledge the employees' contribution?
- Are we able to offer employees other work experience (or promotion) within the company when they outgrow the present position?
- Do managers have regular one-on-one review sessions with each employee?

Don't assume employees are happy and don't wait for the exit interview to discover how they feel.

Analysis

1 Explain why the level of staff turnover is an important KPI for a business to measure.
2 Describe how staff turnover can be a cost to a business.
3 Design a poster, brochure, pamphlet or blog setting out advice to a business to reduce staff turnover.

Level of wastage

level of wastage in a production process will give an indication of business efficiency and is a measure of resources that have not been converted to outputs

The **level of wastage** is an indication of the extent to which a company's processes are lean and effective. The level or proportion of waste in a production process will give an indication of business efficiency. Reducing waste levels will reduce the costs associated with producing a product and it may also mean that fewer non-renewable resources are used, having a positive impact in the wider community. Many businesses will try to implement processes to reduce waste levels and also recycle and reuse materials and offcuts as much as possible.

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Figure 10.11 The level of waste can impact on the efficiency of a company's processes.

One example of waste reduction occurred at Unilever. Unilever became aware of the issue of food waste in restaurants. The company now works with chefs and restaurant owners to reduce their waste in a number of ways, including purchasing and storage. The 'Wise Up on Waste Service' program contains a step-by-step waste audit to make kitchens more efficient. The program is running in 23 countries.

number of customer complaints the number of written or verbal expressions of dissatisfaction from customers about an organisation's products or services

Number of customer complaints

The **number of customer complaints** is an indicator of how customers view the business and the quality of the product and/or service they have been given. It allows the business to compare the number of complaints over time or with the performance of their competitors. An increase in customer complaints may indicate there is a need for further training of employees or that products may not be of a satisfactory standard or quality. A decrease in the level of customer complaints may be seen as positive data.

For many businesses, regardless of their size, customer complaints and unhappy customers may mean that the reputation of the business suffers. A small business in a local area may find that comments by unhappy customers can impact on future sales if the business has not handled the complaint in a satisfactory manner.

CASE STUDY 10.6

Customer complaints at Optus

Which MVNO (Mobile Virtual Network Operator) left big three for dead in Ombudsman report?

Optus has recorded more new complaints per user in the last quarter than either Telstra or Vodafone.

The Telecommunications Industry Ombudsman announced that it received 5.9 new complaints per 10 000 services in operation for Optus in the quarter ending 31 December. Telstra recorded 4.9 and Vodafone had 3.5 new complaints per 10 000 services.

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The industry average for the quarter was 4.8 new complaints for every 10 000 services.

Amaysim – Australia's fourth largest mobile Telco and an Optus 4G reseller – left its larger rivals for dead, with just 0.7 new complaints per 10 000 services.

'We've beaten our own [personal best], which just so happens to also be the best rating in the industry,' said Amaysim compliance and service operations manager Chad Heininger.

Despite its top ranking, Optus has improved in the last three quarters. In June 2015, the Singtel-owned Telco copped 8.5 complaints per 10 000 services, then in September it reduced the rate to 6.7.

The industry average has steadily fallen in the past year from a peak of 7.2 in March last year.

'It's really great to see complaints across the board in the mobile category continue to drop over the last quarter too, showing that there's more focus than ever before on the importance of customer service,' Heininger said.

Optus took on the mantle of most complained-about communications provider in March last year, taking over from Vodafone. As recently as the quarter to December 2014, the Ombudsman was fielding 10.5 complaints per 10 000 Vodafone services.

(Source: Tony Yoo, 'Optus-is-most-complained-about-telco', CRN website, 8 February 2016.)



Figure 10.12 An unhappy customer could influence future performance when they share their negative experience with friends and family.

Analysis

1. Identify the levels of customer complaints for each of the major phone companies.
2. Explain why some of the companies would be concerned about the announcement by the Telecommunications Industry Ombudsman.
3. Explain two strategies a phone company might use to reduce the number of customer complaints.

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Number of workplace accidents

number of workplace accidents the number of unplanned events interrupting the workflow that may or may not include injury or property damage

The rate and **number of workplace accidents** can provide an insight into whether a business views employee safety as an important priority. Reducing the number of workplace accidents means employees are less likely to be injured, or even killed, in the workplace and demonstrates the propriety and concern of the business for its employees. It may also allow the business to reduce its WorkSafe premiums and ensure staff know that their safety is a priority for the business.

Increasing workplace safety and thereby reducing the number of accidents has the following benefits:

- reduction in number of disruptions to work and production
- reduction in time lost due to accidents and consequent disruption
- reduction in lost production
- reduction in management time required to manage the effect of accidents and disruptions, and the administrative work resulting from these
- enhancement of the reputation of the business
- improvement in staff morale and loyalty.



Figure 10.13 Increasing workplace safety reduces the costs associated with accidents.

ACTIVITY 10.3

Go to the WorkSafe website and answer the following questions:

1. Identify why it is important for a business to ensure it has a safe workplace.
2. Explain how a business can reduce accidents in the workplace.
3. Outline the rights and responsibilities of an employer.

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ACTIVITY 10.4

1 Identify the most appropriate key performance indicator (KPI) for each of the following situations. Justify your choices.

- **a** The human resource manager is concerned about the number of people leaving the business.
- **b** A manager is concerned about the high number of staff sick days compared to last year.
- **c** Partners of the business want to know how it is performing (*Note*: may be more than one KPI).
- **d** The marketing manager would like to know about customer satisfaction with service quality.
- **e** A consultant wishes to determine the level of staff job satisfaction within the business.
- **f** The operations manager wants to know whether resources are being used properly in the production process.
- **g** The marketing manager would like to check the percentage of company sales in the marketplace.

2 Match the KPI to the appropriate outcome or situation in the table below.

25% of employees left the business in the past 10 months.	Market share
Revenue less expenses is greater than the previous financial period.	Number of customer complaints
Total proportion of the market increased by 5% in the previous six months.	Net profit
The number of workplace injuries has dropped compared to last year.	Rate of productivity growth
Customer complaints have been identified as an area for improvement over the next three months.	Results of a customer satisfaction survey
Feedback from a customer survey indicated some unhappiness with the time taken to answer a phone enquiry.	Staff turnover
Resources have been used more effectively this financial year compared to the two previous periods.	Number of workplace accidents

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Why do businesses use key performance indicators?

All businesses need to continue to examine how their company has been performing against business objectives. This will allow the business to determine whether resources are being used properly and to see if budgets and forecasts are being met or exceeded. If a business, regardless of size, does not continually monitor its performance, it may not be aware of issues until it is too late to change or amend processes. Monitoring of KPIs and other data also allows a business and its employees to have a method to determine how departments, individual staff and work teams are performing against benchmarks or other standards.



Figure 10.14 Monitoring employees against business benchmarks

ACTIVITY 10.5

Examine the data provided by Matt Hussey, Sales Manager, of MH Car Detailers. The company has been operating for the past five years and has gradually built up a reputation for quality service and reliability. Matt has noticed that the change to a new supplier of cleaning products has led to a poorer finish on some cars.

He has collected the following data:

Performance indicator	2017	2018
Number of customer complaints – per month (average)	1	6
Market share	18%	17%
Net profit – for 12 months	$234 000	$253 000
Number of workplace accidents – per month (average)	13	17
Rate of productivity growth – per year	5%	3%

Matt has also examined some of the data available from other car detailers in the area. While his business is performing above industry standards he is concerned that performance is starting to slip.

1. Write a brief report (one or two paragraphs) on what data and trends the KPIs provide.
2. Choose two KPIs from the table and make a recommendation on what Matt might do now to try to improve the performance of the business.

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Chapter summary

- KPIs can be used to analyse the efficiency and effectiveness of a business.
- Businesses need to use KPIs and other data to evaluate and judge their performance.
- KPIs should be valid, relevant, reliable and deliver valuable information.
- There are a range of KPIs used by businesses including net profit, number of sales, level of wastage, rate of productivity growth, percentage of market share, number of customer complaints, number of workplace accidents, level of staff absenteeism and staff turnover.
- Businesses use KPIs to assess how the business has been performing against business objectives.

Chapter summary questions

1 Define the following terms.
- **a** key performance indicators
- **b** efficiency
- **c** effectiveness

2 Discuss why it is important for a business to monitor performance.

3 Explain why businesses need to use KPIs and other data.

4 Outline three KPIs that can be used to measure performance in the following businesses. Justify your choices.
- **a** a medical centre
- **b** a gym
- **c** a mobile phone store

5 Discuss the link between business objectives and performance.

6 Identify two KPIs you believe would be important for a restaurant to monitor. Justify your answer.

7 'Performance measurement is a complex issue.' Discuss this statement in terms of the use of KPIs in a business.

8 Explain why a business should regularly collect, check and monitor KPIs.

Examination preparation

JB Cinemas is a small theatre operating in the eastern suburbs of Melbourne. The business has been in operation for 40 years and employs a total of 55 employees. Over the past three years it has seen declining profits due to changing preferences of customers who can access movies via the internet or DVD.

The owner Eva Edwards has examined net profit and market share figures and has found that they are continuing to decline. She is looking at ways to stop this and increase market share.

1 Define percentage of market share and net profit.

(2 marks)

2 Explain why a business should use KPIs to evaluate performance.

(3 marks)

3 Identify and describe two other KPIs JB Cinemas might use to evaluate performance.

(4 marks)

4 Outline why a business such as JB Cinemas would need to continually monitor industry trends.

(3 marks)

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CHAPTER 11
Forces for change

Key terms

- business change
- driving forces
- Force Field Analysis
- globalisation
- innovation
- organisational inertia
- restraining forces

Overview

It is argued that while people accept that change is inevitable, most prefer change to be continuous, predictable and comfortable. For a modern business the process of change and the transformation of a business is characterised by discontinuity and unpredictability. The external and internal environments of all businesses are constant sources of change. While change has always occurred, the pace of change seems to have gathered momentum and is far reaching and can be volatile. It is important, therefore, for all businesses to be prepared for transformation, to adopt a proactive response, be flexible, and at the same time formulate plans for the future.

Businesses have to contend with a number of forces that will drive the changes needed or in many cases act as a constraint and restrain change. Lewin's Force Field Analysis provides a useful tool or framework to examine these driving and restraining forces.

Key knowledge

Students will learn about the concept of change and examine the forces on business that cause change to occur. Students will learn about:

- The concept of business change.
- Key principles of the Force Field Analysis theory (Lewin).
- Driving forces for change in business, including managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes.
- Restraining forces in businesses, including managers, employees, time, organisational inertia, legislation and financial considerations.

What's ahead

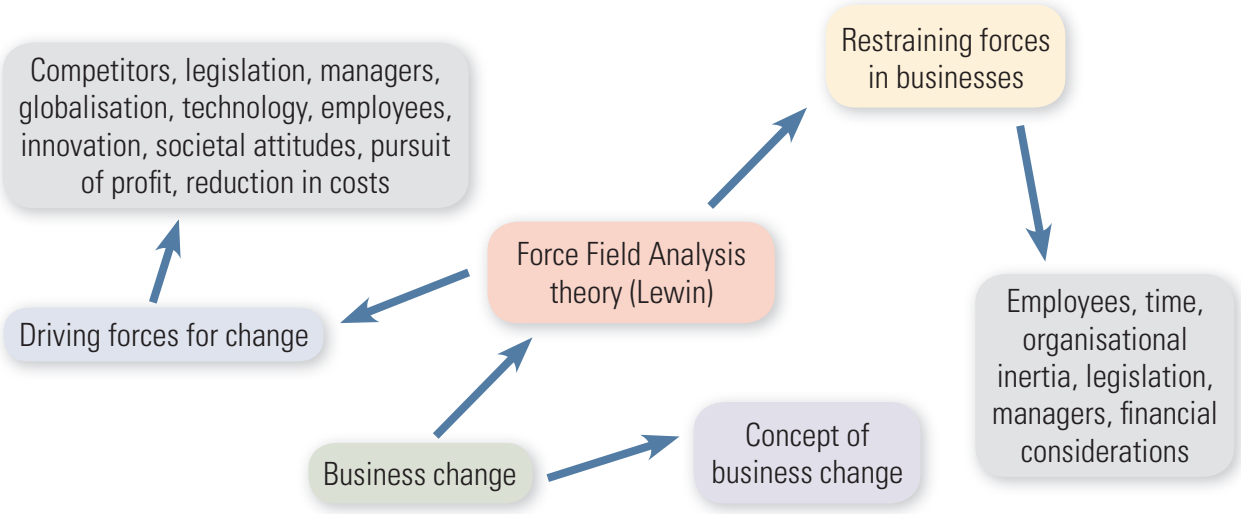


Figure 11.1 Business change and forces for change

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11.1 The concept of business change

business change any alteration to a business and/or its work environment

The concept of **business change** can be defined as the process of taking the existing business, altering it and establishing a new or modified form. Change occurs because of pressures placed on the business to make adjustments to its departments or divisions, operations and activities, employee jobs and tasks, policies, behaviours, management styles and corporate culture. Change can take many forms. It can be widespread and impact on every area of a business or it can be relatively minor and only lead to small changes in one area.

The leaders, managers and owners of the business have an important role in the change process. One of the main tasks for the managers and owners is to ensure the business is always ready to take on and apply new ideas and plans that can be implemented quickly and smoothly.

For change to be successful it is important to consider its effect on people. The change itself is external and people's internal reactions to change will differ. Employees may resist the change from their current position to a new unfamiliar situation or altered state. Employees may also feel a loss of personal identity, afraid of failing and disorientated about where the change is leading them.

It is reasonable for people to be 'unreasonable' about change. Many employees will find change difficult and move backwards and forwards between stages of accepting, rejecting or ignoring changes. The transition stage from the 'old' to the 'new' is the most difficult – employees need to be able to move on to the new or changed situation in order to re-establish their familiar roles and become productive again.

Management of change is difficult but essential in all businesses; there can be no progress without it so management must be committed to the change to ensure the success and future of the business.



ACTIVITY 11.1

Imagine you have arrived at school and found that the hours have changed, the number of lessons a day has increased, your timetable has changed and all of your teachers have left and been replaced by different ones.

1. Write down four words describing how you would feel.
2. Share these with someone else.
3. Examine as a class whether there are any common or similar words and classify these words as positive or negative.
4. Explain how this links to the concept of change in business.

11.2 Key principles of Lewin's Force Field Analysis theory

Businesses are affected by change in many ways. To successfully manage or cope with change, managers and owners must try to become more proactive and look at the driving forces behind change, rather than waiting for the change to happen and then reacting to manage its effects. Successful businesses are pre-emptive and proactive – they initiate, innovate and embrace change.

Force Field Analysis theory

In 1969 Kurt Lewin, a management theorist, developed the concept of **Force Field Analysis** based in the physical sciences. He developed his theory as a tool to understand problems and effects of change within businesses. He described a problem situation as one where there is a difference between the way things are and the way they are desired to be. The principle of Force Field Analysis is that in any situation it is 'the way it is' at any given point because counterbalancing forces are keeping it that way. Lewin was able to identify a number of forces as either *driving forces for change* (pushing the change to occur) or *restraining forces* where the forces or pressures stopped or hindered the change process.

Force Field Analysis looks at forces that are either driving movement towards a goal or change (helping forces) or blocking movement towards a goal or change (hindering forces)

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Figure 11.2 Forces or pressures hinder change.

By using a simple graphical model and identifying the drivers and restraining forces, Lewin argued that issues can be plotted and discussed by key decision-makers.

driving forces those forces affecting a situation that are pushing in a particular direction and are supporting the goal or proposed change

restraining forces personal and organisational resistance to change that acts against the driving forces and could involve management, employees, cost, legislation and competitors

Driving forces are those forces affecting a situation that are pushing in a particular direction and are supporting the goal or proposed change. They tend to initiate a change and keep it going. If a proposed change relates to improving productivity in a work group, for example, then the driving forces may be from a manager, technology, employee suggestions and legislation.

Restraining forces are forces acting to restrain or decrease the driving forces. These may include employee apathy or hostility, lack of access to finance and other financial considerations and organisational inertia. The restraining forces will work against any changes a manager or business is trying to implement.

Typically, users of Lewin's model take the following steps:

- Define the target of change.
- Identify the driving forces and the restraining forces.
- Analyse the forces which can be changed.
- Develop an action plan on what can be changed.

Harnessing the forces for change

It can be argued that the ability of a business to successfully implement change can be influenced by whether the change is being driven by restraining or driving forces. Lewin concluded that a number of factors had to be present for the change to be successful. He determined the following:

1 When driving forces are more dominant in a business then the change is likely to be successful.
2 If the driving forces are met by restraining forces at a similar level, then it is likely that the change will not be successful.
3 If the restraining forces are more powerful than driving forces, then it is unlikely that the change will be successfully introduced.

Therefore, according to Lewin, there is only a one in three chance of change being successfully taken up in a business.

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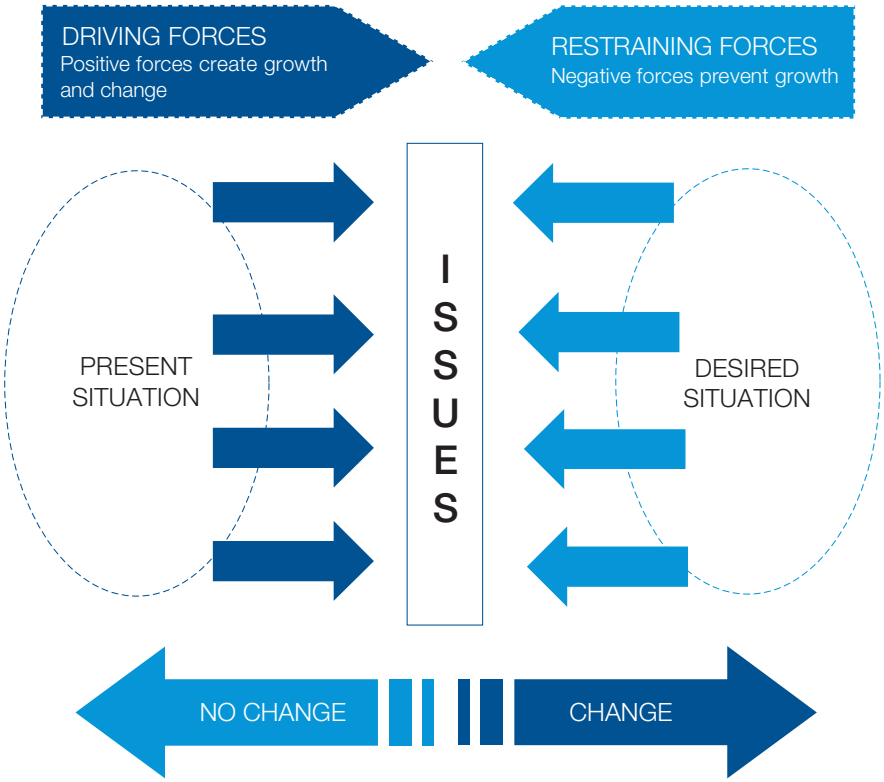


Figure 11.3 Model for change

11.3 Driving forces for change in a business

globalisation the process of increasing interdependence between countries. It involves the increasing integration of businesses and economies. It removes economic boundaries, which creates free international trade and movement of capital between countries.

There are a number of different forces on a business that can push for change to occur. Driving forces include managers, employees, competitors, legislation, pursuit of profit, reduction in costs, **globalisation**, technology, innovation and societal attitudes.

Managers

Managers are critical to the success or otherwise of change. Managers therefore act as an important driving force. Managers have influence on the business and will either provide the strategic direction for the change or be involved in a 'hands-on' role in ensuring that the change is implemented successfully. In a small business the owner/manager may be involved in the whole change process and has to drive it by initiating it and also ensuring the changes are implemented.

Managers must be prepared for change and ensure that the leadership and management across the business are all clear about the changes required and that a consistent message is given to all stakeholders. Managers and leaders also have to be willing to share their ideas and expertise with others as this can increase capacity and support for change across the business. Managers need to support and drive the change if it is to have any chance of succeeding.



Figure 11.4 Managers need to be prepared for change.

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ACTIVITY 11.2

Think about a change that has occurred in your school or in your workplace.

1. Identify the change.
2. Outline how the change was implemented.
3. Describe the role that managers or the school leadership team played in the change.

Employees

Employees can be a critical driving force for change. If employees support the change and are happy to implement it the business is likely to find the whole change process is a success. Even in cases where it may only be a few key staff who support the change, they are usually able to influence others to ensure the change is successful and permanent. Many businesses now give employees more freedom and flexibility and they will often come up with new ideas and innovation. If a participative or consultative management style is used this will also encourage employees to make changes or to support those changes implemented by managers. Employees are one of the main reasons for the success or failure of a change.



Figure 11.5 Employees are an important force in change.

CASE STUDY 11.1

The spread of start-up culture

If you ever get offered a job by Gen Y entrepreneur Sharon Latour, you can look forward to working whenever and pretty much wherever you want.

Latour was only 23 when she launched her business in 2011. But she was already over the old school management practices she'd encountered while working for large corporations.

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'I didn't find traditional office environments conducive to innovation or happiness,' she explains. 'So when I launched my business with $450 in the bank and using a Melbourne café as my office, I decided to create something different.'

Latour's company, Marketing Bee, now has 21 employees and contractors scattered around the world. It's on track to be turning over $10 million a year by 2018.

'People my age have grown up with technology. They're used to getting things done from anywhere at any time,' Latour says. 'They don't have the mindset that you need to be in a particular physical space during a particular time to work. As long as staff do those jobs well by deadline, I don't care if they want to start work at 3am in the morning or live in Australia, the US or Europe.'

Activity-based working, 'agile working', the Results Only Work Environment – giving workers greater independence – is taking off.

A perfect storm of technological, cultural and generational change is driving the trend. 'Wireless connectivity, laptops and tablets mean work is now something you do rather than a place you go,' says Anders Sörman-Nilsson, a futurist and founder of the think tank Thinque.

'Trends such as companies using on-demand talent pools and people aspiring to the free-agent, digital nomad lifestyle have been around for a while.' On top of all that, baby boomers are exiting workplaces and digital natives are gaining more influence within them.

'The culture of tech start-ups – staff having a lot of personal freedom – is spreading. That's already had an impact in industries such as banking, insurance and financial services,' notes Peter Gahan, a professor of management at the University of Melbourne and director of the Centre for Workplace Leadership.

'Employers are seeking employees capable of thinking creatively and using their discretion. That leads to structuring workplaces in ways that are less hierarchical.'

It's been employers who've been most resistant to getting with the worker autonomy program.

However, with the freedom come a number of considerations. Computer tracking systems can record what was on a staffer's screen for every second they were logged on.

'I'd imagine that more autonomy would inevitably involve the trade-off of more transparency and accountability from employees about how they are spending their time,' says Professor Gahan.

Latour argues both business owners and those wanting to work for them can either embrace change or be run over by it.

'How many people go to a bank branch rather than doing their banking online nowadays?' she asks. 'More and more industries are moving to a model that allows for remote and online work. Within five years the way I do business will be a lot more common.'

(Source: Nigel Bowen, 'Start-up culture spreads as employees set own rules', *The Age*, 8 December 2015.)

Analysis

1. Describe how an employee can act as a driving force for change in a business.
2. The article describes the use of technology and flexible work practices in businesses. Explain how this is impacting on workplaces.
3. Identify how employees are driving this type of change.

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Competitors

Competition between companies may mean that a business is always aware of what its competitors are doing and is able to respond to changes quickly. Some industry sectors of the economy are highly competitive so businesses always need to be ready to respond to any changes to ensure they do not lose customers or market share. Many businesses also need to stay ahead of competitors and be the first to respond to pressures in the industry or market. For many businesses their competitors can come from anywhere in the world, making the management of change even more complex. If a business is able to be the one that leads the competition and comes up with changes before other businesses, then it is likely to keep ahead of its rivals.

CASE STUDY 11.2

Advertising in a competitive market

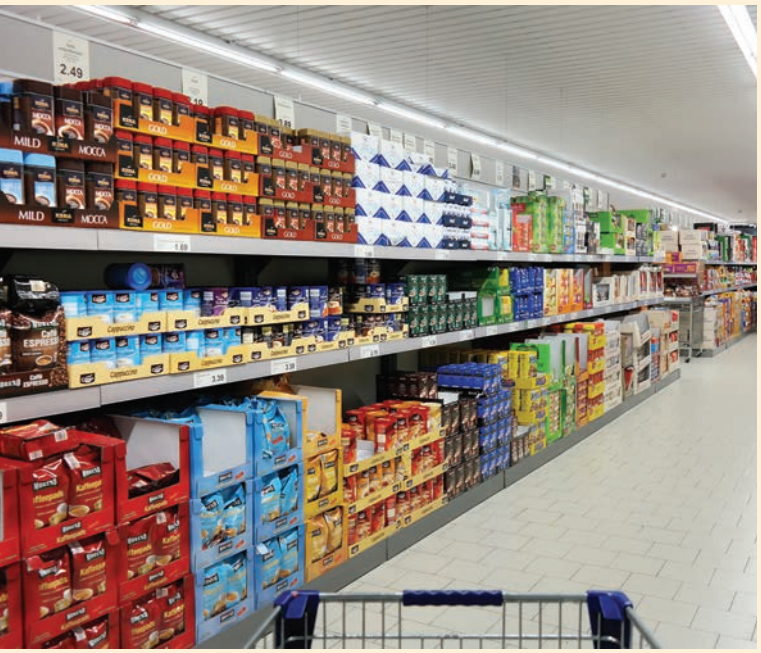






Figure 11.6 Competition is strong among grocery chains.

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Standard Media Index figures for the September 2015 quarter indicate that food and alcohol retailers have significantly increased their spending through media agencies in this period, bringing the total spend to an extraordinary $94.6 million.

TV and radio advertising benefited most from an increase of 5.7%, or $5.06 million, while newspaper advertising decreased over the same period. Analysts ascribe most of the growth to Metcash, supplying 1400 retailers, and ALDI – both of which are trying to get a bigger share of the $90 billion grocery sector.

While the Coles Fresh marketing campaign commenced in July 2015, it is reported that strong competition from Woolworths drove continued investment into advertising well into the September quarter.

Driving home its message of investing $500 million to secure lower prices for shoppers, Woolworths embarked on a new marketing campaign with a focus on pricing – Low Price Always.

ALDI invested in escalated exposure on television to reach shoppers who are currently committed to other retailers as well as to dispel the view that they sell imported goods only.

Analysis

1. Discuss how competition can act as a driving force for change in a business.
2. Analyse why Metcash and ALDI would increase their advertising budgets.
3. Explain how this competition is driving change in the supermarket sector in Australia.

Legislation

Businesses have to deal with three levels of government in Australia – federal, state and local. All levels of government initiate legislation and change laws which can impact on businesses. Often these changes occur and businesses have to be able to respond and change aspects of their operations. Legislation as a driving force for change cannot be ignored.

At the federal level the government may pass laws that change taxation requirements for businesses, and each year it publishes its budget which impacts on government spending. Many of these changes may be targeted at particular types and sizes of business; for example, in the 2015 federal budget, the government allowed small businesses to claim up to $20 000 of expenditure on capital items on their tax return. This budget measure was designed to stimulate the economy and increase business spending. Federal legislation can also lead to changes in policies and procedures within a business. Laws relating to employment, equal opportunity, anti-discrimination and privacy all mean businesses must comply with and respond to these new laws.

At the state level, governments will also pass laws that can directly impact on businesses. Legislation regarding payroll tax, for example, impacts on many medium and large businesses. In Victoria in the 2015/16 financial year businesses with a wages bill of more than $45 833 a month or a total of $550 000 or more a year had to pay payroll tax at a rate of 4.85%. This threshold was increased in the 2016 Victorian state budget, to $47 916 a month or $575 000 per year.



Figure 11.7 Legislation is a driving force for change.

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Local councils also directly impact on the operations of businesses in their area. Laws affecting businesses can include permits and licences for businesses, parking restrictions and by-laws that might impact on a business's ability to cater for customers. Many local councils have regulations that cover different types of businesses. Health businesses, such as hairdressers, tattooists and beauty therapy businesses, must comply with a range of regulations as do accommodation businesses such as hotels/motels, bed and breakfasts, guest accommodation, caravan parks and rooming houses.

Restaurants and other food outlets also have to comply with local by-laws. New outlets, for example, have to meet standards and planning approvals, and issues identified must be dealt with. Businesses that sell food are classified depending on the type of food sold and have to operate within the laws and regulations that apply to their type of business. Mobile and temporary food businesses are also required to obtain permits from councils and inform them of events.

Any change in laws can have a small or far-reaching impact on the operations of a business. Some of the changes may be minor; for example, a change in financial record keeping and costs for the business. In other areas the change may require the employing of extra staff, or purchasing of software to manage the change, or a need for relocation to different premises.





Figure 11.8 Businesses that sell food are classified by the type of food they sell.

ACTIVITY 11.3

Describe how each of the following can act as a driving force on a business.

1. The federal government reduces the company tax rate to 25%.
2. The local council has offered to support new businesses through a networking and mentoring program.
3. The Victorian government has reduced payroll tax for all businesses that employ more than 25 people.

Pursuit of profit

Profit drives many businesses to introduce change. Successful businesses, regardless of their size, will implement changes and improvements in an effort to increase sales, market share and profit. Profit needs to be sustained over time to ensure that the business can continue to grow. Many large businesses are under continual pressure to increase profit, particularly from shareholders expecting high share prices and a stream of dividends. The pursuit of profit may mean that one business may be continually looking at improving the quality of its products and services, while other businesses might pursue a strategy to increase profit by cutting back on expenses and costs – sometimes reducing the number of employees they have is a quick way to increase profit.

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CASE STUDY 11.3

Australian bank profits expected to fall

In 2015, a PwC examination of the 'Big Four' Australian banks – ANZ, Commonwealth, NAB and Westpac – found that their average growth was 5.3%. However, this is predicted to slow in 2016.

The credit agency Fitch Ratings said that in the coming year, more borrowers will start to fall behind on their loans, due to a general slowing in economic growth. Although banks should be able to manage this, it is still a change from previous years, when the number of loan defaults was not very high.



Figure 11.9 Banks are predicted to see weaker growth from 2016.

Lending in the mining and resources areas is likely to be particularly problematic to the banks, although this is not a significant proportion of their total loan exposure. Reserve Bank data also shows that at present the ratio of household debt to disposable income has reached a record high, which places further pressure on the banks.

The profit growth of the banks will be adversely affected as they are charged more for bad loans, while the strong competition between financial institutions means they will have to fight harder for new borrowers. They are also experiencing higher funding costs, while at the same time having to increase the amount they invest in technology.

On the positive side, there are clear improvements in cost management, although probably not enough to completely cancel out the losses. In addition, the banks are now in a better position to absorb bad loans. New equity capital of over $18 billion was raised by the big four banks in 2015.

We are also seeing a tightening of mortgage credit standards in the market, which will help banks manage their lending.

Analysis

1 Explain why profit is a driving force for change in a business.

2 Outline how economic conditions have forced change in the banking sector.

3 Predict how these pressures could impact on banks over the next few years.

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Reduction in costs

All businesses focus on reducing costs and operating expenses as this will often support generation of profit even if revenue or sales cannot be increased. Costs and the pressure to reduce these can also lead to changes in a business. This is often a main driver for change and one of the quickest ways to improve profitability and business performance. Costs in areas such as purchasing, production, sales and marketing, finance and administration can all impact on a business. Specific examples of cost cutting can include employing staff part time rather than full time, outsourcing some tasks, and reviewing contracts, insurance and loans to see if there are cheaper options. Revising supply agreements and ordering in bulk can all assist a business in reducing costs.



ACTIVITY 11.4

Thang and Emma have run Fun Photo Booths for five years. The business provides photo booths for weddings, twenty-first birthday parties and other functions. It is a successful business with a growing number of functions as the positive reputation of the business has spread.

Over the last six months a new business has moved into the area and has started a marketing campaign that is offering packages well below other businesses such as Thang and Emma's. Both are concerned that this might lead to reduced revenue and profit.

1 Describe how cost cutting can act as a driving force for change.
2 Outline two recommendations or ideas for Thang and Emma's business so it can retain customers and compete with the new business.



Figure 11.10 A photo booth business

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Globalisation

Globalisation can be defined as the process of increasing interdependence between countries. It involves the growing integration of businesses and economies with all enterprises competing with each other in the world economy. Borders between countries are broken down with the development of a global economy. Globalisation also describes the increasing merging and interdependence of national economies and of the international scope and availability of markets, distribution systems, capital, labour and technology.

Globalisation has developed and has been influenced by a number of key drivers, including:

- the growth in trade between Australia and the rest of the world over the past 25 years
- free trade agreements have opened up countries. Australia, for example, has recently signed agreements with Japan, China and South Korea.
- development of the internet and electronic communication means there are no boundaries when accessing customers
- the flow of people and the migration of skilled workers has changed the workplace
- the growth of trade among developing countries has opened up opportunities for businesses across the world.



Figure 11.11 Globalisation

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ACTIVITY 11.5

Using the annual reports and the internet sites of a business, answer the following questions. Visit the websites of the following companies to complete this activity:

- Wesfarmers
- Coca-Cola
- Nestlé
- Microsoft

1. Describe the main activities undertaken by the business.
2. Outline the structure, country of origin, the countries the business has investments and subsidiaries in and any statements about ethics and standards.
3. Explain the company's policies related to local investment, local resources, labour, training and the environment.
4. Present your findings on the impact of the business on trade within a country and also worldwide. This may be done as a PowerPoint or Prezi presentation or as a poster.

Globalisation can act as a driving force on all types and sizes of business and this can lead to a number of advantages or benefits. Globalisation can act as a driving force in a number of ways, including:

- giving increased access to markets around the world (greater scope for sales and markets)
- providing opportunity for customers to improve their standard of living through increased access to good and services
- providing the potential for faster business growth as companies can develop more trading relationships with other countries
- providing opportunity for businesses to take advantage of economies of scale (where a business reaches a stage where it uses its resources or inputs at optimal efficiency).

CASE STUDY 11.4

Melbourne's 2XU sportswear and the US navy: globalisation



Figure 11.12 Globalisation increases access to markets around the world.

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The Navy SEALs are bolstering sportswear company 2XU's chances of cracking the US market and becoming Australia's first $1 billion sports brand.

The US Navy's principal special operations force has chosen 2XU out of more than a dozen sportswear brands from across the globe as its preferred supplier.

In addition to the Navy SEALs, 29 of the NBA's 30 teams wear the brand, as does actor Hugh Jackman and several Formula 1 drivers, including Jenson Button.

The challenge for the company's co-founder, Aidan Clarke, is competing with the likes of sports giants Nike, Puma and adidas to become a household name.

'We're still very much an elite brand that's breaking out,' he said.

'That's our frustration. We sit around the boardroom table and we go "man, the NBA are wearing it, the Navy SEALs are wearing it, the superbike riders are wearing it, half the Formula 1 drivers are wearing it". In Australia, we're still not quite household and, globally, we are far from it.'

But perhaps Mr Clarke is being modest. In the past decade, the company, which is on track to meet its $150 million sales target this year, has grown from being a niche sports apparel maker to being set on a trajectory to become Australia's first $1 billion sports brand.

Private equity fund L Capital Asia, acquired 40 per cent of the company for $80 million in late 2013. It is now investigating a public float, with valuations ranging from $600 million to $800 million.

Mr Clarke said 2XU hoped to gain a firm foothold in the US – where it has two retail stores and wholesale distribution with sportswear chains Dick's Sporting Goods and Academy Sports – using the same method it applied in Australia 10 years ago.

For much of the past decade, it has bolstered its market share through its partnership with the Australian Institute of Sport and, from time to time, has offered consumers competitions to train with elite athletes.

Recently, it has recruited several former Navy SEALs to help test its products, as well as offering people the chance to participate in a military-style boot camp. The special operations group is renowned for such camps.

'What we've done is we've replicated on a bigger scale what we have done in much smaller markets. What I mean by that is 10 years ago, here I am with a Kiwi accent, I went to knock on the door of the Australian Institute of Sport and struck up a relationship with them.

'In some parts of Australia, we are almost household. We still have got a long way to go, but we're well on track.'

(Source: Based on Jared Lynch, 'Melbourne sportswear company 2XU teams up with navy SEALs to crack US market', *The Age*, 7 April 2015.)

Analysis

1. Explain how globalisation has become a significant driving force for change over the past few decades.
2. Discuss how globalisation can impact on a business.
3. 2XU is growing as a global business; identify the challenges the business faces in the world market.

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Technology

Technology has an impact on businesses whether they are small, medium or large. Technology is now part of our everyday lives and often taken for granted by businesses and customers. Technology impacts on all areas of a business and is a major driver of change.

Areas of a business that may be impacted on by technology are outlined in Table 11.1.



Stakeholder/ factor	Technology
Management	A particular skill set is required such as the ability to problem solve, analyse data and communicate with a range of different people and these may need to be developed through training and education.
Corporate culture	May change due to staff coming in to the business with a specific skill set centred on utilising technology or there may be resistance to changes to work patterns and jobs.
Employees	All staff, regardless of their job, are using technology as part of their everyday working life. Software, applications, email, access to the internet and mobile phones are a normal part of work and social life for the majority of people. This can lead to changes in the workplace; staff need to be trained to use the appropriate technology, work–life balance has been affected and staff can work from home, the car or in a restaurant.
Production of goods and delivery of services	Technology has changed the way many businesses produce and deliver services to customers. Changes in operations have led to increased efficiencies, less faults and larger-scale production operations. Services can be delivered efficiently and customers can pre-order or have services adapted to their particular needs. Domino's Pizza, for example, has introduced a GPS app which allows customers to track the delivery of their pizza.
Customers	Customers expect businesses to have and use the latest technology to ensure it is efficient and quick. Retail stores need to have a website and successful ones are developing and expanding the use of social media such as Facebook and Twitter. Many customers are looking to do their shopping online.
Policies and practices	Technology can drive change in many aspects of a business including the need to change policies and protocols for the acceptable use of emails and social media, cyberbullying and privacy. Operations management also needs to change to incorporate the use of new technologies and production techniques.

Table 11.1 Technology as a driving force

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Many businesses are developing as online businesses only. Examples include:

- Hotels.com is a website for booking hotel rooms online and by telephone. The company was founded in 1991 and has 85 websites in 34 languages, and lists over 325 000 hotels in approximately 19 000 locations.
- Webjet Limited is a travel booking website offering flights, hotels, holiday packages, cruises, car hire, travel insurance and travel deals. The company has operations in Australia, New Zealand, North America, Singapore and Hong Kong.
- Airtasker has made a name for itself online by offering users the chance to outsource menial tasks like picking up dry cleaning or performing household chores. The site has been used for tasks as diverse as paying someone to stand in a six-hour queue for a Game of Thrones exhibition, or by a Sydney surgeon who used Airtasker to find someone to fly to the US and pick up an engagement ring.



Figure 11.13 Businesses like Hotels.com operate online and by telephone only.

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CASE STUDY 11.5

Technology as a driving force of business: part one

The performance of Netflix

The best performing stock on the US sharemarket last year was the video streaming service Netflix, which is a member of the group FANG. FANG is representative of four of the most popular and best-performing recent tech stocks and stands for Facebook, Amazon, Netflix and Google.

Rising 134% in 2015, Netflix was considered the best performing stock on the US share market. The service has over 75 million subscribers globally, including celebrities such as Kim Kardashian. Outside the US, the service lost money but maintained its promise to deliver material profits from its global operations in 2017.



Figure 11.14 Netflix is a globalised online streaming service.

Technology as a driving force of business: part two

Emojis in online banking

One British company is looking at integrating emojis into online banking. Banking app maker Intelligent Environments has created a new type of passcode which uses emoji instead of a four-digit PIN to secure a bank account. It is more secure because there are more potential combinations (44 emoji compared to 10 numbers).

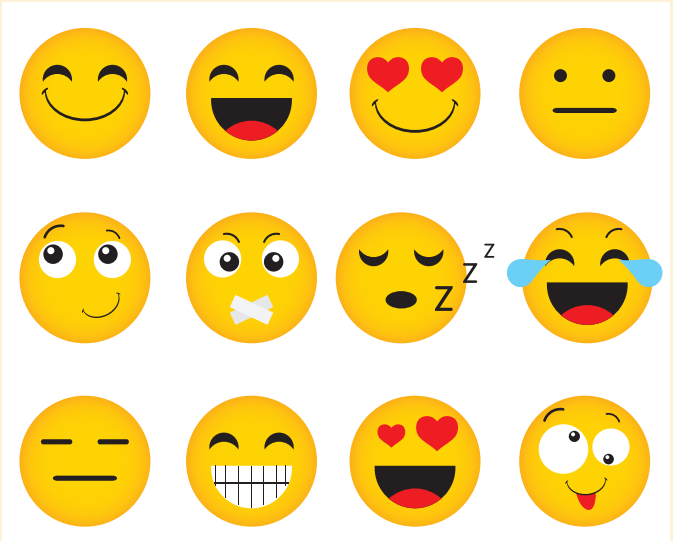


Figure 11.15 A new type of passcode has been created that uses emojis instead of a four-digit PIN.

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Analysis

1 Propose why technology has such a large impact on businesses and acts as a driving force for change.
2 Explain why Netflix is so successful at the moment and likely to grow. What has happened to its performance over the last six months?
3 If emojis were introduced, discuss the implications this could have for the banking industry and its customers.
4 Explain one other application that has been recently introduced and describe the possible impact this might have on users and businesses.

Innovation

innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding

Innovation can be defined as the introduction of new things or methods into a business. If a business fails to innovate then it is likely to be left behind. There is a focus on innovation in businesses across the world and it is a major driving force for change. Being able to innovate and develop new ways of thinking and doing business will give a business a competitive edge. Often small and medium-sized businesses cannot compete against large businesses and multinational corporations. Being able to innovate will allow such businesses to compete on a global scale.

Innovation does not always mean inventing; it also means modifying the business model and adapting to changes in the environment to deliver better products or services. Successful innovation should be an in-built part of a business strategy. Businesses that innovate create more efficient work processes and have better productivity and performance. This could mean implementing new ideas, creating dynamic products or improving existing services. Innovation can be a catalyst for the growth and success of a business, and help the business adapt and grow in the marketplace.



Figure 11.16 Innovation is a major driving force for change.



Figure 11.17 Innovation includes implementing new ideas.

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Key steps towards business innovation include:

- Conduct an analysis of the market environment, customers' wants and needs, and competitors. Be open to new ideas and adaptive to change.
- Develop a strategic, responsive plan, which includes innovation as a key business process across the entire business.
- Leadership – train and empower employees to think innovatively from the top down. Inspirational leadership and motivation is what drives innovation in business.
- Connect with customers and employees to generate ideas for improving processes, products and services both internally and externally.
- Seek advice. Utilise available resources, business advisors, grants and assistance to drive innovation in your business.

(Source: Based on Australian Government Business website, 'Research and innovation', last updated 8 July 2016.)

CASE STUDY 11.6

Trends and innovations driving business

If you could push a button to see the future, you'd find that much of it is about doing just that – pushing more and more buttons. Futurists say business activities will become less human, more self-automated. The future, quite literally, will take care of itself.

MySmallBusiness asked three business 'clairvoyants' what innovations small and medium businesses will see. One of the big themes for next year is big data's growing availability to small businesses, another is the rise of business applications for virtual reality.

1 Big data for small business

Innovation specialist Craig Rispin of Sydney-based Future Trends Group is a strong advocate of IBM's Watson, a cognitive computer that uses natural language processing and machine learning to make sense of 'unstructured data'.

Rispin says Watson is capable of answering customer questions, extracting key data from documents and making sense of unconnected, inchoate strands of information. Similar to this is Kira Systems' Diligence Engine which analyses business contracts for anomalies and mistakes. Rispin envisages a whole new line of machine-learning apps which peruse mobile telephone plans, energy bills and insurance contracts, scouring the market for better deals and suggesting alternatives.

The benefits of big data to small businesses will far outweigh the disruptions, he says. Rispin mentions a sign-maker in Sydney using GoPro cameras to record how many heads turn towards a sign – information that can be later sold on to customers. Similarly, a number of Vancouver credit unions are now offering 2 per cent loan discounts to buyers of hybrid cars after data revealed hybrid owners paid their loans off quicker.

2 Immersive reality

Futurist Ross Dawson, who heads Advanced Human Technologies Group, says the debut of Facebook's Oculus Rift (and a host of other virtual reality head-sets arriving next year) is his 'big game changer'. Dawson believes it could transform the retail, travel, education and property industries. It is not augmented reality (as in Google Glass) but immersive reality: the images move in sync with a user's head movements.

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It could be used to offer virtual snapshots of off-plan apartments to prospective property buyers, give travellers the opportunity to peruse a virtual city or visit a mock art gallery in cyberspace, Dawson says.

Other applications include educational instruction and even (as some have suggested) as an aid to treat post-traumatic stress, helping patients relive a difficult moment or situation under a controlled virtual environment.



Figure 11.18 Immersive reality could transform many industries.

3 Automation

Dawson expects to see greater automation in the retail and hospitality sectors, but believes fast food outlets will be the first to deploy robots. He mentions US-based Orchard Supply Hardware whose 'OSHbot' answers questions and directs customers to products. There is also California's Aloft Hotel, run by three-foot-high (91cm) 'botlrs' which have 7-inch touchscreens to interact with patrons. None of this will be here in 2016, says Dawson, but should arrive well before 2020.



Figure 11.19 Greater automation in the retail and hospitality sectors

4 Ad funding

Jon Tanner, co-founder of technology recruitment firm MitchelLake, says 2016 will see the advent of ad-funded devices and services from Melbourne start-up Unlockd, and Singapore's nanu. 'Your phone calls will be sponsored,' Tanner explains. 'It will be a major impact on developing countries where people can't always afford devices, data and IDD calls, but in Australia as well. Just imagine, you call someone overseas and it's free – you'll simply be told the phone call came courtesy of xyz product.'

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5 Global businesses

In the next year or so, Tanner says the smart new digital businesses will be outsourcing customer services from the Philippines, development skills from Malaysia and Vietnam and ecommerce and design skills from Thailand.

As people work and live in places remotely, there will be a rise in social media apps which link teams and people together globally, notably apps such as Slack and Facebook at Work.



Figure 11.20 Outsourcing services to remote workers will see a rise in apps that link teams globally.

(Source: Based on Adam Courtenay, 'Five business trends set to shape 2016', *Sydney Morning Herald*, 7 January 2016.)

Analysis

1. Outline the five trends or innovations described in the article.
2. Explain why such innovations are an important driving force for change.
3. Choose one of the innovations and describe how it could impact on a business.

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Societal attitudes

Society is moving at a fast pace, changes are occurring and all businesses and society as a whole have to adapt to these changing attitudes. Changes in societal attitudes include modifications in opinions, values and lifestyles. Social change has gone ahead at a rapid rate in Australia. Changes in the demographic make-up of the population have impacted on society. The ageing of the workforce and general population has led to changes such as increased demand for health services, lifestyle changes such as 'downsizing' houses and the increased need for investment advice, all of which have led to the growth of new industries. Many people are working longer or transitioning to retirement through part-time work or more flexible hours. People over 55, for example, are increasingly turning to social media and calling platforms to connect with friends and family, providing another avenue for businesses to gain customers.

The increased participation of women in the workforce has also led to changes in organisations. More than half of women with children are in the workforce on a full-time or part-time basis. This has created a need for increased childcare facilities, more flexibility in work hours and job sharing, and has increased the demand for service businesses such as cleaning and home help.

Other changes in attitudes that can drive changes in businesses include the changing family make-up – dual income households, fewer children, single person households and changing attitudes to work and what constitutes work; for example, starting up a business, working from home, changing jobs and careers, mobility with people moving towns, states and countries, and job sharing. The workforce is also more educated than it was before and this impacts on people's expectations regarding the type of job they will get and their opportunities for advancement. Migration has led to many people moving around the world for work. Businesses have to be aware of the different cultural and racial needs of a diverse workforce. Changes may centre on how communication is exchanged, the type of language used and the policies introduced into the workplace.

All of these changes mean businesses need to re-examine how the workforce is managed and make changes where needed.



Figure 11.21 Changing societal attitudes mean that flexible working arrangements can be required.

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CASE STUDY 11.7

Societal attitudes and change in business

Quitting is in

An increasing number of younger professional people want to move on rather than staying with the same employer. This is revealed in the *Deloitte Millennial Survey 2016* of 7700 professionals under the age of 35 (the so-called 'millennials'), carried out in 29 countries.

The survey found that:

- two-thirds of millennials don't expect to be with the same employer in five years and 44% want to resign within the next two years
- the figures for Australian millennials are slightly higher – 81% expect to leave within five years and 46% expect to leave within two.

The reasons millennials gave in the survey for wanting to leave are linked to the desire to lead, flexible workplace conditions ('work/life balance'), and the organisation's goals and values. Deloitte concluded that millennials are more independent than young professionals of the previous generation. The latter were more likely to want a long-term relationship with employers. Today, they are more likely to want to lead, to choose which projects they work on and to push their own values ahead of the organisation's. They want to see 'purpose ahead of profit'.

The survey indicates that these feelings are strong in Australia, where 69% of those who want to leave within two years say they are unhappy at the lack of their leadership opportunities with their employer.



Figure 11.22 Millennials are likely to prioritise personal values.

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Although a lot of people wanting to quit their jobs is a sign of a strong economy – people won't take the risk of quitting when it's hard to find jobs – that is not the only explanation, there is also a change in attitude under way. People no longer want to have a job for life. But the Deloitte report concluded that employers can meet this 'loyalty challenge' in several ways, including:

- recognising millennial employees' values and incorporating them into the organisation's purpose to provide meaning in their work
- providing a good income but also providing a good place to work, with flexible hours and remote-working opportunities
- providing professional development and improving employee skills, especially around leadership
- making a positive difference to customers through quality products and services.

Analysis

1 Outline how societal attitudes can act as a driving force for change in a business.
2 Millennials, as a group, have a different attitude to work. Discuss how this can have an impact on a business and the way it treats its employees.
3 'It is becoming increasingly complex for businesses to adapt and respond to changes in society.' Discuss this statement in terms of managing the changing needs of employees.

11.4 Restraining forces for change in a business

There are a number of different forces on a business that can inhibit or stop change from occurring. According to Lewin's Force Field Analysis theory the chance of change being successfully implemented is one in three. If businesses come up against these forces, either within or outside the business, then this may mean that the change will not occur and the performance of the business is adversely affected. There are a number of restraining forces on a business: these include managers, employees, time, organisational inertia, legislation and financial considerations involved in implementing changes.

Managers

Managers can act as a crucial driving forces and also a restraining force when change is being considered. In some instances, a manager may be a blocker or may stop change from occurring. It may be that senior management of a business introduces a change which is not successful due to middle or front-line managers refusing to implement it or failing to actively support it (passive resistance). While employees resist change and may be scared about change, managers may feel the same way if it threatens their current position, power or role.

Managers may also resist change because they not do have the skills and experience to deal with the process or may be concerned about possible resistance from others in the business. If decisions have been made by the senior managers in a business and the middle or lower levels of management have had no input, then they are likely to resist change in the same way that employees would.



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ACTIVITY 11.6

Harvey Jones is the newly appointed sales manager for Excellent Adventures. The business offers small group eco-adventure activities around Victoria. Over the past five years it has built up a number of regular clients who enjoy the unique experiences offered.

Harvey has decided that the business needs to increase sales and has decided to offer large group tours to places such as Phillip Island and the wineries of the Yarra Valley. He believes that linking in with some of the larger tour companies will mean more customers.

He told employees about the changes in a newsletter; the changes will come in within six weeks.

Some of the other managers in the business found out at the same time as employees and are concerned that it will change the core focus of the business and the type of clients they cater for.

1 Define restraining forces.
2 Analyse how Harvey's decision and the managers' reaction could be seen as a restraining force for change.
3 Predict whether the change is likely to be successful. Provide reasons for your answer.

Employees

Staff in a business are often the difference or competitive edge for one business over another. While many staff in a business may be happy to embrace changes that are being introduced, others are likely to resist the changes suggested by management. Employees who do not feel part of the business or who do not feel appreciated will usually make change difficult to introduce and will be resistant to the change. Fear of the unknown, including change, is a natural reaction and businesses need to ensure that they have developed strategies and tactics which will allow change to be successfully implemented. If the changes are not embraced, then it is likely that staff will move back to their previous work practices as soon as possible.

For change to be successful it is important to consider its effect on people. Staff may resist the change when moving to a new, unfamiliar situation or altered state. They may also feel a loss of personal identity, afraid of failing and disorientated about where the change is leading them. There are a number of emotional stages of change for people and the more a business accepts and understands this, the easier the change process will be. It is reasonable for people to be 'unreasonable' about change. Many employees will find change difficult and move backwards and forwards between supporting and opposing change.

If change is going to be successful it is important that employee resistance to change is overcome. Fear of change is a natural reaction for many people. They feel threatened and out of their comfort zone. If the change is aimed at the employees or the work and tasks they do, then the reaction is likely to be negative and there may be resentment and widespread resistance. As part of the process a business must encourage adaptability and trust and allow employees to be involved in the process and make suggestions as to how change can be implemented. To overcome resistance managers must be prepared take on board ideas and feedback if offered by staff, although sometimes resistance will be met regardless of the process followed.



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CASE STUDY 11.8

CSIRO job cuts: change and restraining forces

Larry Marshall, the Chief Executive of CSIRO, has renewed his attempts to convince staff that the plan to cut 350 jobs is in the organisation's best interests. His message to CSIRO employees was delivered via an internal video and leaked to the media on Wednesday by staff unhappy with the announcement of job cuts and the direction in which the organisation is heading.

In the video, Dr Marshall tells staff that the loss of 100 full-time climate science positions does not reflect the quality of CSIRO's climate research, but that it is instead an indication of a change in the organisation's direction.



Figure 11.23 CSIRO

A spokesperson for the CSIRO Staff Association said that Dr Marshall's comments were likely to anger staff, who were already in a state of shock following the announcement of the cuts last week.

Analysis

1. Discuss how employees can act as a driving and restraining force for change in a business.
2. Outline the possible impact that the staff cuts would have on the employees and the rest of the CSIRO.
3. How was the message delivered to employees? Evaluate the impact this could have had on the news about job cuts.



Time

Businesses that have not planned or have not foreseen change in their industry, or in business conditions, may find that they are unable to respond quickly to any change. A business may find that lack of time will impact adversely and stop the business from making the necessary changes. Conditions in an industry change quickly so that a business does not have a large lead-in time to implement a change. If competitors are moving ahead quickly then a business also needs to respond quickly; time is a scarce resource and if a business lags behind its competitors then time can become a restraining force on a business.

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CASE STUDY 11.9

Time as a restraining force for change

Most companies have elaborate procedures for managing capital. They require a compelling business case for any new investment. They set hurdle rates. They delegate authority carefully, prescribing spending limits for each level.

An organisation's *time* in contrast, goes largely unmanaged. Although phone calls, emails, instant messages, meetings, and teleconferences eat up hours in every executive's day, companies have few rules to govern those interactions. In fact, most companies have no clear understanding of how their leaders and employees are spending their collective time. Not surprisingly, that time is often squandered.

Some forward-thinking companies have taken a different approach entirely. They expect their leaders to treat time as a scarce resource and to invest it prudently. They bring as much discipline to their time budgets as to their capital budgets. These businesses have not only lowered their overhead expenses, they have freed countless hours of previously unproductive time for executives and employees, fuelling innovation and accelerating growth.

Andy Grove, the former CEO of Intel, once wrote, 'Just as you would not permit a fellow employee to steal a piece of office equipment, you shouldn't let anyone walk away with the time of his fellow managers.' Of course, such thievery happens often, unintentionally. Meetings creep onto the calendar with no clear plan or priority. Initiatives crop up, demanding management attention.

With Microsoft Outlook, Google Calendar, iCal, and other scheduling and messaging applications, companies can now track where managers and employees are spending the business' collective time and invest its resources.

Companies are awash in e-communications. In the 1970s communication was largely limited to phone calls and telegrams averaging around a 1000 per year. With new technologies this has risen to an average of 30000 external communications every year.

As the incremental cost of one-to-one and one-to-many communications has declined, the number of interactions has radically multiplied and meeting time has skyrocketed.

On average, senior executives devote more than two days every week to meetings involving three or more co-workers, and 15% of an organisation's collective time is spent in meetings – a percentage that has increased every year since 2008.

Real collaboration is limited. Although the number of one-to-one and one-to-many interactions has risen dramatically over the past two decades, many took place within a department.

Dysfunctional meeting behaviour is on the rise. At most of the businesses examined, participants routinely sent emails during meetings. At one company, in 22% of meetings participants sent three or more emails, on average, for every 30 minutes of meeting time. Furthermore, executives commonly double-booked meetings and decided later which one they would actually attend. Dysfunctional behaviours like these create a vicious circle.

Formal controls are rare. At most businesses no real costs are associated with requesting co-workers' time. If you want a meeting, your assistant merely sends out a meeting request or finds and fills an opening in the team's calendar. If you identify a problem in need of fixing, you convene a task force to study it and, most likely, launch an initiative to address it, there is no need for formal approval.

There are few consequences. In a recent survey, senior executives rated more than half the meetings they attended as 'ineffective' or 'very ineffective.' Yet few businesses have established mechanisms for assessing the productivity of individual gatherings, not to mention clear penalties for unproductive sessions or rewards for particularly valuable ones.

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A handful of companies have learned how to attack this problem directly. They create formal budgets to manage time as the scarce resource it is. They purposefully curb demands on executive time. And they push their people to improve the productivity of meetings and other forms of collaboration. We find that the following eight practices pay big dividends:

1. Make the agenda clear and selective.
2. Create a zero-based time budget.
3. Require business cases for all new projects.
4. Simplify the business.
5. Clearly delegate authority for time investments and who can call a meeting.
6. Standardise the decision process.
7. Establish organisation-wide time discipline e.g. agendas with clear objectives, advance preparation, start on time, end early if the meeting is not working.
8. Provide feedback to manage work load.

(Source: Based on Michael C Mankins, Chris Brahm & Gregory Caimi, 'Your scarcest resource', *Harvard Business Review*, May 2014.)



Figure 11.24 Some meetings can be a waste of time for those involved.

Analysis

1 Explain why time is an important resource that is not always measured.

2 Outline how time can act as a restraining force for change.

3 Identify four key points from the article. Why are a number of strategies suggested?

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Organisational inertia

Businesses that are stable with little change over time are less likely to respond to changes quickly or in a positive way. An established business with a long history and traditions may find it more difficult to implement lasting change. Some businesses are very conservative and the management style, corporate culture and policies may be staid and make change problematic.

organisational inertia the lack of ability of a business to react to internal and external pressures for change as it tends to continue on its well entrenched way

Organisational inertia is the tendency of a mature business to continue on its current trajectory. This inertia can be described as being made up of two elements – resource rigidity and routine rigidity. Resource rigidity stems from an unwillingness to invest, while routine rigidity stems from an inability to change the patterns and logic that underlie this. While resource rigidity relates to the motivation to respond, routine rigidity relates to the structure of that response.

If a business is bogged down by organisational inertia, it is difficult for the business to succeed and sometimes even to survive.

There are a number of suggestions as to how inertia can be overcome, including changing resources and routines. One study by Gilbert in 2005 concluded that if is there is an immediate threat to a business, then managers might be able to overcome resource rigidity; however, sometimes the perception of an immediate threat means that people follow routines even more closely, leading to further inertia. (See C.G. Gilbert, 'Unbundling the structure of inertia: resource versus routine rigidity', *Academy of Management Journal*, vol. 48, no. 5, 1 October 2005, pp. 741–63.)

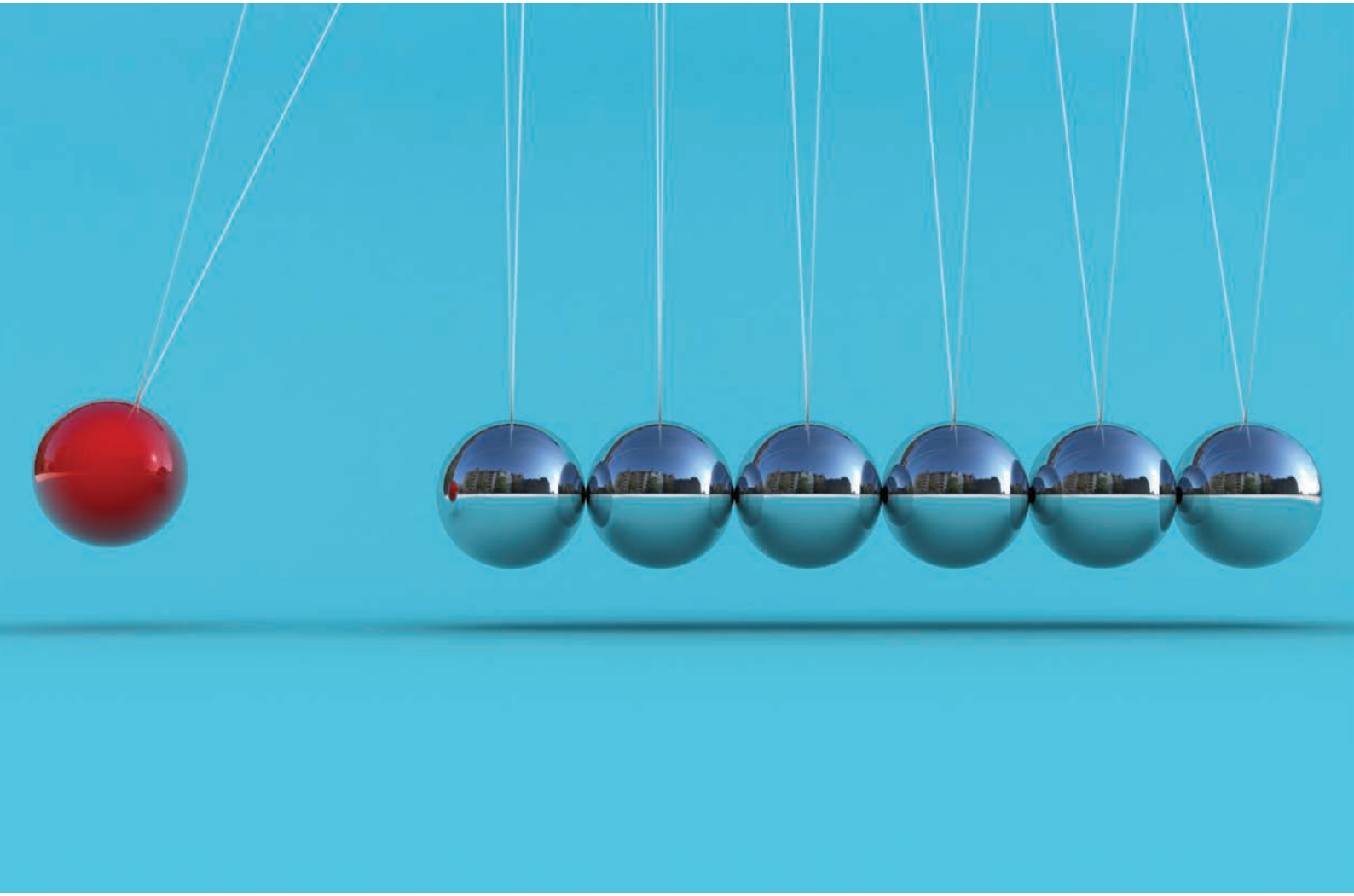


Figure 11.25 Organisational inertia makes it difficult for a business to succeed.

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CASE STUDY 11.10

General Motors

General Motors is often cited as an example of organisational inertia. Once the world leader in automobile production efficiency, General Motors was eclipsed in this regard by leading Japanese manufacturers during the 1970s. Unfortunately, while senior managers understood this they were unable to substantially change its overall productivity. In fact, many GM plants became less productive during the 1980s while Chrysler and Ford made broad and significant gains. The real challenge was the company's own inertia.

For years afterwards General Motors in America and around the world performed poorly while customers moved to buying European and Japanese cars. The business took a long time to make the necessary changes.

Australia is one of only 13 countries in the world capable of building a car from scratch; this will end in 2016 to 2017. Ford stopped making vehicles in Australia in 2016, and Holden and Toyota have announced plans to cease production in 2017.



Figure 11.26 General Motors suffered due to organisational inertia.

Analysis

1. Explain the concept of organisational inertia.
2. Describe how inertia can act as a restraining force on a business.
3. Look at the car industry in Australia and deduce how inertia could have been a factor in the closure of the motor vehicle industry.

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Legislation

While legislation can act as a driving force for change (see above), it can also be a restraining force on a business. If a business finds that it has to manage and adjust to a change in the law that is unexpected, expensive or difficult to implement, it will be harder for that business to respond positively. The lack of a law may also impact on a business. Many consumers now shop online and if the purchase is less than $1000 the transaction is currently GST exempt. Many retailers are pressuring the government to make changes to stop this, as it makes it difficult for Australian retailers to compete since they are liable for the GST.

Other changes in legislation or new laws that can impact on a business are changes in smoking regulations; for example, smoking in restaurants and licensing arrangements. While a business has no choice but to comply with the new laws, they can act as a restraining force as a business may need to make changes to staffing, policies and processes and the changes may add to the cost of doing business.



CASE STUDY 11.11

Yarraville parking meters: legislation as a restraining force

In December 2015 Maribyrnong Council voted to suspend paid parking meters at shopping strips in Yarraville and Footscray. The meters were introduced in early 2015 despite protests from residents and traders who said it was driving customers away from the village shops. The suspension would take place while a traffic study was conducted. The Maribyrnong Mayor said the study would help the council make an informed decision.

Megan Darling from the 'Say No Paid Parking' group stated that people were going bankrupt and defaulting on mortgages.

The Yarraville parking meters had created a huge amount of angst in the community since being installed. The meters were vandalised a day before they were due to be turned on and were repeatedly vandalised in September 2015. The situation escalated later when two councillors were assaulted by a member of the public when the pair voted against a motion to repeal the meters in a council meeting. Some businesses blamed the meters for closing or experiencing a drop in trade by at least 50%.

Bev Aisbett said the installation of parking meters were largely to blame for her closing down her Yarraville shop Piece Gallery.

'The meters have created this exodus from the village; I'm the third business in my pocket to go in the past month because there is no foot traffic,' Ms Aisbett said.

Steven Patruno, owner of Essendon's Brickmakers Arms restaurant, made the 'upsetting' decision to close the business because customers stopped coming after Moonee Valley Council brought in one-hour parking restrictions on Brewster St in December 2014. He welcomed the council's later decision to change restrictions to two-hour parking but it was 'too little too late'.

'It's killed the business. It's totally killed it. I can't afford to keep trading every week,' Mr Patruno said. Mr Patruno said he had to sell his house and Friends of Ours cafe to keep the restaurant afloat this year.

'For 10 months we've not been able to have customers park in the area.'

Mr Patruno said he had injected $1.4 million into the business, which opened two years ago after the former hotel site was redeveloped with multi-storey apartments.

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Figure 11.27 Changes in legislation can impact on businesses directly.

Mr Patruno said about 20 staff members were due to lose their jobs, while he was assessing his own options.

Cornershop owner Iain Munro, who is down 20 per cent in trade, said the Christmas period was make or break for small business.

'There are businesses here that rely on the bumper times of Christmas shopping to survive,' he said.

(Source: Based on Bridie Byrne, 'New paid parking rules force closure of businesses as retailers fume', *Maribyrnong Leader*, 27 November 2015.)

Analysis

1. Describe how legislation can be a restraining force on a business.
2. Outline two different laws that may impact on a business.
3. Explain the issue surrounding the parking meters in Yarraville and Essendon.
4. Describe how the changes to the parking conditions could act as a restraining force on the businesses.

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Financial considerations

Financial considerations can act as a restraining force for change on businesses. Lack of access to finance can be an inhibitor for many small businesses. While interest rates are relatively low there is still a cost involved and some financial institutions may be reluctant to lend money without a great deal of security. For many small businesses the greatest cause of failure is lack of finance and inadequate record keeping. If a business wishes to expand and does not have the funds already in the business then it must access this externally – the cost is a consideration.

Large businesses also need to take into account the financial cost of making changes. Sometimes the cost of a change may be substantial or the cost of expansion may mean that the business has to look at how the funds can be accessed. The inability to obtain necessary funds will be a restraining force on the business.



Figure 11.28 A common cause of failure for small businesses is lack of finance.

ACTIVITY 11.7

Sara and Ahmed own a clothing store in Eltham. They have found another store in the nearby suburb of Heidelberg. The store is available to purchase. Sara and Ahmed want to borrow the money from a bank. They have calculated that they would need to borrow around $250 000.

1 Visit the websites of at least two banks. Determine the interest rate and repayments on a $250 000 loan over 20 years.

2 Identify the type of security a business would need to have to access finance and borrow money.

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Chapter summary

- The pace of change has increased and is far-reaching and unpredictable.
- Businesses need to be prepared for change, adopt a proactive response, be flexible and develop plans to ensure they are proactive.
- Change can be defined as the process of taking the existing business, altering it and establishing a new or modified form.
- Lewin's Force Field Analysis theory identifies driving and restraining forces for change.
- Driving forces push change in a particular direction and support the proposed change or objective.
- Driving forces can include managers, employees, competitors, legislation, pursuit of profit, reduction in costs, globalisation, technology, innovation and societal attitudes.
- Restraining forces are those forces that restrain or reduce the driving force and block or hinder change.
- Restraining forces can include managers, employees, time, organisational inertia, legislation and financial considerations.
- Change will only occur if driving forces are greater than restraining forces.

Chapter summary questions

1 Define the following terms:
   a change
   b organisational inertia.

2 Describe Lewin's Force Field Analysis theory.

3 Explain how business change may occur.

4 Distinguish between driving and restraining forces for change.

5 Describe how legislation may act as a driving and a restraining force for change.

6 Explain how restraining forces can hinder change in a business.

7 Complete the table below.

Driving force for change	How the factor can be a driving force
managers	
employees	
competitors	
legislation	
pursuit of profit	
reduction in costs	
globalisation	
technology	
innovation	
societal attitudes	

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8 Outline why it is important to work with employees to ensure that change is successfully implemented.

9 Complete the following table.

Restraining force for change	How the factor can be a restraining force
managers	
employees	
time	
organisational inertia	
legislation	
financial considerations	

10 Change can have a major impact on a business. Discuss the possible forces for change in the business environment.

Examination preparation

ARD Corporation announced a major change to its steel engineering division. Sara Keys, the newly appointed chief executive officer, announced the changes at a meeting of all staff. 'All employees will need to be trained in a number of different tasks, work as part of a team and focus on producing a quality product. ARD is undergoing a major change in corporate culture and business objectives', she stated at the meeting.

The company issued a statement to say that the changes would be introduced within two months. The workforce would also be reduced by 15% after the introduction of the training and new technology. A survey by the workplace unions found that 67% of staff did not understand the changes and were afraid that their jobs would no longer exist in the next two years.

1 Define the concept of change.

(1 mark)

2 Identify and explain one driving force impacting on ARD Corporation.

(3 marks)

3 Describe how employees at ARD Corporation could act as a restraining force on the proposed changes.

(4 marks)

4 Discuss the driving and restraining forces for change on a business. Why does a business need to manage these?

(8 marks)

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CHAPTER 12
Porter's Generic Strategies approach

Key terms

- cost leadership strategy
- differentiation
- five force analysis

Overview

One approach to transforming a business is Porter's Generic Strategies, which centres on lower costs and differentiation as a way to review changes in a business. Imagine you are planning a holiday to the Gold Coast: there are a number of things to consider before you go. Questions around where to stay, how to get there – drive, bus or fly – what to do and see are all important. Along the way you will make decisions and eventually have a holiday that suits you. If you choose to stay in a hostel and self-cater then it will cost you less than if you decide to stay in a fully catered resort. While the cheaper option will mean that your holiday is less expensive, it is also due to the hostel chain making choices around lower costs, which are passed on to you as a customer. Different accommodation options focus on different sectors of the market.

Underpinning these ideas is a theory developed by Michael Porter in his 1985 book *Competitive Advantage: Creating and Sustaining Superior Performance*. Porter devised three approaches of 'Generic Strategies' that can be applied to all industries and to businesses of all sizes. Porter called the Generic Strategies 'cost leadership' (no frills), 'differentiation' (creating uniquely desirable goods and services) and 'focus' (offering a specialised service in a niche market). The first two strategies or principles of cost and differentiation will be developed in more detail in this chapter.

Key knowledge

Students will be introduced to two approaches to strategic management. Students will learn about:

- The two key approaches, lower cost and differentiation, to strategic management by Porter's Generic Strategies (1985).

What's ahead

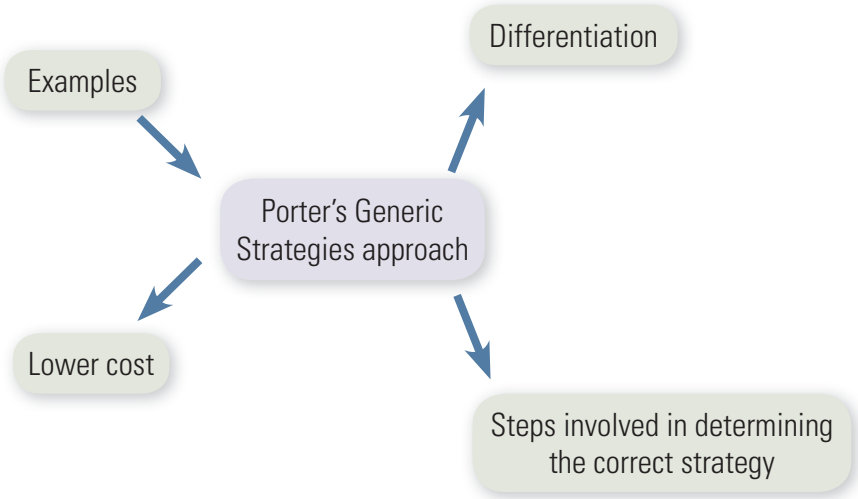


Figure 12.1 The two key approaches to strategic management of Porter's Generic Strategies approach are lower cost and differentiation.

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12.1 Key approaches of Porter's Generic Strategies

In 1979 Michael Porter developed a *framework* that he used to outline the three major strategic options open to businesses that wish to achieve a sustainable competitive advantage. He published his ideas in 1985. Each of these approaches needs to be considered within the context of:

- **competitive advantages**; which establish whether the products are differentiated in any way, or if they are the lowest cost producer in the industry
- **competitive scope** of the market to determine if the business is to target a wide market or if it should focus on a very narrow niche market.

The two key principles of Porter's Generic Strategies approach are the lower cost strategy (also known as cost leadership) and the differentiation strategy.

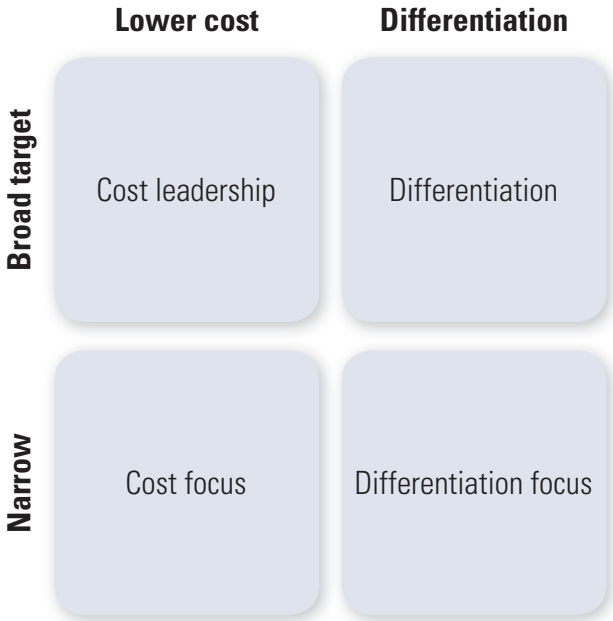


Figure 12.2 Generic Strategies approach diagram

Businesses need to decide whether they are going to pursue cost leadership or differentiation; however, once an approach has been determined it should be the main, but not the only, strategy. It is important that there are also other considerations such as a business not concentrating on only one segment of a market.

There are a number of steps involved when choosing which approach the business is going to concentrate on. Porter warns that a business should make a considered decision. Different approaches appeal to different people and segments of the market. Cost leadership requires a focus on internal processes and procedures whereas differentiation demands an external focus aimed at capturing segments of a market.

Three steps to determine which generic approach to focus on

To determine which generic approach a business is going to focus on a business should work through the following.

Step one: carry out a SWOT analysis

Carry out a SWOT analysis (strengths, weaknesses, opportunities and strengths) for each strategy. All businesses should carry out a SWOT analysis at regular intervals as it allows a business to gauge its current position and the impact of any future changes it is considering.



Figure 12.3 SWOT analysis diagram

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Step two: Porter's five force analysis

five force analysis a tool that focuses on five important determinants of competitive power – supplier power, buyer power, competitive rivalry, threat of substitution and the threat of new entry

Use the **five force analysis** to understand the nature of the industry or business sector. Porter's five force analysis or tool is a way to understand where power lies in a business situation. If a business and its managers understand this, then they can take advantage of it. The tool is usually used to identify whether new products, services or businesses have the potential to be profitable. It assumes that there are five important forces that determine competitive power. These are:

1 **Supplier power** – a business should assess how easy it is for suppliers to drive up prices. This is driven by the number of suppliers of each key input, uniqueness of the product and how many suppliers are in the industry. The more a business needs help from suppliers the more power a supplier has.

2 **Buyer power** – this looks at how easy it is for buyers to drive down prices. It is driven by the number of buyers, the importance of each individual buyer and the cost to them of switching from the business' product to another. If there are a few powerful buyers, then the power lies with them not the business.

3 **Competitive rivalry** – this area focuses on the number and capability of competitors. If there are many competitors with equally attractive products and services, then the business will have limited power as suppliers and customers can go elsewhere. If the product is unique then the business has a great deal of power.

4 **Threat of substitution** – this is affected by the ability of customers to find a product or service similar to the one provided by the business. If substitution is easy then power and influence is reduced.

5 **Threat of new entry** – a business' influence and power is affected by the ability of other businesses entering the same market and competing. If there are few economies of scale in place or little protection of key products and ideas, then new competitors can quickly enter the market and take away customers.

(Source: Based on Michael E Porter, 'How competitive forces shape strategy', March 1979. Copyright © 1979 by the Harvard Business School Publishing Corporation; all rights reserved.)

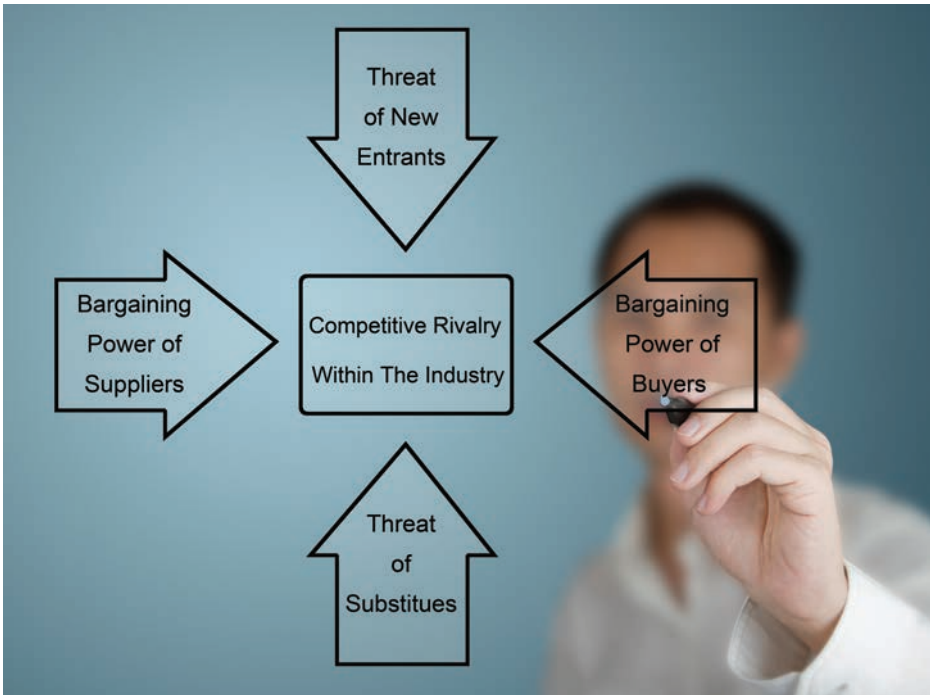


Figure 12.4 Five force analysis

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CASE STUDY 12.1

ALDI supermarkets' increasing popularity in the Australian market

ALDI has been chosen as the preferred provider of white bread, wholemeal bread, butter and eggs, according to a consumer survey from Canstar Blue.

The survey of 3000 Australian consumers, conducted in December last year, shows the proportion of Australian grocery shoppers buying private labels increased from 44% to 65% in just six months.

Consumers were asked to choose their preferred brand of eight basic items they had purchased within the past three months, with ALDI's offerings coming out on top in four of the eight categories.

Three quarters of shoppers believe private labelled ALDI, Coles or Woolworths items are 'good quality', up from 59% in June 2015, and almost half of all consumers said the price of necessities like milk, bread and eggs was a big factor in where they choose to shop.



Figure 12.5 ALDI is increasingly popular with grocery shoppers.

Market research from IBISWorld shows private labels make up around 20% of supermarket brands. This figure is expected to grow to 35% of all food and grocery sales within the next five years.

A spokesperson for Canstar Blue told *Smart Company* the research indicates Coles and Woolworths are reacting to the success of new market entrants such as ALDI when it comes to their private label offerings.

'What we know is that price is king really, but in terms of the private label debate it's not all about the price because ultimately the supermarkets have to find the perfect combination between quality and value,' the spokesperson says.

'Really the ALDI factor has helped to make consumers more price conscious.'

Further expansion in Australia by US bulk shopping retailer Costco may continue the push towards private label groceries, however, Canstar Blue expects it will take a while to see the impact of the bulk shopping giant.

The highest rated brands in the Canstar Blue survey included Coles long life milk, ALDI Bakers Life bread and ALDI Lodge Farms Eggs.

(Source: Based on 'ALDI winning the private label race as Aussie shoppers increasingly shun big name grocery brands: research', *Smart Company*, 21 January 2016.)

Analysis

1. Describe the findings from the Canstar Blue survey.
2. Interpret what this indicates about customers' spending on private labels and brands.
3. Describe how other supermarkets are responding to ALDI supermarkets.
4. Conduct a SWOT analysis for ALDI as it continues to expand the number of supermarkets it has in Australia.

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Step three: compare the SWOT analysis with the results of the five force analysis

When the two analyses are compared a business should be considering the following:

- Reduce or manage supplier power.
- Reduce or manage buyer/customer power.
- Come out on top of the competitive rivalry.
- Reduce or eliminate the threat of substitution.
- Reduce or eliminate the threat of new entry.

A business should select the generic strategy that provides the strongest set of options.



ACTIVITY 12.1

Frankie and Jonah are considering expanding their website development business. The business has been established for five years and has built up a strong customer base. The pair has completed an analysis and believes that their new product linking online ordering to a business's website is unique.

Identify other considerations Frankie and Jonah would have to contemplate when making a decision about expanding.

12.2 Porter's Generic Strategies approach to strategic management

Porter's generic approaches are ways of gaining a competitive advantage or edge over other businesses in the same industry or market segment.

Cost leadership strategy

In cost leadership, a business sets out to become the low-cost producer. The sources of cost advantage are varied and depend on the structure of the industry. Sources or reasons may include the pursuit of economies of scale, new technology and preferential access to raw materials. A low-cost producer must find and exploit all sources of cost advantage. If a business can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry, provided it can command prices at or near the industry average.

cost leadership strategy a strategy that allows a business to achieve a competitive edge by reducing production or delivery costs

There are two ways to do this within a **cost leadership strategy**.

1 Increasing profits by reducing costs and at the same time charging similar prices to competitors.

2 Increasing market share through charging lower prices but still making a profit due to savings made in reducing costs and other expenses.



Figure 12.6 Businesses that achieve cost leadership become above-average performers in their industry.

The cost leadership strategy is exactly that – it involves being the leader in terms of cost in the industry and gaining market share by appealing to price-conscious customers. Simply being among the lowest-cost producers is not good enough, as a business leaves itself vulnerable to other low-cost producers who may undercut its prices and therefore block any attempts to increase market share. To succeed in offering the lowest price while still achieving profitability the business needs to also operate at a lower cost than competitors.

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There are three main ways to achieve this:

1 **Asset utilisation.** This means being able to use the resources of the business efficiently. This might mean a restaurant having a large number of customers through in a number of sittings on one night or an airline that turns around flights quickly, thereby making greater use of its fleet of aircraft. In manufacturing it involves the production of high volumes of output; the business tries to make the most of economies of scale and resource use. IKEA, the Swedish furniture manufacturer, revolutionised the furniture industry by offering cheap but stylish furniture. IKEA is able to keep its prices low by sourcing its products and by offering a basic level of service. Customers have to collect the furniture in the warehouse and take it home and assemble it themselves, thus reducing costs.

2 **Low direct and indirect operating costs.** This is achieved by offering high volumes of standardised products offering basic 'no-frills' products and limiting the customisation and personalisation of service. Production costs are kept low by using fewer parts, using standard components and limiting the number of models produced to make sure there are larger production runs. Other operating costs are kept low by locating premises in low-rent areas and by establishing a culture where everyone looks at keeping costs low. Maintaining this strategy requires continuous focus on cost reductions. Promotional strategies centre on highlighting low price and value for money. Henry Ford, for example, created an assembly-line approach to making cars, which meant he was able to reduce cost per unit and gain market share. Technology and the efficient use of software and other processes can also provide a business with cost savings.

3 **Control over all departments or groups of the business.** This approach involves checking and reviewing all areas of the business – finance, operations, supply chain management, marketing and information technology. Among other things the review would look at buying parts and resources in bulk or working with suppliers to push for the best prices possible. Cost savings may also be developed through using inventory systems such as Just In Time where stock levels are kept to a minimum. Other areas where costs may be reduced or minimised are those such as preferential access to materials and components or integrating supply chains into the business.



Figure 12.7 IKEA keeps prices low by selling unassembled products.

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Cost leadership strategies are usually viable for large businesses that are able to take advantage of economies of scale, large production volumes and large market share. Small businesses can be cost focused but are unlikely to be cost leaders even if they are able to keep operating costs low.

Some businesses when they first start up might offer a cheaper product or service as a result of innovation within the business. A low-cost airline such as Tigerair, for example, took market share from larger airlines by offering basic, no-frills services at lower prices. As Tigerair grew and gained market share the larger airlines such as Jetstar and Virgin also started to offer cheaper flights to retain market share.

A cost leadership strategy may have the disadvantage of lower customer loyalty as price-sensitive customers will swap brands with little hesitation. A reputation as a cost leader may mean that some customers also associate this with poor or cheap quality. This may mean it is difficult for a business to rebrand in the future.



Figure 12.8 Tigerair was a cost leader when it entered the market.

CASE STUDY 12.2

Costco and retail leadership

In 2015, the retail giant Costco Wholesales recorded a massive financial growth of $31.323 billion from its initial worth of $878.5 million, having entered the Australian market six years ago. Currently, Costco operates eight warehouse-style stores in Australia and continues to grow. Plans for opening more stores in cities such as Melbourne, Sydney and Brisbane are underway, with more than one store in all cities to ensure that customers have access to this megastore offering.

Like other supermarket chains, Costco sells grocery items such as fresh and frozen food, toiletries and other household items, often in bulk. Costco is also known for selling items not usually found in generic grocery stores such as camping goods, electrical goods, clothing, homewares, jewellery and even canoes!

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CASE STUDY 12.2 continued

These items are usually sold at heavily discounted prices (20%–30% lower than competing grocery, department and electrical stores), surpassing other discount grocery chains in Australia such as Aldi.

Costco requires its customers to purchase an annual membership card, which entitles them to shop in its stores. Rather than marking up prices of the goods they sell, Costco's main avenue of profit is through their memberships. Data of the exact number of its members are not published, but this is estimated at hundreds of thousands of members as of 2015, according to the managing director, Patrick Noone. With Costco's low prices and an array of different merchandise as an incentive, this number will surely increase over time.

IBISWorld reports show that Costco will reach sales of over $4 billion over the next few years and will continue to grow, already capturing 1.2% of the $90 billion grocery market in Australia.



Figure 12.9 Costco makes most of its money by selling memberships.

Analysis

1. Explain the concept of cost leadership as an expansion strategy.
2. Identify the three ways a business can obtain cost leadership.
3. Describe how Costco has been able to expand into the Australian retail industry.
4. Costco has been able to keep prices low. Summarise where else it obtains its revenue from.

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CASE STUDY 12.3

Flight Centre and Tigerair Australia: a partnership in search of market share



Figure 12.10 Flight Centre is adding low-cost carriers after losing market share to rival booking companies.

In this 'new world' of brainstorming and deciding on strategies to increase market share, businesses have had to be creative in their thinking. For example, the Flight Centre Travel Group have been proactive in their quest to gain market share, and have collaborated with Tigerair in order to battle in the same 'space' as competitors such as Webjet. Their customers will be able to select extras on Tigerair through the Flight Centre website.

Flight Centre managing director Graham Turner said in early January 2016 that margins from the Tigerair deal would improve if the travel agent concentrates on optional extras such as accommodation, baggage, etc. As these extras can be part of the flight booking experience, it presents an opportunity to assist with increasing the margin.

In August 2015, the company discussed the idea of concentrating more on its low-cost carrier range to safeguard the relationship with its customers. Though it may seem to be a less than ideal strategy due to low-margin transactions, the company's philosophy is that circumstances can change and a low budget purchase today may in the future be a high 'flying' booking.

Flight Centre managing director Graham Turner stated, 'That is where the low-cost [area] is a great opportunity'. The previous arrangement was that clients were only able to book Tigerair flights outside of Flight Centre's distribution system and commission for these bookings was not available to Flight Centre.

As this strategy previously had not been acted upon, Webjet were able to wrestle market share from Flight Centre with respect to budget airlines. Mr Turner said he didn't expect high sales of low-cost carrier offerings at first, but it was part of its long-term strategy, including its increased push into the youth travel market; Flight Centre is continuing working on collaborating with other online travel agencies.

Analysis

1 Describe how Flight Centre will use the deal with Tigerair to gain more market share in the travel and holiday sector.

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Differentiation approach

While price is a central consideration when a business is trying to attract customers, differentiation is another important approach a business can use to establish itself and grow. In a differentiation approach a business selects one or more attributes that customers in the market consider important. If the business is able to do this, then it is rewarded by a premium price. **Differentiation** can be defined as an approach or method used to develop the uniqueness of the product or service and its attractiveness in order to attract and keep customers. Differentiation can be based on a number of different factors including product durability and use, support and after sales service and brand image, which allows a business to create an ideal picture and connections with customers to build long-term loyalty to the brand and the products. Businesses that are able to differentiate to meet customer needs are able to charge premium prices as the cost is not an important consideration.

differentiation emphasis of the difference between a particular product/service and those that are similar by developing the attributes that customers find appealing



Figure 12.11 Differentiation is a strategy used to develop the uniqueness of the product or service.

To implement a differentiation strategy a business should ensure that it:

- develops effective marketing and promotion strategies – define and emphasise the benefits of the brand
- delivers high-quality products
- ensures there is a focus on ongoing research, development and innovation.

Examples of businesses that have successfully used a differentiation strategy include BMW, Apple and Nike, which are known for their particular brand and quality products.



Figure 12.12 BMW, Chanel and Nike are known for brand quality.

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Figure 12.13 Disney Pixar has an established brand that customers recognise.

A differentiation approach is appropriate when the target customer segment or market is not price sensitive, where the market is competitive and where customers have specific needs which are not being met or addressed as well as they could be. The business will also have the resources and capabilities to satisfy the customer needs in ways that other businesses cannot copy. This may include intellectual property, unique technical expertise, talented employees and innovative processes.

Differentiation is successful when a business is able to achieve a premium price for its product or service, gains increased revenue per unit or the customers' loyalty. Successful brand management also results in a perceived uniqueness that supports sales of the product or service. This means that customers will buy the product or service even if it is the same as a competitor's. There are a number of businesses that have been able to gain market share through differentiation from their competitors. Apple is known for its software, simple product design and innovative products. BMW is known as the 'ultimate driving machine' and the quality of its motor vehicles. Nike is a strong brand that has positioned itself with top athletes in a range of sports. Its products are seen by consumers to be of high value with exclusive features. Qantas is known for its safety record, and its reliability and safety record are a main selling point. Singapore Airlines differentiates itself by offering premium services at a practical price. It was the first to introduce many services such as hot meals and scented towels and has a young fleet of planes. Fashion brands rely heavily on this type of differentiation.

Differentiation strategies are easier for large businesses to implement and more difficult for small businesses as a small business may not have the resources or the influence in a market. In the majority of instances, a large business has more power to influence a market and develop differentiation strategies.

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Figure 12.14 Singapore Airlines differentiates itself with premium services at a reasonable price.

The impact of Porter's Generic Strategies

Empirical research on the profit impact of these marketing strategies indicates that businesses with a high market share are often profitable as are many businesses with low market share. Those in the 'middle' with moderate market share were often the least profitable and did not have a viable generic strategy.

Porter stressed that only one approach should be used and that failure to do so would result in a 'stuck in the middle' scenario. He stated that if a business follows more than one strategy it will lose focus, although this has been questioned by some commentators. It has been argued that some businesses have entered the market as a niche player and gradually expanded. A study in 2013 found that entrepreneurial spirit was a key factor in a business's success.

For a business to be able to successfully innovate it needs to be able to clearly identify the key differentiators over other products. This might include reviewing questions such as:

- Is the product distinctive?
- Can success be measured against competitors?
- Is it relevant to the core business?
- Is it clear at all levels of the business?

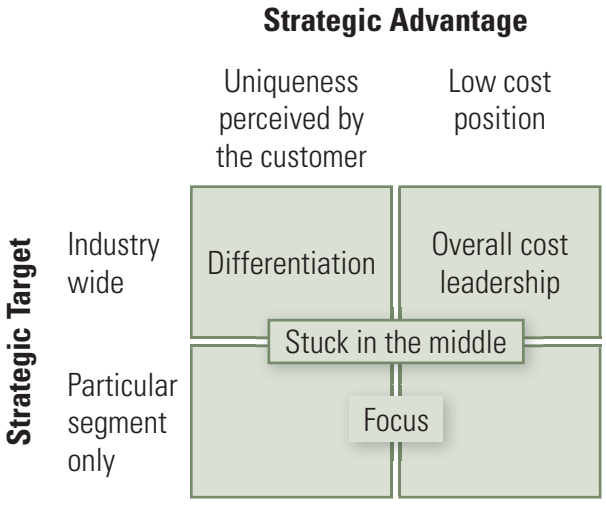


Figure 12.15 Porter's Generic Strategies

(Source: Michael Porter, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York: Free Press, 1980.)

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CASE STUDY 12.4

Online retailers and the 'consumer surplus'



Figure 12.16 The online revolution makes it easier for sellers to work out the willingness of customers to pay.

Do you think much about the process involved when you decide to buy something some seller is offering you? If you're like most consumers, probably not. But the businesses doing the selling do, which ought to be a warning.

The digital revolution is changing the way sellers behave when we buy things online or use the internet to check out the choice before deciding what to buy.

None of us wants to pay more than we have to to buy the things we decide we need. But the great insight of economists is that we would often be prepared to pay more for something we want than we are required to.

The difference between what we're willing to pay and what we actually have to is known to economists as the 'consumer surplus'. The more successful that competition in an industry is in holding down the market price, the greater is our consumer surplus and thus the more we have gained from living in a market economy.

By the same token, sellers are often able to sell their wares for a higher price than the minimum at which they would be willing to sell. This difference is the 'producer surplus'. The smaller the producer surplus, the more that competition in the market is advancing the interests of consumers.

For most of the past century we lived in the era of mass-produced consumer goods, as epitomised by Henry Ford. He invented the production line as a way of more fully exploiting economies of scale and keeping the price of his cars as low as possible.

The lower the price, he reasoned, the more people who could afford a car. And the more cars he sold, the higher his profits. To keep costs and prices low he produced just one kind of car, in one colour, black.

Ford was eventually overtaken by General Motors, pursuing a different strategy of selling a range of models at differing prices, aimed at different segments of the market. GM even started changing each model slightly every year.

This 'product differentiation' involved selling more than just a car: style, fashionability, social status, even self-expression. From an economist's perspective, however, it was about gaining the freedom to charge a higher price, making the 'market price' harder to discern, reducing consumer surplus and increasing producer surplus.

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CASE STUDY 12.4 continued

If each consumer has their own price they are willing to pay, the ideal from a profit-maximising producer's perspective is to charge each individual a price that matches their willingness to pay. That some people would pay a price much lower than others are paying will not matter provided you are getting as much as you can out of each of them.

For years many businesses have practiced various forms of 'price discrimination' involving charging broad categories of customers higher prices than others.

Cinemas, for instance, charge adults more than children. Airlines charge business travellers more than holidaying families to maximise their producer surplus.

The online revolution is making it a lot easier for sellers to assess the willingness to pay of particular customers. The more information they have on file about you – your age, sex, address, occupation and record of previous purchases – the more accurately they can estimate how much they can get away with charging you.

The trend to 'customisation' is actually a way of asking you to disclose more about what you are looking for, giving the seller greater control over what you are offered and at what price.

Chain stores' loyalty cards are primarily a way of gathering information about your buying habits and preferences. If a business knows you invariably buy brand X, they do not need to offer you a lower price.

The more prices become personalised, the harder it becomes to know the actual market price – even the average price – customers are paying. If that day dawns, the benefits of living in a market economy will be greatly reduced.

(Source: Based on Ross Gittins, 'Canny online retailers know your top dollar', *Sydney Morning Herald*, 6 October 2015.)



Figure 12.17 Loyalty cards are a way of gathering information about buying habits. It is not hard to believe it is getting ever easier for businesses to convert consumer surplus to producer surplus by charging us more than they used to.

Analysis

1. Explain the relationship between differentiation and market share.
2. Outline why businesses try to use differentiation as a means to grow their business.
3. Explain the concepts of 'consumer surplus' and 'producer surplus' discussed in the article.
4. Describe how businesses are using customers' online profiles to differentiate products and the prices charged.

Porter's Generic Strategies as an approach to strategic management

A vital question is how does a generic strategy assist in the transformation of a business? If a business is starting from scratch, then an important consideration is whether the business will follow a low cost or a differentiation strategy to ensure success. Porter argues that a business has to follow one strategy or the other. It is more likely that a large business will be able to successfully develop a course of action as it will have more power and influence than a small business.

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Chapter summary

- Porter's Generic Strategies focus on low cost and differentiation. Both strategies allow a business to change to achieve a competitive advantage.
- Cost leadership centres on 'no frills' and pricing.
- Differentiation focuses on creating uniquely desirable goods and services.
- Businesses that use these approaches concentrate either on particular niche markets or put their effort into developing specific low-cost products.
- A business should only focus on one strategy.
- Different strategies suit different businesses.
- There are three steps to determine which generic strategy to focus on. These are:
  - SWOT analysis
  - five force analysis – supplier power, buyer power, competitive rivalry, threat of substitution and threat of new entry
  - comparing the outcomes of SWOT analysis and five force analysis.
- Cost leadership strategy is a course of action that allows a business to achieve a corporate edge by decreasing production or delivery costs, thereby increasing its profits.
- Differentiation is a strategy where a business selects one or more attributes that customers consider important and by delivering a product to satisfy these, is able to charge a higher price.

Chapter summary questions

1 Outline Porter's Generic Strategies of low cost and differentiation.

2 Explain why businesses need to decide whether they are going to pursue a cost leadership or a differentiation strategy.

3 Discuss why it is recommended that a business only focuses on one strategy.

4 Outline the steps used to determine which generic strategy a business should focus on.

5 Explain why a business should use the five force analysis.

6 Explain why competitive rivalry is an important area for a business to focus on.

7 Describe how a business can use a differentiation strategy to increase market share.

8 Describe how a business can use a cost leadership strategy to increase sales.

9 Identify two examples of a business that uses differentiation as a strategy.

Examination preparation

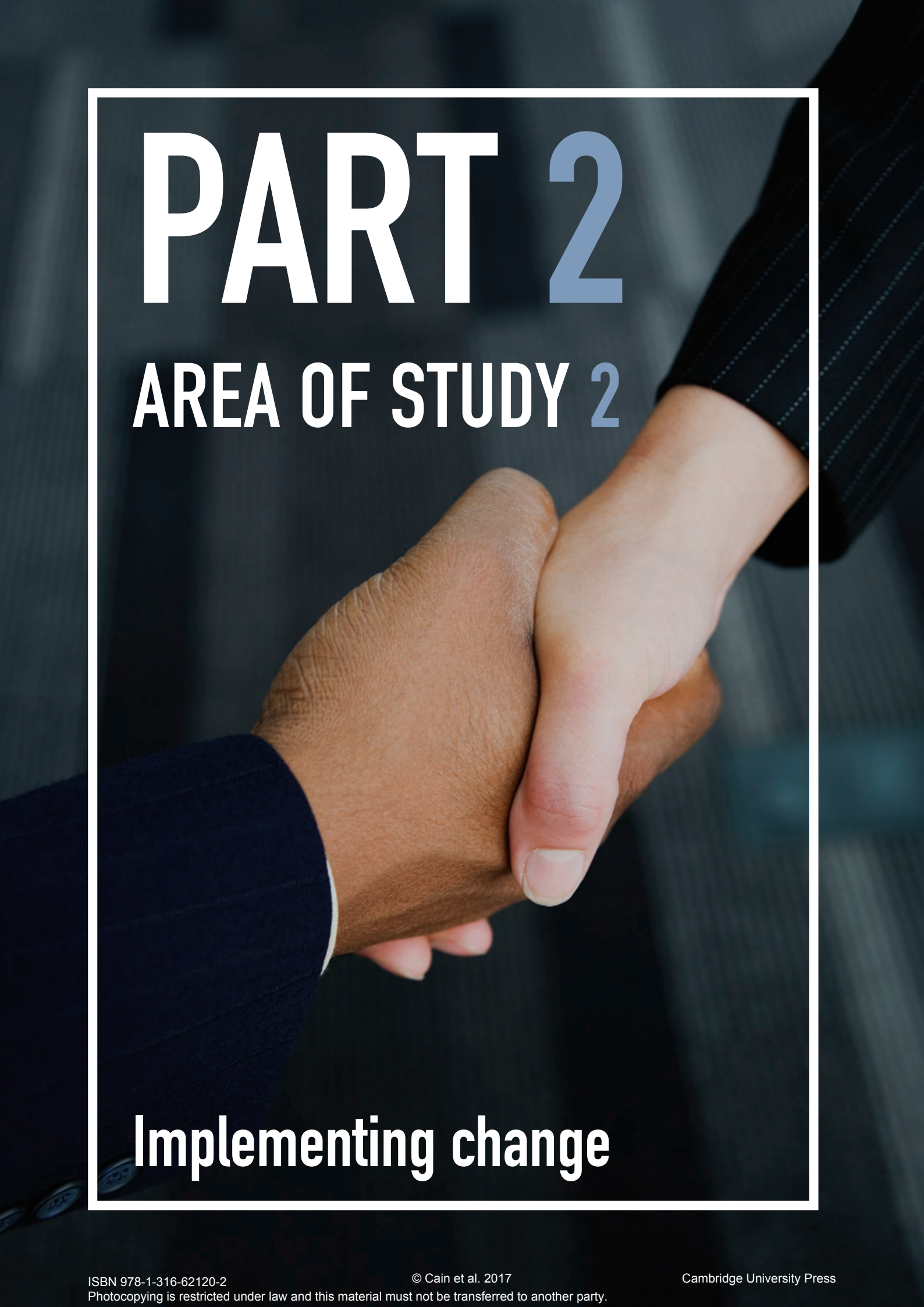
1 Explain the concepts of cost leadership and differentiation approaches as a means to increase market share.

(4 marks)

2 Describe how Porter's Generic Strategies can be used to support the transformation of a business.

(4 marks)

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PART 2

AREA OF STUDY 2

Implementing change

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CHAPTER 13

Leadership and strategies to respond to KPIs

Key terms

- high-risk strategies
- low-risk strategies
- redeployment of staff

Overview

Students will learn about the importance of leadership and how change is managed in businesses. Students will also learn about the main management strategies that can be used in response to key performance indicators (KPIs) and other information and data gathered by a business. The main strategies covered will focus on training and motivating staff, adapting and changing the management styles and management skills used in a business.

The chapter will also examine how to harness and invest in new technologies that will assist the business in changing, how to optimise and further improve operations by focusing on quality, cost cutting, lean production techniques, and how to redeploy resources including raw materials and labour within the business. Strategies will differ for each business as each faces a unique set of challenges and this should be reflected in the KPIs for that entity.

All businesses, regardless of their size, need to continually look at ways to further develop and expand. Businesses will seek opportunities in a range of ways, such as moving into global and domestic markets, and developing new and emerging markets that have not been explored. They will also allocate resources and energy, such as time, to researching and developing new ideas, and either cultivating or taking advantage of new technologies.

This chapter will also examine the importance of leadership in the implementation of the change management process and will provide an overview of the management strategies used by businesses to respond to data and KPIs within the business.

Key knowledge

Students will examine the importance of leadership during changes, and how management can implement strategies to respond to changes in data such as key performance indicators. Students will learn about:

- The importance of leadership in change management.
- Management strategies to respond to key performance indicators, including staff training, staff motivation, change in management styles or management skills, increased investment in technology, improving quality in production, cost cutting, initiating lean production techniques and redeployment of resources (natural, labour and capital).
- Low-risk strategies to overcome employee resistance, including communication, empowerment, support and incentives.
- High-risk strategies to overcome employee resistance, including manipulation and threat.

What's ahead

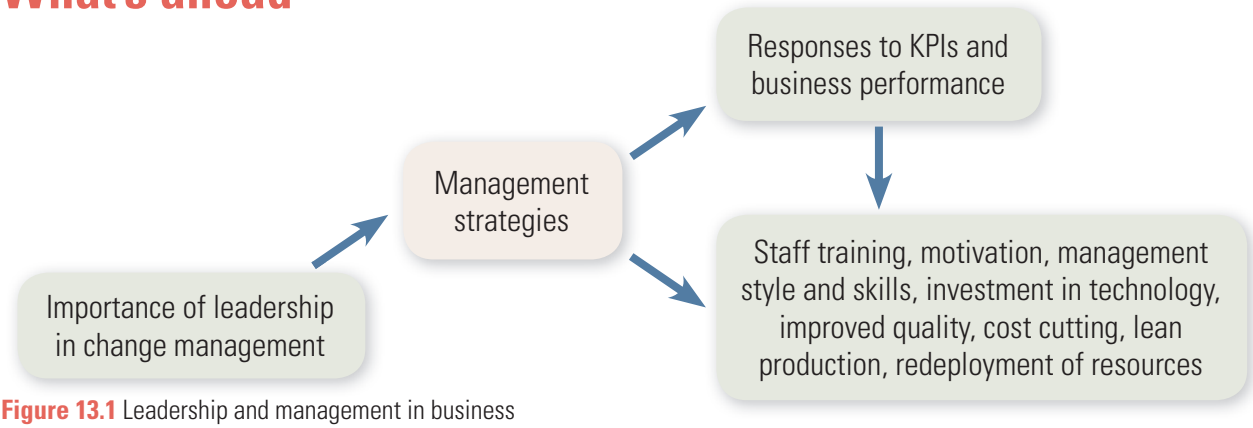


Figure 13.1 Leadership and management in business

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13.1 The importance of leadership in change management

Managers and leaders play a vital role in the successful implementation of change and transformation in a business. Leadership is important when managing a business through periods of change, decline or growth. The three attributes necessary for effective leadership are:

- **diagnosing** – being able to understand the situation as it is now and knowing what could be expected in the future
- **adapting** – being able to adapt behaviour and other resources to help close any performance gaps
- **communicating** – even if a leader knows what needs to be done, it is important to communicate this to others.

In the current period of great change and uncertainty for businesses, the role of the leader is of utmost importance, and leaders at all levels of a business play a vital part in the change process. In the more 'traditional' approaches to change management, the role of the leader was often overlooked. Senior management simply announced a change when employees had already concluded that something was going on. Often the focus and the mindset of the managers was on the long term rather than on how change could be introduced in the short to medium term and with little consultation, evaluation or review.

If leaders do not have the skills to articulate strategy, implement changes effectively and keep all staff informed about decisions impacting on them, the introduction of a change can lead to a situation where employees and even middle and front-line managers become cynical and begin to resist the change.

For change to be successfully implemented and sustained, leaders need to focus on building relationships with employees, management, shareholders and external stakeholders. By cultivating teamwork, coaching and mentoring, encouraging diversity, developing talent within the organisation and having open communication, business transformation is more likely to be successful.

Small and medium businesses might find the change process even more difficult. If change needs to occur quickly and is far reaching, then this may cause stress for employees who may already be

Figure 13.2 Business leaders need to communicate changes to their employees.



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carrying out a range of different tasks and duties. If the business is a small business, then the owner/manager needs to try to ensure all changes are planned and implemented. This might be problematic as it needs to take place while the business is still running. There may not be an opportunity to change in stages or to review effectively as the changes take place. A small business might have to respond quickly to a change that has been thrust upon it, because it may have little influence over something that has occurred in the industry it is involved in.



ACTIVITY 13.1

Part one

Read the following quotes in the table below and choose four to reflect on. Describe what you believe the statements mean in relation to leadership.

Quote	Author
Change will not come if we wait for some other person or some other time. We are the ones we've been waiting for. We are the change that we seek.	Barack Obama
People don't resist change. They resist being changed!	Peter Senge
The world hates change, yet it is the only thing that has brought progress.	Charles Kettering
The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic.	Peter Drucker
There is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, than to take the lead in the introduction of a new order of things.	Niccolo Machiavelli
The rate of change is not going to slow down anytime soon. If anything, competition in most industries will probably speed up even more in the next few decades.	John P Kotter
Change is the law of life and those who look only to the past or present are certain to miss the future.	John F Kennedy
Change has a bad reputation in our society. But it isn't all bad – not by any means. In fact, change is necessary in life – to keep us moving … to keep us growing … to keep us interested … Imagine life without change. It would be static … boring … dull.	Dr Dennis O'Grady
Your success in life isn't based on your ability to simply change. It is based on your ability to change faster than your competition, customers and business.	Mark Sanborn
Change is hard because people overestimate the value of what they have and underestimate the value of what they may gain by giving that up.	James Belasco and Ralph Stayer
If you always do what you've always done, you'll always get what you've always got.	Anonymous
Only the wisest and stupidest of men never change.	Confucius

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ACTIVITY 13.1 continued

Quote	Author
Even those who fancy themselves the most progressive will fight against other kinds of progress, for each of us is convinced that our way is the best way.	Louis L'Amour
When a mature and able manager feels bored, he should seriously consider changing jobs, changing companies – or simply retiring. It is not fair to anyone for half a leader to hold a full-time leadership job.	James L Hayes
Everybody has accepted by now that change is unavoidable. But that still implies that change is like death and taxes – it should be postponed as long as possible and no change would be vastly preferable. But in a period of upheaval, such as the one we are living in, change is the norm.	Peter Drucker
Every generation needs a new revolution.	Thomas Jefferson
I'll go anywhere as long as it's forward.	David Livingstone

Table 13.1 Some quotes on leadership from notable individuals

Part two

Read the extracts from communications of the new CEO of Davidsons, a major retail group, and answer the questions that follow.

Extract: Staff newsletter

New to Davidsons!

The CEO, Linda Hart, is pleased to announce a restructure of the retailing divisions. From next January all staff will be involved in a new customer training program called 'Serve Right'. Training will take place after hours and all employees will be tested at the end of the program. Failure to complete the program will mean a position is no longer guaranteed. Further details will be posted on the staff notice board.

Extract: Minutes from a management meeting

It is noted in the minutes that Ms Hart has introduced a new training program for all staff. In addition to the 'Serve Right' program, all team leaders and senior managers will be required to take on further courses. Two programs, 'Manage Right' and 'Future Here', will focus on managing a retail store and staff.

Extract: Media release

The customer is our business!

Davidsons is pleased to announce a new focus on quality and customer service. All employees in the organisation will complete a new course to develop customer service skills. 'Our customers have always been our number one priority,' stated Linda Hart, CEO, 'we are simply making this a formal policy. It is an exciting phase in the business's move to become a world-class retailer'.

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Extract: Note to the Retail and Distributive Workers Union, from Ms Hart

There may be some reduction in staff numbers due to the changed policy. Retrenchments will begin immediately. Any staff who do not satisfactorily complete the new 'Serve Right' program will no longer be required.



Figure 13.3 Changes to leadership and management in major companies are newsworthy events.

1. Describe how the change has been introduced into the business.
2. Explain how Linda Hart, the CEO, has implemented the change into the business.
3. Predict whether the change is likely to be successful, providing reasons for your response.
4. 'Leaders play a significant role in the introduction and implementation of any change.' Discuss this statement.

CASE STUDY 13.1

Woolworths and leadership in change management processes

The employees at Woolworths headquarters in Bella Vista feel like they don't see a lot of chief executive Grant O'Brien these days.

Woolies' second profit downgrade in as many months saw O'Brien 'resign' from the top job back in June last year. It is a situation analysts and shareholders have referred to as 'unhelpful' at best and at worst 'bizarre'. O'Brien retains his title until July this year.

Insiders suggest the supermarket's chairman Gordon Cairns quietly told O'Brien he didn't need to come in every day. Workers now report he appears absent from the nerve centre of Australia's biggest supermarket chain. This is strongly denied by Woolworths with a spokeswoman stating that O'Brien was 'at work fulfilling his responsibilities to the company as CEO'.

Now the axe has finally fallen on the Masters operation, the pressure is on Cairns to install a new chief and sweep away the remnants of an aggressive culture.

Woolies insiders claim the pattern was set by former chief Michael Luscombe and his chief financial officer Tom Pockett, who challenged critics of their strategy, targeting individuals including experienced analyst David Errington and hardware consultant Geoff Dart.

Dart, who forecast the huge losses at Masters, was referred to the Australian Competition and Consumer Commission, and they had a 'direct line' to Errington's global boss in Bank of America Merrill Lynch's New York offices.

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Figure 13.4 Woolworths has been undergoing significant leadership changes.

'That was when the arrogance came into the culture and that was when the seeds of Masters were sown,' one analyst says.

The difficulty for Cairns is O'Brien was part of the team that increased grocery prices to offset the mounting losses at Masters and Big W and meet short-term earnings targets that were linked to executive pay.

O'Brien lives in shadow of these decisions, says one analyst, and his ongoing presence is at best likely to retard any real cultural change, which will be essential to the revival of the supermarkets.

Any new chief must have supermarket experience, one major investor says.

'Turning around the supermarket business will be a 12 to 18-month journey, it's not a quick fix.'

Dart warned culture had to be the new chief's number one priority. He said Woolworths needed to get customers excited about the supermarket's business again.

He said 'culture would kill strategy every time' and Woolworths' handling of the Masters shutdown pointed to problems. Employees at Woolworths headquarters showed Fairfax Media an internal document this week outlining a number of significant changes to the supermarket's management team as well as the downsizing of the Stores Transformation Team.

Woolworths would not make any comment on the internal communication with staff but sources close to the operation suggest it's preparing the ground for a new chief from outside the business.

Staff were scared by the proposed changes despite assurances it was not about cutting jobs but the timing, just two days after Woolies pulled the plug on Masters leaving 7000 working facing an uncertain future, cast it in a different light.

Errington, an outspoken critic of Woolworths' costly pursuit of a stake in Australia's $45 billion hardware market, congratulated Cairns on abandoning Masters this week.

'This is the first time Woolies has made a decision in the best interests of shareholders for a long time,' he says.

In his latest research note, Errington says a major distraction has been alleviated by the decision to quit hardware.

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'A new CEO can be secured with certainty as to where the company is headed now and this should provide the company with the ability to attract the highest calibre candidate,' Errington says.

Despite its big brand, Woolworths' reputation is battered. It's lost out in the sales battle with rival Coles since the first quarter of fiscal 2010, and then there are the marketing misfires including the 2016 Australia Day caps featuring a map of the country without Tasmania.



Figure 13.5 Woolworths is struggling to maintain its reputation with Australians.

One long-serving Woolies staffer said the ship had felt rudderless for a long time now and the absence of O'Brien, who was popular with staff, was eroding the already battered morale.

'It feels like we don't have a leader, it's really strange and a lot of people are wondering if Gordon Cairns is going to take over as chief executive,' the worker said.

'The underlying culture is really good here, staff love this company and they would do anything for it but for a long time now we've felt like we're just a number.'

(Source: Catie Low, 'Long voyage ahead for weary Woolworths shareholders as chairman seeks captain of industry', *Sydney Morning Herald*, 23 January 2016.)

Analysis

1. Describe the role of leadership in the change management process.
2. Summarise four key points of the article.
3. What has been the perceived role of the senior leaders at Woolworths in the change management process?
4. How has this impacted on the future of the business?

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13.2 Management strategies to respond to KPIs and other business trends and data

The need to review KPIs

Managers and owners of businesses need to examine and determine which KPIs the business wishes to track and review for trends. In practice a business or manager might decide which KPIs are the most important to closely monitor. If a small business wishes to track and review sales, it may need to examine:

- which categories or products (or services) are selling well
- which products have the best profit margins
- the performance of sales staff or sales teams.

A range of KPIs need to be examined and regularly monitored. A small business owner/manager may find it difficult to use a range of data. Sometimes KPIs and particularly financial data may not be available until tax returns and reports have been completed by the business's accountant. (See Chapter 10 for further information on specific KPIs.)

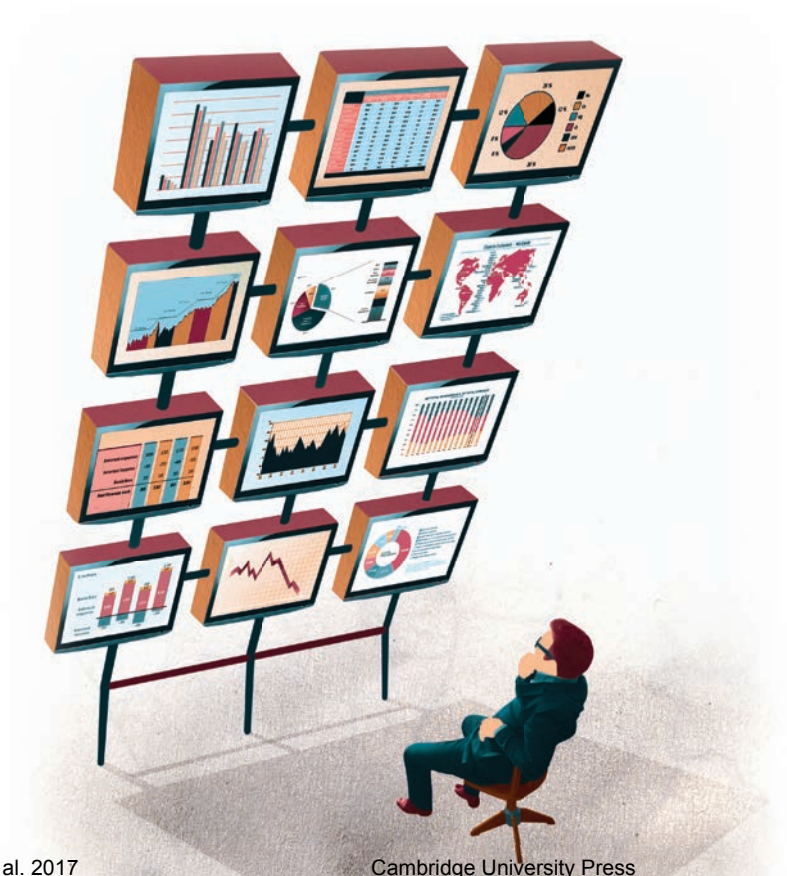
Businesses need to ensure that KPIs and data are monitored over time and any trends measured and tracked. If a business monitors performance over a number of years then this allows the business to establish useful trends and patterns that can be followed and reviewed, and also provides the business with a sound foundation to make any necessary changes in the future. A manager or business owner needs to take the following considerations into account when establishing data and looking for trends:

- Determine what performance data or KPIs are going to be analysed and compared over time.
- Apply a threshold – at what stage is a variation in a KPI over time worth noting? This might include setting a target: for example, if market share increases or decreases by more than 10% then it would be investigated.
- Investigate the variation and try to determine what the reasons for the variation are – this helps to plan for the future.

Businesses can also use a management information system to make sure any analysis of KPIs is meaningful. This might involve a system of record keeping and processes in place to record information accurately. Where relevant the gathered information should be shared with other members of the team or employees. KPIs can be analysed and reviewed, trends analysed at critical points, and information can be collected and used on a regular basis.

The analysis of KPIs and other data can be carried out in a number of ways, including completing financial calculations, looking at ratios, creating tables and graphs of information. For example, if staff absenteeism is seen to be reducing over one year this is usually seen as a good sign for a business and the reasons can be analysed. If other KPIs are also examined, for example, staff turnover, which has increased, then it may be that one or two employees have left and this has had an impact on staff absenteeism generally. It may not necessarily be a positive outcome.

In order to implement change successfully management must develop a number of different strategies to respond to data, business trends and KPIs. If management is not able to react to the data and information it has gathered, then it is likely that the business will not succeed in the long term. By understanding, responding to and even pre-empting data, businesses will be able to grow and improve over time. It is important for a business, regardless of its size, to make sure it is not left behind and has the information to allow it to plan as far ahead as possible.



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CASE STUDY 13.2

Business trends

What happens to your business when the trend is over?

Cupcakes reached peak popularity years ago and macarons can now be found in McDonald's, but some businesses thrive when the fad has finished.



Figure 13.6 Products like macarons could be reaching their peak in popularity.

Some businesses are only here for a good time not a long time and quietly fold when the queues out the door wane, but others manage to thrive beyond their moment in the limelight.

Sheryl Thai says while the hype may have died down since the heady early days of her business, Cupcake Central still turns over more than $1 million a year and is planning to expand.

'We are actually doing quite well,' she says.
'We are growing quite steadily with our sales.'

Cupcake Central's success contrasts with the collapse of one of its biggest competitors, Cupcake Bakery, last year.

'They went into this aggressive expansion phase where they opened up 30 stores around Australia and they obviously couldn't sustain it,' Thai says.

Cupcake Central only has three stores, which all bake cupcakes fresh every day and Thai says she has made sure to expand slowly, with no new openings over the past few years.

'For me it was about making sure the systems and processes were in place,' she says.

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CASE STUDY 13.2 continued

While Cupcake Central's three stores are company-owned, Thai has restructured into a franchise model and will open two new franchise-owned stores next year.

'Everyone is always like, "When is that bubble going to burst?" but I don't think it will,' she says.

A 2009 issue of *Gourmet Traveller* featuring French macarons inspired trained chef, Carlos Heng, to make his own macarons, which 'failed miserably, like most first-time macaron makers do'.

Heng was determined to nail the recipe, so making macarons became his 'obsession' as he researched all the different versions of macrons available.

Heng opened his MakMak macaron store in Newtown in 2012 and now also has a store at Sydney airport, as well as selling wholesale and online.

Heng says while Australia's macaron obsession may have waned recently, trade at MakMak is still strong.

'I feel like for us, it hasn't really affected business but I have seen a few companies shut down now,' he says. 'We were always focused on the quality and not so much the trend to get the business.'

'I thought that is what we want to be if we do macarons, we want to be one of the few macaron companies that remain because the product is good because it is not driven by trend anymore.'

Heng says MakMak's emphasis on quality, flavour and customer service means queues still stretch out the door of his stores at Christmas time.

He has also been careful to diversify MakMak's income streams.

MakMak now makes 30% of its income from online sales and Heng says he puts a lot of effort into social media and improving MakMak's web presence.

'Social media for us was definitely key to the growth of the company,' he says. 'We got onto Instagram quite early, which helped us. It is very much trend driven, it is like the visualisation of the trend always happens on Instagram.'

Ken Burgin, the owner of Profitable Hospitality, a consultancy that advises restaurants and catering groups, says business owners who operate a business riding the wave of a trend need to get in and out quickly.

Burgin says some operators like Thai and Heng can make a success of a business, even once the hype has died down, by building their own personal brand and creating a consistent product.

While Good Food reports a 'Nutella donut craze' is the latest trend to sweep the country, Thai says Cupcake Central is not being left behind.

'Donuts are very in at the moment,' she says. 'We want to make sure that cupcakes are on trend so we have a cupcake with a tiny little donut on top, which is quite cute.'

(Source: Based on Cara Waters, 'What happens to your business when the trend is over?', *The Age*, 20 December 2015.)

Analysis

1. Identify the three crazes mentioned in the article.
2. Discuss why some businesses have become unprofitable in these areas.
3. Describe how Thai and Heng used KPIs and other data to manage the expansion and sustainability of their businesses.
4. Explain why it is important for a business to ensure it is keeping up to date with the market and gathering information about performance.

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A number of KPIs may provide a business with information about its employees and other aspects of the business. All KPIs will relate to areas within the business and while some will focus on a particular area or department, indicators are often interrelated and one or two management strategies may impact on a range of areas. Strategies will be explained under a number of headings:

- Staff training and development
- Staff motivation
- Changes to management styles and managers' skill development
- Increased investment in technology
- Improved production quality
- Cost cutting to gain efficiencies
- Lean production techniques
- Redeployment of resources within the business.

Staff training and development

Staff are extremely important for the success or otherwise of a business. If managers or owners examine employee-based KPIs, such as the level of staff turnover, the number of staff training days, the number of workplace accidents, the number of staff complaints about bullying or grievances, and the number of industrial disputes, these would all give an indication of how satisfied employees are in the business. Managers could combine this information with the results of a staff satisfaction survey and KPIs on productivity and rate of productivity growth to formulate business strategies.

If the level of staff turnover is higher than the average for a particular industry or increases over time, then this may be an indication that staff are not happy. If staff absenteeism is high or has increased, it also indicates that staff may not be enjoying going to work and are not committed to the success of the business.

If staff are content and happy with working conditions and the workplace, then they are an asset to the business. This would be reflected in the KPIs and an astute business will work on ensuring this continues. Some businesses are recognised as 'Employers of Choice', which gives an indication of employee satisfaction. Such businesses are able to attract and retain their qualified and experienced staff.

In order to ensure staff are working productively management need to develop a range of strategies. These can include:

- revisiting job descriptions and job specifications to ensure that the jobs are interesting and fulfil the needs of the business and the staff
- ensuring all employees have access to training and development so that they can contribute to the business and also develop career paths for staff
- completing staff surveys to ensure they understand the needs of staff and respond to any concerns
- completing regular performance reviews and appraisals to identify any training needs and individual requirements
- completing exit interviews with employees who are leaving the business to see if there are any trends or common concerns that are causing staff to resign or retire
- ensuring employee relations within the business are cordial and that there is an avenue for complaints and grievances
- developing policies that ensure employees are treated equally and that any concerns and complaints about harassment and bullying are dealt with quickly and effectively.

Focusing on staff (employee) training and, more importantly, development of skills and talents for future growth and promotion will allow managers and a business to have the best possible person in a position. Businesses that focus on ensuring that their staff are trained and skilled will often find that KPIs around staff turnover, absenteeism and productivity will be positive and the level of staff satisfaction highlighted through surveys will be high and growing each year. If data indicates that there are concerns with the skill level of staff, then managers must look at ways to improve the type and amount of training provided.

Employees not only need to gain technical skills for their current jobs and workplace, but also need to have the opportunity to be innovative and help the business to look for new and better ways of doing things into the future. Google and Virgin, for example, encourage their staff to be innovative and take risks, ensuring that their businesses continually refine and improve their products and services.

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Figure 13.7 Training and development are important for all employees.

A major benefit of training is that it also provides a formalised method to improve the knowledge and skill base of employees. It provides skill development and support beyond the current job of the employee. It also allows a business to address any weaknesses that may stop employees and the business from improving its performance. A training and development program also means that employees doing similar jobs can receive the same training to ensure that practices and processes are consistent in the business. Employees who have undertaken training may also feel more confident, which means that they can perform their jobs more effectively.

Training is the process of providing staff with the knowledge or skills required to do a particular job. It can include a range of different activities such as on-the-job training to learn a new software package or how to maintain a new piece of equipment. *Development* usually refers to preparing employees, perhaps at management level, for longer-term careers and advancement opportunities. Development usually has a more general focus. It may be targeted at a more generic skills set that managers and team leaders may need. For example, development could focus on improving communication skills. It can include coaching and mentoring within the workplace, on-the-job training or short courses undertaken at work through to university and TAFE courses in management and leadership (see Chapter 5 for further information).

A training needs analysis may be carried out to determine where training and development are required. This can include:

- organisational analysis – the entire business is analysed to determine where training and development is required
- task analysis – there may be particular jobs that need to be performed and staff need to be supported by specialist training
- person analysis – each employee can be assessed (may occur through the performance appraisal system) to determine what kind of training they need to be effective employees.

Staff or employees who feel that they have access to training and development will also be more likely to be motivated. Motivated staff are a key to the business's success and continued performance. Businesses are able to increase the efficiency of their employees by providing them with skills training and on-the-job experience. Higher efficiency will assist the business to achieve its KPIs in a range of areas such as productivity, quality of service and products, and will improve staff motivation.

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Many businesses recognise and understand the importance of training and development as a means to keep and upskill high-performing employees. At Rebel Sport employees are encouraged to participate in various certificate courses such as Certificate III in Retail and Certificate IV in Retail Management. The Reject Shop offers leadership development programs for all levels across its business, with programs ranging from short courses to in-depth courses run over 18 months. The company also offers an induction program and a Certificate II in Transport and Distribution Warehousing. Flight Centre offers university graduates a leadership program that covers retail sales, leadership and business management and the business retail model as well as a Certificate III in Tourism.



Figure 13.8 The Reject Shop offers leadership development programs to its employees.

ACTIVITY 13.2

The importance of career development

Helping employees shape the direction of their careers is an important aspect of management that is often ignored or seen as an afterthought. If employees are not satisfied or feel supported, then they may not stay in the business. Training, mentoring and coaching are things that many employees value highly.

Training and development are sometimes overlooked for a number of reasons, because the focus is on the present rather than the future and time is often an issue.

Businesses that can keep training and development as a priority will find that employees are more motivated as they feel that the business and managers are interested in them. It builds loyalty to the business and allows 'good' employees to advance with the support they need.

1 Distinguish between training and development.
2 Explain why a business should focus on training employees.
3 Ask members of your class or your teacher to find out what type of training they have completed.

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Figure 13.9 Development is an important process for employees to progress in their careers.

ACTIVITY 13.3

As a class or group, survey at least two people each. This could include friends, relatives, brothers and sisters, neighbours and teachers. Ask them the following questions.

1. Over the past six months how many training sessions (in hours) did you participate in?
2. What kind of training was it? Examples might include an external training day, on-the-job training or online activity.
3. Did the training assist you in completing your current job? (Yes/No/Not Sure)
4. Did the training assist or support you to gain a different job or complete new tasks?
5. Collate the information (this could be completed in a spreadsheet or Google Form).
6. Summarise the trends shown in the data.

Staff motivation

Staff who are happy at work and are motivated to complete their tasks contribute in a positive way. A business can look at KPIs such as the rate of productivity growth and productivity levels, the level of staff absenteeism and staff turnover, which often give an indication of the levels of staff motivation. Regular surveys that focus on motivation and how employees are feeling in regards to the business, their job and their workplace will also give some indication of how motivated employees are. Managers should take such surveys seriously as the results provide information and data that can be used to bring in changes to improve or sustain staff motivation. Many of the Employers of Choice are those businesses that value and support their staff in a range of ways. The Australian Business Award for Employer of Choice recognises organisations that have developed leading workplaces that maximise the full potential of their workforce through practices that demonstrate effective recruitment, engagement and retention.

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'Employer of Choice' award winners include:

Lush Cosmetics



Figure 13.10 Lush Cosmetics offers a high-quality product that has grown in popularity.

Lush Cosmetics has been selling beauty products and other cosmetics for over twenty years. The company has grown from a kitchen above a shop in England to a recognisable global brand with more than 900 stores in 51 countries.

The opinions of staff at all levels of the company are highly valued and strongly influence business decisions. For example, campaigns regarding marriage equality, shark culling and the preservation of the Great Barrier Reef were all suggested by staff in stores.

The long-term interests of staff are also looked after at Lush. Every six months staff are given a 'STAY' interview where they are able to discuss their current position, as well as any options for career progression. Performance-related pay is also offered to all employees for meeting and exceeding targets, and opportunities for education and training are available. Even unsuccessful job applicants are sometimes given the opportunity to intern in order to develop job-related skills.

Better Business Basics



Figure 13.11 Bookkeeping and accounting processes involve a lot of organisation.

In 2015, Better Business Basics (BBB) was recognised as an Employer of Choice, only nine years after it was established by Annie Flannagan as a one-person business. Specialising in the SME sector, BBB is now the largest non-franchise bookkeeping and accounting process specialist in Australia.

Important features of the BBB workplace are that a work/life balance is actively encouraged and that learning is facilitated through sharing. Flexible work schedules allow employees to accrue time for use when they need to spend additional time with their families. BBB not only provides staff with ongoing training and upskilling, but also creates a shared space for knowledge creation according to the concept of 'Ba'. Financial rewards are provided through a Profit Share Program, a bonus system available to all staff based on their achievements.

Seeking to improve itself, BBB provides staff the opportunity to give feedback via an anonymous online survey, thereby creating opportunities for internal issues to be identified and resolved.

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ACTIVITY 13.4

1 Go to the Australian Business Awards website and check the list of the latest award winners. Choose two businesses and outline what they do for staff.

2 Assess the impact on staff motivation when businesses introduce the types of programs and conditions outlined.

Keeping staff motivated will ensure that they attend work and that productivity levels are high (see Chapter 4 for further information). Strategies to keep staff or employees positive or to improve motivation levels could include:

- Employee recognition and rewards – this can include financial rewards such as commission or a bonus, or some kind of gift or a trip, movie tickets and so on. Recognition can also be non-financial and can include public and private recognition of the work completed by an employee or provision of awards such as 'Employee of the Month', which recognises the work of staff.
- A formal and systematic performance management or appraisal system. Any program that provides an opportunity for staff to set goals and reflect on their performance will usually allow staff to recognise what they have achieved and what support they need to improve, and can be powerful. Sharing this with managers, other employees who they work with or their team leader is even more influential as it provides public acknowledgement of the work completed and an opportunity for an employee to set goals and targets. If a business finds that motivation is low such a system may support employees to feel valued and acknowledged.
- Policies to support a safe workplace will also assist in keeping employees motivated. Policies should be in place and actively pursued in a range of areas such as occupational health and safety, equal opportunity, anti-discrimination and anti-bullying. This will also assist employees in knowing that the business takes these concerns seriously.
- Managers in a business should examine the jobs within the business and the tasks and skills required by the job. Sometimes staff can feel underappreciated and bored if jobs do not offer a chance to learn new skills or experience some variety. A more skilled workforce also provides the business with employees who could take on different roles and tasks when required.



Figure 13.12 Motivating staff can lead to outstanding performance in business.

Management styles and management skills

There are a number of different aspects to management, and some of these can be reflected in the management styles and skills used by managers (see Chapter 3 for further information on management styles and skills).

The management style used by leaders can have an influence on the performance of a business. In most contemporary businesses there is an expectation that employees will be involved in decision-making and two-way communication will take place. Therefore, most businesses tend to use a participative or consultative management style in most instances. In those circumstances where there

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is a deadline, a serious incident or an inexperienced workforce, then managers might use an autocratic or persuasive style. The style a manager should adopt depends on the situation and the context of the business. It is important for managers to understand the situation and then to make a conscious decision about the most suitable style to use.

There is a difference between leading and managing. 'Managers do things right. Leaders do the right things' (many people take on both roles in a business). As a leader a manager must be able to be a change agent to ensure that change is successfully implemented and must have a range of management skills to do so. Managers need to be aware of the employees they are managing in the change process – this may mean having to manage employees across a range of ages and generations. Using participative and consultative management styles may assist managers in gaining information from others and ensure employees are clear about the issues and data. If the manager is faced with an urgent matter requiring a decision to be made quickly then the manager may change their management style and use a persuasive or autocratic style.

Managers also need to use a range of different management skills in response to trends in KPIs and survey data. If KPIs indicate issues with profit, sales or market share then the skills required by the manager include increased communication with a range of stakeholders and departments, decision-making so that the business can ensure sales and profits are increasing, and interpersonal skills to ensure all staff understand the requirements.

Trends in KPI and survey data may also highlight the need for the manager to improve their skills in order for the business to improve performance. KPIs such as staff absenteeism, staff turnover and productivity are impacted on by a range of issues; however, the way managers work with and treat employees might be one factor.

In most contemporary workplaces, staff want to be involved in decision-making and expect to be able to communicate freely with managers. Managers are expected to communicate with staff both individually and with groups, delegate tasks, have high levels of emotional intelligence and be able to mentor and coach subordinates.

Figure 13.13 Managers are responsible for keeping workplaces functioning well.



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CASE STUDY 13.3

Google and leadership



Figure 13.14 Google is considered a pillar of innovative and effective leadership.

Google is a stand-out company and one of the main reasons for this is its leadership style. The Google brand is valued at US$100 billion making it the world's first 'one-hundred billion brand'. The founders have given their employees the power to make decisions and encourage them to come up with innovative ideas and to implement them. The idea is also for employees to follow the 70–20–10 model where 70% of time is devoted to Google's core business, 20% to off-budget projects related to the core-business and 10% to pursue ideas based on employee interests and competencies. There are rewards and awards for employees who implement the innovative ideas. It is estimated that 50% of Google's new products are generated in the 'free' time employees are granted.

Communicating the vision and granting employees the freedom to implement it is one part of Google's people-management system. The other is to provide employees with a hassle-free environment so that they can fully concentrate on work.

The former CEO of the company, Eric Schmidt, established a leadership style based on – getting to know employees, creating new ways to reward and promote high performing employees, letting employees own the problems they were required to solve, and having employees reviewed by someone they respected.

(Source: Based on M Manimala et al. 'Distributed leadership at Google: lessons from the billion-dollar brand', *Ivey Business Journal*, May/June 2013.)

Analysis

1. Outline why Google has established the style it has.
2. Discuss what other businesses can learn from Google.
3. Describe how the management style used can influence the performance of a business.
4. Explain why it is important for a business to take into account the management style and management skills required when responding to changes within a business.

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Increased investment in technology

Technology is a major driver of change in any business. KPIs such as the level of wastage, number of accidents and rates of productivity growth can all be impacted on by the technology used. If a business is in an industry that has hazardous or physical work, then technology may mean that some of these jobs and processes may be completed by a machine instead of a human, thus improving employee safety. The level of waste may also be reduced if management can introduce strategies such as the use of machinery, cutting lists and materials schedules, and computer-aided design (CAD) to assist in the operations process. Reduction in wastage of materials can reduce costs and increase productivity.

Technology may also assist in the sales areas. The use of online shopping and websites in retail businesses, for example, may be assisted by technology and can lead to increased market share and sales. Many businesses allocate resources to develop technology to assist in the success of a business.

The internet and technology have provided a range of opportunities for businesses to develop and change. KPIs such as sales and market share may indicate that a business should change the focus or product make-up due to changes in technology. Australia Post, for example, has had to make changes in response to data and trends around the decline in mail deliveries and the rise of online shopping. This trend has had a significant impact on many areas of the business.



Figure 13.15 Technology is a big part of our daily lives.

Businesses use technology in all aspects of their activities, including record keeping, file management, production processes, communication processes and reaching customers. If businesses don't keep up to date with technology and continually upgrade and streamline their operations, they will lose a competitive advantage. While upgrading technology continually can be a cost to a business most do not have any other option.



Figure 13.16 Technology can improve customer service.

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There are a number of benefits for a business that chooses to implement technology, including:

- improvements in communication in speed and reach
- small businesses can compete with larger ones as they also have access to technology and can often respond quickly
- ability to store information and share information quickly using fewer resources
- e-learning and other online resources can enable employees to access training
- automation means that some repetitive and dangerous tasks and jobs have been made redundant.



CASE STUDY 13.4

Technological advantages for business: part one

Innovation is the way to success in this digital age. The path of innovation in business means doing something different, smarter or better that will make a positive difference in terms of value, quality or productivity by using emerging or proven technologies of the world. Information technology (IT) has dramatically changed the lives of individuals and businesses. Online shopping, digital marketing, social networking, digital communication and cloud computing are some of the current examples of change which came through the wave of information technology. Now accurate business planning, effective marketing, global sales, systematic management, real time monitoring, instant customer support and long-term business growth cannot be achieved at the optimum level without IT.

Research from the last two decades has shown that those businesses that do invest in technology and choose the path of innovation increase their market share, financial performance and overall competitiveness. Information technology provides the opportunity to analyse specific data and plan your business journey accordingly. It also provides many tools which can solve complex problems

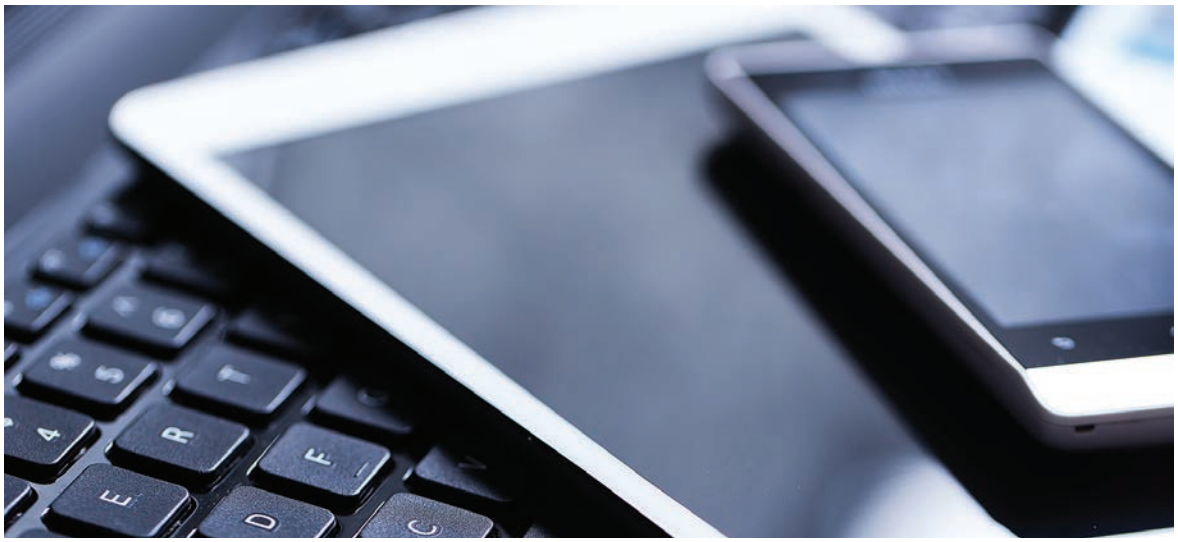


Figure 13.17 Information technology is a huge industry that all businesses use.

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and help plan the future growth of a business. In the modern age, it is proven that digital marketing is a great tool which lets you promote your products or services to the global market while sitting in the comfort of your remote office or home.

Technology also plays a role in other activities of the business including:

- Decision-making – technology can be used to develop online surveys and market research, blogs, forums and in problem solving using tools such as Google Analytics.
- Marketing and business growth – can use IT to identify a target audience and observe trends. Digital marketing allows a business to promote products all around the world.
- Customer support and satisfaction – businesses are able to communicate quickly and directly with customers.
- Resource management and globalisation – IT allows for problem solving and forecasting for complex problems and scenarios. Many cloud based programs can be used to enhance access to data by managers.

(Source: Based on A Butt, 'The role of information technology in business success', *LinkedIn Pulse*, 14 May 2015.)

Technological advantages for business: part two

Many businesses now have apps (applications) that customers can download and use. Groove Train, for example, allows customers to download the menu and pre-order through its website.



Figure 13.18 Businesses are using apps to innovate how they reach and interact with customers.

Analysis

1. Outline the main advantages of using information technology in a business.
2. Describe how information technology allows a small business to compete with larger businesses.
3. Groove Train has used its website to provide menus and bookings; propose a reason why it did this.
4. Identify at least one app that a business has set up.

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Improving quality in production

Businesses care about quality because quality can be clearly linked to profit and business success. There are numerous examples of businesses that had good ideas or inventions but failed due to lack of actual or perceived quality. On the other hand, there are also many examples of businesses applying quality improvement strategies to achieve cost savings.

Improving quality in production has the potential benefits of:

- reducing cost of wasted resources in terms of materials used and time spent
- improving productivity by increasing the rate of production and the amount of output in relation to the amount of input
- eliminating or reducing the need for rework of faulty products
- reducing inspection and testing time for finished products
- reducing the level of inventory maintained by the business – both of raw materials and of finished goods
- producing higher quality products, which may command higher prices because of the perceived quality and reliability.

Quality can be managed on a number of levels (see Chapter 8 on 'Optimising operations') and should be a high priority for any business. In order to maintain or improve the quality of its products a business needs to monitor its KPIs and other relevant data such as level of wastage, rate of productivity growth and the number of customer complaints. Quality of product and quality of service are vital to the success and sustainability of a business. Small businesses in particular need to ensure that their products or service delivery are of a high quality to make sure customers are kept and levels of sales maintained.

Strategies to improve quality in production could include practices such as:

- ensuring top management's commitment to quality and embedding quality in the goals and priorities of the business
- implementing quality control at all stages of production
- implementing quality assurance
- Total Quality Management throughout the whole business
- regular reviews of the production or operations process
- lean production techniques
- benchmarking against world's best practice and industry best practice
- standardising components used in production of several products, thereby reducing inventory
- use of common production techniques and processes to reduce re-tooling time and effort, thereby reducing possibility of errors and rejects
- use of standardised processes allowing employees to build familiarity and experience and enabling them to produce consistent quality, also reducing level of wastage and rejects
- training managers and employees in quality principles.



Figure 13.19 A lot of elements add up to effective business practice.

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A business can use KPIs to build on quality systems and continue to improve. There are a number of ways to improve quality, including:

- using the appropriate KPIs to measure the production of or the delivery of a service
- focusing on the processes used in the business, as often this is the reason for the issue
- scheduling regular meetings to discuss any issues that may have occurred to ensure they are dealt with quickly. Over time this should ensure that processes and systems are strengthened.
- focusing on the product or service to ensure that the quality is the best possible
- making sure that all teams involved in the processes are aware of the performance data and that their input is sought regarding suggestions and improvements.



Figure 13.20 Bamstone has received several awards for its high-quality designs.

BAMSTONE

Figure 13.21 Bamstone has an established reputation for excellence.

Quality example – Bamstone

2016 Melbourne International Flower and Garden Show Success!

Three's a charm! For the third year in a row, Bamstone's Australian Bluestone products have featured in another award-winning Melbourne International Flower and Garden Show exhibit. 'The Greenery Garden Centre' by Vivid Design (Carolyn and Joby Blackman) is tranquil and modern with a beautiful softness, celebrating Bamstone's Australian Bluestone products. In 2015, Bamstone company directors Michael and Cheryl Steel were proud to announce that the construction and design collaborative at the 'Quietude' garden, featuring Bamstone Australian Bluestone, successfully won Gold Medal and Best in Show at the Melbourne International Flower and Garden Show event. In the previous year, Mark Browning collaborated with Bamstone to design 'The Patriach's Garden'. The garden was awarded the 2014 Gold Medal, Best Construction and Best in Show Garden.

Bamstone: Best Export Project

Back in May 2014, Managing Directors and proud owners of Bamstone, Michael and Cheryl Steel, together with Bamstone Sales Manager, Tony Rowe, attended the Australian Stone Architectural Awards night in Sydney. Bamstone was delighted to receive recognition for global contributions and exportation projects, receiving 'Best Export Project' for a job recently completed in Beirut, Lebanon. A remarkable achievement, received with gratitude and appreciation.

(Source: Based on '2016 Melbourne International Flower and Garden Show success!', Bamstone website, 18 March 2016 & 'Back to back win at the 2015 Melbourne International Flower and Garden Show', Bamstone website, 1 November 2015.)

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CASE STUDY 13.5

The Australian tourism industry and change



Figure 13.22 Flinders Street Station is a popular site for visitors to Melbourne.

Australia's tourism industry is exciting because the coming boom in Asian middle-class consumption will transform the tourism industry. And also frustrating because the sector must do more to capitalise on the opportunity.

Let's start with our largest capital city airports. It beggars belief that an international traveller's first experience with Australia is often a long wait in a queue at Customs in Melbourne or Sydney and poor signage for non-English speaking tourists and food and facilities designed for Western travellers.

At Melbourne Airport, the next step is often further delays waiting for a bus, taxi or private vehicle. Australian tourism will never realise its incredible potential if our airport infrastructure lags other global cities.

Then there is customer service. Sadly, outstanding service at Australian hotels and tourist facilities is the exception rather than the norm. Too many businesses that rely on tourists care little about repeat business, word-of-mouth marketing, or helping their tourist precinct.

The hospitality industry complains about excessive weekend penalty rates that make it harder to hire staff. But there has been chronic under-investment in staff training and development to support a world-class tourism industry.

The big casino operators are investing more in tourism training facilities. They know they need to invest in staff development to create the right tourist experience. Hopefully, other parts of the tourism industry will follow their lead.

Cross-promotion of tourism facilities is another shortcoming. With some exceptions, our tourism operators do not do enough to sell other attractions and services. An international traveller to Brisbane, for example, should be encouraged to extend their stay to the Gold Coast.

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Figure 13.23 The Australian tourism industry is undergoing significant changes.

Tourism regions need to invest in digital marketing systems that reach tourists via their smartphone. Upon arrival, you download the region's app and information and tailored offers are sent to you. The app allows you to rate facilities, book travel and have the best time possible. An online survey after the trip critiques the experience and provides vital data for tourism operators.

An accreditation system could also be put into place. Hopeless businesses that gouge international tourists and damage the region's reputation would not be accredited. Over time, travel agents, intermediaries and customers would favour accredited business; those that refuse to lift standards would die.

The strong growth in inbound tourism to Australia suggests the industry is getting more things right than wrong. International visitors to Australia spent $34.8 billion in the year ending September 2015, up 13 per cent over the year and the best since 2001. The global middle-class is expected to grow from 1.8 billion in 2009 to 4.9 billion by 2030.

We need greater technology and industry-wide collaboration to innovate the customer experience, encourage international travellers to spend more, come back, and spread the word about Australian tourism.

(Source: Based on T Featherstone, 'Is Australian tourism in danger of missing a boom?', *The Age*, 10 December 2015.)

Analysis

1 Outline the author's main arguments regarding the issues around tourism in Australia.
2 Explain why it is important for businesses in this sector to improve on what they are doing.
3 Describe how a quality standard or accreditation could assist in this sector of the economy.

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How businesses can cut costs

While many businesses look at ways to develop managers and employees, integrate technology and improve the quality of a product, they may also look at strategies to cut costs as a means to improve effectiveness and perhaps improve profit. Cutting costs is a quick way to respond to some KPIs.

A business can cut costs by:

- reducing, reviewing and cutting all non-essential costs – this may mean a full review of all of the costs of the business with the goal of trying to reduce or eliminate some expenses
- controlling and monitoring cash flow in a business. It is important for all businesses to look at their cash flow to ensure that enough is coming in and out of the business in a timely manner. This may mean that contracts are made with suppliers to gain as much time as possible to pay for materials, hence reducing the need for costly finance or bank overdrafts.
- exploring the possibility of incentives and discounts for early payment of invoices
- getting advice from an expert – if there is an issue with the service or production in a business it may be necessary to hire an external consultant to look at the processes and service delivery in the business. There may be bottlenecks at certain times of the week which can be planned for. If a business is in retail, for example, there may be key times that extra staff are needed. This can be controlled if rosters are completed with this in mind, while also reducing some of the expenses and costs involved in the process.
- selling assets to raise funds – it may be determined that some machinery is not required or could be leased rather than purchased; this will also assist a business in reducing costs
- making employees redundant, or outsourcing some parts of the process to other businesses in Australia and overseas. Many businesses now source their parts and materials from suppliers who may be based in other countries. Others use services such as call centres that are based in lower-cost overseas locations.
- reducing energy costs by utilising renewable energy. This may be achieved by installing solar panels, or using other cheaper sources of renewable energy.
- using tank water to reduce water obtained from the mains supply of water companies.

If a business is able to monitor a range of KPIs such as wastage, productivity and the rate of productivity growth, profit and cash flow, then it can make informed decisions about where savings can be made. Often, in a business looking at cost cutting, reducing employees is one of the first strategies when expenses need to be reduced.



Figure 13.24 Businesses sometimes need to make drastic changes to cut costs.

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CASE STUDY 13.6

Aurizon and cost cutting

The International Energy Agency reduced its five-year forecast for growth in coal demand by more than 500 million tonnes in mid-December 2015 and said the era of a robust call for coal is a thing of the past.

Despite their best intentions it appears that Aurizon will not be able to continue with their plans of reducing costs in 2016, due to a profit downgrade and the loss of their chief operating officer. Aurizon is Australia's largest rail freight operator and a top 50 ASX company.

In December 2015 it was announced that former geologist Mike Franczak, who joined Aurizon in 2013 from Canadian Pacific Railway after a 25-year career, would leave Aurizon in March 2016 'by mutual agreement'. This announcement resulted in many analysts' opinions that the company's ability to meet their target was unlikely.

Previously Aurizon had declared that Mr Franczak's appointment was the answer to how the rail group would become more proficient. Mr Franczak had been implementing cost-cutting strategies, but also argued that in order to increase profit and become a first-rate rail operation, financial outlay was required; this would include fleet improvements, track maintenance and IT upgrades.

On 23 December 2015, Aurizon announced a profit downgrade, stating that earnings before interest and tax for the half-year would be in the range of $390 million to $410 million. They also declared that development work had stopped on the West Pilbara Iron Ore project. Shares then fell almost 15%. Financial analysis indicates that the company will need to persist with the strategy of reducing costs in order to deliver rising revenue as the coal demand dwindles.

However, Chief Executive Lance Hockridge said the company's plans to reduce $380 million in costs to $310 million between the 2016 and 2018 financial years were still viable.

Analysis

1 Justify why a business would need to cut costs as a management strategy.

2 Describe three ways a business could cut costs.

3 Explain why share prices at Aurizon have dropped since the cost cutting started.



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Introduction of lean production techniques

Many businesses will examine ways to introduce lean production techniques as a means to reduce costs, increase efficiencies and remain competitive and responsive to their customers and the market. KPIs such as market share, sales, profit and productivity all provide a business with data to allow it to look at different ways to be more competitive. One method to respond to KPIs and the business's situation is to implement lean production techniques, which are based on a number of considerations or ideas tailored to suit the needs of the business.



Figure 13.25 Some businesses look for ways to cut down waste and costs in production.

Lean production or lean management (see Chapter 8) is the term given to a range of measures traditionally used by Japanese businesses in an attempt to reduce waste and costs in production. Engineer Taiichi Ohno is credited with developing the principles of lean production after World War II. His philosophy, which focused on eliminating waste and empowering workers, reduced inventory and improved productivity. Instead of maintaining resources in anticipation of what might be required for future manufacturing, as Henry Ford did with his production line, the management team at Toyota built partnerships with suppliers. Under the direction of Engineer Ohno, Toyota automobiles became made-to-order. By maximising the use of multi-skilled employees, the company was able to reduce the number of management levels and use resources in a flexible manner. Because the company was able to make changes quickly, it was often able to respond faster to market demands than its competitors.

Many industries, including software development, have adopted the principles of lean production. The 10 rules of lean production are:

1 eliminate waste
2 minimise inventory
3 maximise flow
4 pull production from customer demand
5 meet customer requirements
6 do it right the first time
7 empower workers
8 design for rapid changeover
9 partner with suppliers
10 create a culture of continuous improvement (Kaizen).

There are a number of strategies a business can use when implementing lean production techniques. These are discussed below.

Just In Time

The implementation of a Just In Time (JIT) inventory management system aims to minimise the production time, production costs and the amount of stock or inventory held. Materials and components arrive at a factory when they are required so few materials and components are stored on the premises. Raw materials and stock are ordered as they are required, which saves time and money. This strategy relies on good transport and logistics systems being in place.



Figure 13.26 Being efficient with time will bring down costs for businesses.

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Cell production

This method of manufacturing an item organises workers into 'cells' within the factory, with each cell comprising several workers who possess different skills. Each cell is independent and will usually produce a complete item.

This method of production is often combined with the Just In Time approach. If this approach is used it may lead to an improvement in job satisfaction and motivation and multiskilled employees may contribute to improved productivity.

Benchmarking

Benchmarking involves measuring the performance of a business against a competitor in the same market or the whole industry. Benchmarking a business will give insights into how well each aspect of the business is performing, allowing managers to discover in which areas they need improvements, and help them develop plans and strategies towards achieving those improvements.

Benchmarking is best used as a tool to help a business evaluate opportunities for improvement. There are many benefits of benchmarking, which include:

- identifying and prioritising specific areas of opportunity
- identifying strengths and weaknesses of the business
- setting goals and performance expectations
- monitoring performance and effectively managing change
- understanding the competitors of the business in order to become more competitive.



Figure 13.27 By combining positive traits in the workplace, businesses can flourish.

Time-based management

Time is a very valuable resource and time-based management is concerned with reducing both the length of time taken to produce the product while also aiming to reduce the lead time (the time lag between the customer placing an order and the business delivering the product). This approach will work if there are a number of other conditions in place such as flexible production runs and staff who can rotate through different tasks.

A business which can develop and launch more products in a shorter time than its competitors will benefit because it can become the market leader, is able to charge premium prices and will be able to build brand loyalty as it is known as the leader in that market.

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Lean production techniques are used for manufacturing and service industries. The technique can be applied to any kind of process as it is a way of looking at data to try to improve processes. The objective and premise of the process is to transform all aspects of how a business operates. Womack and Jones, founders of Lean Enterprise Institute, recommend that managers using lean production techniques should focus on three areas or issues:

- purpose
- process
- people.

Some lean production techniques and ideas

Lean tool	What is it?	How does it help?
5s	Organise the work area: • Sort • Set in order • Shine (clean up) • Standardise • Sustain (apply standards)	Eliminates waste from a poorly organised work area.
Andon	Visual feedback system for the plant floor that indicates production status.	Acts as a real-time communication tool so problems can be identified and instantly addressed.
Bottleneck analysis	Which parts of the process limit overall performance?	Improves the system by strengthening the weakest link.
Continuous flow	Manufacturing where work-in-process smoothly flows through production with minimal (or no) barriers between steps of the manufacturing process.	Eliminates many forms of waste.
Heijunka (level scheduling)	A form of production scheduling that purposely manufactures in much smaller batches by sequencing (mixing) product variants within the same process.	Reduces lead times (since each product or variant is manufactured more frequently) and inventory (since batches are smaller).
Hoshin Kanri (policy deployment)	Align the goals of the company (Strategy), with the plans of middle management (Tactics) and the work performed on the plant floor (Action).	Ensures that progress towards strategic goals is consistent and thorough.
Kaizen (continuous improvement)	A strategy where employees work together proactively to achieve regular, incremental improvements in the manufacturing process.	Combines the collective talents of a company to continually eliminate waste from manufacturing processes.
Kanban (pull system)	A method of regulating the flow of goods within the factory and with outside suppliers and customers. Based on automatic replenishment through signal cards that indicate when more goods are needed.	Eliminates waste from inventory and overproduction. Can eliminate the need for physical inventories.

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Lean tool	What is it?	How does it help?
Overall equipment effectiveness (OEE)	Framework for measuring productivity loss for a given manufacturing process. Three categories of loss are tracked: • Availability (e.g. downtime) • Performance (e.g. slow cycles) • Quality (e.g. rejects)	Provides a benchmark/baseline and a means to track progress in eliminating waste from a manufacturing process.
PDCA (Plan, Do, Check, Act)	An iterative methodology for implementing improvements: • Plan (establish plan and expected results) • Do (implement plan) • Check (verify expected results achieved) • Act (review and assess; do it again)	Applies a scientific approach to making improvements: • Plan (develop a hypothesis) • Do (run experiment) • Check (evaluate results) • Act (refine your experiment; try again)
Six big losses	Six categories of productivity loss that are almost universally experienced in manufacturing: • Breakdowns • Setup/Adjustments • Small Stops • Reduced Speed • Startup Rejects • Production Rejects	Provides a framework for attacking the most common causes of waste in manufacturing.
Value stream mapping	A tool used to visually map the flow of production. Shows the current and future state of processes in a way that highlights opportunities for improvement.	Exposes waste in the current processes and provides a roadmap for improvement through the future state.

(Source: Adapted from Lean Production website, 'Top 25 lean tools'.)

Table 13.2 Lean techniques or tools

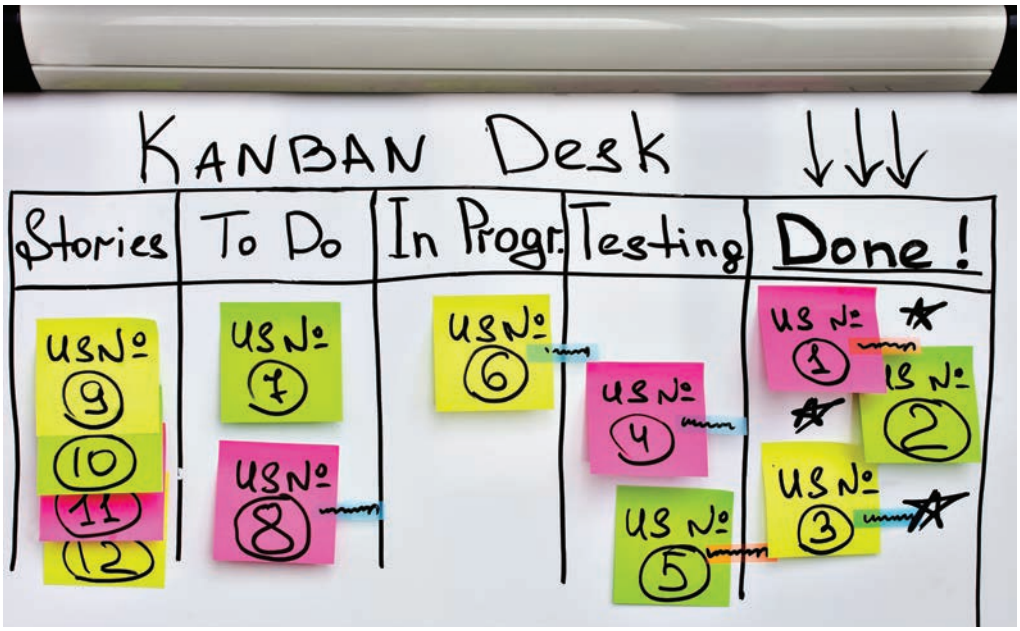


Figure 13.28 The Kanban method helps to keep goods flowing in factories and stocks topped up.

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CASE STUDY 13.7

Example of lean production techniques: Six Sigma

'Six Sigma is a quality program that, when all is said and done, improves your customer's experience, lowers your costs, and builds better leaders.' – Jack Welch (ex-chairman and CEO of General Electric)

Six Sigma in many businesses simply means a measure of quality that strives for near perfection. It is a disciplined, data-driven approach and methodology for eliminating defects in any process – from manufacturing to transactional and from product to service.

The statistical representation of Six Sigma describes quantitatively how a process is performing. To achieve Six Sigma, a process must not produce more than 3.4 defects per million opportunities and a defect is defined as anything outside of customer specifications. A Six Sigma opportunity is then the total quantity of chances for a defect.

The fundamental objective of the Six Sigma methodology is the implementation of a measurement-based strategy that focuses on process improvement and variation reduction through the application of Six Sigma improvement projects. This is accomplished through the use of two Six Sigma sub-methodologies: DMAIC and DMADV. The Six Sigma DMAIC process (define, measure, analyse, improve, control) is an improvement system for existing processes falling below specification and looking for incremental improvement. The Six Sigma DMADV process (define, measure, analyse, design, verify) is an improvement system used to develop new processes or products at Six Sigma quality levels. It can also be employed if a current process requires more than just incremental improvement.

General Electric, one of the most successful companies implementing Six Sigma, has estimated benefits of the order of $10 billion during the first five years of implementation.

(Source: Based on iSixSigma website, 'What is Six Sigma?'.)



Figure 13.29 The Six Sigma methodology is a circular method of improving processes.

Analysis

1. Describe and explain the concept of 'Six Sigma'.
2. Explain the methodologies of 'DMAIC' and 'DMADV'.
3. Explain why businesses implement this type of methodology.

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See the Interactive Textbook edition for a further case study on 5s and lean daily management.

Redeployment of resources

If a business has found that it has high levels of waste or other inefficiencies within its operations, it may look at changing or expanding the business through the redeployment of resources. If the business has inefficiencies in the way resources are allocated and used, this will be reflected in KPIs such as the level of waste and productivity levels, which can be tracked over time. Allocating resources such as natural resources and materials, labour and capital can make a difference to the way outputs are produced. Gains in efficiency can be made when resources are allocated correctly.

redeployment of staff process of moving employees from one area of a business to another, often as an alternative to termination of employment

The **redeployment of staff** can be defined as moving employees to a different job or sending them to work in a different place or division within a business. It often occurs when an employee's job is no longer required. While this process can be stressful for all involved it does offer a business alternative strategies rather than making employees redundant.

Redeployment can take a number of forms, including moving employees to other sections of the business, reducing the number of agency workers and contractors, and looking at employee working hours and arrangements.



Figure 13.30 Staff redeployment involves moving people between different jobs or locations.

Redeploying staff may have a number of benefits for a business, including:

- keeping employees who already know the business and its corporate culture
- reducing the impact on staff morale due to less redundancies
- saving money by not having to provide redundancy packages
- avoiding adverse publicity that may result from redundancies.

CASE STUDY 13.8

Woolworths and Masters – redeployment of staff

Woolworths' looming sale or closure of its Masters hardware chain has left thousands of workers and their families facing an 'uncertain future', unions say.

Australia's retail union – the Shop, Distributive and Allied Employees Association (SDA) – said up to 9000 Masters workers were grappling with the grim news after waking up on Monday.

'This is obviously a devastating time for workers and their families,' union national secretary Gerard Dwyer said.

Mr Dwyer said Woolworths had assured him that its preferred outcome was to sell the business.

'If this is achieved the SDA will promptly engage the new owners on behalf of our members,' he said.

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Figure 13.31 Masters employees have suffered heavy losses in the current climate.

'If a sale cannot be secured, we'll be ensuring that every possible avenue for redeployment of Masters' dedicated, hard-working employees is explored.'

Mr Dwyer said Woolworths was a large company with a 'good track record' of re-deploying staff where brands have been closed or downsized.

'The union has already sought and been given assurances that Woolworths would be working closely with staff and the SDA to maximise redeployments should the business have to close,' he said.

'We can assure staff that all employee entitlements will be protected whether the business is sold or closed.'

The union would have representatives available to support Masters employees and their families and urged employees to contact their SDA branch.

State secretary Gary Maas said the welfare of hard-working employees must be a 'serious consideration' in decisions about the brand's future.

Woolworths chairman Gordon Cairns said the company would endeavour to find jobs for its 7000 Masters staff within the Woolworths empire if the chain was not sold as a going concern.

'Today will come as a shock to those 7000 people, and to be quite frank, they've done an outstanding job at Masters – they're not contributory to the fact we're not making money,' Mr Cairns said.

(Source: Based on Nick Toscano, 'Jobs in jeopardy for thousands of workers as Woolworths dumps Masters: retail union', *The Age*, 18 January 2016.)

Analysis

1 Outline the main concerns the SDA has for Masters employees.
2 Explain how Woolworths will try to redeploy staff into other parts of the company.

Redeployment of other resources

Sometimes a business will make decisions that means that resources such as plant, equipment and raw materials will need to be relocated and moved between departments, sites and even countries. KPIs may indicate that there are inefficiencies with resource use as indicated in productivity rates, level of wastage and costs.

In response to its KPIs a business may decide where particular stores or factories will be relocated to and will relocate its resources accordingly. Many businesses are now redeploying some of their activities to other countries to take advantage of cheaper labour costs or to gain access to other benefits and concessions in these countries.

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CASE STUDY 13.9

The Nine Network: relocating a business

Channel Nine's Willoughby studios in Sydney was the first location in Australia to begin regular TV transmissions on September 16, 1956. The property has therefore been home to some of the greatest moments in Australian television history. However, Nine will have to find a new headquarters after the network confirmed it was selling its Willoughby studios.



Figure 13.32 Relocating businesses like the Nine Network is a monumental job.

The network has appointed commercial real estate service CBRE to manage the sale of the studios, and the location will be redeveloped into five apartment buildings, featuring over 400 dwellings. Nine is now looking for new premises for its Sydney headquarters, and one possible site is the Entertainment Quarter near Moore Park, which is currently being redeveloped by its owners.

'We are looking very seriously at a few sites on the Sydney central business district fringe and we expect to have a short list in the new year,' said the man in charge of the move, Nine's station manager Scott Soutar. He is well suited to the task at hand. Soutar was once the head of property at Channel Seven and worked on the relocation of both the station's headquarters from Epping in Sydney to Pyrmont, as well as the relocation of its production operations from Epping to a purpose-built high-definition television production facility at the Australian Technology Park in Eveleigh.

Negotiating the relocation of the Sydney studios should be straightforward for Soutar, who in his current job at Nine previously worked on the sale of the Nine studios in Bendigo Street, Melbourne, the new lease at Docklands, as well as purpose-built studios in Perth and Adelaide.

Like many other companies, selling Nine's properties has freed up cash for the business to use for other purposes. 'It is the turning point for Nine in Sydney and represents the next phase for the business,' said Soutar. The media industry has embraced the digital age and television production must be at the cutting edge of technology. As Soutar knows, Nine's new facilities must also suit the needs of their staff: 'all businesses must provide a variety of facilities from bike racks to parking bays for the outside broadcasting vans.'

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Analysis

1 Outline why Channel Nine had to relocate.
2 Describe the types of considerations a business would need to take into account when relocating.
3 Discuss how KPIs can impact on the deployment or redeployment of resources in a business.

Key performance indicator	Strategies
Percentage of market share	Selection, training and motivation of staff Overall improvement in quality of production Management skills such as decision-making and analytical
Net profit figures	Lean production techniques Technology improvements Management skills, such as decision-making, interpersonal, communication Economies of scale to maximise outputs for least amount of inputs Sourcing of inputs from other suppliers and sources
Rate of productivity growth	Technology improvements Sourcing and quality of supplies Redeployment of resources Lean production techniques
Number of sales	Employees – trained and motivated Quality of product Technology developments; e.g. online presence
Rate of absenteeism	Employees – motivated Management styles and skills – more people focused Technology improvements to create safer workplace
Level of staff turnover	Management styles and skills Employees trained and motivated Technological development – creation or change in job roles
Level of wastage	Lean production techniques Quality management Change in resources; e.g. solar, recycling Employees – trained to avoid wastage
Number of customer complaints	Quality management – increased quality of output Employees – skilled and motivated
Number of workplace accidents	Investment in technology; e.g. robots Staff training in creating safe workplace environment Management style and skills that reinforce safe workplace environment

Table 13.3 Examples of management strategies to respond to key performance indicators

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ACTIVITY 13.5

Part one

Emma James is the General Manager at ED Consulting Services. The business provides a tutoring service for secondary and university students, and student and teacher resources. She has been given the following information and KPIs for the last 12 months. She has asked you, as a business consultant, to provide some recommendations and advice as this needs to be presented to the rest of the senior managers.

KPI	Current figures	Six months ago
Percentage of market share	29	30
Sales (000s)	150	140
Profit (000s)	99	98
Staff absenteeism	5	2
Number of customer complaints – per 100 sales	15	3

1 Using the information above present a summary of the main findings or trends for the past six months.

2 Outline three management strategies to improve the performance of ED Consulting.

Part two

Match the following KPIs and related objective with one or more management strategies

No.	Key performance indicator	Objective	Management strategy	KPI No.
1	Market share	To increase market share	Management reviewing ways to recycle materials as part of the production process	
2	Number of sales	To increase number of sales	Team leaders are reviewing job descriptions and tasks to ensure the role is in line with the qualifications required by the job holder	
3	Level of staff turnover	To reduce the level of staff turnover	Management are examining expanding into overseas markets	
4	Level of wastage	To reduce the level of wastage	The sales manager is preparing a training program for staff in retail sales	
5	Number of workplace accidents	To reduce the number of workplace accidents	Management are offering incentives and a customer loyalty program to customers to purchase more products	
6	Number of customer complaints	To reduce the number of customer complaints	The owner of a business is looking at improving the training given to new employees prior to them starting work on a construction site.	

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13.3 Strategies to overcome employee resistance to change

The majority of people do not like change. While some see change as exciting and welcome a challenge, most people become comfortable with routine and tend to stay in their comfort zones. The uncertainty of change, and of the future, means that it becomes a stressful experience.

Before taking action, managers must make time to understand the people they are dealing with, and how and why they feel the way they do.

There are different ways to overcome employee resistance to change; these can be either high-risk or low-risk.

Low-risk strategies

low-risk strategies participative approach to implementation of change, use of communication, empowerment, work groups and support for those who are impacted upon

When implementing change, organisations should try to use **low-risk strategies** to overcome employee resistance as they are more likely to mean employees will agree with the change and it is more likely to be maintained. Low-risk strategies include:

- two-way communication between management and employees (this means that managers and employees are in open and honest communication and the information is two-way so that everyone is kept in the loop)
- empowerment of employees to make decisions – if employees are involved in the process, they are more likely to take ownership of the changes. It may include empowering employees in the implementation of the changes that have been introduced
- support and incentives – sometimes employees may need support to manage the change as it can have a negative impact on employees and their health and wellbeing. Incentives to change may include a different job or training or promotion.

High-risk strategies

On the other hand, some organisations may decide to use **high-risk strategies**. Such practices can include:

high-risk strategies autocratic approach to implementing change, involving use of force, threats and manipulation of situations

- threats to employees who do not agree with the change. This may include threatening employees with the loss of their job or a demotion.
- manipulation of the situation; for example, some of the details or consequences of the change may be left out of the information presented or the facts are distorted and employees pushed into a certain direction or decision.

Low-risk strategies are more likely to be successful in the long term and allow for all stakeholders within the organisation to feel valued as their ideas and feelings are taken into account. If managers want change to be successfully implemented they should use low-risk strategies.



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Chapter summary

- Managers and leaders play an important role in implementing change in a business.
- Businesses need to use KPIs, analyse trends seen in data relating to these and develop strategies to improve the performance of the business.
- To do this they need to ensure:
  - information is collected
  - information is stored in a usable format
  - records are accurate
  - trends are analysed.
- Staff are an important asset and strategies must be put in place to respond to KPIs that highlight staff dissatisfaction.
- Management skills and styles can impact on the strategies used.
- Technology is a major driver for change and strategies need to be developed to take advantage of new technologies.
- Quality is crucial to the success of a business and strategies must be put in place to maintain or increase quality in the products or services of the business.
- Many businesses will try to cut costs in response to concerns about profit levels.
- Lean production allows a business to become more efficient.
- Businesses can use high-risk and low-risk strategies to implement and manage change. Low-risk strategies can include communication, empowerment and support and incentives. High-risk strategies include threats and manipulation.

Chapter summary questions

1 Identify the attributes for effective leadership.

2 Explain why it is important to manage and respond to change in a business.

3 Explain why businesses need to monitor and evaluate KPIs and other data.

4 Describe how management skills and styles can influence the response of a business to change.

5 Outline how technology can cause changes in KPIs in a business.

6 Discuss the importance of quality in the production process.

7 What types of cost-cutting measures can a business put in place in response to a decrease in profit?

8 Describe lean production and how it can be used in response to KPIs.

9 Define Kanban and Six Sigma.

10 Explain why businesses look at redeploying employees and other resources.

Examination preparation

Harvey Lane is the owner and manager of Harvey's Pet Care and Grooming. He has been in business for five years and has built up a large number of regular customers. He has been examining ways to expand the business. He has gathered the following information and presented it to you, his business consultant.

Issues and concerns

- The number of customers has not increased over the past year and three employees left six months ago.
- A new office manager, former Army Major Brenton Jones was appointed 10 months ago.
- Some of the equipment is now five years old.
- Some staff have been taken out of the grooming area and placed in the retail store.

1 Using the information above explain two possible issues that may be facing the business.

(4 marks)

2 Describe two possible management strategies Harvey could implement to overcome some of the issues raised.

(4 marks)

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CHAPTER 14

Seeking new business opportunities



Overview

Managers should always be looking for new opportunities at both the domestic and global levels. If new opportunities come up, then managers need to be ready to take advantage of these. Management also need to ensure that the strategies developed allow for a smooth and successful transition into the domestic and global markets.

Key knowledge

Students will examine the strategies used by business to consider new business opportunities. Students will learn about:

- Management strategies to seek new business opportunities, both domestically and globally.

What's ahead



Figure 14.1 Growing a business involves identifying new opportunities and offering products/services to suit.

14.1 Management strategies to seek new business opportunities in global and domestic markets

All businesses seek out opportunities to develop and expand their business. This includes investigating, or developing, business opportunities in the domestic and global markets, through developing new products and services, finding a new market or niche, researching and developing or improving a product or service and taking advantage of the new technologies that are emerging.

Growth is generally positive for businesses as it provides opportunities to develop and expand. Managers of a business also need to ensure that the growth in the business is monitored and adapted as the business transforms.

Businesses might decide to grow and seek new opportunities for a number of reasons, including:

- responding to strong competition
- to gain higher profit margins
- to attract new customers
- capitalising on business success
- a new opportunity or market develops.

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Growing a business has a number of benefits – new opportunities can mean more customers, greater sales and the ability to employ more staff.

Managers and business owners need to examine and find ways to develop and grow their business. There are opportunities to expand and businesses can make the most of these through strategies around expansion of a current line of a product or service, entering new markets and taking steps to expand into different countries.

The Australian economy is continually developing and provides challenges for businesses as well as the chance to change and enter new markets. The economy has gone through a great deal of structural change over the past few decades and businesses have had to adapt if they wished to prosper. The Australian economy is mainly a service or tertiary-based economy and there has been a marked decline in manufacturing. The car manufacturing industry, for example, has declined and there will not be any cars manufactured in Australia after 2017, although there will still be the need for businesses to service and provide spare parts for motor vehicles.

Many Australian businesses have also been able to take advantage of the changes in the developing global economy. Even small businesses have been able to access customers and markets all over the world. Australian businesses and customers are able to purchase goods from anywhere in the world through online shopping, and they can also obtain good products from global companies that have set up businesses within Australia.

With the changes in the global economy Australian businesses are now poised to take advantage of export opportunities. Since 2015 the value of the Australian dollar has declined, making it easier for Australian businesses to sell their products overseas as they become more price competitive. Australian businesses benefit by exporting as it:

- provides access to a larger pool of customers
- spreads the risk of the business across a range of customers
- reduces the dependence on the Australian market.

ACTIVITY 14.1

Perform some online research to answer the following questions.

1. Define what a service-based or tertiary economy is.
2. Describe what happens to the export market for Australian businesses when the value of the Australian dollar is high and continues to rise.
3. Manufacturing has been in decline in recent years in Australia. Research the area in which you live – can you find out what types of manufacturing industries once thrived?

Figure 14.2 Changes in the global economy allow opportunities for Australian businesses.



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14.2 Strategies to seek domestic and global opportunities

There are a number of strategies that businesses can use to take advantage of the opportunities in the domestic and global markets.

These strategies include:

- exporting products and services
- innovation
- developing a market niche
- research and development.

Strategy: exporting products and services

With the relatively low value of the Australian dollar and the advances made in technology and communications many businesses of all sizes are looking to move into the export market. There are a number of considerations a business will need to take into account before doing so, including:

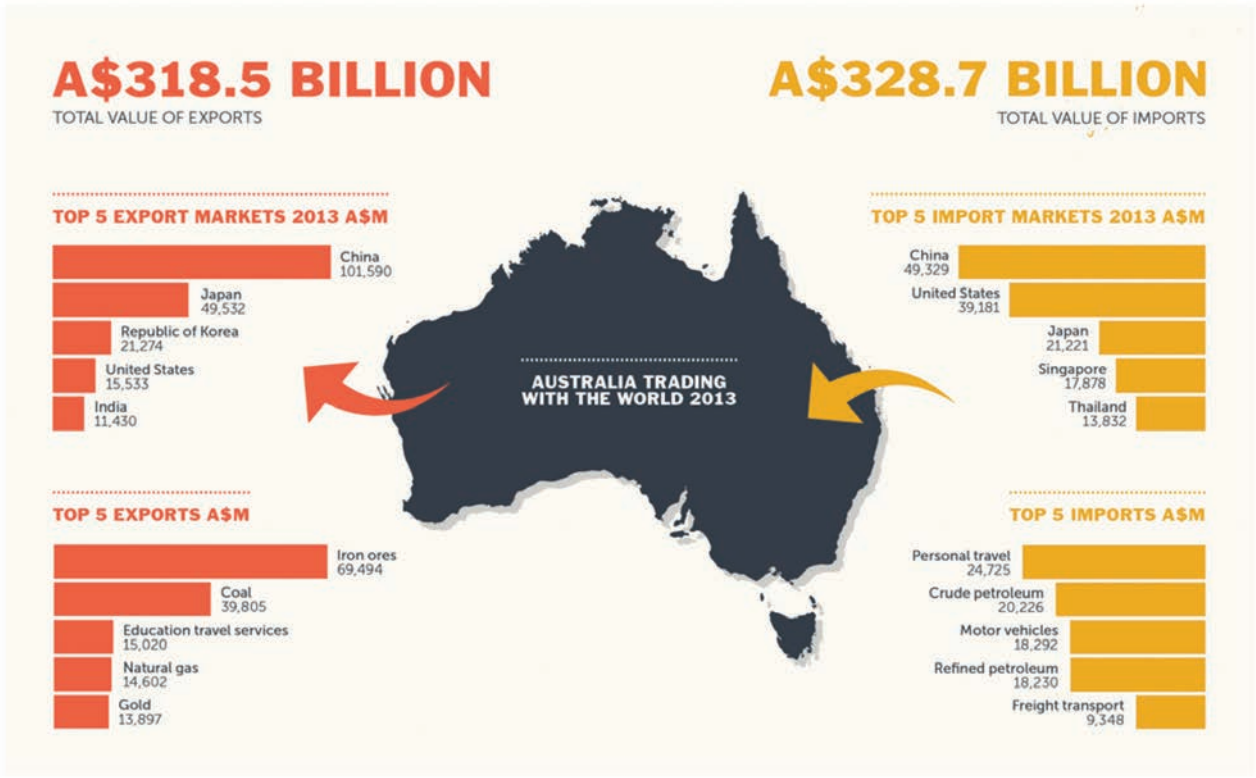
- Which products is the business going to export?
- What are the strengths and weaknesses of the business?
- What are the target markets?
- What time frame is being considered?
- How much money will be needed?
- What regulations are involved?
- What import duties, taxes and other costs are involved in the target market?

Businesses also need to complete market research to see how they are going to organise distribution channels, the types of buyers they are targeting, whether there are other established businesses in the same market to join with or compete with, and cultural and other demographic considerations.

When a business wishes to work in the global economy it also needs to ensure it has a sound knowledge of which goods are prohibited and what quarantine and other laws it needs to consider.

The federal government and all state and territory governments provide support and advice for businesses looking to move into export markets. Recently introduced free trade agreements (FTAs) also provide support for businesses wanting to move into the global market.

The federal government has also provided programs to support businesses through access to an online portal, seminars, a grant program and training. Businesses in Australia often rely on intellectual



(Source: Department of Foreign Affairs and Trade.)

Figure 14.3 Australia's trade with the world

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property; this is another area that businesses need to consider to ensure that they protect their own intellectual property while also ensuring they don't infringe laws in other countries.

If a business wants to move into the global market it needs to consider a number of factors and ensure that it has the correct requirements in place. Considerations include:

1 Legal structure

One of the first and most important steps will be to decide how to structure offshore operations. The legal structure chosen can have enduring tax and legal consequences, so it is fundamental to get it right.

2 Taxation

Tax will be a significant consideration for any business expanding overseas. Direct taxes are typically levied on the profits or gains of an entity. Also, the business will need to be aware of compliance obligations in relation to the indirect taxation system.

3 Staffing

A business may consider relocating existing employees to the foreign country since they already have a detailed understanding of the business and its activities. On the other hand, they may lack local knowledge and can be more expensive to relocate and remunerate compared to local hires.

(Source: Adapted from Tony Nunes, Kelly & Partners Chartered Accountants, 'Issues to consider when going global', Export Council of Australia, 7 September 2015.)



Figure 14.4 Businesses have factors to consider as they move into the global market.

Figure 14.5 Businesses may relocate employees to other countries as they have an existing understanding of the business.



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CASE STUDY 14.1

South Australian businesses encouraged to export

In 2013, the Australian dollar was at parity with the United States dollar, but in January 2016 it had dipped to just below 70 cents.

Although only 4% of South Australian companies export overseas, Business South Australia is appealing to local businesses to take advantage of the low Australian dollar as this opens up an opportunity in the export market. Business South Australia assists businesses (large or small) to manage the people and challenges that organisations may face in competitive market conditions. Its concern is that despite the low dollar South Australian exports are lower than they should be.



Figure 14.6 Changes in the value of the Australian dollar affect business decisions.

South Australia's wine industry relies acutely on exports, although upmarket businesses such as Cape Barren Wines are not particularly sensitive to a fluctuating dollar. However, the high Australian dollar does add pressure to the wine-making industry, especially at the cheaper end of the market. The low Australian dollar may revive the market somewhat as the opportunity for improved export market conditions presents itself. Revived interest in wine with respect to export possibilities can only be a good thing for South Australia.

Another company that welcomes the low Australian dollar is HEGs. HEGs produces an innovative clothes peg and its focus has turned to taking on the export challenge. HEGs pegs are designed with dual-hooks to maximise hanging space and an ergonomic grip for ease of use, amongst other features. HEGs is rapidly expanding and has just signed an export deal with China. This is in addition to the company export list comprising 18 countries. Founder Scott Boocock is reported as saying that they currently employ 50 people but their goal is to get that up to 200 South Australians working with HEGs on a permanent basis.

Analysis

1. Explain why Business SA is encouraging South Australian businesses to export.
2. Outline the two examples in the article of how the global economy has impacted on a company's business.
3. Go to one of the government websites, for example, Export Council or IP Australia, and outline some of the programs offered to support businesses. Explain why governments offer advice and support for businesses.

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Strategy: innovation

There are opportunities for people and businesses that are able to make the most of their chances and 'think outside the square'. This is an important strategy that allows people and businesses to seek new openings.



Figure 14.7 Innovation is about creating and implementing new ideas.

Innovation can be defined as an improvement or invention that enhances or extends a business and provides another product or service to the economy. It is also about creating and successfully applying new ideas to a business. Innovation can be seen as a way to seek and develop new business opportunities for Australian businesses and companies. It may be a major idea or it could be a series of smaller innovations, such as finding better or more efficient ways of working, producing a product, delivering a service or becoming more profitable.

Management strategies to support new ideas are critical, since innovation will provide the cutting edge and can be a key differentiator between one business and another. A management strategy centred on improving practices and reviewing how activities are completed will also assist the performance of a business.

Developing a culture of innovation in a business will allow it to follow through with ideas and provide the foundations for the success of the business in the long term. Innovation is centred on developing a unique selling point for a product or service and can be incremental or radical, and may be a breakthrough innovation that can change a whole sector of the economy. Another way to make the most of innovation is to be a design-led business. Innovation can come from a range of sources, including supporting staff who come up with potential improvements and ideas. This should become the culture of the business and part of the vision and mission statements. Other stakeholders may also be able to contribute to ideas and improvements. Customers, for example, can provide insights into service and offer ideas and suggestions for improvement.

To be innovative, businesses can implement strategies such as:

- researching the market and current customers to find what products or services they want and cannot access
- studying the market to determine any trends or potential trends and trying to target these
- calculating and reflecting on the amount of risk involved in innovating and minimising exposure to possible harm for the business
- examining what competitors are doing and see if there are any ways that their good practices can be adopted and built upon
- investing in research and development to enhance ideas and improvements
- learning from failures and looking at ways of ensuring that they do not happen again
- testing new ideas to ensure that they are viable and any potential problems are dealt with.

ACTIVITY 14.2

1. In a few paragraphs, explain how businesses can turn failures into positives. Provide examples from the business world to back up your points. Use the internet for research if you require it.
2. Role-play a scenario where one person is a manager and another an employee. The employee has an innovative idea for a way to rejuvenate a business, but the manager is resistant to change.

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CASE STUDY 14.2

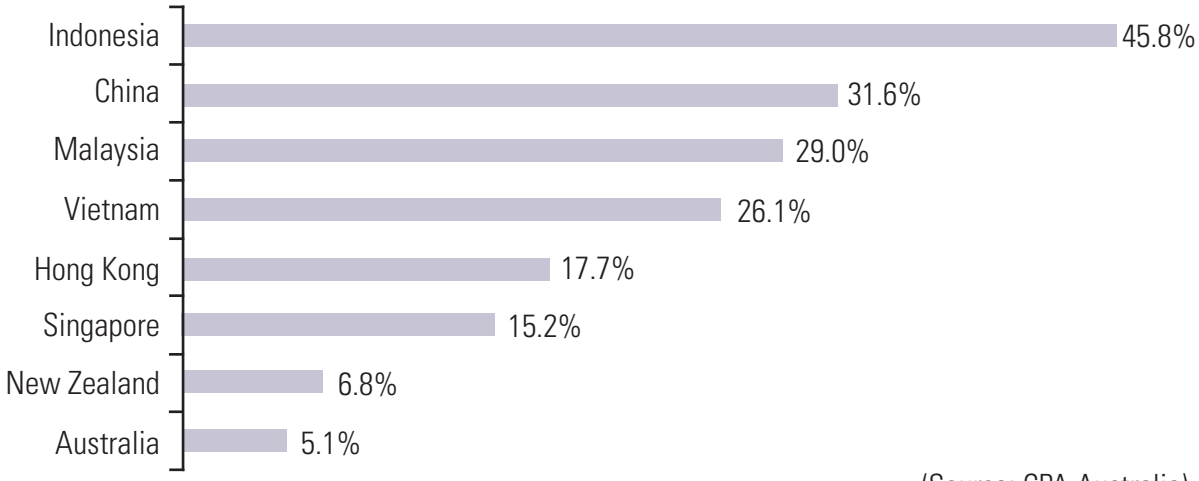
Australian small businesses and innovation

Mia McCarthy is constantly launching new products for her dairy business Yummia.

'I have 20 products I'd love to bring out tomorrow but it's finding the time, money and shelf space to bring those products out', she says.

But McCarthy is an exception among Aussie entrepreneurs, with Australian small businesses lagging well behind their Asia-Pacific competitors when it comes to innovation, according to research published by CPA Australia.

Small businesses that will introduce a new product, service or process



(Source: CPA Australia)

Figure 14.8 CPA Australia says Australian small businesses are failing to innovate.

The survey of 3000 small business operators in Australia, Indonesia, China, Malaysia, Vietnam, Hong Kong, Singapore and New Zealand has been released. The research found that on one key measure of innovation – launching new products – Australian small businesses are significantly behind their neighbours.

The research found only 5 per cent of Australian small businesses plan to introduce a new product, service or process in the next year that is new to the Australian market or the world. This compares with 46 per cent of small businesses in Indonesia, 32 per cent in China, 29 per cent in Malaysia and 26 per cent in Vietnam.

It also found almost 50 per cent of Australian small businesses do not use any social media, nearly six in 10 do not sell online and fewer than one in 10 expect to increase their e-commerce presence.

In Asia, more than 93 per cent of businesses use social media, 83 per cent generate revenue from online sales and more than 40 per cent will expand e-commerce transactions.

McCarthy started Yummia with an innovative product after noticing you couldn't buy ready-made bircher muesli in stores. She was making bircher muesli at home while studying teaching at university, and was eventually spotted by a buyer for Woolworths at a trade show.

Now Yummia products are stocked in Woolworths and Caltex stores nationwide and the business turns over $500 000 a year. McCarthy says product innovation has been key to her success.

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Figure 14.9 Woolworths started stocking Yummia products after finding them at a trade show.

'The way I got into Woolworths is a bit like asking someone how you win the Lotto. You need to have something new and exciting that they want,' she says.

McCarthy says consumers also want constant innovation.

'In food, consumer trends change relatively quickly,' she says. 'It's always important to think about what else you can give your consumer and how you do things better. It's not so much just the product but how can you get the product onto shelves more quickly and more cost-effectively, and that's innovation in itself as well.'

CPA Australia chief executive Alex Malley says the lack of innovation among Australian small business uncovered by the research shows the 'critical importance' of the innovation statement. Malley says Australia needs a 'culture' of innovation.

'Innovation must become the rule rather than the exception, and must be applied across the community – from universities and research institutes through to small businesses.'

(Source: Based on Cara Waters, 'The one key measure of innovation Aussie businesses are failing to meet', *Sydney Morning Herald*, 5 December 2015.)

Analysis

1. Define the concept of innovation.
2. Outline how innovation can support the growth of a business.
3. Interpret what the CPA research suggests about small businesses and innovation in Australia.
4. Explain why it is important that businesses continually innovate and develop.

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CASE STUDY 14.3

Examples of new and innovative Australian businesses

Saint

Aidan Clarke, one of the founders of 2XU, Xavier Unkovich and Mike Lelliot have partnered to create a company titled Saint, which manufactures protective motorcycle clothing. There may be future market potential for the product, such as providing emergency services outfits.



Figure 14.10 Australian company Saint has created an innovative clothing product that has become very successful. Pictured is its Unbreakable denim jacket for women.

During production it was recognised that Saint had created leading-edge material. The innovation was weaving Dyneema into denim, with the result being that the riders could wear denim-looking clothing that also acted as protection. Dyneema is the world's strongest and lightest fibre. This combination of extreme strength and low weight made it suitable for a wide and expanding number of applications and weaving into denim was a perfect combination.

The clothing has been developed with considerable level of detail that meets European safety standards. By December 2015, approximately a year after the product entered the market, the business was grappling to fulfil orders, such was the demand.

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Broadband Solutions

Previously a sales rep at ISP company Eftel, Sam Bashiry opened his business Broadband Solutions in 2005 with only $1000 in the bank. Broadband Solutions now has sales of over $15 million per year and employs 25 staff.

To get his new business up and going, Bashiry cold-called possible leads. He also asked a former Eftel co-worker, Brad Hughes, to join him. Their initial income came from selling domain names, but their real 'win' was when a hotel urgently needed installation of an internet connection for a conference. Broadband Solutions was able to secure a wireless connection, and then the business took off. After that, Bashiry and Hughes secured a tender to provide internet connections to hotels through the company NTT, which provides movie systems to hotels.



Figure 14.11 Broadband Solutions was born from a niche in the market.

GG's Flowers

Nipuni Wijewickrema's blooming business has put her among an elite group of young Australians. The social entrepreneur was one of eight finalists vying for the 2016 Young Australian of the Year.

Wijewickrema, 22, co-manages a Canberra florist designed to give people with special needs employment opportunities. The idea was conceived with her 16-year-old sister Gayana, who has Down syndrome, in mind.

'I want her to do something different, to live her own life and have a bit of responsibility,' she says.

'I think it's important to create opportunities that are safe, because they are vulnerable people in our community.

'It scares me that she could go to work one day and could be bullied and she wouldn't be able to tell us. The other thing that really scares me is that she could sit at home and do nothing for the rest of her life.'

GG's Flowers is run from the family garage and employs four casual staff with special needs. Like Gayana they help arrange and deliver flowers, particularly during busy periods such as Valentine's Day and Mother's Day. The business counts big names such as Audi, Mazda and Aspen Medical as regular customers.

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Gayana is well known in the community, particularly for her hugs that accompany her flower deliveries.



Figure 14.12 GG's Flowers gives people with special needs employment opportunities.

Wijewickrema's stepmum, Geetha Wijewickrema, left a career as a school integration aide to set up the floristry business two years ago. And Wijewickrema left a fledgling career in media to join her soon after.

'I still kind of wonder what made me leave the safety of a full-time job,' she says.

'I saw the potential of the business and wasn't investing enough time into it because I didn't have the time. I just really wanted to give it a go.'

With a turnover of just $40 000 last year, neither Nipuni nor Geetha has been able to draw an income from the business. But that could change this year as they aim to reach more corporate clients and increase turnover to $60 000.

Nipuni Wijewickrema describes the florist as socially sustainable, but says many consumers often don't understand the difference between a social enterprise and a charity.

'The business isn't a charity, we're not asking for charity handouts, we're not asking for anything,' she says.

'I think that's unique because I think our society is forever thinking "we need to donate", but actually we're trying to challenge that and say, "no, you can have a successful business in every pocket of your community that is doing good".

'My definition, my bottom line, is if you have social good and you're doing it for the community, for the greater good, and making a profit you qualify as a social enterprise.'

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Long-term, Wijewickrema hopes to expand the business across Australia. But she says making a difference to the lives of people with disabilities is her top priority.

'Financially I can't say we're making millions, but a really good outcome you couldn't measure by profit is Gayana's social and communication skills, which have really improved,' she says.

'It's an intangible benefit. You can't put a price on how phenomenal it's been for her life.'

Businesses and owners/managers of businesses need to consider what they have to offer in the domestic and global markets and how they are going to obtain finance and advice, and also ensure they have a business and marketing plan. Large businesses can often seize new opportunities simply because of the size and scope of the business and the resources and expertise they have access to. Smaller businesses and start ups need to have an idea that will allow them to find a place or niche in the market.

It is important for Australia as an economy to have businesses of all sizes ensuring that they have plans to grow, expand and move into different markets. Employment for Australians, access to high quality goods and services, new innovations all contribute to Gross Domestic Product (GDP) and economic growth. In many ways Australia as a 'knowledge economy' provides plenty of scope.

(Source: Based on Kate Jones, 'Nipuni Wijewickrema's blooming social enterprise', *Sydney Morning Herald*, 25 January 2016.)

Analysis

1 In a sentence or two, describe how each of the three businesses is innovative in their respective fields.

2 According to Cambridge Dictionaries Online, 'if you have a social conscience, you worry about people who are poor, ill, old, etc. and try to help them.' Explain how each of the three businesses profiled have demonstrated that they have a social conscience.

CASE STUDY 14.4

Crowd-sourced funding

To meet the requirements for crowd-sourced funding, businesses must have revenue of below $5 million and under $5 million in assets. In January 2016, new laws were being discussed by Parliament that would make it simpler for people to purchase a stake in a developing company, whether it be the next biggest thing in information technology or to assist with growth in a local business. The government's crowd-sourced funding laws could turn the laws for new invention opportunities into reality. The gist of it is to open funding opportunities for entrepreneurs and to provide investors with the prospect of success.



Figure 14.13 Crowdsourcing can help fund small businesses.

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CASE STUDY 14.4 continued

Beatbox Kitchen Melbourne is a business that started as a single van in 2009, serving quality burgers to the public. It grew from owner Raph Rashid's desire to sell in Melbourne the kind of burgers he had been eating on trips in the USA. He started with $10 000 of his own money and sourced $30 000 from friends to buy his first food truck. Peter Strong, the chief executive of the Council for Small Business Australia, is reported to have said that it would be interesting to see if crowd-sourced equity aided regional businesses, as the local residents may be interested in investing in possible employment.

Analysis

1. Define the term 'crowd-sourced equity funding'.
2. Describe how this could change if the government's crowd-sourced funding laws support emerging businesses.
3. Discuss any possible issues relating to this source of funding.

CASE STUDY 14.5

Indigenous businesses

Stereotypically, Indigenous businesses are seen as bush foods providers or cross-cultural relations consultants. But recent research reveals an establishment of businesses by Indigenous entrepreneurs in a diverse array of industries. Perhaps surprisingly, the research shows that often it is the businesses that do not employ a specific cultural focus that are succeeding.

An academic study into Indigenous Australian entrepreneurial leadership is currently taking place. Led by Dr Michelle Evans (associate professor at Charles Sturt University) and Dr Ian Wilson (a professor at Melbourne Business School (MBS)), the study will span three years.

The findings from year 1 of the study were presented by Evans at an event in October 2015 for Indigenous Business Month. One item of her research consisted of approximately 50 interviews with past students of the MURRA Indigenous Business Master Class program at MBS who are now business leaders themselves. Over the three years of their study, Evans and her team plan to track the growth of the businesses and any changes in strategies and revenue outcomes after the completion of the MURRA program.

The study's quantitative data is drawn from 120 Indigenous business leaders, 65% of whom had yet to undertake the MURRA program. The profiled businesses employed an average of 23 people (of whom around 60% were Indigenous); had been operating for about 10 years; and were generating annual revenue of approximately $2.7 million. Most businesses had experience in not-for-profit practices and leaders were first-generation entrepreneurs.

Evans claimed that the main motivations for venturing into business were the personal challenge and a commitment to community. The researchers found that many entrepreneurs want to drive their business to succeed, but at the same time are strongly motivated to ensure the wellbeing of their family and ensure 'economic independence' for 'future generations'.

Evans discovered that one of three distinctive business strategies were commonly adopted by the Indigenous entrepreneurs. Firstly, there are cultural businesses that deal with the Indigenous arts, tourism operations or bush food. Secondly, there are businesses that operate

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with a bi-cultural focus. Then there are those that compete in the open market, where it is not necessarily noticeable that the business is led by an Indigenous entrepreneur.

Young Guns Container Crew is an example of a business like this. Founded in 2004 by brothers Scott and Trent Young, the company specialises in packing and unpacking shipping containers. With some of the country's major multinational companies as their clients, the brothers generate approximately $20 million per annum in revenue. From starting in an office in Brisbane, Young Guns quickly expanded into Melbourne, Sydney and then Perth. Today, over a decade on, the business employs over 400 people and is looking to continue this growth to 700 employees within the next five years. The New Zealand market is one possible avenue for expansion. The international ambition of Young Guns contradicts some of the research findings by the academic team, in which only about 30% of businesses were engaged in international trade and the majority had no plans to expand beyond the national market.

However, while Young Guns' aspirations may be big, the research also shows that higher revenue was generated by Indigenous businesses focused less on cultural products. As Evans put it, 'the findings are pretty clear: there's no substitute for skill … having higher levels of skill and understanding and business acumen has the potential to pay big dividends.'

Analysis

1 Outline the 'Young Guns' business and how it has generated increased profit and growth.
2 Evaluate the findings of the research being undertaken by two academics.
3 Define the statement 'there's no substitute for skill'.

Strategy: developing a market niche

Many businesses can successfully grow and take advantage of opportunities by considering what they are producing, what their competitors are doing and how they can take advantage of gaps in the market. This will often allow a small business to grow and compete both domestically and on the world stage.

A business can use a range of strategies when developing a market niche. Businesses need to narrowly define the target market and create a unique product or service. It needs to be carefully researched and developed. There also needs to a clear focus on what the market or niche should be.

Questions and areas that need to be covered include:

- How the niche should be developed – the business needs to be specific about the location and types of customers.
- The trend is towards a smaller more specific niche which is specialised.
- The business needs to clarify exactly what it wants to sell and to whom.
- Talk to prospective customers and identify any concerns or ideas they might have.
- Carefully plan the business and test to see if the products or services are being purchased.



Figure 14.14 Novelty kitchen items are an example of a specific niche some businesses have identified.

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Need a Barista

Need a Barista, an online business, developed to fill a niche or gap in the market. Melbournians in particular love coffee and cafés cannot operate without a trained and skilled barista. The service provides temporary staff if a barista is away on leave or does not turn up to work. The service is available on call seven days a week between 7 a.m. and 6 p.m. Baristas are paid a fixed per hour rate directly by the business and also a booking fee to the company. It is an instant and easy service and saves a business trying to find staff itself.



Figure 14.15 Need a Barista finds fill-in baristas at short notice.

CASE STUDY 14.6

Australian Weaving soaks up outside influence to compete with imports

Australian Weaving, one the country's oldest textile manufacturers, knew its towels were better than its competitors'. The problem was, the public didn't.

'The customer that comes onto the shop floor has no idea what they are actually buying, because all you can do is touch the towel,' managing director Michael Mazur said.

Mr Mazur said the most important quality in a towel was absorbency, a measure on which his towels, made in Wangaratta from Australian cotton, far out-perform foreign towels made from cheap cotton and treated with fabric softeners.

But the 88-year-old company, which also owns the iconic dri.glo label, was struggling to capitalise on its superior product.

Enter Paul Taylor, Australian executive creative director of global advertising behemoth M&C Saatchi. Mr Taylor came across Australian Weaving through his advisory work with the Australian Made campaign and started work in mid-2015 to find a way for it to compete on quality, not price.

'What we did was pour two litres of water into a bucket and put the towel in there, and it literally soaked up every last drop,' he said.

From there it was a small leap to the creation of The 2 Litre Towel, which ran off the weaving mills last week and will land on David Jones shelves this week.

So confident about the product, M&C Saatchi has for the first time entered into a joint venture and taken a 50 per cent stake in the new brand.

Mr Taylor said there was a huge appetite for Australian-made products, but manufacturers had to demonstrate their superior quality to compete.

'People won't buy Australian just for patriotic reasons, but they will if it's a superior product,' he said.

'The modern Australian Made isn't about "come on, buy your kids a job" any more, it's about really smart manufacturers that can compete globally because they've got great products that are well marketed.'

Mr Mazur agreed, saying it was crucial for his business to differentiate itself.

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Australian Weaving, which has turnover of about $20 million a year, has made 5000 towels for the Christmas sales period and hopes to produce another 50 000 over the next six months as more retailers stock the product.

The collaborators hope to eventually market the towels to Europe and Asia.

The housing boom has led to strong sales of towels and bed sheets, with retailers like Adairs and brands like Sheridan recording strong growth as homeowners splurge on new linen to match their new houses.

(Source: Patrick Hatch, 'Australian Weaving speaks up outside influence to complete with imports', *Sydney Morning Herald*, 17 November 2015.)

Analysis

1. Describe how Australian Weaving convinced customers to buy its product.
2. Discuss the role of M&C Saatchi in the marketing of the product.
3. The article states that 'People won't buy Australian just for patriotic reasons, but they will if it's a superior product'. Explain what this statement means in the context of developing a market share and niche.



Figure 14.16 A business selling products of superior quality needs good branding to differentiate itself.

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CASE STUDY 14.7

Outsourcing Christmas tree decoration

Decorating a Christmas tree has long been a tradition for many Australian families. However, in today's busy world many people are turning to decorating companies to give them a hand preparing their houses for the Christmas season. That's right; Christmas is being outsourced.

In Sydney, for example, Elfhelp is a Christmas decorating company that delivers, installs, decorates and removes trees for residential and corporate customers.

Similarly in Melbourne, many small businesses have popped up in recent years to cater to this specific need. Event company The Big Group are regularly employed by wealthy clientele to help prepare their interior-designed mansions in South Yarra, Toorak, Armadale, Brighton, East Melbourne and Portsea in time for December 25th. For these customers, a lack of time is not the main reason they outsource the decorating.



Figure 14.17 The decoration of Christmas trees has become a niche service offered by some Australian businesses.

Bruce Keebaugh, director of The Design Depot, says his business often oversees everything from decorations to wrapping. 'Clients outsource the installation to ensure that the styling and implementation of the decorations are the very best in current trends,' Mr Keebaugh said. 'And match their home decor from the garlands, wreaths and trees all the way down to custom gift-wrapping paper, cards and ribbons.'

However, for many customers of these decorating businesses, a lack of time is the main reason they outsource their Christmas tree decorating. A business such as the Christmas Cave in Flemington can help you design a tree to fit your theme and specifications, install it at your house and handle the custom-made decorations. However, customers should have their credit cards at the ready if they choose to employ such a service. Trees can cost in excess of $2000, the decorations around $1000 and then there's the cost for decorating.

While the outlay for a reusable tree and decorating is several thousand dollars, customers report being greatly satisfied that they can easily store the tree and decorations for future use at Christmas time, and if they can get up to 20 years' usage, it is money well spent.

(Source: Based on Suzanne Carbone, 'Santa isn't the only busy one: families outsource decorating of the Christmas tree', *The Age*, 11 December 2015.)

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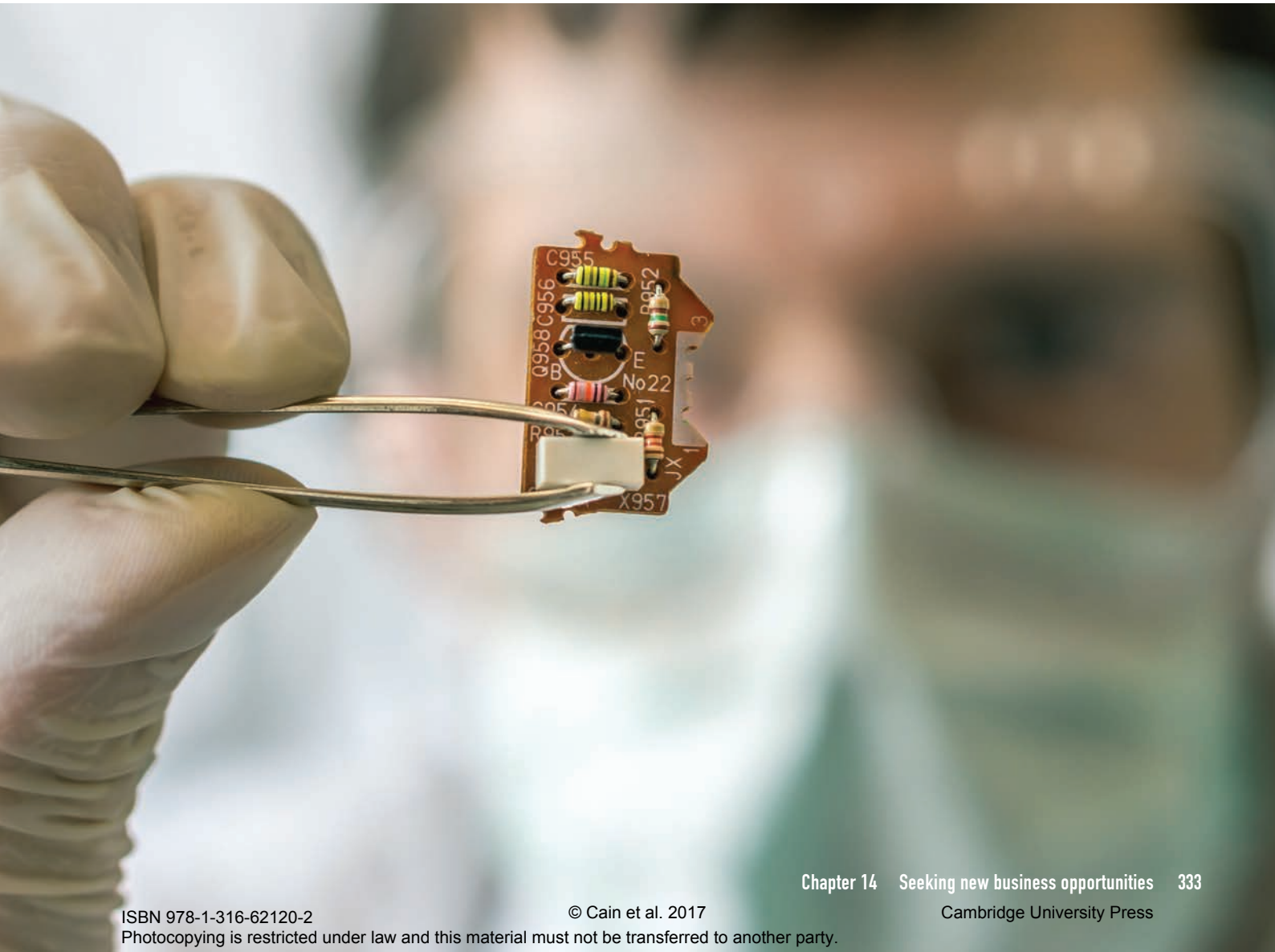
Analysis

1 Explain why the businesses mentioned in the article developed.
2 Outline how these businesses have developed a niche in the Christmas decorating and styling market.
3 Explain why some customers would pay for this type of service.
4 Identify any other areas the businesses could be involved in for the rest of the year.

Strategy: research and development

One way to increase and expand a market is to carry out research and development and come up with new ways to provide services and products. Small businesses are often able to develop a service or a product because of their passion and willingness to take a risk. Large and multinational corporations are able to spend large amounts of money and resources on developing products and grabbing the attention of potential customers. Businesses such as Apple and Google are at the forefront of technology and ideas. As seen in earlier sections of this chapter, innovation and invention are not limited to large businesses. There are many small businesses that have been able to innovate or develop a new product and gain either domestic or global market share.

Figure 14.18 Small businesses can develop a new product and gain market share.



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CASE STUDY 14.8

GM's investment in Lyft

For years, scientists have dreamed of an efficient future where instead of owning your own car, you'll be able to call a vehicle to your location, have it drive you to your destination, then allow it to continue on its way and pick up another passenger.

The whole idea revolves around a gigantic network of driverless cars that serves millions of people on demand, minimising waste in time and resources.



Figure 14.19 On-demand driverless cars may soon be a reality.

Now, General Motors wants to make that future a reality – by investing half a billion dollars in Lyft, the ridesharing company. The partnership, announced Monday, will initially see GM providing Lyft drivers with regular cars they can use to pick up passengers. And customers and drivers will be able to take advantage of GM's in-car connectivity services, like OnStar.

And with other carmakers striking Silicon Valley partnerships of their own – such as, reportedly, Ford and Google – we're beginning to see the rise of a whole new area of competition in the auto industry.

What began as a race to turn driverless cars into a mainstream technology is now moving on to its next stage, before the first has even finished. This next fight is all about shaping the business model of personal mobility – that dream-future of instant access to a personal taxi you don't have to pay to own.

By investing in Lyft, GM also gets a seat on Lyft's board – meaning it will gain a non-trivial level of influence over Lyft's decisions. While it's too early to say whether GM will be taking a hands-on role here, it's a big step beyond the in-house research and development that many automakers have been pouring into vehicle automation themselves.

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It's looking even further ahead, to try to anticipate the resulting economic and social changes that will almost certainly reshape their business model in affluent urban areas. By figuring out now how it might put millions of next-gen cars on the road and putting them to efficient use, GM seeks to gain an early edge on other automakers.

Urban driving is poised to change tremendously in the coming years. Although car sales will still rise as developing markets mature, autonomous vehicles and on-demand services will serve to slow that growth. One in 10 could belong to a sharing arrangement rather than being privately owned.

Changes in car ownership are creating new challenges for automakers – but also opportunities. Even if the industry's sales start to drag, the cars that are on the road will still be racking up millions of miles a year. Ford chief executive Mark Fields has said that he wants to offer paid services designed to take advantage of all those vehicle-miles travelled, ones that will help complement the company's traditional business of selling actual cars.

Getting a head start on these issues may make all the difference for an increasingly cutthroat and high-tech industry.

(Source: Brian Fung, 'Why GM's investment in Lyft is such a big deal', *Sydney Morning Herald*, 5 January 2016.)

Analysis

1 Summarise the future of motor vehicles according to the article.
2 Discuss why General Motors has invested money into driverless car technology.
3 Explain why research and development is an important strategy to access increased business opportunities.

Strategy: new and emerging technologies

Customers now shop and do business in a range of different ways. The emergence of online shopping has had a profound impact on businesses – in both a positive and a negative way. Many retailers have been able to expand their customer base due to a combination of both retail in-store and online shopping.

Other businesses have had to try to change in response to the impact of technology on their business. Australia Post, for example, has had to change its core business and functions due to a sharp decline in mail posted. Australia Post has expanded into other areas such as parcel delivery and is looking at reducing the number of mail deliveries in conjunction with increasing the cost of sending a letter.



Figure 14.20 Businesses have to change in response to improving technology.

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CASE STUDY 14.9

Student app developers

A year 11 student from Elisabeth Murdoch Secondary College in Langwarrin has created an iPhone app that has become available on the Apple app store. 16-year-old Spencer Porter designed LOWK8, which according to the Apple app store is 'the friend in your pocket who will keep your locations safe by your side. LOWK8 will keep all your favourite or new destinations in an easy to navigate manner.' Porter's app lets users record a location of importance and then enables them to easily return to that location. This is to save users having to remember where their car is parked or where their home, hotel, shop or other favourite places are.

Porter has been developing websites since he was 12 and started experimenting with app development for iPhones when he was in year 10. He taught himself these skills online and spent around six months developing LOWK8.

LOWK8 is now available for free download in the Apple app store. Porter says he was excited to have his app listed there, and also that he was grateful to his school for supporting him by providing him with a mentor, who owns an electronics business. Porter continues to develop LOWK8, with a new feature added – a 'HUD (Heads Up Display) which projects a hologram onto your windscreen displaying directions to [your] desired location; this gives a very futuristic approach to the modern day iPhone'.

If LOWK8 takes off, Porter could follow in the footsteps of other successful young tech wizards like Sydney teenager Ben Pasternak. The teen CEO started out creating apps like Impossible Rush (downloaded over one million times) and recently, at age 16, has moved to New York City to create a new social media marketplace app called Flogg, which is described as a cross between eBay and Instagram. After meetings in Silicon Valley with tech giants like Google and Facebook, Pasternak was able to raise around two million dollars from venture capitalists to create his latest app and is now in charge of his own company.

Analysis

1. Assess technology as an avenue for business growth and innovation.
2. Describe how Porter learnt the skills needed to develop his app.
3. Explain why apps have been an area where businesses have developed further.



Figure 14.21 App development is an example of a niche business opportunity opened up by technology.

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ACTIVITY 14.3

Read the quotes below, and in groups of two or three discuss what you think the quotes might mean.

Robert X Cringely, *InfoWorld magazine*

'If the automobile had followed the same development cycle as the computer, a Rolls-Royce would today cost $100, get a million miles per gallon, and explode once a year, killing everyone inside.'

Ken Olsen (1926–2011), President, Digital Equipment, 1977

'There is no reason for any individual to have a computer in his home.'

Bill Gates (1955–), Business @ The Speed of Thought, 1999

'The great thing about a computer notebook is that no matter how much you stuff into it, it doesn't get bigger or heavier.'

Andy Rooney (1919–2011), Radio and television writer

'Computers make it easier to do a lot of things, but most of the things they make it easier to do don't need to be done.'

Pablo Picasso (1881–1973), Artist, 1964

'Computers are useless. They can only give you answers.'

1 Justify whether some of these quotes are more relevant than others.
2 Share your ideas with the class.



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Chapter summary

- Businesses need to seek new opportunities to expand.
- Innovation is a way to develop new products and ideas to expand a business.
- It is important to develop a culture of innovation.
- Businesses can seek opportunities in the domestic economy.
- Businesses can develop due to global opportunities.
- Issues around globalisation centre on legal structure, taxation and staffing.
- Research and development is important for all businesses.
- Developing and finding a market niche is important for many businesses.
- Businesses can take advantage of new and emerging technologies.

Chapter summary questions

1 Discuss why businesses should seek out ways to expand their business.

2 Explain how innovation can be used to develop a business.

3 Describe the type of domestic opportunities available to businesses.

4 Explain why it is important for a business to invest money in research and development.

5 Outline how a business can develop globally.

6 Describe how information technology can assist a business.

Examination preparation

1 All businesses, regardless of their size, need to take advantage of global and domestic opportunities. Identify and explain three opportunities a business could take advantage of when trying to expand.

(8 marks)

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CHAPTER 15

Principles of the Learning Organisation and the Three Step Change Model

Key terms

- Lewin's Three Step Change Model
- Senge's Learning Organisation

Overview

All businesses and individuals go through change many times. In the current economic and social climate, change is constantly occurring. All businesses and their leaders and managers need to be able to manage the change process to ensure changes are implemented successfully. To assist businesses with the complex and often stressful change process, theories and principles have been developed.

This chapter will examine the principles of Senge's Learning Organisation and Lewin's Three Step Change Model and will study the core ideas and principles which underlie each in relation to how a business might transform their organisation.

Key knowledge

Students will be introduced to the concept of a learning organisation and Lewin's change model. They will also examine the use of low-risk and high-risk strategies to implement change. Students will learn about:

- The principles of the Learning Organisation (Senge).
- Key principles of the Three Step Change Model (Lewin).

What's ahead

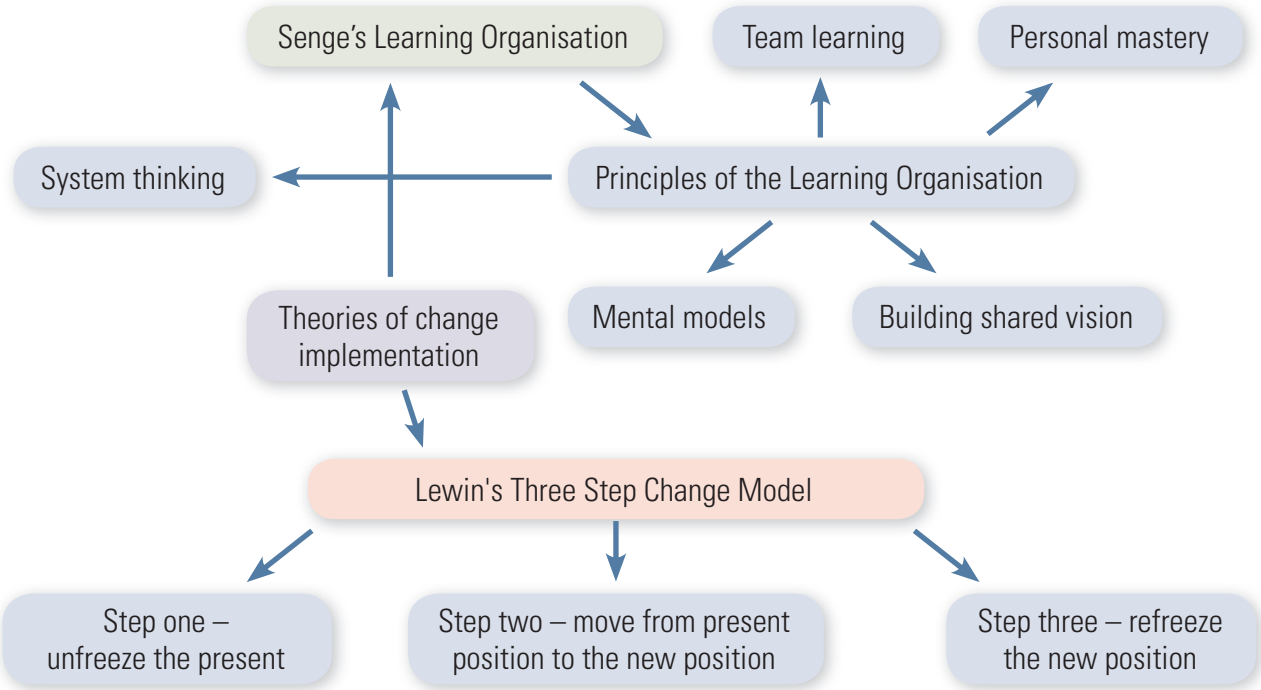


Figure 15.1 Theories of change implementation

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15.1 The principles of the Learning Organisation

Peter Senge was named a 'Strategist of the Century' by the *Journal of Business Strategy*. He has an engineering degree and went on to study social systems modelling. He was interested in looking at the role of leadership in organisations and how it could be decentralised to enhance the capacity of all people who work in the business. He also studied how firms and businesses developed adaptive capabilities. In 1990 he published a book called *The Fifth Discipline* where he developed the concept of a 'Learning Organisation'.

Senge's Learning Organisation in situations of rapid change only those businesses that are flexible, adaptive and productive will be successful. To allow this to happen, a business needs to be able to work out how to tap into and harness people's commitment and their capacity to learn.

Senge's Learning Organisation is based on a number of principles underpinned by:

- key principles of the Learning Organisation
- five disciplines which underpin the concept of the Learning Organisation. The five disciplines are:
  - systems thinking
  - personal mastery
  - mental models
  - building shared vision
  - team learning.

According to Senge (1990, p. 3), Learning Organisations are:

> … organisations where people continually expand their capacity to create the results they truly desire, where new and expansive patterns of thinking are nurtured … and where people are continually learning to see the whole together.

Senge believed that only those businesses that were able to be flexible, adaptive and productive during periods of change would be successful during periods of rapid change. If a business can harness and use the talents and engagement of staff then it is more likely that people will be committed to the changes.

To support people during times of change a business should have structures and processes in place to allow them to reflect on what they could do. If a business can focus on expanding the capacity and expertise of its people then it can positively assist the business. Businesses also have to allow staff the chance to be part of an effective team. The opportunity to connect and work with others is important for those within a business.

For a Learning Organisation to be successful it needs to have both 'adaptive' and 'generative' learning as the learning itself enhances the capacity to create and innovate.

Senge argued that it is the five factors or disciplines that ensure a business is able to innovate and learn.

Figure 15.2 A business must have structures in place if it wants to encourage reflection and engagement through learning.



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The five disciplines

Systems thinking

According to Senge's theory:

It is essential to look at management as a whole and the interrelationship between all parts. Senge believes that sometimes simplistic frameworks are used on complex systems. Often there is a focus on the short term, 'cause and effect' and some issues or factors are ignored entirely. Instead Senge argues that a long term approach should be taken – it is imperative to look at what has occurred and gain feedback on what is taking place and why it has happened. It is also important to use 'systems maps' – diagrams that show the key elements of systems and how they all connect.

While systems thinking is the overarching discipline, the other four can be viewed as a series of principles or disciplines (practices we study, master and integrate into our lives). The disciplines can be approached at one of three levels:

i Practices: what you do

ii Principles: guiding ideas and insights

iii Essences: those with high levels of mastery (Senge 1990, p. 373).

Each discipline is necessary if others in the business are going to be able to learn.

(Source: Quotes adapted from M.K. Smith, 'Peter Senge and the Learning Organization', *the encyclopedia of informal education*, Infed website.)

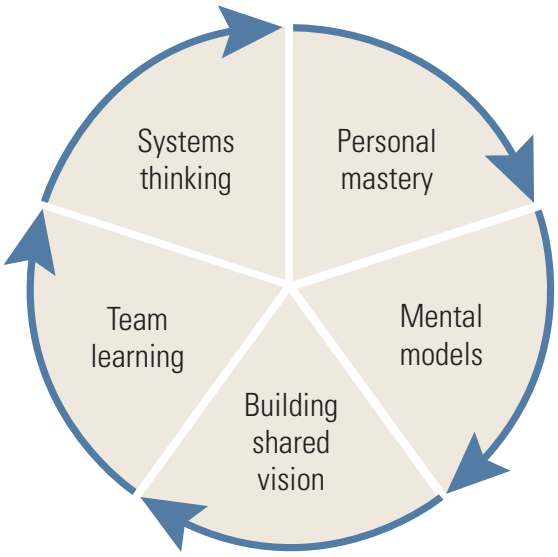


Figure 15.3 Peter Senge's five disciplines

The core disciplines

Personal mastery

Businesses learn through individuals who learn. Learning by individuals is important. Personal mastery can be defined as the discipline of continually clarifying and deepening personal vision. It is more than competence and skills and involves growth – often spiritual. People who have a high level of personal mastery are in a continual learning mode and aware of what they do know, do not know and what they can work on improving.

Mental models

These are deeply entrenched assumptions, generalisations and images of how people understand the world. Often people are not aware of the impact of their own values and beliefs on their behaviour. Mental models require people to become aware of and self-reflect on their own assumptions and picture of the world. It also includes the ability to carry on meaningful conversations with others in an effort to influence them.

If businesses are going to be able to develop a capacity to work with mental models, then staff have to be given the opportunity to learn new skills so that the business can move in the right direction.

Building shared vision

Senge believes that one central idea about leadership is the capacity to hold a shared picture of the future we want. A shared vision can encourage and inspire others to experiment and innovate in the business.

The practice of developing a shared vision also allows leaders and managers to learn that creating a vision needs to come from a range of people, not just the leader, otherwise there is not necessarily a level of commitment. Visions spread because they are reinforced as people talk and their enthusiasm and ideas spread to others.

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Figure 15.4 A shared vision can encourage experimentation and innovation.

Team learning

Team learning can be viewed as a process where the members of the team develop the team's capacity to create desirable results for all. It builds on personal mastery and a shared vision but the members of the team also have to act together.



Figure 15.5 Leaders are responsible for learning within the business.

Leading the Learning Organisation

Senge argues that Learning Organisations require a new view of leadership. He sees leaders as designers, stewards (curators) and teachers. These people are responsible for building an organisation where people are able to expand their capacity and capabilities – they are responsible for learning within the business.

Senge's ideas are aimed at inspiring managers and leaders and there are some questions around how these disciplines can be identified and used to turn a business into a 'Learning Organisation'. His ideas focus on a holistic vision of an organisation and the people within it, this is a change in thinking for some businesses. Senge also assumes that businesses can change their focus to the long term which can be more difficult when business owners/shareholders want to see immediate results and have more of a short-term focus. While owners do look in many ways towards long-term growth, there may not be a focus on developing staff at a strategic level where priorities tend to be financial nor a focus on investment in technology, equipment and processes.

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Figure 15.6 A Learning Organisation requires a focus on developing employees strategically.

One example where Senge's principles are demonstrated is the library at the University of Western Australia. Libraries increasingly need to be flexible and adaptable in this rapidly changing environment. A change in the structure of the area led to a service implementation method. The process involved the engagement of employees, the development and delivery of a training program, and mentoring. Opportunities for reflection and practice were embedded and included peer to peer learning. By integrating IT support into the other library tasks employees were able to develop their skills and knowledge in a much broader way and it offered more interaction with students and staff visiting the library.

(Source: Adapted from Felicity Renner et al. (2014), "Thanks for being awesome': using the Learning Organisation model to enhance university library and IT client service", *Australian Library Journal*, 63(2).)



Figure 15.7 Libraries need to be adaptable in this rapidly changing environment.

ACTIVITY 15.1

Discuss how the Learning Organisation principles could be used in a business to ensure it is successful during a period of change.

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15.2 The principles of the Three Step Change Model

Kurt Lewin was a social scientist who was born in Germany. He contributed to research and developed ideas around leading and implementing change. He is recognised as one of the significant contributors to the development of theories around applied behavioural science, action research and planned change management.

Lewin developed the concept of 'Force Field Analysis', which was a way to try to examine the way the behaviour of individuals and groups impacts on change [see Chapter 11 for more detail].

Lewin saw his model as part of his other theories developed around Force Field Analysis, group dynamics and action research. He argued that a successful change project involved three steps.

The **three steps of the Change Model** are:

1 'Unfreeze the status quo' – there is a need for the business to assist people to 'unlearn' their current behaviour.

2 Move from the current to the new situation – the business needs to assist employees to change their behaviour.

3 'Refreeze' – put strategies in place to make sure that the new behaviour and change are stabilised and reinforced.

Lewin's Three Step Change Model Lewin developed a change management model with the three steps:
1) 'Unfreeze the status quo';
2) Move from the current to the new situation;
3) 'Refreeze' and embed the change.



Figure 15.9 Current behaviour must unfreeze before change can occur.

Step one: Unfreeze the status quo

Lewin believed that human behaviour was based on the equilibrium (balance) between driving and restraining forces for change. He argued that the only way to change was to break or destabilise the equilibrium (unfreeze) before the old behaviour can be 'unlearnt' and the new behaviour successfully adopted. Others argue that the key to 'unfreezing' behaviour was to take a different approach to achieve the same end – change behaviour. People have to feel safe from loss and humiliation before they can accept the new information and ideas.



Figure 15.8 Lewin's Three Step Change Model

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Step two: Move

It should be noted that 'unfreezing' present behaviour does not mean change will occur. Lewin stated that any planned change is very difficult because of the complexity of the forces concerned. He believed that to successfully implement change people need to try to take into account all the forces at work and this may involve some trial and error. This is a 'learning approach' where research may also be completed. Without this and reinforcement of the change, any change would be likely to be temporary.

Step three: Refreezing

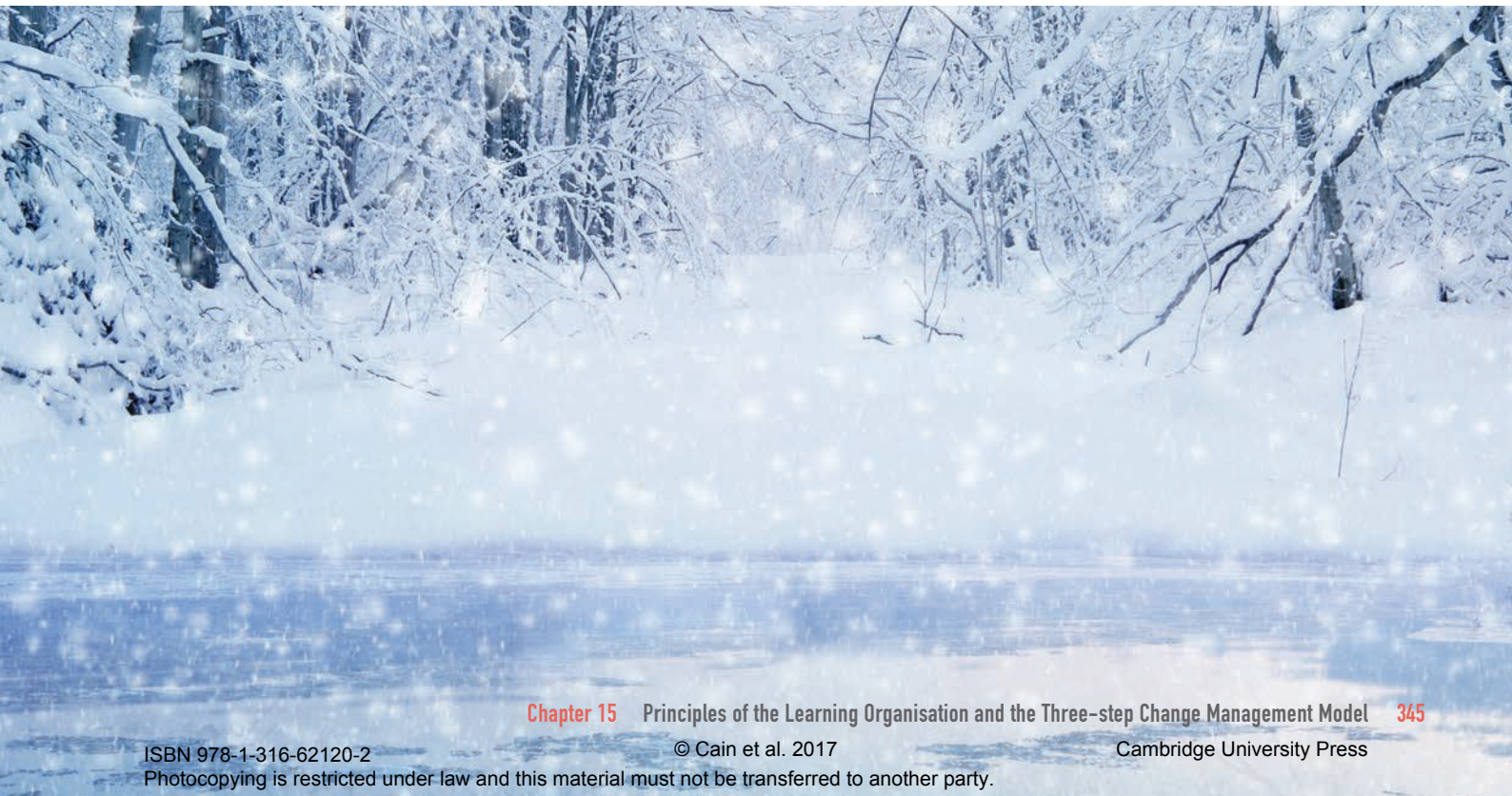
The final step in the model is refreezing. This refreezing means that the change and the group behaviours are stabilised or 'frozen' to ensure the change has been embedded in the business. Lewin saw successful change as a group activity because unless the group norms and routines were transformed, changes to individual behaviour would not be sustained. Any successful 'refreezing' involves change to the behaviour of the individual, the group, corporate cultures, policies and procedures within the business.

(Source: B Burnes, 'Kurt Lewin and the planned approach to change: a re-appraisal', *Journal of Management Studies,* 41 (6), September 2004.)



Figure 15.10 Implementing change may involve some trial and error.

Figure 15.11 Refreezing ensures that the change has been embedded in the business.



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CASE STUDY 15.1

Maine Geriatric Education Centre

The three step process in practice

When the Maine Geriatric Education Centre began training Emergency Department staff on how to deal with falls, the three steps of Lewin's change model were used to ensure the project was successful. While the main focus of training was nursing staff, the project was ambitious in that all other staff also received training.

The first step was to unfreeze the status quo. A training program was created in consultation with an inter-professional team, ensuring that all participants in the training had a stake in its success. In addition, community leaders were invited to attend rounds focused on falls prevention, helping to disrupt the status quo.

Step two involved the move. As training began and continued, the project received ongoing evaluation. This was achieved through regular meetings of the inter-professional team, input from other professionals and monitoring of patient outcomes.

The final stage, refreezing, was an opportunity to look at the outcomes of the training. Meetings were held with the training team, as well as other stakeholders, and the strengths, weaknesses, challenges and opportunities of the training were evaluated.



Figure 15.12 Training programs can help unfreezing to take place.

Analysis

1. Explain how Lewin's Three Step Change Model can be used by a business implementing change.
2. Describe how the hospital used Lewin's model to ensure that the changes were embedded.
3. Explain why it is important for a business to identify the issue/s that need to be addressed before starting the process.

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ACTIVITY 15.2

In groups of two or three, investigate a recent change in your school or place of employment.

1. Identify why the change was introduced.
2. Investigate how the students, parents and teachers were informed of the change.
3. Report back to the class on the issue.
4. Justify whether the change was successful.
5. Link the change process back to the Three Step Change Model and determine whether the model was followed.

CASE STUDY 15.2

Simplot reinvents itself



A few years ago Australia's largest frozen vegetable processor, Simplot, was in trouble. The local food processing industry had been in decline for many years and was no longer globally competitive.

When Coles identified that home-grown frozen vegetables would give it a competitive advantage over Woolworths, it approached Simplot with a simple deal – for the next five years (until 2016), it would pay Simplot more than the imported cost of frozen food and canned corn, but in that period Simplot had to solve its problems and become globally competitive.

Simplot Managing Director, Terry O'Brien, identified a number of changes that had to be effected. The first issue was weak company management, so O'Brien started recruiting managers who were prepared to tell the truth even if it meant that they could lose their jobs.

In order to cut costs, the Bathurst (NSW) food processing plant canned only corn and work hours were set from 9 to 5 so that shift allowances were eliminated. At the Tasmanian plants of Ulverstone and Davenport the new managers explained to workers how high production costs and union involvement in decision-making processes led to a decline in innovation and new investment, and that this could ultimately lead to the plants being closed.

After more than a year of negotiation with the four unions representing 800 workers across three plants, an enterprise bargaining agreement was reached that would cut costs and increase productivity. Some of the details of this agreement were:

- Pay rate increases were fixed at an average 2 per cent for a period of three years.
- Decision-making powers were removed from the unions and given back to management, on condition that there was consultation with the workforce.
- Routine maintenance would be performed within the plant, but large maintenance could be put out to tender.
- Flexibility to change shifts during when plants need to work around the clock during the peak harvest times.

As a result of these changes the future of the Devonport plant and work for 140 Tasmanian farmers was secured, Woolworths signed a new $16 million contract with Simplot, and $75 million was spent on modernising all three plants.

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CASE STUDY 15.2 continued

At the beginning of 2016, Simplot announced Simplot Ignite, a program to identify new and innovative food technology ideas and make them commercially viable, as part of its strategy to improve its customers' experience and add value to its products.

Analysis

1 Identify Senge's core disciplines present in this case study and give an example of each.
2 Simplot is an example of a Learning Organisation. Say whether you agree or disagree with this statement and give at least three reasons to support your answer.

Chapter summary

- All businesses have to manage change in their environment.
- Peter Senge examined the role of leadership in organisations.
- He argues that there can only be rapid change when a business is flexible, adaptive and productive.
- The key principles of the Learning Organisation centre on harnessing people's commitment and capacity to learn.
- Senge's five factors or disciplines are:
  - system thinking
  - personal mastery
  - mental models
  - building shared vision
  - team learning.
- Lewin's Three Step Change Model is an approach to implementing change in a business.
- Lewin's Three Step Change Model is made up of:
  1 unfreezing the current situation or status quo
  2 moving to the next phase or situation
  3 refreezing the new situation.

Chapter summary questions

1 Outline Senge's key principles of the Learning Organisation.
2 Describe the five factors or disciplines that ensure a business is able to innovate and learn.
3 Discuss the idea of Senge's concept of the role of leadership in the change process.
4 Explain Lewin's Three Step Change Model.
5 Discuss how Lewin's model can be used in a business wishing to introduce change.

Examination preparation

1 The Learning Organisation is based on a number of different disciplines. Outline two of these disciplines and explain how they can support a business trying to change and develop.

(8 marks)

2 Describe Lewin's Change Model and explain how the steps can be applied in a business wishing to introduce change.

(5 marks)

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CHAPTER 16

The effect of change on stakeholders and corporate social responsibility

Key terms

- affirmative action
- award restructuring
- corporate philanthropy

Overview

Students will learn about the impact or effect change can have on key stakeholders. Stakeholders include managers, employees, customers, suppliers, the general community and shareholders. Social responsibility considerations will also impact on the business when changes are introduced.

Key knowledge

Students will examine the effect or impact change can have on stakeholders, and the types of social responsibility considerations a business should contemplate. Students will learn about:

- The effect of change on stakeholders, including managers, employees, customers, suppliers and the general community.
- Corporate social responsibility considerations when implementing change.

What's ahead

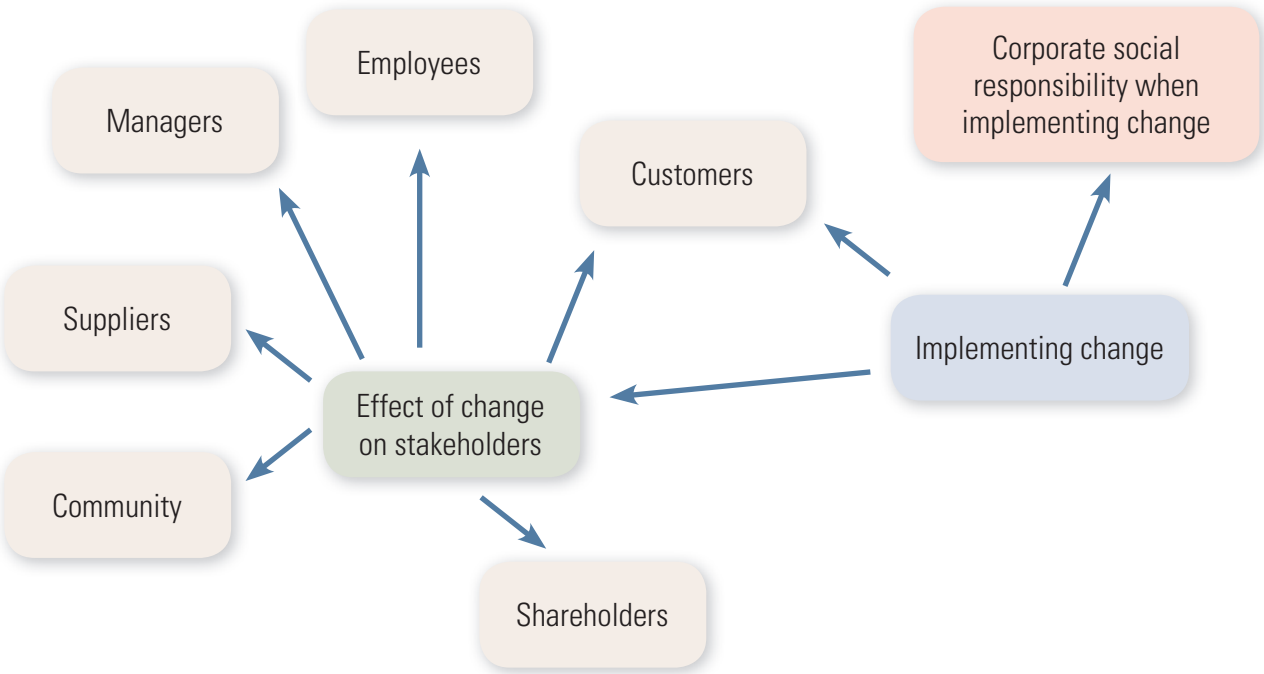


Figure 16.1 Effect of change on stakeholders and social responsibility

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16.1 Effect of change on stakeholders

Change has an impact on a number of stakeholders and on many facets of the business. Whether the change is far-reaching or relatively minor, it will impact on people or groups connected to the business. It is important that leaders and managers of a business are aware of the effect of the change and try to ensure that the negative impact is minimised where possible, or that the positive aspects of the change are highlighted. Stakeholders who may be affected by the implementation of change include:

- managers
- employees
- customers
- suppliers
- general community
- shareholders.

Managers

Managers are affected by change in a business. This effect can be far-reaching; managers may have to try to cope with changes to their positions or their responsibilities while managing the implementation of the change with the employees. Some managers may find themselves in a difficult position and 'stuck' between the need for implementation, coping with the change themselves and supporting employees at the same time.

Managers may need to re-evaluate their management styles used with employees and the types of management skills they need to develop. Appropriate management styles might be participative or consultative as these will involve the employees in the process more positively. Managers may also be affected if they need different skills when implementing change. They may need to develop and improve a range of skills such as communication skills, delegation of authority, empowerment, planning, leading employees, decision-making and interpersonal skills (as discussed in Chapter 3). While developing and reinforcing skills, managers also have to continually monitor and evaluate the changes to ensure that the new processes and procedures achieve the goals of the business.

Senior management might find themselves in the position of having to support and put in place strategies to overcome resistance from middle and front-line managers who may react in the same way as employees. Feelings of uncertainty and changes in roles or jobs, authority and in reporting lines might make it difficult for managers to accept changes in a similar way to employees.

Figure 16.2 Managers may need to re-evaluate management styles to cope with change.



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ACTIVITY 16.1

Jonah and Sally are both sales managers who are implementing new procedures for their area. One of the main changes is a focus on employees recording their sales and keeping a log of their hours of work. Employees are able to work the hours they want and can also work from home if they wish. Jonah likes to know exactly what all his team members are doing and is finding it difficult to allow employees to work their own hours.

1 Predict the possible impact of the new procedures on the managers in the sales department.

2 Describe the type of skills the managers would need to develop.

Employees

Employees are always affected by change within a business. The changes can be at the personal level, the department or function they work in or the business as a whole. Employees may find that their positions are changed, the tasks they are required to complete, the type of skills they need to possess, the hours of work and even the location of their work place may change depending on the decisions made by the business.

Employees may find that they are happier with the changes or are stressed and concerned. For many change is daunting and it is important that employees understand why the changes have taken place as well as the benefits to them and the business. Management need to ensure that employees are supported in the implementation of the change(s) within the business.

Many employees will worry about changes and how these will affect their roles and place in a business. A recent survey of 65 heads of communications in global businesses by CEB Global found that 75% identified change as one of the top two negative pressures impacting on staff. The survey found that the number of staff stressed by change was growing and that frequent changes caused confusion over the strategic priorities of the business. Many leaders and managers are now realising that 'agile' (i.e. responsive) employees are drivers of change and are able to proactively learn and support their peers.

Communications that can nurture and support employees affected by change include:

- making sure employees have the information they need to make decisions
- providing them with opportunities to make decisions
- helping leaders/managers feel comfortable empowering employees.



Figure 16.3 Managers are realising that responsive employees are able to support their peers through change.

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CASE STUDY 16.1

Changing the role of butchers at Woolworths

In Woolworths stores in the ACT and parts of NSW, butchers will no longer chop and pack meat, and will instead move from behind-the-scenes to front-of-house customer service jobs. In the place of traditional butchers, the supermarket plans to truck in pre-packed meat from a central facility. Chris Clark, representative for the NSW/ACT branch of the Australasian Meat Industry Employees Union, said he was concerned how changes to the role of butchers in Woolworths supermarkets could hurt staff and the trade itself.



Figure 16.4 Supermarket butchers will become front-of-house staff as only pre-packed meat will be sold in stores.

The meat workers' union disagreed with the change, fearing that once butchers moved to a customer service or shelf-packing role, their jobs would become less skilled and so less secure. Mr Clark also believed the change could lead to a permanent loss of skills for the business itself. 'They've also got to realise that once they've lost this skill, they've lost it forever,' he said.

A Woolworths spokesman said Woolworths was working with the union to minimise the impact of the change on workers. They were also trying to make trades like butchery more 'attractive to young people', with updated workplace agreements and other incentives. Woolworths claimed the need for the change was due partly to a struggle to find and retain staff butchers, particularly in regional areas.

The changes at Woolworths have meant that 68 butcher jobs have dropped to 54 across the ACT.

Under the supermarket's plans, meat will be cut and vacuum-sealed at a facility in Victoria before being sent to stores, where remaining butchers will be used to advise customers on meat selection.

Woolworths has already rolled out the system of pre-packing meat at central locations and then freighting it to stores in Victoria and Western Australia. The large Victorian facility services Victoria, the ACT, parts of South Australia and parts of NSW.

A company spokesman said Woolworths was building nine new butcher shops in stores within the ACT and another in Queanbeyan; however, the organisational changes mean that fewer staff were required. 'As always when there are changes, we work with team members to ensure the best possible outcome,' the spokesman said. This includes working in different roles within the store or across the Woolworths Limited business.

Analysis

1. Outline the changes being made to Woolworths' supermarkets.
2. Summarise how the changes will impact on the butchers employed in the supermarkets in some Australian states.
3. Describe the process Woolworths could put in place to support the employees in the new structure.

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Customers

Customers may be affected by changes implemented in a business. They may find that their preferred products and services are no longer available or find that access to goods and services has changed. It is important for a business to ensure that customers are fully aware of the changes that have been implemented and any effects these might have. Businesses – through managers and employees – need to ensure customers and potential customers are clear about the changes and the benefits for the customer.

If a business has not taken into account the wishes and preferences of customers it may risk losing loyal customers and missing out on potential customers. Changes are often implemented in a business with the focus on the shareholders, and employees and customers may not be taken into consideration.

A number of businesses have made changes to products or services and have had to contend with negative feedback and reactions from customers. GLAD Australia, for example, changed the position of the cutter on its ClingWrap packaging. Many customers complained and stated that they had changed brands as a result of the product change. GLAD Australia revisited the changes and took on board customer feedback. Sephora, a global cosmetics retailer, blocked Australian customers from accessing the US website and redirected Australian shoppers to a local website. Many customers complained, stating they could no longer compare prices. Many felt that the business went against promises it had made and some complained about the loss of access to thousands of product reviews and a limited stock range. If a business has not considered the impact of change on customers, particularly if it is negative, the change could have an impact on the business as a whole and may adversely impact on revenue and reputation.

Figure 16.5 Sephora blocked access to its US website, angering its Australian customers.



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CASE STUDY 16.2

Woolworths still in talks with Qantas as rewards are rejigged

Woolworths loyalty card members will be able to swap grocery discounts for Qantas Frequent Flyer points after the retailer, under pressure from customers, reached a new partnership agreement with the airline.

Woolworths is expected to announce it will augment its new loyalty program by allowing card holders to convert $10 of Woolworths Rewards points into about 870 Qantas Frequent Flyer points rather than $10 off their grocery bill.

The about-face follows a backlash from consumers against Woolworths' decision to move away from air mile points in favour of discounts at the checkout.

'Woolworths' about-face shows how badly the company underestimated Australians' passion for their frequent flyer points,' said David Flynn, a Frequent Flyer expert and editor of the *Australian Business Traveller* website.

'With around 8 million Aussies belonging to the Woolworths Everyday Rewards scheme plus over 11 million Qantas Frequent Flyers, there were simply too many customers at risk when the grocery giant is already fighting a battle on two fronts against Coles and Aldi,' Mr Flynn said.

Woolworths had been secretly surveying customers about the new loyalty program before the current agreement with Qantas expired at the end of 2015.

When Woolworths unveiled the new loyalty program in October it claimed the cash-back scheme was simpler, more generous and more relevant to customers than Everyday Rewards, which offered customers Qantas Frequent Flyer points and petrol discounts on every dollar earned above $30.

At the time of the launch, Woolworths Food Group managing director Brad Banducci said the supermarket was still in talks with Qantas about augmenting the cash-back offer with Frequent Flyer points but defended the decision to move away from air miles, saying they were less relevant to shoppers than they were seven years ago.

Woolworths' customer surveys showed 68 per cent of customers favoured dollars off their shop and only 9 per cent favoured Frequent Flyer points. However, while the bulk of Woolworths' customers prefer cash back to air mile points, a group of higher-income (and highly vocal) customers made their displeasure known.

The new program has also been criticised on social media, including Woolworths' Facebook page, because of the poor earn rate, the small number of products that attract reward points and the lack of rewards on fresh foods.

Woolworths confirmed on Monday it was planning to rejig the loyalty program by increasing the number of products that attract Woolworths Rewards points, adding more fresh food to the Rewards range and making its orange Rewards tickets, which are the same size as Woolworths' red and yellow specials tickets, more prominent.

Some consumers have also accused the retailer of raising prices on products that attract Rewards points. Major brands participating in the Rewards program this week included Berri chilled juice, Mondelez's Vegemite, Nestle's Milo, Symphony facial tissues, Warrnambool Cheese & Butter's Coon cheese, Lowan rolled oats, Carman's muesli, Whittaker's chocolate, Paradise and Arnott's biscuits, Huggies nappy pants, Guzzi's and Vetta pasta, Natvia sweetener and Woolworths' Select salad dressing.

When Monash Business School's Australian Centre for Retail Studies analysed the new scheme two months ago it found it was three times more generous than Woolworths previous scheme.

(Source: Sue Mitchell, 'Woolsworths still in talks with Qantas as rewards are rigigged', *Sydney Morning Herald*, 14 December 2015.)

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Analysis

1 Explain why it is important for businesses to be aware of the impact of changes on customers.
2 Outline why there have been some issues regarding the Woolworths Loyalty Scheme.

Suppliers

Suppliers can be affected substantially by a change in a business. This may include a loss of businesses that want their products or services, new contracts that could benefit the suppliers or there may be changes in contracts and supplier specifications, which could adversely impact on the suppliers. It is sometimes difficult for suppliers if they are a relatively small business which has little control or influence over what the relationship is with the business buying its products.



Figure 16.6 Suppliers can be affected both negatively and positively by a change in a business.

CASE STUDY 16.3

Surf icon's 'slave labour'

Responding to Fairfax Media's investigation, which today revealed Rip Curl manufactured clothes in the Democratic People's Republic (DPR) of Korea, Oxfam Australia Chief Executive Dr Helen Szoke said:

Australians would be shocked to hear that an iconic Australian brand with roots on the surf coast of Victoria has been manufacturing its surf wear in North Korea.

Australians care about where their clothes are made and how – we have seen this time and time again by responses to events such as the Rana Plaza factory collapse in Bangladesh in 2013, which killed more than 1,100 workers and injured 2,500 more.

Rip Curl has no excuse for not tracking clothing produced within its own supplier factories.

As one of the globe's biggest surf brands, Rip Curl has put a lot into the promotion of its image, but how much does it care about the people, the majority of whom are poor women, who make its products?

Companies are responsible for human rights abuses within their businesses – not only morally but also within United Nations guidelines on the responsibilities of businesses when it comes to human rights.

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CASE STUDY 16.3 continued

Other Australian brands, including Kmart, Target and Coles, have taken bold steps towards transparency by not only knowing, but also publishing, the exact names and locations of supplier factories for all to see.

Companies such as Cotton On and Forever New are moving in this direction and it's high time that Rip Curl and other surf brands caught up with the pack.

It is also very concerning that in this instance, clothing has been made in a country that isn't a signatory to core International Labour Organisation (ILO) conventions, including on the right to freedom of association and to collectively bargain.



Figure 16.7 Surf wear company Rip Curl has come under fire for selling goods manufactured in North Korea.

Rip Curl needs to show the Australian public it is serious about preventing this from happening again through a dramatic overhaul of its checks and balances. It should start by publishing its policies and a list of the factories where its products are made.

(Source: Oxfam Australia website, 'Rip Curl manufacturing surf wear in North Korea', 21 February 2016.)

Analysis

1. Outline the main concerns raised in this case study.
2. Describe the possible impact on a business if it was found to have a poor record in regards to supply chain management.
3. Explain how companies can try to improve the activities of their suppliers.

General community

The community can be impacted on directly and indirectly by the changes within a business. If a business decides to relocate to another area or state then this has an impact on the local community because, apart from a loss of direct employment, other businesses may be affected as there are not as many people in the area who need places to live or other services such as retail outlets and restaurants. If a business decides to expand then this can have an impact on the general community in a particular area as it may mean there is increased traffic or resources required.

The general community can also be impacted on by business decisions to change or expand the types of goods and products made or distributed. The change may require more natural or non-renewable resources to be used in a particular industry, which will then have an effect on the whole community. Small and medium businesses may have a more localised impact when implementing change. A rural town or regional centre may be adversely affected by decisions made by a local small business. A change introduced by a large business may have an impact on the community at large in a state, throughout Australia or even on an international level.

The changes to the car industry in Australia and decisions made to cease production of locally made motor vehicles will have a wide impact on the local community as well as employees and suppliers. If a factory closes then it might mean that people and families need to move to other areas or towns to find employment. This will have an impact on businesses, housing and facilities in these towns.

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Shareholders

Shareholders or owners may be affected by the plans and changes introduced by a business. Any decision and implementation of change will impact on the shareholders in a positive or negative way. Major expansion of a business may see the funds that would otherwise go to shareholders in the form of dividends being put back into the business. While shareholders may miss out on dividends in the short term, the change may have a positive impact on the dividend stream in the long term. The owners of a small business may also take a risk in deciding to expand or buy another business. This means that the owners will have to cover these costs and expenses.

There are other changes that will have beneficial impacts on shareholders or owners. If a business makes changes to reduce costs and increase profit, then shareholders and owners may benefit from this.



Figure 16.8 Shares can rise if a company announces cost-cutting measures.

CASE STUDY 16.4

Company seeks $30 million from shareholders

Listed investment company MAXVEST is raising as much as $30 million from investors to tap upcoming initial public offerings and boost the company's holdings amid some of the most volatile investment markets on record.

MAXVEST, which has a market valuation of $703 million, is asking investors for $28 million to $30 million through a share purchase plan.

MAXVEST managing director David Hardigan said investment opportunities were emerging as investors searched for growth.

'We're seeing many interesting opportunities coming around with the drops in the market. Though it's stock specific we're adding to our positions in healthcare and related companies,' he said.

MAXVEST, which invests in companies across the broad spectrum of the Australian Securities Exchange, posted $15.3 million in profits, which represents an 80% hike from 2015's $8.4 million gains.

The company's biggest holdings include one of Australia's big four banks, a major aged care group, a pooling solutions group, and oil and gas exploration companies.

MAXVEST has also been steadily building its positions in companies with management teams who have poured their own funds into the businesses they lead.

Analysis

1. Summarise why MAXVEST is seeking money from shareholders.
2. Explain why the business sees it as important to seek out new opportunities.
3. Describe some of the other impacts changes in a business can have on shareholders.

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Stakeholders	Possible impacts
Managers	• Effective implementation of change may mean the use of consultative and participative styles – use of two-way communication, group decision-making and decentralised authority • Need for skills such as interpersonal/communication skills, decision-making, delegation and vision • Focus on planning and leading through the implementation process • Appointment of new senior managers, new management styles and new corporate culture
Employees	• Emphasis on work groups or teams • HR managers will need to recruit staff with the right skill set, and manage ways to provide career paths and retain talented and skilled employees • Employees may become multi-skilled or rotate through positions and duties • Changing jobs and tasks for employees to complete • New training and development of employees if jobs change • New production methods which may entail changes in the employees required in the business • Decentralisation of power, decision-making and accountability with more emphasis on employees • Many job descriptions and tasks may change as a result of change within the business • **Award restructuring** and the introduction and extension of collective agreements and industry awards • Focus on occupational health and safety, equal opportunity and **affirmative action** as a result of legislative changes
Customers	• May find that their choice is limited (or has grown) • May find that some products and services are no longer available, or replaced by improved versions • Prices of some products may increase or decrease • May find that some products or services have changed and are not the same as the ones they originally purchased
Suppliers	• Code of conduct for suppliers might be introduced • Restrictions on conditions of supply or products might occur • Some suppliers might develop strong relationships with a business
Shareholders	• Some decline in returns to shareholders or owners due to implementation of plans in the business • Less access to dividends due to capital required for expansion • Increased dividends and interest payments • Change in share process (may increase or decrease) due to the implementation of change • Business owners may need to look at increasing the amount of capital they invest in the business to support changes • Value of their holdings in a business may increase

award restructuring microeconomic reform designed to change how labour is organised, employed and paid; it is aimed at increasing productivity by multiskilling and retraining workers and through union amalgamation

affirmative action programs that require businesses to make special efforts to recruit, select and promote women and members of minority groups

Table 16.1 Possible impacts of the implementation of a change on stakeholders

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ACTIVITY 16.2

Consider the impact on stakeholders in a business if the following scenarios occurred. Write a brief response for each.

1. Some of the IT functions of a business have been outsourced.
2. A merger with another competitor has been initiated.
3. A level of management has been made redundant.
4. A critical skills shortage has led to a major recruitment drive by a business.
5. A new marketing manager has been appointed.
6. A new enterprise bargaining agreement has been signed.
7. An established and well-known product has been changed.
8. A small business has decided to offer student scholarships.
9. Shareholders were told of the business relocating to the Asia-Pacific area at a meeting.

16.2 Corporate social responsibility when implementing change in a business

Behaving in a socially responsible and ethical manner is important for all businesses. It is an expectation of employees, customers, shareholders and the community at large that a business will put into place processes and practices to ensure that all its dealings with stakeholders are ethical and that it contributes in some way to the community beyond the provision of goods and services. This is particularly important when implementing change in a business.

Corporate social responsibility

Whatever the size and type of the business, the principles of corporate social responsibility (CSR) should be considered in policies and procedures. It has become an increasingly important issue for all businesses.



Figure 16.9 The concept of corporate social responsibility (CSR) involves businesses considering society when they make their decisions.

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The World Business Council for Sustainable Development defines corporate social responsibility as:

> the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families and the local community and society at large.

More than goodwill, corporate community involvement or strategic **corporate philanthropy**, corporate responsibility is a genuine attempt by a company to build meaningful relationships between the corporate sector and the rest of society. This can be achieved when a business adapts all of its practices to ensure that it operates in ways that meet or exceed the ethical, legal, commercial and public expectations that society has of business.

corporate philanthropy a business's way of giving back to its community – local, regional, national or international – through financial donations and non-cash contributions such as time, expertise and goods. Companies can donate to charities and not-for-profit organisations.

(Source: Copyright © World Business Council for Sustainable Development 2003–2015. All rights reserved.)

Corporate social responsibility includes the moral and ethical decisions made by businesses. It includes questions of what the business can do for society. If a business is socially responsible, it adopts behaviours that will help achieve broad societal values. Businesses that demonstrate social responsibility express concern for how they may affect the environment and society and have a concern for their employees.

To be considered effective, corporate social responsibility must be integrated within day-to-day activities and business practice. All stakeholders should be engaged and the business needs to include strategies that support and encourage managers to make socially responsible decisions, comply with ethical behaviour and obey the law.

Examples of strategies adopted by businesses to transform commitment to corporate responsibility into practical action include:

- articulating a business philosophy and incorporating it into vision and mission statements that set out the social responsibility ideals
- a code of ethics that incorporates social responsibility and is applied throughout the business



Figure 16.10 Integration of social responsibility

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- employment policies that also support and reflect social responsibility; for example, employees' volunteer or pro bono work completed during business hours, mentoring programs, community forums and corporate community partnerships
- strategic philanthropy that involves a business having a plan for the long term that necessitates a commitment to behaving in an ethical manner and contributing in some way to the community.



Figure 16.11 Businesses can make donations as part of their corporate social responsibility.

Good corporate citizenship means that a business goes beyond the minimum requirements such as the obligations included in legislation. Legal obligations include compliance with health and safety legislation, completing taxation information correctly and minimising the impact of chemical waste on the environment. CSR and being a good corporate citizen also relate to the drive to improve society. Many businesses, regardless of their size, have taken a proactive approach and have implemented policies and actions rather than waiting and reacting to the demands of the community. By being proactive, these businesses are demonstrating that they take their social responsibility roles seriously and have included it as part of the overall strategic plans of the business identity.

Since the 1990s there has been a sustained and general interest in the triple bottom line performance of businesses (see Chapter 9). Businesses are being held more accountable for their activities and there has been a move towards reporting on environmental and social as well as financial performance, hence their decisions are based on more than economic factors.



Figure 16.12 Businesses are looking at other factors besides profit.

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Businesses are now finding that it is necessary to have policies incorporating CSR and to develop their activities to support these policies. Corporate social responsibility has become the norm, and surveys and polls published and conducted in both Australia and the United States have identified that customers expect organisations to contribute to the economic, social and environmental agendas of the countries they operate in. People are starting to focus on corporate citizenship ahead of brand reputation or financial factors when forming impressions about the businesses they are going to interact with.

Research shows that Australians feel strongly about the concept of corporate social responsibility. Furthermore, the Australian Securities Exchange states that over half of Australian adults now own shares, and are actively interested in the business affairs of the companies they invest in. Many of these people chose ethical investment portfolios. Polls also suggest that consumers are willing to switch brands to support organisations that they believe benefit community and world causes. Corporate social responsibility is 'good ethics' and also good business.

Many companies are responding to the changed expectations by switching to more ethical business practices. In annual financial reports, most businesses are including a broader range of information covering areas like the environment, community development and anti-corruption activities. This is called triple bottom line reporting.

Key stakeholders in any business include employees, government, community, the media and customers. The continuing goodwill of each of these groups is essential to the future success of the business. These stakeholders all have an interest in a company's sustainability and there are long-term benefits for the organisation, including improvements in reputation and brand image. The suppliers to the business also benefit from its growing reputation, while shareholders are increasingly seeking out companies that have a strong CSR profile to invest their money in its long-term triple bottom line performance.

Businesses recognise the need to take an active role in developing practices that meet best-practice benchmarks and to act responsibly to minimise the impact of their business on the environment. Despite this, some still do not address the concept of strategic social responsibility, shown as the top part of the pyramid of social responsibility. Attending to corporate responsibility would allow businesses to examine and modify how they manage their businesses; for example, aligning processes or developing plans to include greater social and environmental priorities.



Figure 16.13 Levels of social responsibility

Stakeholders have different social responsibility issues and expectations with different implications. Stakeholders usually consider social responsibility from their own perspective.

Employees

Employees are concerned with issues such as personnel policies and practices, pay and benefits. In addition, many employees are starting to drive social responsibility and are concerned about issues such as work–life balance, diversity and being able to contribute to the community in some way.

The benefits of practising corporate socially responsible behaviour when handling these issues include:

- improving morale in the workplace
- higher productivity
- reduced employee turnover costs
- greater identification with employees.

The last point is considered to be particularly important as high employee identification increases the likelihood that staff will act in the best interest of employers, thereby reducing risks of fraud and unethical behaviour.

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Customers

It has been found that consumers are more likely to buy goods and services from socially responsible businesses as well as avoid purchasing from socially irresponsible companies. Customers prefer to source goods that are kind on the environment (e.g. organic or not tested on animals). CSR issues for consumers include product manufacturing (e.g. human rights of workers, product safety), labelling and packaging (e.g. disclosure and completeness), marketing and advertising practices, selling practices and pricing.

Suppliers

Supply chain CSR issues include the rights of outsourced workers, ethical sourcing of suppliers, timely payment, hiring migrant workers, animal rights and environmental impacts in the supply chain. Supply chain issues are the core of CSR crises experienced by some well-known US-based companies such as Adidas and Apple. As Australian businesses become increasingly globalised, supply chain CSR issues have been placed in the spotlight.



Figure 16.14 Good supply chain management is important to avoid a CSR crisis.

Communities

Businesses often take part in community relations strategies to improve their public image and avoid conflicts with activist groups. This type of strategy is also greatly appreciated by local communities and can be a large help to sports teams, events and tourism. Community relations strategies may include corporate community investment, partnerships between employees and communities or traditional philanthropy.



Figure 16.15 A business's reputation can be improved if it attends to corporate social responsibility issues in communities.

Shareholders

Investors can experience CSR issues, particularly when choosing their investment strategies. It is important for them to understand the risks involved and understand exactly what they are taking part in. Investors should avoid supporting unethical and harmful companies. As the emphasis on CSR grows within a business environment, investors have become more active in engaging directly with companies about their social, environmental and governance risks.

The Australasian Centre for Corporate Responsibility (ACCR) completed a survey of 90 Australian businesses to see how they were managing human rights in their supply chains. Overall, businesses said that they are committed to human rights because it is the right thing to do. Their commitments are also driven by staff values and expectations, brand and reputation, and the desire to build stronger relationships with stakeholders, including local communities.

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Stakeholder pressure and risk management were often identified as key drivers for businesses taking action on human rights in supply chains. Increasing competitive advantage was also identified as a significant driver to implement corporate social responsibility. There are growing calls for businesses to approach human rights as a 'pre-competitive' issue, and for businesses to work with each other, and with governments, NGOs (non-government organisations) and other stakeholders, to find the best solutions to human rights issues. At Westpac, for example:

> supply chain issues are considered from a risk management perspective and also from a leadership standpoint. Westpac Group's Head of Sustainability, Siobhan Toohill, stated that it is 'valuable to engage with civil society, as well as customers, to ensure we're striking the right balance to meet expectations'.
>
> (Source: AHRC, ACCSR & GCNA, 'Human rights in supply chains: promoting positive practice', December 2015.)

The bank also needed to consider risks in supply chains as it can impact on customer and investor chains as well.



Figure 16.16 Westpac aims to balance expectations between its customers and civil society.

CASE STUDY 16.5

The VW scandal and corporate social responsibility

On 18 September 2015, the US Environmental Protection Agency (EPA) informed Europe's biggest carmaker, the German company Volkswagen Group, that they had violated the *Clean Air Act* after it was found that Volkswagen had intentionally programmed turbocharged direct injection (TDI) diesel engines to activate certain emissions controls only during laboratory emissions testing. According to the Volkswagen Australia website:

> Software installed on some of our vehicles permitted deviations in nitrogen oxide emissions (NOx) performance depending on whether the vehicle was running during a regulatory compliance-related test cycle or running outside the test cycle during normal road use.

The programming caused the vehicles to emit up to 40 times more NOx in real-world driving than the amounts produced during dynamometer testing. In the US, Volkswagen soon admitted to the EPA that they had developed the software to cheat diesel-emissions tests, and that some 11 million vehicles worldwide have the software.

Share prices for the company dropped by a third when news of the scandal broke. They rose by 5% a week later, however, when the company's chief executive Martin Winterkorn resigned in Germany.

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In an announcement to customers that appeared on 7 October 2015 on the Volkswagen Australia website, managing director John White was quoted as saying that his company was taking the issue 'extremely seriously', and understood 'the disappointment and frustration felt by our customers, dealers and partners in Australia and apologise for any inconvenience this may cause'. 'We are doing everything possible to fix the problem and will be making further announcements in the near future,' said White. The statement explained that the company was committed to supporting its customers, partners and dealers throughout the process. It also revealed that over 77 000 passenger and commercial vehicles sold under the Volkswagen and Skoda brands were affected by the diesel emissions issue.

The day after the Australian announcement, Volkswagen America's CEO, Michael Horn, appeared before members of Congress to answer questions about the scandal. A Republican Senator from Texas mentioned the 'immorality of the corporate decision to knowingly cheat' on EPA emissions standards. 'This was not a corporate decision,' Horn said. Horn added that as he understood it, it was 'a couple of software engineers' who put the device into the cars. When the senator reminded him that he was under oath, Horn said that he understood.

Though Volkswagen has said that to the best of its knowledge only a small circle of people knew about the manipulation, in late January 2016 German newspaper *Sueddeutsche Zeitung* reported that the company's development of software to cheat diesel-emissions tests was an open secret in the department striving to make its engines meet environmental standards, citing results from VW's internal investigation.

Regardless of who is to blame, the fallout from the VW emissions scandal is ongoing, and is likely to cost the company billions of dollars for recalls, technical fixes and lawsuits.



Figure 16.17 Volkswagen's development of software to cheat diesel-emissions tests was an open secret in the company.

Analysis

1. List the key dates in the VW emissions scandal to date.
2. Explain how the Volkswagen emissions situation is a corporate social responsibility scandal.
3. Describe how stakeholders are affected by social responsibility.
4. Outline the main concerns at Volkswagen regarding the diesel emissions test and deduce how this impacts on the standing of the business.

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CASE STUDY 16.6

Example one

In 2012, Unilever, a large multinational consumer goods company, launched The Unilever Foundation at the World Economic Forum in Davos. Together with five global partners, the Foundation aims to help more than one billion people through a combination of direct funding, expertise, products and employee support.

Unilever partnered with organisations and agencies, listed below, which share their vision of assisting people to improve their lives by providing what many of us regard as basics – clean drinking water, basic nutrition and sanitation.



Figure 16.18 The World Food Programme combats child malnutrition.

Oxfam

Unilever works with Oxfam and its global affiliates, focusing on the rights of women (for example the Straight Talk program, which empowers Aboriginal and Torres Strait Islander women to bring about positive change in their communities) and access to clean drinking water in Cambodia.

Save the Children

Unilever supports Save the Children's Every One Campaign in five key priority countries: Bangladesh, China, Kenya, Nigeria and Pakistan, reaching over two million children and their mothers with their health and nutrition programs.

Population Services International (PSI)

Working with local governments and community health-workers and using Lifebuoy products, Unilever and PSI have reached more than one million people with their message about the life-saving importance of handwashing in Kenya, Vietnam and Zimbabwe. In areas around Bhopal in India, the Waterworks program is aimed at training women from the community on the importance of clean water and hygiene education.

UNICEF

Unilever assists UNICEF to facilitate access to improved sanitation in developing countries through their initiative for Community Approaches to Total Sanitation (CATS).
The CATS initiative leads to longer-term outcomes, such as education, through the reduction in the number of school days lost to sickness.

World Food Programme (WFP)

Education campaigns to teach school children better hygiene and nutrition habits have reached at least 13 countries. An interesting outcome of these campaigns was that employees became motivated to raise funds and awareness for WFP programmes like Walk the World.

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Example two

Established in 1858, more than 80 organisations have come together to become the Bendigo and Adelaide Bank Group, seeking to share value with everyone connected with its operations.

Introduced in 1998, the Group's unique **Community Bank®** model provides communities with more than just quality banking services. It delivers employment opportunities for local people, keeps local capital in the community, is a local investment option for shareholders and provides a source of revenue for important community projects determined by the local community.

Some of the Bank's other significant partnerships include:

Bendigo and Adelaide Bank Scholarship Program

In partnership with **Community Bank®** companies, Rural Bank, Community Sector Banking, La Trobe University, University of Melbourne and Haven Home Safe, the Bank's Scholarship Program is available to first-time tertiary students whose financial circumstances might mean that a university degree is out of their reach. The program has supported 450 students with $5.2 million in funding since 2007.

Lead On Australia

Through Lead On Australia, the Bank creates engagement opportunities for young Australians, facilitating programs that create meaningful connections for young people in the communities they live.

Earth Hour

Believing it can play an important role in assisting other organisations to meet their environmental goals, the Bank is a major sponsor of Earth Hour, encouraging its staff and customers to switch off their lights to focus the world's attention on climate change.

Cool Australia

Through its partnership with Cool Australia, the Bank helps to educate children in environmental and sustainability issues.

(Source: Community campaigns & programs © Bendigo Bank 2016.)



Figure 16.19 Earth Hour is held annually.



Figure 16.20 Lead On Australia provides opportunities for young people to connect to the broader community.

Analysis

1. Describe the concept of corporate social responsibility.
2. Outline three of the programs developed by the Bendigo Bank or Unilever.
3. Explain why a business is willing to spend money on developing CSR programs as part of its business activities.

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Social responsibility also relates to business ethics. Many socially responsible businesses have developed ethical practices that incorporate social responsibility. Sometimes corporate social responsibility may override other objectives of the business, such as profit.

ACTIVITY 16.3

1 Identify five programs in your local community sponsored by a business (can be small, medium or large).
2 Compare the list with other students in the class. Assess what areas are covered in the programs (e.g. sport and education initiatives).
3 List at least four reasons why organisations spend money and other resources on the development of such programs.

The impact of implementing corporate social responsibility on stakeholders

There are a number of social responsibility considerations that must be taken into account when implementing change. Different stakeholders will be affected in different ways so it is important that managers and leaders take this into consideration.

Some of the effects are outlined in Table 16.2.



Stakeholder	Impact of CSR	Examples of business changes
Employees and managers	• May find that their tasks and jobs are modified due to CSR considerations. This may include: roles within the community that are not directly related to their main tasks, opportunities to volunteer with a local community business or charity. • Need to upskill their qualifications; for example, the need to learn new processes and waste minimisation procedures due to CSR. • Managers might have to make decisions, long and short term, as to how the business might run. This may mean an overhaul of the production methods and processes used to provide goods and services to customers.	• Businesses that are known as an 'Employer of Choice' are more likely to provide opportunities for employees to grow and remain motivated. VicSuper, for example, has sustainability as its business philosophy. Many candidates for jobs within the business highlight the commitment to sustainability as a reason for pursuing a career with the company.

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Stakeholder	Impact of CSR	Examples of business changes
Shareholders and/or owners	• Businesses might decide to provide sponsorship to local or other community groups. This may impact on the profits of a business. • Businesses might also be involved in corporate philanthropy – which means they are involved in charities and other not-for-profit activities to support programs. These types of decisions need to be agreed upon by the owners/ shareholders of a business as they may divert funds from other core business activities. • Development of public policy through research and development. • Financial support for initiatives and programs with a view to improving the wellbeing and opportunities of members in the community. • Many shareholders now expect the companies they invest in to participate in socially responsible activities in the areas of sustainability, community programs and ethical practices. Shareholders are critical of companies that deal with suppliers operating in developing countries if they are suspected of exploiting the local workforce. A number of investment companies have developed portfolios for investors that focus on 'green investments'.	• Cisco has developed a mentoring program to support females studying in the IT field. • Nestlé has a long-standing partnership with Foodbank Australia. Foodbank provides food to a network of welfare agencies that prepare meals and food for the poor and hungry and distributes some 17 million kilos of donated food and groceries each year. • Target retail stores support a breast cancer research program. • McDonald's operates the Ronald McDonald House at the Royal Children's Hospital Melbourne. • Telstra – Business Owner of the Year and Youth of the Year programs.
Customers	• Customers may find that they prefer to purchase goods and services from businesses that have a CSR outlook. This may mean that customers are changing their spending habits to reflect this. • A business needs to ensure that it has sound environmental and social policies if it wishes to retain or expand its market share.	• Customers might purchase products where some profits are passed on to community groups or projects. For example, Target Australia has supported the Alannah and Madeline Foundation since 2008 through the 'Bags for Bags' campaign. Profits from the sale of reusable Target bags go to 'The Buddy Bags' Program.

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Stakeholder	Impact of CSR	Examples of business changes
Suppliers	• Some suppliers may have to change their own policies and processes to ensure that they can meet the demands of the businesses they deal with. • Some suppliers will have to develop their own code of ethics or conduct to conform with other businesses' requirements. • Suppliers may also find that they have to change where they source ingredients and materials from to ensure that they meet and follow CSR priorities of their main customers.	• Apple has developed codes around social and environmental responsibility and ethical conduct. Apple's suppliers are required to provide safe working conditions, treat workers with dignity and respect, act fairly and ethically, and use environmentally responsible practices wherever they make products or perform services for Apple. Apple requires its suppliers to operate in accordance with the principles in the Apple Supplier Code of Conduct ('Code') and in full compliance with all applicable laws and regulations. This Code goes beyond mere compliance with the law.
Community/ the public	• The public and general community is increasingly interested in social responsibility and sustainability. • Businesses that have a poor record in terms of impact on the environment and that do not contribute beyond their core business will find that their reputation will decline and the public will not support them. • The world is increasingly concerned with issues such as global warming and carbon emissions. The community expects businesses to play a major role in reducing the impact on the environment and take on board programs to assist society across the world. • Many feel industries and multinational corporations do not do enough to reduce the impact and 'global footprint' of business. • Businesses will need to work hard to ensure that the community is aware of what the business is doing.	• 7/11 convenience stores were reported as underpaying staff. The community has concerns about how people are treated. • The community is also aware of the environmental impact a business has and will look to support those businesses that follow sustainable practices.

Table 16.2 Corporate social responsibility and the impact on stakeholders

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CASE STUDY 16.7

David Jones – sustainability, CSR and supply chain management



Figure 16.21 David Jones focuses on becoming a better corporate citizen.

David Jones has made a number of business decisions to ensure that the business has refocused on the reasons why it is in business and has honed in on profit, employment, and why it is in business and a part of the community. Decisions around how to be a better corporate citizen go beyond financial performance and also include how to become a better 'corporate citizen'. Decisions have been made to support and implement programs such as improving safety, reducing greenhouse gas emissions, increasing employee engagement and supporting foundations such as the Breast Cancer Foundation with a $4 million donation.

David Jones has also focused on the ethical sourcing of products and has developed several strategies to enable it to reposition as a voice or business supporting positive change. The strategies David Jones has developed are:

1. transform the relationship with the environment
2. community – measure the impact of projects it is involved in and be proactive
3. focus on wellbeing and employee empowerment
4. ethical sourcing of products – this is something the business has been doing but it has become a more conscious consideration and has greater weighting when it makes decisions around suppliers. This started after the fire in a factory in Bangladesh when many workers were killed. David Jones is now more active in completing and checking risk assessments to minimise risks to employees in these factories.

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CASE STUDY 16.7 continued

As a result of a number of considerations David Jones has developed a Code of Ethics with suppliers (approximately 1200 suppliers are covered). This became increasingly important as customers have started to ask, 'Where does my stuff come from?' This can become quite difficult for businesses as there are a large number of suppliers, materials from a range of countries and often materials come from a range of suppliers to produce one product.

David Jones has spent time developing a code (see its website) and it is trying to ensure there are requirements around fair and transparent dealings, environmental outcomes, compliance from suppliers and commitments around animal welfare. David Jones has also tried to align its code with ISO (International Standards) and Ethical Trade Initiative around labour standards.

The Code allows it to deal with situations of 'What happens if ….'; for example, if the business becomes aware of child labour infringements it can terminate a contract.

While it has taken a number of years for David Jones to negotiate with suppliers it now has 95% of its supply chain signed up. David Jones is a relatively small business in the international sphere and it sometimes has to rely on factory audits from other larger businesses. It has developed a range of self-assessment and risk assessment tools and has tried to engage with stakeholders where possible so it can target 'hot spots'.

David Jones's senior management has started to ask questions about how can they reduce risk and 'how can we do a better job?' They have set out to become a 'default ethical retailer'.

(Source: David Jones Pty Ltd.)

Analysis

1. Explain why David Jones has developed policies and practices around sustainability, corporate social responsibility and supply chain management.
2. Examine the four strategies devised by David Jones. Choose two and describe how they might impact on business operations.
3. Explain why David Jones has developed a code of ethics for suppliers.



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Chapter summary

- Change in a business can have an impact on all stakeholders.
- Managers are affected by change in a business and they may have to be the group that implements the changes, adjust their management style and develop new skills.
- Employees are often affected by a change in the business – this can impact on the tasks completed, their work location, training and the hours worked.
- Customers can be affected by changes in a business and this may influence their spending and product loyalty.
- Suppliers can be affected by changes that are implemented in another business.
- The general community or the public can be affected by a change in a business, particularly if it is a large business or a significant small business in a local area.
- Shareholders or owners can be affected by decisions made in the business. If a business expands then it may need to use funds, which can impact on the amount of dividends a business can provide.
- Corporate social responsibility (CSR) is an important consideration for all businesses implementing change regardless of their size, and may influence other stakeholders in their behaviours and activities. It can impact on all areas of a business.

Chapter summary questions

1. Identify three stakeholders who may be affected by change.
2. Explain how the management style and skills used can influence the way change occurs in a business.
3. If a business decided to relocate to another location, describe how this could impact on employees.
4. Outline the concept of corporate social responsibility (CSR).
5. If a business decides to open a new factory in a regional area, explain how this could influence the general community.
6. Describe how the closure of a small business in the metropolitan area could impact on the public.
7. Discuss why a business should ensure it demonstrates a commitment to CSR.
8. Describe an example of CSR from a small or medium business in your area.
9. Explain how stakeholders can be affected by CSR.

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Examination preparation

Read the case study and answer the questions that follow.

A&M Finance, a Victorian-based financial adviser, developed a strategic plan three years ago, with the main strategies centred on an improvement in customer and client relationships. Strategies included targeted recruitment of expert employees, new customer loyalty programs and flexible hours, and many employees were able to work from home and job sharing was introduced.

Over the past three years the business's market share increased by 5% each year, a strong client base has been established and staff turnover and absenteeism are both the lowest they have been in five years. The business won an award for innovation in 2016.

The next strategic plan is focusing on expanding the business into three other states over the next three years. The business needs to employ another 120 employees and 20 new managers. The two owners are concerned about keeping the structure and positive traits of the business as it expands. The owners have had some difficulties trying to find suitable managers and have employed a recruitment agency to assist in finding new employees.

1 Describe how A&M Finance's decisions could impact on two stakeholders.

(4 marks)

2 A&M Finance has a strong focus on CSR. Describe the concept of CSR and explain why it is important for a business to be socially responsible.

(5 marks)

3 All businesses, regardless of their size, need to evaluate and monitor the transformation of the business. Discuss this statement.

(6 marks)

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CHAPTER 17

Evaluation of business transformation

Overview

The use of key performance indicators (KPIs) and other data needs to be considered when a business is monitoring and evaluating the implementation of any change. It is essential that all businesses evaluate and review when changes are implemented.

Key knowledge

Students will consider the importance of evaluating transformation in a business. Students will learn about:

- The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation.

What's ahead

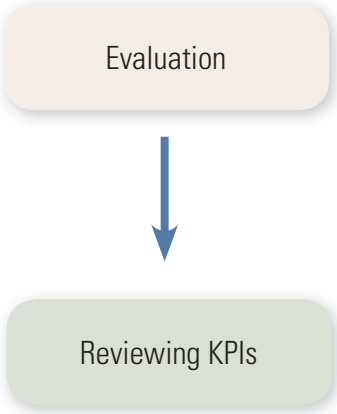


Figure 17.1 Evaluation of KPIs



17.1 Reviewing and evaluating changes using key performance indicators

All businesses, regardless of their size, need to ensure that any changes that have been implemented are evaluated and reviewed. If this is not done, then there is no way to determine whether the changes or transformation have been successful or whether the business needs to make any further changes or modifications. It can be difficult to get everything right, so there needs to be an evaluation process built in to ensure that the transformation has been successful or to check if further changes or modifications need to be made.

If a business wishes to review, evaluate and make judgements about the future then KPIs provide a sound basis to do so. The KPIs can be used at different levels, from the whole business to a section or department or at the individual level. All are important and changes made at different levels of the business should assist a business in achieving its objectives. KPIs provide a quantitative or quantifiable basis to make judgements on performance using data or other information that is collected and collated. It is also important to track KPIs and other data over time to see if there are any trends emerging. KPIs can also be checked against projected or budgeted plans and, if applicable, compared with other similar businesses and competitors. Benchmarking against industry standards will also allow the business to evaluate any change or business transformation.

Businesses should ensure that when KPIs are used to evaluate transformation and change that this is done on a number of levels, including:

- whole business
- departments or sections of the business
- teams
- individuals.

The outcome of the review and evaluation process can be used to monitor and judge the effectiveness of business transformation.

It is important for the business owners/managers to be clear about business objectives so that the strategies and performance data can be reviewed and strategies modified if needed. If, for example, the business wants to focus on superior customer service then the KPIs used to evaluate whether the business

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has been successful may examine the number of customer complaints. The result of the evaluation will provide managers/owners with the ability to make decisions on customer service-related aspects. If the results of evaluations are kept for a number of periods, then a business can also analyse trends.

If a business has chosen appropriate and relevant KPIs and data, then this can be used at all levels of the business. A team may be able to evaluate their success against the changes. An individual can use KPIs to monitor their job and tasks and then this can be used as part of a performance appraisal or review. Customer service levels, for example, may link to an individual's goals around improving customer satisfaction levels for a period of time and may indicate the need to access training and coaching to support this.

When a business is reviewing business performance and transformation it needs to consider the following questions:

- What is the vision of the business?
- What strategic plans and strategies has the business developed?
- How can the business ensure it is moving towards its vision?

Reviewing business transformation and using KPIs to evaluate its effectiveness

All aspects and functions of a business can be evaluated. These include:

- operations management
- employees
- financial performance – profit, sales, market share
- corporate social responsibility.

Operations management

Operations management is the core function of any business and is an area that is likely to be transformed. If the business has made changes, then it can evaluate these using KPIs such as the rate of productivity growth, level of wastage and efficiency due to changes such as lean production techniques and the management and use of natural resources.

If a business can track and monitor productivity growth and this is increasing, then the changes have been successful. Reducing waste within a business is also important and can be measured to judge whether a program or initiative has been successful.



Figure 17.2 Businesses can use KPIs to evaluate their employees' performance.

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Figure 17.3 KPIs can also be used to evaluate operations management.

If the level of wastage has reduced, then it may be seen to be successful. If the number of workplace accidents is reduced and consistently low, then this may also provide an indication of an improvement in the safety of employees in the production process. If the plans in place have included targets, then actual figures can be compared to the target or forecast set out by management.



CASE STUDY 17.1

Out with the old: Myer turnaround plan comes to life

Sales at Skin and Threads have soared since the Melbourne-based fashion retailer opened mini-boutiques in department store Myer.

Once stocked in Myer as a wholesale brand, Skin and Threads has switched to a concession agreement and has built 40-square-metre installations in Myer's flagship stores that echo the look and feel of its stand-alone stores.

'We did more business in the first week here on a concession model than we did in 12 weeks on a wholesale model,' Myer's deputy chief executive and head of merchandise and marketing, Daniel Bracken, said.

'You can see it coming to life – it's the right environment, the staff know the brand, it's a full product offer and there's massively increased engagement from the customer.'

The surge in sales is good news for Skin and Threads' founders, Penelope Cohen and Emma Gathercole, who launched the label 12 years ago after striking up a friendship at university.

Converting wholesale brands to concessions and culling its range of private label brands in favour of popular brands such as Skin and Threads, Seed, Nine West, and Scotch and Soda is key to Myer's strategy.

Mr Bracken, a former Burberry executive, said the 'sea of racks' that currently dominates Myer's floors of men's, women's and children's clothing will be gradually replaced by shop-in-shops and installations that better reflect the character of the brands.

After culling 100 brands in July, Myer has added 10 new brands, while doubling the floor space devoted to about 40 key brands that are popular with its core customers.

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CASE STUDY 17.1 continued

Myer has also taken a 25 per cent stake in the Australian franchise for Topshop and Topman and opened the first of 20 Topshop/Topman concessions at its Bondi Junction store on Friday.

Over the past three months Myer has installed more than 300 shop-in-shops, allowing fashion brands such as Skin and Threads, Seed, and Scotch and Soda and homewares brands such as Nespresso and DeLonghi the freedom to create shopping destinations that attract foot traffic into Myer.

Citigroup analyst Craig Woolford said moving away from wholesale and private label brands towards concessions was crucial to Myer's survival.

Mr Woolford believes Myer's same-store sales rose 0.9 per cent in the October quarter, in line with the July quarter, with ongoing discounting by David Jones crimping gains. But he expects momentum to improve, with same-store sales tipped to reach at least 2 per cent and possibly as much as 4.3 per cent by the fourth quarter.

'The new brands that are coming into our business are proving very successful,' Mr Bracken said.

'I think we can keep going at that pace for a couple of years – we'll continue to do that until we get the right offer for our stores. There will be no end point; every season we will need to rejuvenate.'

(Source: Sue Mitchell, 'Out with the old: Myer turnaround plan comes to life', *Sydney Morning Herald*, 7 November 2015.)



Figure 17.4 Myer rejuvenated itself by installing 300 shop-in-shops.

Analysis

1. Explain how Myer has changed its core business and services to try to attract more customers.
2. Evaluate the success, so far, of Myer's new approach.
3. Identify and explain two other strategies Myer might use to measure business performance and transformation.

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Employees

A number of different KPIs can be used to judge performance and effectiveness of changes to employees and staffing. If there were plans to improve the performance of employees, then this can be measured and assessed. Using KPIs such as the number of training days per employee, the level of staff turnover and the rate of staff absenteeism will all give an indication of the level of staff commitment and motivation to the business. If the rates of absenteeism and turnover levels are lower than similar businesses, then the strategies and changes may be considered successful.

The results of a staff satisfaction survey can also be used as this can be tracked over time and tailored to suit the needs of the business and its objectives. Examining management styles, staff motivation and feedback, complaints or concerns of employees can also be highlighted in an employee survey. If a survey has a high rate of completion it also provides the business with timely and informative data.



Figure 17.5 Staff satisfaction surveys provide information on how change has affected employees.

ACTIVITY 17.1

Susie Parris is the team leader at Unique Marketing Agency. The business implemented a number of changes to the way the teams worked 12 months ago. The changes mainly revolved around the way the team handled commissions and payments received. Previously, the teams worked together in groups, and the projects and any commissions were shared. In order to increase motivation, the manager, Fraser White, decided to make changes to have the teams work on projects individually rather than as a team. Susie has collated the following information:

KPI	Before the changes	After the changes
Number of projects completed	5 per month	3 per month
Project revenue	$100 000	$60 000
Commission paid	$55 000	$25 000
Staff absenteeism	9 days per year	14 days per year

1 Explain why it is important for a business to evaluate and review any changes that are made.
2 Using the information and the KPIs in the table explain the impact of the changes on the employees at Unique Marketing Agency.
3 Recommend two strategies the agency could implement that might improve the situation.

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Financial performance

One important area for a business to monitor and review is financial performance. It is crucial to a business's success and is an area that will generally be reviewed and analysed. Financial KPIs can include profit, sales or revenue, and the percentage of market share.

All businesses need to monitor these and for many small businesses the lack of review of financial information is a major cause of business failure. To analyse the performance of the business it is necessary to break down the information so it can be interpreted. If a small business owner does not have the ability to understand the financial reports, it is important that they establish a close relationship with an accountant or financial adviser. There are a number of ratios and sources of information that a business can use to assess its performance.



CASE STUDY 17.2

Article one

Blackmores shares are in the pink of health

In 2015 the astronomic growth of Blackmores shares drew the attention of investors. Not only did the 80-year-old company grow its export revenue by 25% in the previous year, but the share price rose from $31 to $117 in the same period. What led to this exceptional performance – could it have been the release of 170 new products and 'range extensions' during 2015?



Figure 17.6 Blackmores incorporated many changes that have resulted in a dramatic rise in share prices.

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- Sales increased by 36%.
- Profit increased by 83%.
- Shareholders received dividends of $1.35 per share – total dividends were up 60% from earlier in the year.

Blackmores had been exporting its products for more than 30 years without showing any major growth, only to have phenomenal success in the 2014–15 financial year. Having identified Asia as a target market, the company expanded into seven countries since 2010. In 2015 they were rewarded with sales of almost $80 million into the region, contributing approximately 50% of total sales.

As part of their strategy to grow market share in Asia, Blackmores appointed Chinese tennis player Li Na as brand ambassador to appear in advertising campaigns, in addition to funding research and scholarships at Asian universities.

While local sales to Chemist Warehouse rose by more than 70%, increased sales to Chinese tourists and entrepreneurs suggests that vitamins were being sent overseas.

Financial reports showing that Blackmores was able to reduce debt during this period, as well as continuing investment into innovation and research at BioCeuticals and the Blackmores Institute, convinced investors that the rapid growth would continue, resulting in the steep rise in the share price.

One challenge facing Blackmores is to meet the demand while maintaining the quality of their product. In addition, some sceptics question the sustainability of the demand.

Article two

In late 2015, Blackmores announced the commencement of two new partnerships. In order to expand into Indonesia, Blackmores signed a joint venture agreement with one of the largest pharmaceutical companies in South East Asia, Kalbe Farma. Additionally, in response to China's high demand for infant formula, Blackmores has partnered with dairy maker Bega Cheese. This latter partnership also aims to develop a variety of medicinal foods in the future.

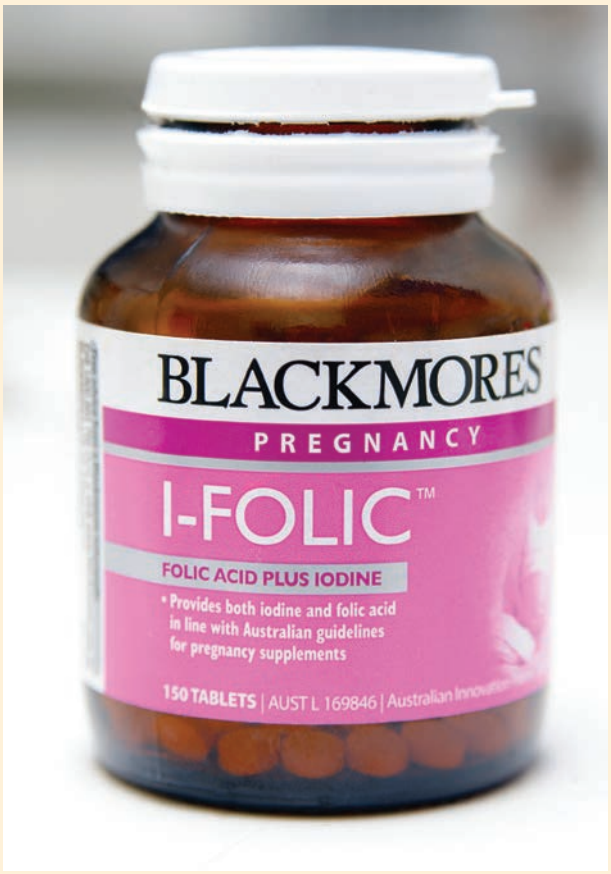


Figure 17.7 Blackmores plans to expand into Indonesia.

Analysis

1. Outline some of the KPIs described in the two extracts.
2. Describe why Blackmores is so successful.
3. Explain why Blackmores would look towards South-East Asia and enter agreements with other businesses.
4. Look at the ASX website and the share price of Blackmores this week. What trends can you find when examining the data? Is the company still as successful? Provide reasons for your answer.

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It is important to determine the success or failure of the performance of a business. If profit figures increase and a business is able to expand its market share, then the changes and performance of the business can be deemed to be successful. Cash reserves or liquidity is also important as a measure of the success of a business. Sometimes a business may struggle to carry out all of its plans if it does not have the cash reserves necessary and cannot raise the money through funds from the sale of shares or through a loan from a financial institution. Sales analysis can include calculations around sales turnover and total sales figures. These can be examined as increases or decreases in total or as a percentage.



ACTIVITY 17.2

1 Go to the website of a large business (most public companies have annual reports on their websites) and compile a brief report covering the following:

- main vision and strategic goals or objectives of the business
- key financial figures or KPIs
- a judgement on the success or otherwise of the business
- whether the company achieved its objectives for the year.



Figure 17.8 Companies provide access to their annual reports via their websites.

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2 Mia and Mel Kane have been operating Expert Health and Beauty Services for the past five years. The business has been expanding and has a well-established clientele and strong reputation. Mel is concerned that the business may have reached its peak and is looking at ways to expand the business further. Their accountant, Matt, has given them the following information:

Data and KPIs	Year 1	Year 2	Year 3	Year 4
Sales/revenue ($)	$60 000	$72 000	$98 000	$109 000
Profit ($)	$9000	$16 000	$19 000	$21 000
Market share (local council area) (%)	10	15	18	28
Return on owner's investment (%)	5	7	10	12
Rate of productivity growth per year (%)	9	11	13	20
Level of waste (%)	10	8	6	4

a Using the information in the table above, comment on the business's performance over the past four years. The report should be written for Mia and Mel, who are not accountants.

b Mia and Mel would like to open up three other stores in nearby suburbs. Based on the information above, outline your recommendations.

17.2 Corporate social responsibility (CSR)

As discussed in the previous chapter, CSR is an important consideration and strategy area for most businesses. A business needs to evaluate its programs in light of CSR as many businesses are now placing resources into this area in the hope of contributing beyond their core business and gaining a positive reputation.

Looking at indicators such as reduction in waste, recycling of components, contribution to community programs, employee participation in these programs and links to other social responsibility matters may all provide a means to evaluate any new CSR-related initiatives introduced by a business.

Businesses that want customers to return to them need to let their customers know that the money they spend in the business is 'doing good'. Many businesses recognise the importance of being socially and environmentally conscious; however, they need to still evaluate and review the programs they have initiated.



Figure 17.9 CSR initiatives can include reduction in waste and recycling components.

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CASE STUDY 17.3

CSR at Woolworths

Woolworths, the fresh food people, have today announced that they will commit to eliminate food waste that is sent to landfill by 2020 and will begin a new partnership with Australia's leading local food rescue organisation, OzHarvest.

The new partnership sees OzHarvest become the principal partner for Woolworths to collect and distribute edible food to people who are in need across Australia.



Figure 17.10 Woolworths aims to eliminate food waste sent to landfill.

Woolworths will engage their network of farmers, producers, manufacturers, employees and customers to help minimise food waste, as well as supporting OzHarvest's educational campaigns on food waste reduction, such as Think.Eat.Save, an initiative partnered with the United Nations Environment Programme (UNEP).

The partnership forms part of a larger commitment by Woolworths to eliminate food waste, which includes seeing edible food waste distributed by a number of organisations like OzHarvest, and other waste used for animal feed, commercial compost and power generation.

Managing Director of Woolworths Food Co, Brad Banducci, said 'Woolworths is a part of nearly every community and our extended partnership with OzHarvest is a great way for us to help those in need while at the same time reducing waste.

'Our customers want to see us reducing our food waste. We'll do that right through the supply chain from selling our Odd Bunch imperfect fruit and vegetables to donating food through OzHarvest, our other food rescue partners, and other initiatives like animal food and commercial composting.

'Our target remains ambitious but with great partners it is achievable,' he said.

OzHarvest's CEO and Founder, Ronni Kahn, is thrilled at the Zero Food Waste by 2020 pledge from Woolworths, building on their existing decade-long partnership.

'This commitment from Woolworths is a huge advance in our collective fight against food waste. This partnership will allow OzHarvest to divert even more surplus food from landfill and further help Australians in need, addressing the broader issues of food waste, sustainability and food security.

'We must all take responsibility for the 4 million tonnes of food Australians send to landfill each year. Woolworths' commitment to Zero Food Waste 2020 shows that they are serious about helping our environment as well as those in need,' Ms Kahn said.

(Source: OzHarvest website, 'Woolworths to send zero food waste to landfill with OzHarvest partnership', 25 September 2015.)

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Analysis

1 Analyse the link between performance and social responsibility.
2 Explain how businesses can measure social responsibility and evaluate its effectiveness.

Transforming a business and reviewing KPIs to evaluate performance: Blundstone

History and present

Blundstone is a 100% Tasmanian private company founded in 1870. The owners of the brand arrived in Hobart, Tasmania in the 1850s and founded Blundstone in 1870. The company is now one of the world's most recognisable boot brands but remains based in Tasmania. Management of the business was largely based on a 'gut feeling' with few systems in place. The business realised that it had to change to ensure it had a competitive advantage by using available technology.

The company established a head office and has administration, sales and marketing areas, a research and design centre and the capacity to manufacture boots and gumboots. It also acquired a manufacturing operation in Auckland in 1988 making a house brand of boot for one key customer. The tannery was also set up as a separate business. During this time the business recruited some specialist managers and looked at embracing more streamlined and modern management practices.

While the business was continuing to grow it was struggling due to factory capacity constraints, inadequate quality management strategy and the need to embrace new technology. The business was highly profitable but increasingly capital intensive. During this time the business had transitioned from a simple success formula to a complex one.

Since 2016 Blundstone has continued to expand around the globe, currently selling to over 50 countries across five continents. Despite growing to become one of the world's most recognisable boot brands, the company retains its Tasmanian roots and its family values.

Vision and values

The Blundstone Group operates according to a set of values that ensure legal, ethical and responsible policies, practices and processes are adopted throughout the company and at all times.

> The Group – as well as its individual team members – have won a number of prestigious community based honours and awards in areas such as occupational health and safety, affirmative action, vocational education and training, process innovation and product quality which serves as testimony to our levels of performance and commitment to our communities. The Group also administers a program of charitable activity.
>
> Blundstone's stated values are:
>
> - Respecting the dignity of our people
> - Active legal compliance
> - Responsible community membership
> - Outstanding product quality
> - Outstanding customer service
> - Non-discriminatory employment
> - Safe and healthy workplaces
> - Active industry membership
> - To encourage and support an employment environment within direct overseas based suppliers that is compliant with the regulatory framework of the relevant countries in regard to worker exploitation, employment discrimination and workplace health and safety
>
> The Blundstone Group fully supports and complies with the industry Code of Practice designed to prevent exploitation of home based labour. The Group also ensures that neither it nor its suppliers unlawfully or unethically exploit adult or child labour.

(Source: 'Company values', Blundstone Australia Pty Ltd, 2015.)

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Pressures on the business

New manufacturing businesses overseas placed increased pressure on the business and there was reduced profitability. Generational change also occurred and there was a new management team. There was evidence of competitors bringing their product to market that could not match the brand and customer allegiances for Blundstone.

The business also experienced labour issues such as availability, reliability and willingness of people to do stitching work. The business owners were willing to accept lower profit if they could remain a predominantly Australasian manufacturer.

The Global Financial Crisis impacted on the business and Blundstone had to deal with a reduction in the value of the Australian dollar and with banks that were more reluctant to extend finance. The overseas part of the business continued to grow, except in the United States. Against this backdrop the business reviewed all areas to try to achieve an improvement in performance.

Operations management

Blundstone invested heavily in supply chain consultancy to try to find innovative ways to get a result out of local manufacturing. The company tried to ensure that it manufactured the best quality boots for everyday work and comfort. Leather footwear is manufactured in Vietnam, India and China. This was a difficult decision but the costs of producing locally and the quality of the leather were issues.

Blundstone also initiated projects to massively reduce supply chain costs without impacting on quality, and concentrated on innovation and new product development and processes.

Quality assurance

Blundstone Australia Pty Ltd is a Quality Endorsed Company to ISO 9001. Blundstone safety products are manufactured to, and accredited to the Australian Standard AS/NZS 2210.3.

Gumboots are still manufactured in Tasmania and Blundstone employs its own staff in its overseas facilities to make sure the standard of manufacturing is endorsed to high quality standards.

Environment and sustainability

Blundstone is committed to policies which are framed with reference to sustainable development. It also uses recycled and recyclable materials in manufacture and packaging. In 2011 the business signed the Australian Packaging Covenant.

Environmental standards

Blundstone has worked hard on ensuring that it does not have a detrimental impact on the environment. Tasmania is known for its pristine natural environment and the business recognises this. Therefore as part of its policies it has formed sustainable development policies to complement other businesses and industries in Tasmania.

> Blundstone pursued development policies which are evaluated with reference to environmental considerations. They maximise the use of recycled and recyclable materials in manufacture and packaging and minimise the use of raw material, chemicals and fossil fuels.
>
> (Source: 'Company values', Blundstone Australia Pty Ltd, 2015.)

Community

Blundstone values its employees, suppliers, customers, environment and local community. Core values ensure legal, ethical and responsible practices are adopted throughout the company at all times. Blundstone also supports the local community and is an active contributor to many charities.

In 2011, Blundstone became the official naming rights sponsor of the cricket facility at Bellerive in Southern Tasmania. The vision for this history-making partnership with Cricket Tasmania is that the sponsorship will allow more Tasmanians – young, old, female, male, disabled and able – to enjoy cricket at an active grassroots level and at a representative level.



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Figure 17.11 Blundstone's famous work boots

Employees

During 2007 and 2008 a number of staff were made redundant when the leather factory was closed down. Employees started leaving in large numbers and at the same time the business had to keep producing its footwear, which was being done in a number of countries. More recently the company tried to seek and attract people who were dedicated, highly skilled and innovative. Staff also understood that the power of the team gets the best results for customers.

The business is now committed to ensuring that employees are employed ethically and are free from exploitation. It takes a proactive approach and this commitment is achieved through a variety of ways, including:

- the maintenance of contracts with its suppliers that require third-party accreditation and an associated audit regime in regard to employment standards
- contracts that stipulate that employees must be free to join together to negotiate conditions
- an on-site Blundstone employed presence that ensures that work undertaken on its behalf is completed in the establishment covered by the independent auditing regime; the on-site presence is also able to monitor the manner in which employees are treated by their employer at close hand
- the understanding that, in all cases, people are employed in a market that values their skills, resulting in the opportunity to find employment elsewhere if they want to.

Suppliers

Suppliers and manufacturing overseas make sure that the product is made free of exploitation and people are employed ethically. People are often employed at standards that exceed employment standards set up by their governments.

Brands: Blundstone and John Bull

Blundstone acquired the John Bull brand and the Wesfarmers group became its number one customer, representing 30% of the business. Bringing the two cultures of the businesses together brought a number of issues.

The business is dedicated to strengthening the position of the brands through marketing and sales activities and through its relationship with the community. The company also monitors brand strength through extensive market research conducted every year.

Innovation

The business has worked on developing innovative design and production and the company oversees a global supply chain bringing together the best ideas, components and designs.

The business moved from concentrating on manufacturing to being market driven with a focus on brand management.

While Blundstone is known for its iconic elastic-sided boots worldwide, its range includes gumboots, lace-up safety footwear for men and women and heavy industrial footwear.

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Finance and other performance data

The value of the Australian dollar has varied and has had some impact on the business. It has started to regain market share within the domestic market and has become highly profitable. In 2015 one in 25 Australians bought a pair of Blundstone or John Bull boots and one in 20 New Zealanders did.

The business has started to look at choosing which growth opportunities to focus on rather than which problems it needs to fix. There are plans to double the business in the next five years.

Sales and expansion

Blundstone has worked at developing markets in other countries as well as Australia. It has seen its international sales triple and the business grew 60% in the two-year period in 2014–2015.

Blundstone has experienced significant sales growth in Britain, the US, Germany, Scandinavia, Canada, Italy and Israel – and opened up new markets in China, eastern Europe, Chile and Mongolia. However, its approach in these markets is very different.

In Australia, 'blunnies' have traditionally been known as hard-wearing work boots. Similarly, in Canada the brand is considered to be a workwear brand. However, throughout western Europe and the US, Blundstone has recently been embraced by a young, creative and urban clientele.

In the US, the original Blundstone boot is available at fashionable retailers, and the brand was even the official sponsor of the 2016 Sundance Film Festival in Salt Lake City, Utah.

In Europe, the brand is known for its colourful boots featuring bright yellows, reds, blues and greens. In Italy, Blundstone's newest boot was the result of a collaboration with famous motorcycle brand Ducati and was unveiled at a major men's fashion show in Florence, Italy.

Overall, as a result of the company's decision to urbanise and consolidate the brand's global positioning, Blundstone has started selling some of its more urban-style boots in Australia alongside the hard-wearing model that first made the company famous.

ACTIVITY 17.3

1. Evaluate the effectiveness of four of the strategies used by managers at Blundstone to implement change in the business.
2. Describe some of the advantages and disadvantages of various strategies taken by Blundstone in implementing change in a business.
3. Discuss the effect of change on the stakeholders of Blundstone.

Reviewing KPIs and evaluating the effectiveness of performance: case study application

Read the following case study about KPIs and answer the related questions.



Figure 17.12 A young woman models Blundstone boots at an outdoor fashion festival in England, 2013.

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CASE STUDY 17.4

Three years ago Bluesteel Corporation announced a major change to its steel engineering division. Gemma Ayres, the newly appointed Chief Executive Officer, declared the changes at the time and announced in a media release and at a meeting that 'All employees will need to be trained in a number of different tasks, work as part of a team and focus on producing a quality product'. Bluesteel is undergoing a major change in all aspects of the business, she stated at the meeting. It was also reported that there would be changes to the steel production and distribution divisions. 'The competition from other foreign firms has made it an urgent task,' she announced when asked how long it was until the changes would take place.

The changes were introduced quickly and while the changes were implemented there were a number of concerns among employees regarding the new technology and the training required. There were also changes in steel production and the methods used. This resulted in the relocation of some of the major sections of the production process and an overhaul of the methods used with a focus on new efficient technologies and recycling of waste materials.

Gemma has presented information to the Board of Directors at a meeting last month. Below is a summary of some of the major trends and KPIs. There have been issues with shareholders and employees concerned that the business is thinking about introducing further changes over the next 12 months to compete with overseas businesses.

KPI	Year 1	Year 2	Year 3
Sales $m	1500	2700	2800
Market share %	28	35	30
Profit $m	120	135	135
Staff turnover %	8	9	12
Share price (per share) ($)	3.25	3.80	3.85
Waste levels %	12	9	7
Number of customer complaints %	5	6	8

Analysis

1. Identify three stakeholders who would be affected by the changes over the past three years.
2. Explain why some stakeholders find transformation of a business difficult.
3. Using the information in the table, summarise four trends for Bluesteel Corporation.
4. Evaluate the overall performance of Bluesteel Corporation.
5. Propose three strategies the business could implement to respond to the KPIs outlined in the case study and state why these strategies should be implemented.

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Chapter summary

- Any change or transformation in a business should be monitored and evaluated.
- A range of KPIs can be used to evaluate the effectiveness of transformation of a business.
- Businesses should review performance and change on a number of levels, including:
  - whole business
  - department or section
  - teams
  - individual employees.
- Businesses need to be clear about objectives to enable them to make judgements.
- Any transformation or change needs to be reviewed.

Chapter summary questions

1 Explain why businesses need to monitor and evaluate change or transformation.

2 Outline how KPIs can be used to evaluate:
  - operations management
  - employees
  - financial performance
  - corporate social responsibility.

3 Outline two KPIs to evaluate possible changes in staffing levels and the introduction of technology.

4 Evaluate the changes a business could introduce to manage an increase in staff absenteeism.

Examination preparation

1 All businesses need to monitor and review the transformation of the business. Outline how a business can use KPIs to evaluate any changes made. Use a case study to illustrate your response.

(8 marks)

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GLOSSARY

accountability the extent to which a worker is held answerable to supervisors or managers for their work actions or performance

affirmative action programs that require businesses to make special efforts to recruit, select and promote women and members of minority groups

analytical skills the ability to analyse or study the nature of a given situation or set of circumstances

appraisal any method of evaluating the performance of an employee against pre-set targets

arbitration a method of industrial dispute resolution where an independent third party listens to both sides of the agreement, then makes a decision based on these arguments, which is legally binding on both parties

Australian Company Number (ACN) a nine-digit number to be used on a company's common seal and all public documents involving the company

Australian Competition and Consumer Commission (ACCC) government authority responsible for administering the *Competition and Consumer Act 2010* and for promoting and educating how to provide good business practices for a fair and efficient marketplace

Australian Securities and Investments Commission (ASIC) independent Australian government body that acts as Australia's corporate regulator

Australian Securities Exchange (ASX) the primary exchange for securities in Australia

authority the power and status to pass commands down a business hierarchy

autocratic management style (authoritarian) management style where all decision-making is centralised, there is little delegated authority and communication is one way – downwards

automated production line process where raw materials enter and finished products leave with little or no human intervention

automation replacement of human activity with technology

award restructuring microeconomic reform designed to change how labour is organised, employed and paid; it is aimed at increasing productivity by multiskilling and retraining workers and through union amalgamation

benchmark a level of quality or achievement used as a standard of comparison for others; a point of comparison used to evaluate success levels

business change any alteration to a business and/or its work environment

business objectives the stated, measurable targets of how to achieve business goals

business strategy the long-term plan of action adopted by a business to achieve its goals and objectives

capacity planning operations decision concerned with the quantity of goods or services to be produced

capital intensive makes greater use of capital (machinery and equipment) than labour

centralised decision-making management makes decisions and passes on directions to those below them in a hierarchy; communication is downward and worker participation in decision-making is non-existent

chain of command the vertical line of authority that passes command down through the levels of a business's hierarchy

coaching on-the-job approach to training where teaching is conducted on a one-to-one basis

collective agreement enterprise bargaining agreements that result from negotiations between an employer and union (employees) and are registered (ratified) by the Fair Work Commission

collective bargaining the process by which wages, hours, rules and working conditions are negotiated and agreed upon by a union with an employer for all the employees collectively whom the union represents

communication a process of creating and exchanging information between people that produces the required response

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company a separate legal entity (incorporated body) that is subject to the requirements of the *Corporations Act 2001*, owned by shareholders who have limited liability, run by directors and has perpetual succession

competency the ability to be able to perform a task

competency-based training training that focuses on the ability to perform specific tasks to a predetermined standard

competitive advantage point of difference or superiority over one's competitors

competitor a business rival in the same market for products or services offered by a business

components the parts and resources used in a production process

computer-aided design (CAD) computer program that facilitates creation and modification of design

computer-aided manufacturing (CAM) computer-controlled manufacturing

conciliation a third-party (conciliator) facilitates agreement between management and employees in relation to a dispute

consultative management style manager consults with employees when discussing an issue; however, the ultimate decision is made by the manager based on the suggestions and input received

contingency (situational) management approach use of a range of variables to determine the most appropriate management style required to attain organisational goals in different types of situations

corporate culture system of shared values and beliefs of people within a business

corporate philanthropy a business's way of giving back to its community – local, regional, national or international – through financial donations and non-cash contributions such as time, expertise and goods. Companies can donate to charities and not-for-profit organisations.

corporate social responsibility the commitment by organisations to conduct their business in an ethical manner, to take responsibility for the economic, social and environmental consequences of their activities, and to be accountable to a wide range of stakeholders, including employees, customers and suppliers – now and in the future

cost leadership strategy a strategy that allows a business to achieve a competitive edge by reducing production or delivery costs

customise to alter the features of a product to suit specific and precise client/customer preferences

decentralisation power and decision-making authority are delegated from higher levels to lower levels in the hierarchy

decentralised decision-making workers are given responsibility for decision-making in their own areas

decision-making a multistep approach whereby a selection is made between a range of different alternatives

delayering reorganisation of a business by removal of one or more layers of management

delegation passing of authority down the hierarchy to perform tasks or make decisions; responsibility remains with the person delegating

deregulated labour market where aspects of the employee–employer relationship are not subject to government control and regulation

development process designed to build up skills necessary for future work activities and responsibilities

differentiation emphasis of the difference between a particular product/service and those that are similar by developing the attributes that customers find appealing

dismissal termination of an employment contract due to incompetence or indiscipline

dispute industrial disagreement between employees and employers

dispute resolution procedure a formal, systematic process that permits employees to complain about matters that affect them and their work

diversity human characteristics that make people different from one another

downtime period during which production is not occurring

driving forces those forces affecting a situation that are pushing in a particular direction and are supporting the goal or proposed change

ecommerce buying and selling of goods and services, or the transmitting of funds or data, over an electronic network, primarily the internet

effectiveness the degree to which a business achieves its stated objectives; 'doing the right things'; the ability of a business strategy to achieve an intended or expected outcome

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efficiency the best use of resources in the production of goods and/or services. The outcome can be judged on both the quality and quantity of the goods or services produced.

emotional intelligence the ability to perceive, understand, monitor and regulate emotions in ourselves and others

employee a person working for another person or a business for wages or a salary

employee engagement the commitment employees feel towards a business based on identifying with the values, vision, objectives and the way the business operates

employer associations provide a range of advice to employers and represent their interests on employee relations issues

enterprise agreement a written collective agreement made between an employer and the employees at a workplace, setting out the terms and conditions of employment

environmental management system (EMS) series of policies and practices that focuses on an organisation's approach to environmental issues

environmental sustainability ability of an ecosystem to maintain itself into the future; involves using the earth's resources at a rate they can be replenished

esprit de corps a feeling of pride and mutual loyalty shared by the members of a group

ethics a set of moral principles that a business needs to establish and follow

Fair Work Commission (FWC) Australia's national workplace relations tribunal. Its role is to assist employees and employers to maintain fair and productive workplaces. The FWC is an independent body that operates under the *Fair Work Act 2009*.

financial objectives relate to the desired financial performance of the business; for example, profit and market share

five force analysis a tool that focuses on five important determinants of competitive power – supplier power, buyer power, competitive rivalry, threat of substitution and the threat of new entry

Force Field Analysis looks at forces that are either driving movement towards a goal or change (helping forces) or blocking movement towards a goal or change (hindering forces)

formal authority influence or authority derived from the position in the organisation (legitimate power)

Four Drive Theory theory that identified four basic motivational needs (need to acquire, bond, defend and comprehend)

fringe benefits benefits received by employees in addition to their normal wage or salary; for example, company car, child-care, higher superannuation rates

front-line managers lowest level of managers, responsible for the work of operating employees only and do not supervise other managers

functional manager a manager responsible for just one organisational activity (e.g. finance, HRM)

globalisation the process of increasing interdependence between countries. It involves the increasing integration of businesses and economies. It removes economic boundaries, which creates free international trade and movement of capital between countries.

Goal Setting Theory a process theory of motivation that focuses on the process of setting and attaining goals

goods and services tax (GST) a broad-based tax of 10% on most goods, services and other items sold or consumed in Australia

government business enterprise (GBE) a business that is government owned and operated. GBEs seek to run profitably by controlling costs and selling their goods and services at a price to cover costs.

gross domestic product (GDP) total market value of production in a country over a period of time minus the costs of production

harassment behaviour designed to make a person feel uncomfortable, offended, humiliated or intimidated

hierarchical structure different levels of management and staff, with higher levels exercising greater authority and control

Hierarchy of Needs Abraham Maslow's representation of human needs in the form of a pyramid or hierarchy

high-risk strategies autocratic approach to implementing change, involving use of force, threats and manipulation of situations

human resource management (HRM) the management of a wide range of responsibilities relating to the human (employees) function within a business in order to increase the efficiency of both employees and the business

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incorporation the process of legally declaring a corporate entity as separate from its owners

innovation generally refers to changing or creating more effective processes, products and ideas, and can increase the likelihood of a business succeeding

inputs resources such as raw materials, labour, plant, equipment, capital, information and time used in any organisational production system

internal environment activities, functions and pressures that occur within a business over which it has control

interpersonal skills those skills used every day to communicate and interact with other people, both individually and in groups

inventory the holding or storage of raw materials, component parts, work in progress and finished goods

inventory control system of overseeing the contents of an inventory; usually involves maintaining correct levels of stock as well as averting stock loss and theft

job enlargement making a job bigger or more challenging by combining various operations at a similar level (horizontal)

job enrichment making a job more challenging so workers are required to use their full capabilities and gain personal growth

job rotation workers are moved between different jobs to increase variety of work and create a more flexible workforce

Just In Time (JIT) an inventory management system which aims to avoid holding any stock (either as inputs or finished goods). Supplies arrive just as needed for production, and finished products are immediately despatched or sold to customers.

key performance indicators (KPIs) measures or a set of data that allows a business to determine whether it is meeting its business objectives

labour intensive makes greater use of labour than capital during the production process

laissez-faire management style a leadership style that leaves the majority of decision-making and running of the business operation to the employees

leading the skill of a manager when guiding workers towards achieving the goals of the business

lean management the term given to a range of measures traditionally used by Japanese businesses in an attempt to reduce waste and costs in production

level of wastage in a production process will give an indication of business efficiency and is a measure of resources that have not been converted to outputs

Lewin's Three Step Change Model Lewin developed a change model. The three steps are: 1) 'Unfreeze the status quo'; 2) Move from the current to the new situation; 3) 'Refreeze' and embed the change.

limited liability shareholders are only personally liable to the level of their original investment in the company

line management managers working in a given position within the formal structure of a business, who have authority over subordinates within their area of authority

logistics the distribution of products, or the movement/delivery of materials and products from one location to another

low-risk strategies participative approach to implementation of change, use of communication, empowerment, work groups and support for those who are impacted upon

macro environment broad operating conditions in which a business operates and over which it has no control

management by objectives (MBO) a process of setting goals, using the SMART principle, which relate to an employee's key areas of responsibility. It creates a sense of direction and provides a measure for assessing the work performance of the employee.

management style the manner and approach of providing direction, implementing plans and motivating people

market share proportion or percentage of the market (and total sales) controlled by the business. If market share increases, the business has a greater percentage of the market and sales. A business objective may be to increase market share.

master production schedule (MPS) a statement of what a business intends to produce, in what quantities over a set time frame taking into account forecast customer demand and production costs

mcommerce the use of wireless handheld devices such as mobile phones and laptops to conduct commercial transactions online

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middle-level managers translate corporate objectives into special projects, monitor progress of projects and supervise front-line managers

mission statement a written statement that defines a business's core purpose and focus

modern awards set out minimum conditions of employment for employees doing a particular job

motivation the willingness of a person to expend energy and effort in doing a job or task

net profit the amount left after all expenses (e.g. costs, taxes) have been paid, also referred to as the bottom line

number of customer complaints the number of written or verbal expressions of dissatisfaction from customers about an organisation's products or services

number of sales the total quantity of sales of a particular product or service

number of workplace accidents the number of unplanned events interrupting the workflow that may or may not include injury or property damage

objectives statements of desired achievement which provide direction for the business

official corporate culture desired culture a business wishes to establish

operating environment the environment immediately external to a business with which it has close interaction when conducting its business activities

operational planning the detailed, short-term planning undertaken by a business

operations a series of procedures and processes undertaken in order to create outputs

operations management management of resources and functions within a business to achieve efficient output of finished goods or services in a way that adds value to customers and creates a profit margin for the business

operations processes transformation stage of an operations system

operations system the three stages of production: inputs, transformation, outputs

organisational chart a diagram showing the lines of authority and levels of hierarchy in a business; it defines the relationships between people within a business

organisational inertia the lack of ability of a business to react to internal and external pressures for change as it tends to continue on its well-entrenched way

outplacement specialised assistance given to retrenched employees to assist them to find jobs with other businesses

outputs transformed inputs that are returned to the external environment as products or services

packaging physical protection given to a product that can also form an important part of its image and appeal to the customer

participative management style decision-making is performed as a team with management and staff working together with the manager retaining responsibility and accountability

partnership a legal form of business ownership where two or more people (partners) work together

partnership agreement a formal document which outlines the duties and responsibilities of the parties to a partnership

percentage of market share the portion of sales (units or revenue) of a product that a company achieved in relation to the sales of the same product that other companies achieved

performance appraisal measures how well an employee has performed their job, provides feedback to employees and establishes plans to improve performance

performance management the system used to improve organisational, functional and individual performance through linking the objectives of each; it assesses all phases of the employment cycle

performance-related pay a financial reward to employees whose work has reached or exceeded a set standard

perpetuity having ongoing life; that is, never-ending

persuasive management style managers make the decisions, then persuade workers of the benefits of those decisions

planning a formalised decision-making process that is future oriented

plant capital items that are large and/or difficult to relocate once in place or installed

policy a written statement of the processes and procedures, rules and regulations

private sector part of the economy operated by private individuals, groups or institutions

proactive using initiative to gain an opportunity; acting in anticipation

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product recall when a defective product is sourced and either rectified or replaced after it has been sold by the manufacturer

production process the process of transforming resource inputs into finished goods and services

productivity a ratio of the output of goods and services to the inputs used to achieve that output

profit the difference between revenue and expenses. If a business makes a profit, it may be considered to be successful. Usually, a certain level of profit will be determined as acceptable by the business (in terms of its objectives and the expectations of investors and other institutions).

promotion an employee is moved to a higher-level position within the business

prospectus an invitation to the public and potential investors to purchase shares in a particular company

public sector part of the economy operated by the government

purchasing policy a policy within an organisation placing requirements for employees seeking to acquire goods or services by use for the company

quality the degree of excellence in a good or service and its ability to satisfy the customer

quality assurance a system established to ensure that predetermined quality standards are achieved

quality circle a group of workers who meet regularly to discuss quality and production issues. Any proposed changes to production methods are then put forward to management.

quality control process of checking the quality standards of work done or quality of raw materials or component parts

rate of staff absenteeism a percentage indicating the number of workdays lost due to unscheduled staff absence from work, especially without a good reason

real (unofficial) culture actual or prevailing culture that exists within a business

redeployment of staff process of moving employees from one area of a business to another, often as an alternative to termination of employment

redundant an employee is redundant when there is no longer sufficient work for the employee to perform

registered business name (RBN) a trading name under which a person (sole trader) or partnership conducts its business or trade

remuneration the amount a person is paid for performing work tasks (i.e. job); it can take the form of cash and/or fringe benefits; it can be referred to as a wage or salary

resignation voluntary termination that occurs when an employee leaves the workplace, usually to go to another job

responsibility the position or job requires a person to perform a task

restraining forces personal and organisational resistance to change that acts against the driving forces and could involve management, employees, cost, legislation and competitors

retirement voluntary termination where an employee decides to leave the paid workforce

retrenchment occurs to an employee whose employment is terminated by reason of his or her job becoming redundant

robotics use of robots to perform manual tasks; a form of automation

salary an agreed amount of money paid to employees for their labour during a year, expressed as an amount per annum

scanner a device for sensing recorded data (as in a bar code); for example, a supermarket scanner

self-actualisation the sense of fulfilment or highest level of human needs determined by Abraham Maslow (Hierarchy of Needs)

self-esteem the feeling of satisfaction that someone has in themselves or their own abilities

self-evaluation an employee self-assesses both their performance related to their predetermined objectives and their contribution to their business team or unit

Senge's Learning Organisation in situations of rapid change only those businesses that are flexible, adaptive and productive will be successful. To allow this to happen, a business needs to be able to work out how to tap into and harness people's commitment and their capacity to learn.

senior/executive management involved in the strategic planning and decision-making of the business

shareholder owner of a company

shop steward locally elected union representative; an employee at a workplace is elected by local union members to represent them; they act as the first point of contact for an employee with their trade union

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skills the ability to do something well, gained through training and experience

SMART objectives or goals which are specific, measurable, attainable or achievable, relevant or realistic and timely or time-bound

social enterprise private sector business that distributes profit to benefit the community rather than individual shareholders

social entrepreneur a person who establishes an enterprise with the aim of solving social problems or effecting social change

social objectives relate to the role of a business in the community

sole trader an individual owner of a business, entitled to keep all profits after tax has been paid but liable for all losses

staff manager a manager who provides specialist advice or assistance to functional managers

staff turnover measures the number of employees who had to be replaced within a given period

stakeholder an individual or group that has a direct or vested interest in the activities of a business

standardised where one finished good is generally the same as the next produced

strategic planning long-term (two to five years) planning undertaken by senior management to achieve business objectives

strategy a plan of action that aims to achieve a specific objective

stress physical, mental or emotional strain or tension occurring in response to adverse influences and capable of affecting physical health

stress management skills required by a manager to reduce the level of stress/distress in both themselves and their subordinates

supply chain a system of organisations, people, activities, information and resources involved in moving a product or service from suppliers to manufacturers and then on to consumers

supply chain management meeting consumer demands for goods and services while making the most efficient use of input resources in the both the production process and the distribution of the finished product to the customer

sustainable procurement a system of procurement of inputs that allows a business to meet its economic needs while minimising damage to both the environment and society

SWOT analysis an assessment of the internal strengths and weaknesses and the external opportunities and threats for a business in a given situation

tactical planning the planning undertaken by middle-level management to assist in implementing strategic decisions; its time frame is medium term (one to two years)

team leader someone who guides, instructs, directs and leads a group of other individuals (team) with the purpose of achieving the goals of the business

teamwork when a group works together to complete a task it requires workers to be multi-skilled and allows for worker empowerment

technical skills represent a manager's ability, knowledge of and proficiency in a specialised field (e.g. accounting, IT, finance)

technology practical application of science to achieve commercial or industrial objectives

time management the efficient utilisation of work time, which involves setting and prioritising tasks, allocating time and avoiding time-wasting activities

Total Quality Management (TQM) a concept whereby all staff in a business have responsibility for its process and output

trade union an organisation formed to represent and protect the rights of workers in a particular industry

training the process of providing staff with the knowledge or skills required to do a particular job. It can include a range of different activities such as on-the-job training to learn a new software package or how to maintain a new piece of equipment.

training (learning) needs analysis diagnoses the current shortcomings and future challenges that need to be overcome through use of a training program

transformation the processes involved in converting inputs into outputs

triple bottom line reporting where a business organisation reports on social outcomes and environmental impact as well as financial performance

two-way communication communication that is open and encourages discussion and feedback

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unfair dismissal dismissal of staff that does not follow legal procedures; employees may seek to be compensated or reinstated

union executive/official officials elected by union members to run the organisation (union) on a day-to-day basis; they act to represent members in negotiations with employers

unlimited liability full liability of owner (if their business fails) to the extent of their personal assets

values statement outlines what the organisation sees as its corporate values and centres around integrity, honesty and ethical behaviour

vision statement a statement that outlines the aspirations and values of the business

voluntary termination when an employee decides to leave a business either by resigning to go to another job or by retiring from the workforce

wage the monetary reward for labour, paid on a weekly basis, calculated by multiplying the hourly rate by the number of hours worked

work–life balance the relationship between a person's work and the commitments in the rest of their life

workplace relations historically referred to as industrial relations, workplace relations is concerned with the contractual, emotional, physical and practical relationship between employer and employee

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