

JACARANDA KEY CONCEPTS IN VCE
BUSINESS MANAGEMENT
UNITS 3 & 4 | FIFTH EDITION

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HOW TO USE THIS RESOURCE

At Jacaranda, we are deeply committed to the ideal that learning brings life-changing benefits to students. By continuing to provide resources of exceptional and proven quality, we ensure that all VCE Business Management students have the best opportunity to excel and to realise their full potential. *Jacaranda Key Concepts in VCE Business Management Units 3 & 4 Fifth Edition* comprehensively covers the requirements of the Study Design 2017–2021.

The eBookPLUS, an electronic version of the text and complimentary set of targeted digital resources, is available for students and teachers, and contains:

- the full text online in HTML format, including PDFs of all chapters
- eLesson videos featuring explanations of the key concepts and interviews with industry professionals that help students apply key concepts to real-world business scenarios
- a glossary, crossword and missing word glossary quiz for each chapter
- school-assessed coursework designed in Microsoft Word for easy customisation
- weblinks to key business bodies and up-to-date data and statistics
- links to studyON, an online study, revision and exam practice tool, available in digital format and included free with the student text.

Each chapter begins with an **introduction** that grabs students' attention, providing a snapshot of what the chapter is about.

CHAPTER 5
Operations management

5.1 Overview
5.1.1 Why it is important

An operations system is used to transform inputs into outputs. In a chocolate factory, this means using labour and raw resources, such as cocoa beans, to make chocolate. The Mars chocolate factory in Ballarat manufactures well-known brands including Mars and Snickers bars. MarsWMM, and the plant has the capacity to produce 1 million Mars bars a just hours. MarsWMM is certified as cocoa beans from Rainforest Alliance certified farms. Most of the process of chocolate making is automated (done by machines) — just picture large vats of molting chocolate and covered with lots of workers in white coats. When you learn about operations management in this chapter, you will be studying how businesses actually make their goods or services as well as how they maximise the efficiency and effectiveness of their production processes and meet the needs of stakeholders.

TOYOTA'S OPERATIONS SYSTEM

Operations is the part of the business that gets the job done. At Toyota, this means producing almost 8 million vehicles each year, of which approximately 14000 are manufactured each day in Japan. The process of producing vehicles at Toyota's many manufacturing plants around the world is similar to manufacturing a car for any other product for that matter. You need inputs (resources used in the production process, such as labour and raw materials). The next step is to transform those raw resources into output (finished products). Many of the components used to build the engine, such as pistons and cylinder head covers, are produced in-house by Toyota. Some parts are sourced from local and global suppliers. What else is needed to make a car? Lots of steel parts that are welded, painted and undergo a multitude of processes to finally reach the assembly line.

Operations is not just about making goods or producing services through. Many businesses strive to produce the best good or service on the market. Toyota uses the concept of continuous improvement to do this.

Working on the assembly line at Toyota, Toyota is credited solely for its high quality, low cost, short lead time and flexible production system.

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5.1.2 What you will learn
Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.

Key knowledge

The relationship between operations management and business objectives

Characteristics of operations management with both manufacturing and service businesses

Key elements of an operations system: inputs, processes and outputs

Strategies to improve the efficiency and effectiveness of operations related to technological developments, including the use of artificial intelligence, computer-aided design, computer-aided manufacturing, robotics and additive manufacturing

Strategies to improve the efficiency and effectiveness of operations related to materials including forecasting, master production schedule, materials requirement planning and just in time

Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of management applicable to managing production in a business
- Interpret, discuss and evaluate business information and ideas
- Apply operations management knowledge to practical and/or simulated business situations
- Compare and evaluate strategies used in operations management
- Propose and justify strategies for improving the efficiency and effectiveness of operations

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Resources

Digital doc: Key terms glossary (2020-2040)

CHAPTER 5: Operations management 209

The **key knowledge and key skills** from the VCAA VCE Business Management Study Design (2017–21) are included, together with a real-world case study that helps students understand Business Management theory.

All **key knowledge points** from the **VCAA VCE study design** are broken down into key concepts — highly visual, digestible, lesson-based sections.

3.2 The relationship between managing employees and business objectives

KEY CONCEPT Effective management of people (human resource management) is likely to result in a business achieving success and fulfilling its objectives.

3.2.1 Human resource management

Iluka Resources Limited is a great place to work. Staff at the Australian mining company (that explores and processes titanium-based products and zircon) are treated fairly and honestly. Positive work relationships between management and staff are considered vital to the company's success. Iluka provides a fitness-for-work program for employees, supports flexible work arrangements, including part-time, working from home and modified start and finish times, and invests in the development of employees.

Responsibility for maintaining the relationship between employees and the business is known as **human resource management**. In small and medium businesses, human resource management is one of the many responsibilities of the business owner; however, in larger businesses, this task is the responsibility of a specialised **human resource manager**. Such a person will work as part of a team to ensure that the business has the appropriate employees, with the appropriate skills, available to carry out the various duties needed in the locations and at the times they are required.

Human resource managers will also take responsibility for ensuring that the business is able to get the best out of its employees, and that the employees are able to contribute to the achievement of business objectives. Motivated employees are more likely to work hard to achieve these objectives, so employee motivation is central to human resource management.

Resources

Lesson: Human resource manager — Career Council (page 105)

3.2.2 Relationship to business objectives

Businesses such as Iluka are successful in achieving their objectives by balancing the need for profitability (and satisfying shareholders) with a regard for the wellbeing of employees. Human resource management's focus on positive work and employment relationships should lead to a motivated staff, increased productivity and, consequently, the achievement of business objectives.

A large-scale business will usually establish a human resources function or department (sometimes simply referred to as HR) to be responsible for all aspects of staffing (see the organisational structure diagram on the next page). The human resources manager will be involved in directing business objectives, along with the other senior managers. The human resources manager will also need to ensure that the strategies used by the HR department align with the objectives and strategies of the entire business.

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eBookPLUS references link to targeted digital resources including eLesson videos and weblinks.

Strength and weaknesses of Lawrence and Luthans Four Drive Theory

Strengths

This drive was independently identifying management and employees to be flexible in the behaviours or strategies selected or implemented.

Four Drive Theory is very applicable to complicated or intricate environments or situations.

The four drives will connect into effort that is directed at increasing behaviour, thereby improving business performance and achieving objectives.

Weaknesses

Other drives besides the four outlined by Lawrence and Luthans may exist — these don't necessarily explain all the individual characteristics that may motivate a person.

Some of the workplace applications involve competition between employees, which can have detrimental effects, for example, a workplace may suffer from a lack of cooperation or a lack of information sharing.

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922 | Unit 923 | Unit 924 | Unit 925 | Unit 926 | Unit 927 | Unit 928 | Unit 929 | Unit 930 | Unit 931 | Unit 932 | Unit 933 | Unit 934 | Unit 935 | Unit 936 | Unit 937 | Unit 938 | Unit 939 | Unit 940 | Unit 941 | Unit 942 | Unit 943 | Unit 944 | Unit 945 | Unit 946 | Unit 947 | Unit 948 | Unit 949 | Unit 950 | Unit 951 | Unit 952 | Unit 953 | Unit 954 | Unit 955 | Unit 956 | Unit 957 | Unit 958 | Unit 959 | Unit 960 | Unit 961 | Unit 962 | Unit 963 | Unit 964 | Unit 965 | Unit 966 | Unit 967 | Unit 968 | Unit 969 | Unit 970 | Unit 971 | Unit 972 | Unit 973 | Unit 974 | Unit 975 | Unit 976 | Unit 977 | Unit 978 | Unit 979 | Unit 980 | Unit 981 | Unit 982 | Unit 983 | Unit 984 | Unit 985 | Unit 986 | Unit 987 | Unit 988 | Unit 989 | Unit 990 | Unit 991 | Unit 992 | Unit 993 | Unit 994 | Unit 995 | Unit 996 | Unit 997 | Unit 998 | Unit 999 | Unit 1000 | Unit 1001 | Unit 1002 | Unit 1003 | Unit 1004 | Unit 1005 | Unit 1006 | Unit 1007 | Unit 1008 | Unit 1009 | Unit 1010 | Unit 1011 | 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1095 | Unit 1096 | Unit 1097 | Unit 1098 | Unit 1099 | Unit 1100 | Unit 1101 | Unit 1102 | Unit 1103 | Unit 1104 | Unit 1105 | Unit 1106 | Unit 1107 | Unit 1108 | Unit 1109 | Unit 1110 | Unit 1111 | Unit 1112 | Unit 1113 | Unit 1114 | Unit 1115 | Unit 1116 | Unit 1117 | Unit 1118 | Unit 1119 | Unit 1120 | Unit 1121 | Unit 1122 | Unit 1123 | Unit 1124 | Unit 1125 | Unit 1126 | Unit 1127 | Unit 1128 | Unit 1129 | Unit 1130 | Unit 1131 | Unit 1132 | Unit 1133 | Unit 1134 | Unit 1135 | Unit 1136 | Unit 1137 | Unit 1138 | Unit 1139 | Unit 1140 | Unit 1141 | Unit 1142 | Unit 1143 | Unit 1144 | Unit 1145 | Unit 1146 | Unit 1147 | Unit 1148 | Unit 1149 | Unit 1150 | Unit 1151 | Unit 1152 | Unit 1153 | Unit 1154 | Unit 1155 | Unit 1156 | Unit 1157 | Unit 1158 | Unit 1159 | Unit 1160 | Unit 1161 | Unit 1162 | Unit 1163 | Unit 1164 | Unit 1165 | Unit 1166 | Unit 1167 | Unit 1168 | Unit 1169 | Unit 1170 | Unit 1171 | Unit 1172 | Unit 1173 | Unit 1174 | Unit 1175 | Unit 1176 | Unit 1177 | Unit 1178 | Unit 1179 | Unit 1180 | Unit 1181 | Unit 1182 | Unit 1183 | Unit 1184 | Unit 1185 | Unit 1186 | Unit 1187 | Unit 1188 | Unit 1189 | Unit 1190 | Unit 1191 | Unit 1192 | Unit 1193 | Unit 1194 | Unit 1195 | Unit 1196 | Unit 1197 | Unit 1198 | Unit 1199 | Unit 1200 | Unit 1201 | Unit 1202 | Unit 1203 | Unit 1204 | Unit 1205 | Unit 1206 | Unit 1207 | Unit 1208 | Unit 1209 | Unit 1210 | Unit 1211 | Unit 1212 | Unit 1213 | Unit 1214 | Unit 1215 | Unit 1216 | Unit 1217 | Unit 1218 | Unit 1219 | Unit 1220 | Unit 1221 | Unit 1222 | Unit 1223 | Unit 1224 | Unit 1225 | Unit 1226 | Unit 1227 | Unit 1228 | Unit 1229 | Unit 1230 | Unit 1231 | Unit 1232 | Unit 1233 | Unit 1234 | Unit 1235 | Unit 1236 | Unit 1237 | Unit 1238 | Unit 1239 | Unit 1240 | Unit 1241 | Unit 1242 | Unit 1243 | Unit 1244 | Unit 1245 | Unit 1246 | Unit 1247 | Unit 1248 | Unit 1249 | Unit 1250 | Unit 1251 | Unit 1252 | Unit 1253 | Unit 1254 | Unit 1255 | Unit 1256 | Unit 1257 | Unit 1258 | Unit 1259 | Unit 1260 | Unit 1261 | Unit 1262 | Unit 1263 | Unit 1264 | Unit 1265 | Unit 1266 | Unit 1267 | Unit 1268 | Unit 1269 | Unit 1270 | Unit 1271 | Unit 1272 | Unit 1273 | Unit 1274 | Unit 1275 | Unit 1276 | Unit 1277 | Unit 1278 | Unit 1279 | Unit 1280 | Unit 1281 | Unit 1282 | Unit 1283 | Unit 1284 | Unit 1285 | Unit 1286 | Unit 1287 | Unit 1288 | Unit 1289 | Unit 1290 | Unit 1291 | Unit 1292 | Unit 1293 | Unit 1294 | Unit 1295 | Unit 1296 | Unit 1297 | Unit 1298 | Unit 1299 | Unit 1300 | Unit 1301 | Unit 1302 | Unit 1303 | Unit 1304 | Unit 1305 | Unit 1306 | Unit 1307 | Unit 1308 | Unit 1309 | Unit 1310 | Unit 1311 | Unit 1312 | Unit 1313 | Unit 1314 | Unit 1315 | Unit 1316 | Unit 1317 | Unit 1318 | Unit 1319 | Unit 1320 | Unit 1321 | Unit 1322 | Unit 1323 | Unit 1324 | Unit 1325 | Unit 1326 | Unit 1327 | Unit 1328 | Unit 1329 | Unit 1330 | Unit 1331 | Unit 1332 | Unit 1333 | Unit 1334 | Unit 1335 | Unit 1336 | Unit 1337 | Unit 1338 | Unit 1339 | Unit 1340 | Unit 1341 | Unit 1342 | Unit 1343 | Unit 1344 | Unit 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Unit 1512 | Unit 1513 | Unit 1514 | Unit 1515 | Unit 1516 | Unit 1517 | Unit 1518 | Unit 1519 | Unit 1520 | Unit 1521 | Unit 1522 | Unit 1523 | Unit 1524 | Unit 1525 | Unit 1526 | Unit 1527 | Unit 1528 | Unit 1529 | Unit 1530 | Unit 1531 | Unit 1532 | Unit 1533 | Unit 1534 | Unit 1535 | Unit 1536 | Unit 1537 | Unit 1538 | Unit 1539 | Unit 1540 | Unit 1541 | Unit 1542 | Unit 1543 | Unit 1544 | Unit 1545 | Unit 1546 | Unit 1547 | Unit 1548 | Unit 1549 | Unit 1550 | Unit 1551 | Unit 1552 | Unit 1553 | Unit 1554 | Unit 1555 | Unit 1556 | Unit 1557 | Unit 1558 | Unit 1559 | Unit 1560 | Unit 1561 | Unit 1562 | Unit 1563 | Unit 1564 | Unit 1565 | Unit 1566 | Unit 1567 | Unit 1568 | Unit 1569 | Unit 1570 | Unit 1571 | Unit 1572 | Unit 1573 | Unit 1574 | Unit 1575 | Unit 15

Dedicated Apply your Skills subtopics give students practice in acquiring the key skills from the Study Design. Real-life Australian case studies allow students to contextualise their understanding.

16. Put use the automatic style to manage the inexperienced employees of his cafe. This is the management style that he considers using. Therefore he has used it for some time. Referring to his business including the appropriateness of management styles, justify the use of Paul's use of the automatic style. (10 marks)

2.7 APPLY YOUR SKILLS Management styles

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary information of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Analyse and discuss management styles necessary for successful business management
- Evaluate management styles and their appropriateness for a range of business situations

AN EXPERIENCED MANAGER

Peter Anderson, a Production Manager at Motor Pty Ltd, is a manufacturing company that supplies assembly parts to various production companies.

The difficult aspect of Peter's job is responding to the demand to maintain adequate stock levels to service other vehicle companies. Peter's management experience comes from working at the factory floor for 20 years, the decade before being promoted to production manager four years ago. He has extensive knowledge of equipment and production, and has built a reputation for being a hard-headed, no-nonsense manager who gets the work done. Despite this, he is an excellent leader, with problems that the managing director can resolve with little request for new stock requirements.

Marketing Manager Kim Laffin's team is taken orders to provide parts for a variety of models and makes from different vehicle companies. However, she does not always communicate her ideas to Peter. As a result, production staff often struggle because they receive a lot of orders for the production changes required.

Having been manager of a team of employees who make an efficient, including full-time and part-time workers, working together, they plan to establish in the production department and prepare stock checklists to ensure work takes place continuously between shifts.

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5.3 EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations

KEY CONCEPTS

- Efficiency and effectiveness work together to enable a business to achieve objectives.
- All operations strategies are used to improve the efficiency and effectiveness of operations.

It is vital that you understand the concepts of efficiency and effectiveness as you examine operations management. As you consider each operations management strategy, make sure that you can relate it back to how it affects efficiency and effectiveness.

A business must monitor and evaluate its operations systems. A business should be constantly asking whether or not the operations strategies that have been implemented or are about to be implemented, improve the effectiveness of the production process (achieving stated objectives). Likewise, a business should also be asking whether or not operations strategies are improving the efficiency of the production process (how well the business has used resources in achieving its objectives).

EFFECTIVENESS – 'DOING THE RIGHT THINGS'

Effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. In other words, the business is doing the right thing. For example, it might be asked, 'did the business make a profit, or did the business not make a profit?' If a business's objectives are to make profit, and it did so, then we would say it has been effective in achieving its objectives.

Operations strategies should support the business in achieving objectives such as to make a profit. For example, one materials strategy is 'Just in Time'. By ensuring that the right amount of materials are available, they are needed for storage costs are reduced and the cost of waste (scrapping) is reduced (cost-reducing costs).

Technical costs (input materials) as a profit (profit) is defined as what remains after business expenses have been deducted from revenues. Further, the right materials arriving at the right place, in the right quantities and at the appropriate moment, is essential to production processes as planned. Effective operations contribute to the achievement of business objectives such as profit.

Another example of an operations strategy being used to improve effectiveness relates to technological development. New technological developments, such as automation, can be incorporated into the production process of a business. Technology can be used to increase production and improve the quality of the product, as well as to reduce errors and waste – thereby reducing costs. In this way, technological developments are able to support the business in achieving its objectives, such as making a profit, increasing sales and increasing market share.

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Extend your Knowledge subtopics challenge and extend student understanding using real-life case studies of today's business people. Review questions follow each case study.

reduce the labour required to perform a task and increase output is also a strategy used in many businesses. The use of robots in car manufacturing plants is now commonplace.

Regarding its effect on efficiency, operations strategies should support the business in using resources efficiently in achieving objectives. Just in Time can be used by a business to improve efficiency. By ensuring that the right amount of materials arrive just as they are needed for production, the business does not need to maintain inventory. This reduces the risk of stock becoming damaged, lost or perished, or even used, thereby minimising waste. Because the business does not need to carry inventory, the actual amount of stock used can be reduced, improving productivity. Just in Time ensures that the operation process only produces what is needed, when it is needed, and in the quantity required for the right time.

Technological developments, such as automation, can be incorporated into the production process of a business to improve efficiency. Technology allows the operations process to occur faster, increasing the rate at which a product is produced. Furthermore, costs are reduced as technology reduces errors. In addition, the use of technology reduces waste.

It is important to note that efficiency and effectiveness work together to enable a business to achieve objectives. It is difficult for a business to be efficient if it is not being effective. For example, a business that improves productivity (efficiency) is also likely to find that profit improves (effectiveness) as the reduced costs associated with productivity improvements reduce expenses.

However, for any given time period, it is possible for a business to have been effective (that is, it has achieved its objectives, such as profit) yet inefficient (the example, productivity may have declined over the same period). Nevertheless, efficiency and effectiveness will usually mean in the same direction. Businesses that can improve effectiveness and efficiency are likely to be more competitive, because they are able to produce more outputs at lower cost, provide higher quality products to customers and deliver them without delay.

The relationship between efficiency and effectiveness

	Use of resources – efficiency	
	Efficient	Inefficient
Efficient	- Effective but inefficient points are high - Doing the right things in the wrong way	- Effective and efficient - Doing the right things and doing them right
Pursuit of objectives – effectiveness	- Ineffective and inefficient but producing enough at high cost - Doing the wrong things in the wrong way	- Efficient but ineffective but producing enough but at low cost - Doing things right but doing the wrong thing

5.3 Activities

TEST your understanding

- Identify three ways in which a manufacturing business could improve productivity.
- Identify three ways in which a service business could improve productivity.
- Explain the difference between the efficiency and effectiveness of operations.
- Outline how a business can use one operations strategy to improve effectiveness.
- Describe one operations strategy that a business can use to improve efficiency.

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Key performance indicators – specific criteria used to measure the efficiency and effectiveness of the business's performance.

The amount of completed or available material created by the production process of a business.

Cost of goods figures, the numbers based on income statement that show net profit – what remains when expenses are deducted from the revenue earned.

Other quality or service issues.

Number of customer complaints – the amount of customer expressing their dissatisfaction with the business, other quality or service issues.

Number of workplace accidents – indicates how safe the workplace is for employees.

Percentage of stock – the business's share of the total industry sales for a particular good or service, expressed as a percentage.

Productivity – to indicate change rather than simply to meet to needs produced differentiation. The use of factors such as brand names, delivery methods and advertising to establish difference between identifiable products.

Productivity – a measure of performance that indicates how many inputs (resources) it takes to produce an output (productivity growth). The change in productivity in one year compared to the previous year.

Rate of staff turnover – the number of workers who resign to turn up for work when they are scheduled to do so.

Resilience – to wait for a change to occur and then respond to it.

Restraining forces – those factors that work against the change.

Staff turnover – the number, or the rate, of employees who are leaving the business over a specific period of time, and need to be replaced by new employees.

Resources

Digital doc: Key terms glossary (300-30452)

6.13.3 Review questions

TEST your understanding

- What is meant by the term 'transforming a business'?
- Describe the difference between a proactive and a reactive manager when dealing with change.
- Outline two skills a manager should utilise when managing change.
- Define the term 'key performance indicators'.
- List and briefly outline three of each of the following:
 - driving forces for change
 - restraining forces for change
- Describe, using an example, the difference between driving and restraining forces.
- Outline why resistance to change in management and employees is common.
- List the key performance indicators that may lead to change.
- Describe the difference between efficiency and effectiveness.
- Explain why setting achievable goals can help managers implement change more successfully.
- Explain what is meant by a Force Field Analysis.
- Outline the benefits of preparing an action plan as part of a Force Field Analysis.
- List the five steps in a Force Field Analysis.
- Outline three of Porter's five competitive forces.

CHAPTER 6: Reviewing performance – the need to change 320

A glossary, crossword and missing word quiz activity for each chapter are available in the eBookPLUS.

Each chapter review contains a summary and review questions, as well as school-assessed coursework tasks

3. Given the performance of Bunnings in the United Kingdom, it would appear that Bunnings did not do their homework in terms of what the United Kingdom retail was like and the other retailers. Despite this, Bunnings Force Field Analysis could have been used in this situation.

Outline how driving forces for change that may have led Bunnings to commence operations in the United Kingdom.

EXTEND your understanding

- The case study refers to the transformation strategy of Bunnings not being successful. Explain the transformation strategy proposed by Porter.
- Outline the other strategy suggested by Porter.
- Suggest one restraining force that Bunnings has had to overcome.

6.13 Summary

6.13.1 Summary

The concept of business change

- All businesses need to undergo change to remain competitive.
- Managers and management can be proactive in managing change or reactive.
- All management skills need to be utilised to effectively manage change.

Analysis of business performance

- All businesses measure their performance.
- Businesses seek to improve their efficiency and effectiveness.
- Key performance indicators are specific criteria used to measure the efficiency and effectiveness of the business's performance.
- The performance of a business can be analysed using the following key performance indicators as sources of data:
 - percentage of market share
 - net profit figures
 - rate of productivity growth
 - number of sales
 - rate of staff absenteeism
 - level of staff turnover
 - level of wastage
 - number of customer complaints
 - number of workplace accidents.
- A business may benchmark its performance against the performance of a business recognised as a model business.

Key principles of the Force Field Analysis Theory (Lewin)

- Karl Lewin developed a theory of change management based on a Force Field Analysis.
- A Force Field Analysis examines the driving and restraining forces for change.
- A Force Field Analysis requires an action plan.

Driving forces for change in business

- Driving forces are those forces that initiate, encourage and support the change.
- The main driving forces for change include:
 - managers (want the business to remain profitable and competitive)
 - employees (working in a supportive and innovative environment are due to suggest ideas)

CHAPTER 6: Reviewing performance – the need to change 321

Resources

Digital doc: Mining word glossary (300-30452)

Digital doc: Crossword (300-30454)

studyON

50 past VCEA exams

6.13.4 School-assessed coursework

OUTCOME 1

Explain how the 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.

ASSESSMENT Task – structured questions

Time allowed: 30 minutes

Weighting: 20% (The marks for each question are indicated at the end of each question.)

Online assessment: 20 marks (The marks for each question are indicated at the end of each question.)

The cost of flying

Operating an airline like Qantas is an expensive business. The cost of planes, fuel, staff and landing fees are high and very costly to the company. Qantas is almost responsible to convert a loss and a half every year as a result of lost revenue.

Factors such as airlines, rising fuel costs, increased competition from low-cost competitors and general concern regarding international travel can all have an impact on the success of an airline.

The cost of a plane alone can be substantial, let alone the other associated costs.

CHAPTER 6: Reviewing performance – the need to change 322

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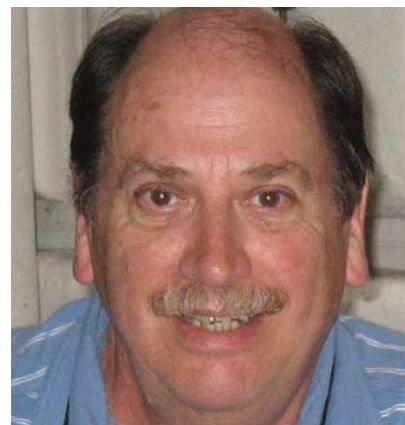
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UNIT 3

MANAGING A BUSINESS

Introducing a corporate manager

Naomi Milgrom (pictured) is the chief executive officer (CEO) of ARJ Group Holdings Pty Ltd. While you may not have heard of this privately owned company, you may know the retail chains that it operates: Sussan, Sportsgirl and Suzanne Grae. The ARJ Group employs almost 4000 staff and sells a wide range of women's wear to women of all ages. In 2015, the company earned revenue of over \$475 million. Milgrom, widely recognised for her contributions to the fashion and retail industries, has steered the company through good times and bad.



Milgrom is an experienced manager and business woman. In 1999, she bought the then ailing retail chain Sportsgirl — which had been losing money for five years — and transformed it into a profitable business by the year 2000, and then to the lucrative business it is today. Milgrom believes the secret to running a successful business is the people within the business — the employees. She has been quoted as saying, ‘talented people in the right culture, with the right coaching and development, can provide a competitive edge that a business is looking for’. She also believes that an autocratic management style is no longer appropriate and managers who are focused on, and exclusively concerned with, cost and profit (the bottom line) are ineffective. Employees are important to Milgrom's business, as is adapting to changes in the economy and consumer trends to keep the business flourishing.

AREA OF STUDY	OUTCOME	CHAPTER
1 Business foundations	Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills	1 The nature of business
		2 The nature of management
2 Managing employees	Explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees	3 Human resource management — motivating employees
		4 Human resource management — managing employees and workplace relations
3 Operations management	Analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations	5 Operations management

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CHAPTER 1

The nature of business

1.1 Overview

1.1.1 Why it is important

There are approximately 2.2 million businesses in Australia. Of these, the vast majority are sole traders and partnerships. If you look around your local area you will see plenty of examples of businesses. Some are considered small because they have fewer than 20 employees. They might be sole traders and partnerships. There are also companies, social enterprises and government business enterprises. Have you ever heard of Wesfarmers? It is one of Australia's largest companies and any one of its 100 000 employees might work for Bunnings, Officeworks, Target, Kmart or one of Wesfarmers' coal, energy, fertiliser or insurance interests. All of these different types of businesses have some things in common. They all have objectives and stakeholders with vested interests in the business. In this chapter, you will be studying the different types of businesses and the various objectives and stakeholders they have.



NBN CO LIMITED — A GOVERNMENT BUSINESS ENTERPRISE

Many of Australia's businesses are household names. You may have heard of the National Broadband Network in the media. What you may not know is that NBN Co Limited, a company established by the government, was created in 2009 to design, build and operate the infrastructure (basic facilities, services and installations) that will enable advanced digital services to be provided to Australians.

NBN Co is a government business enterprise (GBE). This means that it is owned by the federal government. Currently, NBN Co employs over 6000 people and has estimated that thousands of local jobs will be created as they continue to build the \$38 billion network.

The National Broadband Network is the largest infrastructure project in Australia's history to date. It has to be carefully designed and executed to ensure it delivers maximum value to customers. When the National Broadband Network is finally completed, it will allow people and businesses to access high-speed broadband services all across Australia.

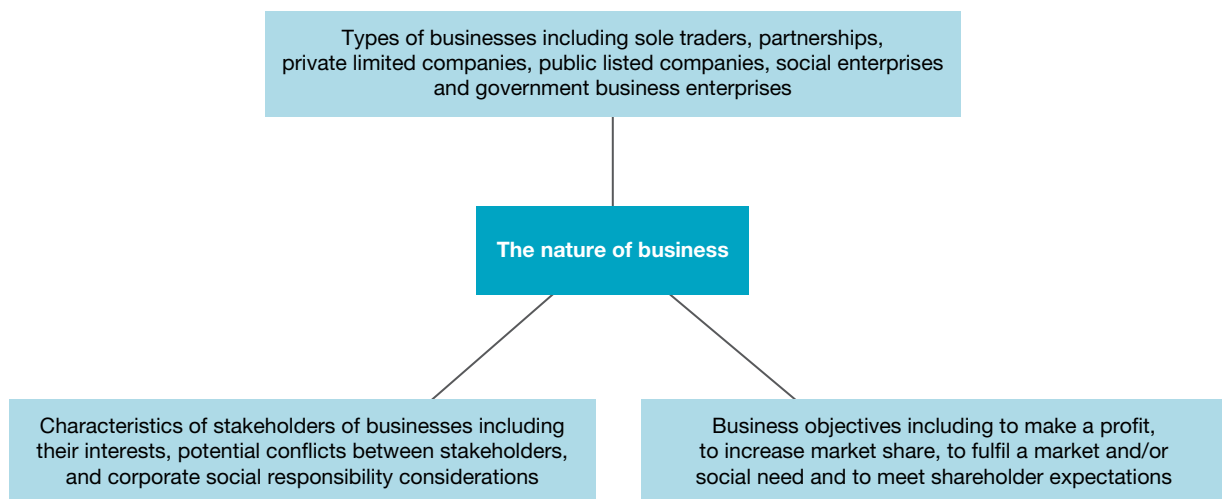
The National Broadband Network, managed by a government business enterprise, will benefit all Australians.



1.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.



Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations

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Resources

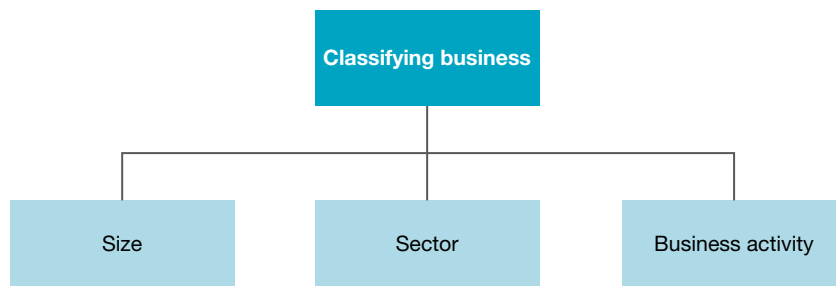
 Digital doc: Key terms glossary (doc-29432)

1.2 BACKGROUND KNOWLEDGE Introduction to business

BACKGROUND INFORMATION

Businesses can be categorised by size, sector and the industry in which they operate.

A **business** is any activity that is conducted by an individual or individuals to produce and sell goods and services that will satisfy the needs of society, with the main objective of making **profit**. As well as making profit for owners, businesses make important contributions to the economic and social wellbeing of our nation. As you study this subject you should realise that businesses can be classified in a variety of ways. Just like soft drinks, businesses come in different sizes. They also come in different flavours; that is, they can be classified by the part of the economy that they operate in and also according to the particular good or service that they produce.



Businesses can be categorised by size, as well as the sector and industry in which they operate. Myer, Australia's largest department store group by revenue and store count, is a privately owned retailer, employing over 14 000 people.



1.2.1 Business size

While there is no single universally accepted definition of a small, medium or large business, a number of measurements can be used to determine the size of a business, including:

- the number of employees (those who are hired to do work for the business) — a large number of employees, for example, will suggest that a business is large. Many small businesses in Australia have no employees, as the owner or owners operate the business on their own. The Australian Bureau of Statistics (ABS) refers to these businesses as 'non-employing'. In the past, a small business has been defined by the ABS as one that employs fewer than 20 people. Many people continue to use this definition. However, the Fair Work Commission defines a small business as one that has less than 15 employees. Historically, the ABS has defined a medium business as one that employs 20 or more people, but fewer than 200 people; a large business has been considered to be one that employs 200 or more people.

- the number of owners (of the business) — for example, if a business is a sole trader (a type of business that has one owner), it is likely to be small. Medium and large businesses tend to be companies with many owners (or **shareholders**).
- the legal structure — for example, is the business set up as a sole trader, partnership or company?
- the amount of **revenue** earned — for example, a large business will earn revenue of several million dollars annually. The Australian Taxation Office (ATO) defines a small business as one that has less than \$10 million in annual turnover (the money received from sales). Large businesses are defined as those with turnover levels above \$250 million.
- the amount of **assets** owned — for example, the Australian Bureau of Statistics (ABS) has historically defined a large business as one that has assets worth more than \$200 million.
- **market share** (the proportion of total sales in a given market or industry that is controlled or held by a business) — a small market share, for example, may suggest that a business is small.

We've looked at a number of measurements for distinguishing the size of a business, but there are many other factors that can help us to make a final judgement about the size of a business, such as:

- who makes most management decisions, such as who to hire, what to produce, how to advertise a product? — if it is the owner, then the business is most likely small. By comparison, managers working on behalf of the owners typically make the decisions in medium-sized and large businesses.
- who provides most of the capital (finance)? — the owner of a small business is likely to provide most of the capital. Medium-sized and large businesses are able to raise large amounts of capital, perhaps by taking on more debt, such as through a bank loan, or by issuing more shares.
- is the business independently owned and operated? — small businesses tend to be owned and operated by the same person, with the owner able to make independent decisions. For example, the owner of a local hamburger shop will be able to decide independently what food he or she will serve, while a large business like Coca-Cola will have entire teams of individuals developing products in line with the company's strategic goals.
- how many locations does the business have? — a business that is locally based is likely to be small. Note that this does not mean that the business will only trade locally, as many small businesses are able to export products to overseas markets. Small businesses will be based in the one location whereas a large multinational corporation (or company) may have offices around the world.

The table below summarises the features of, and distinctions between, the different sized businesses.

DID YOU KNOW?

In June 2017 there were more than 2 million small businesses in Australia, which represented 97 per cent of all businesses. Most small businesses employ fewer than five people, including the owner, and are often referred to as micro businesses. Almost 1.4 million of these businesses are non-employing — they have no employees.

Common classification of businesses based on size

Characteristics	Small	Medium-sized	Large
Business type	Corner store Local mechanic Hairdressing salon	Services club Motel/hotel Engineering factory	Woolworths Qantas National Australia Bank
Number of employees according to the ABS business register definition	Fewer than 20	20–199	200 or more

Characteristics	Small	Medium-sized	Large
Type of ownership	Independently owned and operated by usually one or two people	Owned and operated by a few people and/or private shareholders	Owned usually by thousands of public shareholders
Most common legal structure	Sole trader Partnership	Partnership Private company	Public company (numerous)
Decision-making	Owner responsible for majority of decisions; simple and quick implementation of decisions	Owner basically responsible for majority of decisions; more complicated decision-making with slower implementation, due to influence of directors	Complex decision-making, due to division of responsibilities among directors, senior and middle management; possibly slow implementation of decisions, due to the layers of management
Sources of finance	Owner (usually from own savings or a loan); difficulty in accessing loans	Owners'/partners' own savings or a loan and/or private shareholders; easier accessibility to larger loans	Many sources, including cash reserves, retained profit, sale of shares, and loans from domestic and overseas institutions
Market share	Small, usually local area; not dominant in the industry	Medium-sized, due to dominance within a geographic region; some market dominance	Large, especially for multinational corporations that dominate the markets of many countries

Australia Post is a large business because it employs more than 34 000 people and earned revenue of \$6.8 billion in 2016–17. As of June 2015, the business owned assets of more than \$5.5 billion. Australia Post is also a government business enterprise (GBE), as the Commonwealth Government is its sole shareholder. As a GBE it operates in the public sector, but it also operates in the transport, postal and warehousing industries.



1.2.2 Public or private sector

According to the ABS, just over 2.2 million businesses were operating in the private sector in June 2017. The private sector is the part of Australia's economy that is operated by private individuals and companies usually for the purpose of making profit. Businesses such as sole traders, partnerships and companies make up the private sector. The public sector is the part of Australia's economy that is operated by government. Businesses operating in the public sector are the least common type of business, according to the ABS. It estimated that in 2016–17, there were only 393 public sector businesses actively trading goods and services. Businesses operating in the public sector are referred to as government business enterprises (GBEs); these are businesses that are owned and operated by the government.

The top five public listed companies in Australia in relation to total revenue in 2017 were Wesfarmers (including Bunnings, Target and Kmart), Woolworths, Commonwealth Bank of Australia, BHP and Westpac Banking Corporation.



1.2.3 Business activity

Businesses can also be classified under the **industry** sector in which they operate. These sectors are known as primary, secondary and tertiary, and are determined by the good or service that businesses produce. Businesses such as OZ Minerals Ltd are involved in primary industry (farming, mining, forestry). These are industries concerned with extracting resources directly from nature. Manufacturers such as Kellogg (Aust.) Pty Ltd operate in the secondary industry (where raw materials are turned into finished or semi-finished products). The secondary industry takes raw materials from the primary sector and adds value to them, by processing or manufacturing materials, or through assembly and construction. The third category is the tertiary industry, which involves the provision of services. For example, businesses in the tertiary industry will operate in wholesaling, retailing and transport. Optus is a large company that works in the tertiary industry. The tertiary sector can be further divided into the quaternary sector, which involves the provision of information in areas such as the media, computing, finance, property and education, and the quinary sector, which involves paid and voluntary domestic services.

Australian businesses can also be categorised by the individual industries in which they operate. When it gathers data, the ABS will typically group businesses that provide a particular good or service into 19 industries. These are made up of, for example, mining, manufacturing, retail, construction, education and health. The table below shows these industries and the number of businesses operating within each industry in Australia.

Number of businesses by industry in Australia, 2016–17

Industry division	Number of businesses operating June 2017	Industry division	Number of businesses operating June 2017
Agriculture, forestry and fishing	176 140	Financial and insurance services	202 110
Mining	7853	Rental, hiring and real estate services	246 664

Industry division	Number of businesses operating June 2017	Industry division	Number of businesses operating June 2017
Manufacturing	83 789	Professional, scientific and technical services	270 654
Electricity, gas, water and waste services	6591	Administrative and support services	85 760
Construction	371 599	Public administration and safety	7427
Wholesale trade	78 989	Education and training	29 724
Retail trade	130 387	Health care and social assistance	128 543
Accommodation and food services	92 757	Arts and recreation services	27 248
Transport, postal and warehousing	149 544	Other services	94 220
Information media and telecommunications	21 017	Currently unknown ^(a)	27 283
All industries			2 238 299

^(a) This category consists of those businesses that are yet to be coded by the ATO to an industry.

Source: Table 1 Businesses by industry division, from ABS 8165.0, *Counts of Australian businesses, including entries and exits, June 2013–June 2017*.

The industry sector in which a business operates is determined by the goods or services it produces. Arnott's is Australia's largest producer of biscuits (secondary sector), while Optus is Australia's second-largest telecommunications company (tertiary sector).



1.2 Activities

TEST your understanding

1. Distinguish between revenue and assets.
2. State whether the following businesses are small, medium or large, and the reason for your decision.
 - (a) Qantas employs approximately 27 000 people.
 - (b) National Australia Bank is an international financial services company that has customers in Australia, New Zealand, Asia, the United Kingdom and the United States.



- (c) Brookfarm is owned by Carolyn and Martin Brook; it produces gourmet macadamia nuts for domestic and export markets and employs more than 20 staff.
 - (d) Ripe Maternity Wear was started by two friends in 1996 to manufacture contemporary maternity clothes. It supplies clothes worldwide, employing no more than 20 staff.
3. Are the following statements true or false?
 - (a) Large businesses employ a small number of people.
 - (b) Small businesses do not usually have a large share of a particular market.
 - (c) In small businesses, decisions are usually made by the owners of the business.
 4. Explain the difference between the private sector and public sector.
 5. Outline the key characteristics of the primary, secondary and tertiary industries.

APPLY your understanding

6. Prepare a database of 10–15 businesses that you have dealt with over the past few months — you may have bought something from them or worked in one. Copy and complete the table below and then answer the questions that follow. One example has been entered for you.

Business name	Business activity	No. of employees	Business size	Industry sector	Industry division
1 Redbank Café	Food and drink	4	Small	Tertiary	Retail trade

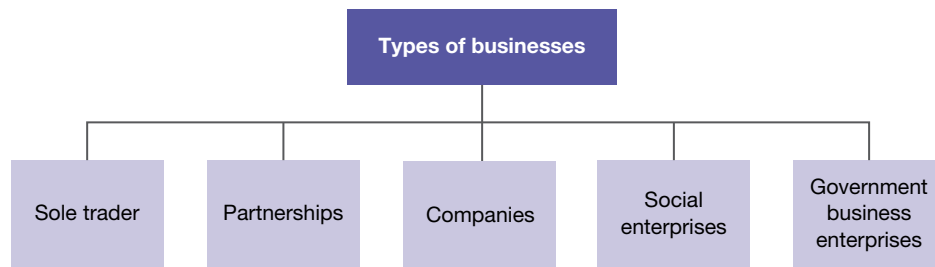
- (a) What percentage of the businesses in your database are small? What percentages are medium-sized and large?
 - (b) How do the percentages compare with the figures for Australia?
 - (c) Provide two reasons for the differences/similarities between the figures.
7. Using the internet or newspapers, look for articles about small, medium-sized and large businesses that interest you. Start a file of news clippings or printouts and write an information page to attach to each article. Include the following:
 - (a) what the article is about
 - (b) background information about the business
 - (c) the section of the VCE Business Management course to which the article relates, e. g. Area of Study 1, Outcome 1.

1.3 Types of businesses: sole traders and partnerships

KEY CONCEPT There are a number of types of businesses, including sole traders and partnerships. Each type of business has certain advantages and disadvantages.

1.3.1 Types of businesses

There are a number of different types of businesses. Three common legal structures used by businesses in Australia are: sole traders, whereby an individual owns and runs a business; partnerships, whereby a group of people will own and run a business together; and companies, which are owned by shareholders. We will explore both private limited companies and public listed companies in the next subtopic. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises. These are explored in subtopic 1.5.



on Resources

 **eLesson:** Types of business structure (eles-2924)

EXAM TIP

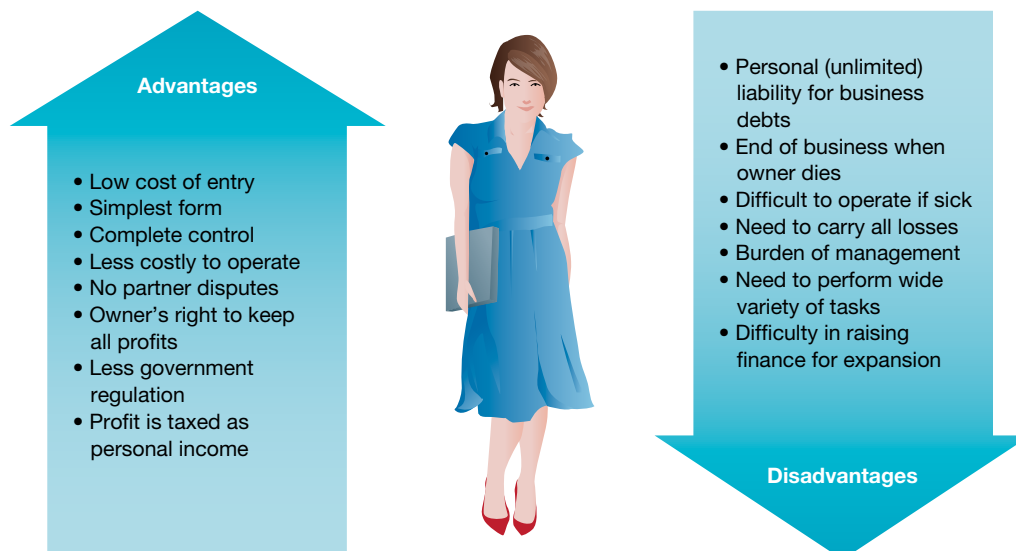
The **Unit 3, Area of Study 1** outcome states that you need to ‘be able to discuss the key characteristics of businesses’. This suggests that you should know the advantages and disadvantages of each type of business.

1.3.2 Sole trader

A **sole trader** business has one person who owns and runs the business. The owner may employ other people to work in the business, but the owner or sole trader is the person who provides all the finance, makes all the decisions and takes all the responsibility for the operation of the business.

This type of business is easy to establish, as the only legal requirement specific to a sole trader is that the name of the business must be registered with the Australian Securities and Investments Commission (ASIC), but only if it is different from the name of the owner. A sole trader is not regarded as a separate legal entity — that is, the owner and the business are regarded as the same. This means that if the business is sued, then the owner is sued. Also, if the business enters a legal contract, then the owner is the one entering the contract. If the business runs into financial difficulties, the owner has the financial problem and is personally responsible for any business debts. This responsibility is known as **unlimited liability**, and may involve the owner having to sell personal assets, such as property or motor vehicles, to pay for the liabilities of the business.

The advantages and disadvantages of being a sole trader



1.3.3 Partnership

A **partnership** is a business owned by two or more people. Most partnerships have a maximum of 20 partners. There are exceptions to this number, including medical practitioners and stockbrokers (allowed up to 50 partners); veterinarians, architects and chemists (allowed up to 100 partners); and solicitors and accountants (allowed up to 400 partners). A partnership is similar to a sole trader in that it is not a separate legal entity from the partners — that is, the owners and the business are regarded as the same. Like sole traders, the partners in a business are also subject to unlimited liability, and so could be personally responsible for the debts of the business.

A partnership can be made verbally or in writing, or by implication (that is, if two people set up a business together *without* a legally binding partnership agreement). A written partnership agreement is not compulsory, but it is certainly worthwhile if disputes arise. A partnership agreement usually has a standard set of conditions (see the following ‘Did you know?’ feature).

Limited partnerships were introduced to allow one or more partners to contribute financially to the business but take no part in running the partnership. In this case, the partner is referred to as a **silent** or **sleeping partner**. The main reason for their investment is to add more capital or finance to an existing partnership.



While a sole trader pays tax using his or her personal tax file number, a partnership has its own tax file number — separate from those of each of the partners — and lodges its own tax return. Once the ATO has assessed the partnership's tax return and all taxes have been paid, the profits are divided among the partners according to the partnership agreement. Each partner then adds their share of the profit (or loss) to their personal income to be assessed by the ATO.

DID YOU KNOW?

A partnership agreement may contain any of the following points:

- how long the partnership will exist
- the amount of money that each partner contributes
- how the profits and losses will be shared
- the duties of each partner
- limitations on the authority of the partners
- how the partnership may be dissolved
- methods of resolving disputes.

Sole traders Summary screen and practice questions**Partnerships** Summary screen and practice questions**on Resources** **eLesson:** A family business — Fleming's Nurseries (eles-1063)

1.3 Activities

TEST your understanding

1. Define the following terms in your own words:
 - (a) unlimited liability
 - (b) shareholders.
2. Explain the difference between a sole trader and a partnership.
3. Under what circumstances will a sole trader not need to register a business name?
4. Identify three advantages and three disadvantages of setting up a business as a sole trader. For each advantage and disadvantage, explain why you believe it is an advantage or a disadvantage.
5. Outline the advantages and disadvantages of a partnership.

APPLY your understanding

6. Using the internet, find:
 - (a) five examples of sole traders or partnerships that would not have to register their business name
 - (b) five examples of businesses that would have to register their name.
7. Eve operates a successful homemade-casserole business as a sole trader. She is interested in taking on partners in her business.
 - (a) What advantages will Eve gain from a partnership arrangement that she does not have as a sole trader?
 - (b) What disadvantages could Eve experience from the partnership arrangement?

EXAM practice

8. Define the term 'partnership'. **(1 mark)**
9. Distinguish between a sole trader's business and a partnership. **(2 marks)**
10. Explain two reasons why a business may choose to operate as a sole trader rather than as a partnership. **(4 marks)**

1.4 Types of businesses: private limited companies and public listed companies

KEY CONCEPT There are a number of types of businesses, including private limited companies and public listed companies. Each type of business has certain advantages and disadvantages.

1.4.1 Incorporation

Many businesses which have begun as sole traders or partnerships may find that, as their business grows, there are advantages in changing the ownership structure to that of a company. This process is known as **incorporation**.

The process of incorporation is governed by the Commonwealth *Corporations Act 2001*, and is administered by the Australian Securities and Investments Commission (ASIC). In order for a business to become incorporated, a company name must be registered with ASIC, which will issue a certificate of incorporation and an Australian Company Number (ACN). Directors must be appointed to run the company on behalf of the owners. Once incorporated, the company has a separate legal identity to its owners, who are now known as shareholders (referred to in the Corporations Act as ‘members’).

Incorporation also brings to the shareholders the benefits of **limited liability**. In limited liability companies, the most money that a shareholder can lose is the amount that he or she paid for their shares. If the company goes into liquidation, the shareholders cannot be forced to sell their personal assets to pay for the debts of the business. This same protection does not extend to the directors of a company, as they have an obligation to ensure the company obeys the law and acts in the interests of the shareholders.

Financial institutions often ask directors to give personal guarantees for some business loans. Under some circumstances, therefore, directors can be forced to sell their personal assets to help pay for business debts. To offset this risk, companies can insure against such an event.

The letters ‘Ltd’ signify that a business is a company that has limited liability. A company can be organised as either a proprietary (private) or public company.

DID YOU KNOW?

If directors make false or misleading statements or omissions, if they fail to appoint a secretary or if they recklessly borrow money knowing that the debts probably will not be repaid, then the protection offered by the company in being a separate legal entity will not cover the directors. Directors accused of such unlawful behaviour may face common law suits and criminal charges.

1.4.2 Private limited companies

A **private limited** (or proprietary) **company** is the most common type of company structure in Australia. Private limited companies must have at least one shareholder and a maximum of 50 non-employee shareholders (members who aren’t employees of the company). A private company must also have at least one director. Therefore, it is quite possible for a private limited company to be owned by a single shareholder, who is also the director of the company. Private companies tend to be small to medium-sized, family-owned businesses. In many cases, one family owns most of the shares in a private company.

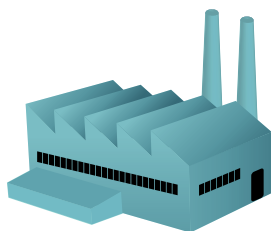
Shares in a private company are offered only to those people whom the business wishes to have as part owners. Shareholders can sell their shares only to people approved of by the other directors. This is why such a company is called a ‘private’ company. It is not listed on, and its shares are not sold through, a stock exchange. A private company must have the words ‘Proprietary Limited’, abbreviated to ‘Pty Ltd’, after its name.

Sometimes, the decision is taken to close a business. However, closing a private company is much more complex than closing a sole trader business or a partnership. All shareholders of the company must agree to the company being wound up. A liquidator will manage the process of selling the company's assets, paying its debts, and distributing funds from the asset sales among the shareholders.

The advantages and disadvantages of private limited companies

Advantages

- Easier to attract finance
- Limited liability – separate legal entity
- Easy transfer of ownership
- A long life/perpetual succession—a company does not have to be wound up in the event of the death, disability or retirement of any person involved
- Experienced management through board of directors
- Greater spread of risk
- Company tax rate is lower than personal income tax rate
- Growth potential
- Can have one shareholder and one director



Disadvantages

- Cost of formation
- The company is taxed on any profits and dividends, and the income from the company to the shareholder is taxed as personal income
- Personal liability for business debts if directors knew that debts could not be paid
- Requirement to produce an annual report of audited accounts
- Public disclosure — reporting of certain information
- Rapid growth may lead to inefficiencies

study on

Unit 3

AOS 1

Topic 1

Concept 3

Private limited companies

1.4.3 Public listed companies

The shares for **public listed companies** are listed on the Australian Securities Exchange, and the general public may buy and sell shares in those companies. Whereas private companies tend to be small or medium-sized businesses, most public companies are large in size and market a large range of products — for example, Telstra, BHP, Woolworths, Virgin Australia and Westpac.

A public company has:

- a minimum of one shareholder, with no maximum number
- no restrictions on the transfer of shares or raising of money from the public via share offers
- a requirement to provide certain information when selling its shares for the first time
- a minimum requirement of three directors (of whom two must live in Australia)
- the word 'Limited' or 'Ltd' in its name
- a requirement to publish its audited financial accounts each year — included in an annual report.

There are almost 2200 public companies listed on the Australian Securities Exchange. The share price for each company changes according to demand and supply. If a company is considered a 'good buy', its share price is likely to rise (green indicates the stock or share price is rising, and red indicates the share price is falling).

ASX

STOCK	BID	OFFER	LAST	VOL	STOCK	BID	OFFER
EUR GROUP	0.060	0.070	0.000	0	FARM PRIDE	0.100	0.140
EUR GOLD	0.098	0.140	0.000	0	FE LIMITED	0.026	0.030
EURO ASIO	0.328	0.335	0.335	771	FEALX	0.120	0.130
EUROB	1.000	1.020	1.000	44	FERROWEST	0.024	0.033
EVALUATION	1.935	1.940	1.935	20	FERRUM	0.052	0.057
EVZ LTD	0.041	0.050	0.050	5M	FIDUCIAN	0.800	0.810
EXACT RES	0.000	0.000	0.000	0	FEAX	0.110	0.125
EXACTX	0.040	0.049	0.040	50T	FINBAR	1.075	1.080
EXCALBURI	0.000	0.000	0.000	0	FINERS	0.200	0.220
EXCLA	0.010	0.010	0.000	0	FINSTONE	0.008	0.009
EXCLASOR	0.190	0.193	0.190	30T	FINSTOLID	0.014	0.015
EXDIO RES	0.260	0.265	0.260	5HT	FISSION EN	0.020	0.035
EXOMA ENR	0.072	0.075	0.072	35T	FITZROYRES	0.049	0.068
EXAX	0.430	0.490	0.000	0	FKPSTAPLED ETAF	0.225	0.230
EXHALD	3.360	3.500	0.000	0	FLATGLASS	0.050	0.190
EXHQUE	0.020	0.053	0.000	0	FLATWOOD	10.261	10.23
EXHRA	0.265	0.400	0.265	1BM	FLUXIGROUP	3.261	10.23
EXHSTAR	0.008	0.010	0.009	3BM			
EXHCON MIN	0.026	0.028	0.000	0			
EXHFLOR CO2	0.003						

The advantages and disadvantages of public listed companies are much the same as for private limited companies. Furthermore, public listed companies can attract extra capital by issuing shares on the share market. A private limited company must not offer its shares to the public. Because a public company has the ability to raise capital from the public, there is a greater potential for growth. However, because of this capital-raising capacity, public listed companies are required to abide by stringent compliance rules and disclose corporate financial information. A public listed company is a highly complex business structure and it requires greater accountability and compliance than for a private limited company.

study on

Unit 3

AOS 1

Topic 1

Concept 4

Public listed companies Summary screen and practice questions

1.4 Activities

TEST your understanding

1. Explain the legal steps that are required to incorporate a business.
2. Explain what limited liability is and how it affects shareholders in a company.
3. In what circumstances might directors be held personally responsible for debts incurred by a company?
4. Explain the key differences between a private limited company and a public listed company.
5. Identify what you believe to be the three main advantages and three main disadvantages of a private limited company. Explain each selection.
6. Outline the advantages and disadvantages of a public listed company.

APPLY your understanding

7. Identify the types of business that are most appropriate for each of the following scenarios. In each case, explain why you selected that type of business.
 - (a) A financial planning, accounting and investment service
 - (b) A miner seeking to invest in new exploration and drilling programs
 - (c) A retailer of home entertainment products that wishes to expand to numerous locations nationally within five years
 - (d) A food manufacturer that requires \$67 million to establish a production facility
 - (e) A medical practice offering comprehensive healthcare

EXAM practice

8. Define the term 'private limited company'. **(1 mark)**
9. Outline two reasons why a business may choose to operate as a private limited company rather than as a public listed company. **(4 marks)**
10. Discuss the key characteristics of a public listed company. **(4 marks)**

1.5 Types of businesses: social enterprises and government business enterprises

KEY CONCEPT There are a number of types of businesses, including social enterprises and government business enterprises. Each type of business has certain advantages and disadvantages.

1.5.1 Social enterprises

A **social enterprise** is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need. The business may make a profit, but will concentrate on some sort of community or environmental need. A majority of the profit that the social enterprise makes will be reinvested back into the business so that it can continue to fulfil the social need, or will be distributed to meet the community or environmental need. There are an estimated 20 000 social enterprises in Australia. In 2018, the Victorian Government stated that there were more than 3500 social enterprises trading across metropolitan and regional Victoria — employing approximately 60 000 people and contributing \$5.2 billion to the Victorian economy.

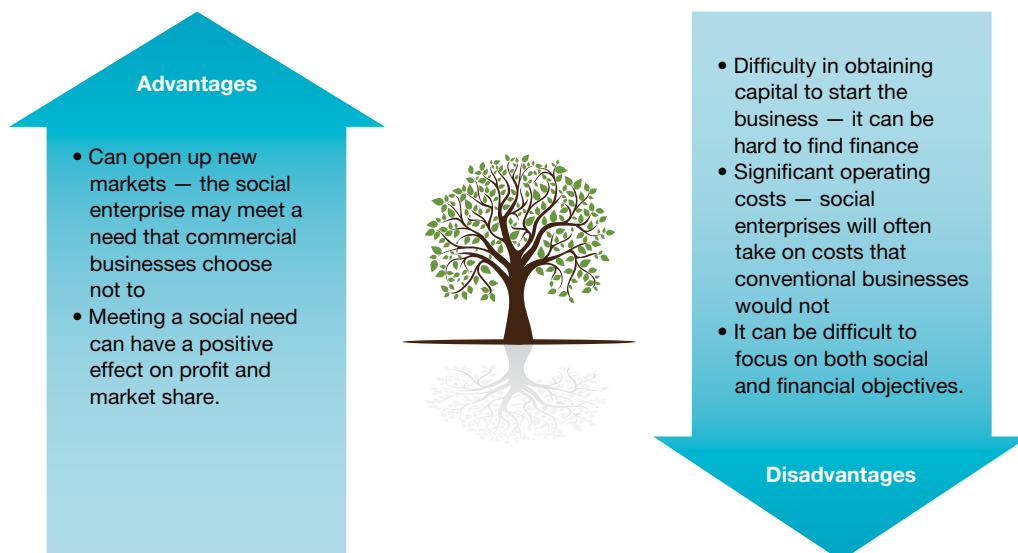
In Australia, a social enterprise can operate in many ways — it can take the form of a cooperative (a business that is owned and operated by the group of members), or a privately owned business. A social enterprise will often run just like a commercial business. Unlike charities, social enterprises do not rely on donations as their main source of income. Some social enterprises will obtain funding from the government to support their social goal. Fundamentally, they exist to benefit society, rather than solely for the pursuit of profit. Some examples of typical social needs that may be addressed by social enterprises include:

- providing opportunities for local unemployed people
- developing skills, providing vocational training or lifelong learning opportunities for disadvantaged people in the community
- creating accessibility to a better quality of life for disadvantaged members of the community
- providing essential services to disadvantaged communities
- focusing on waste minimisation and recycling.

The Big Issue magazine is a social enterprise that promotes social inclusion and works to alleviate poverty in Australia. The enterprise employs approximately 500 homeless, marginalised and disadvantaged people who sell the magazine on the street. Each vendor purchases magazines and then sells them for twice the price, earning the difference.



The advantages and disadvantages of social enterprises



DID YOU KNOW?

When the sole petrol station in the town closed down in 2002, Yackandandah Community Development Company was established to secure the future supply of local fuel. The local community wholly owns it, with most of its shares held by residents of Yackandandah. The enterprise now sells hardware, produce and farm products as well as fuel. Fifty per cent of the profits are returned to the shareholders and the rest is invested in community projects.

1.5.2 Government business enterprises

A **government business enterprise** (GBE) is a type of business that is government owned and operated. Like companies, GBEs participate in commercial activities with the goal of making a profit. We may not always think of them as being businesses, but they actually run just like companies. However, GBEs carry out government policies while they deliver community services. They operate at both the federal and state level of government.

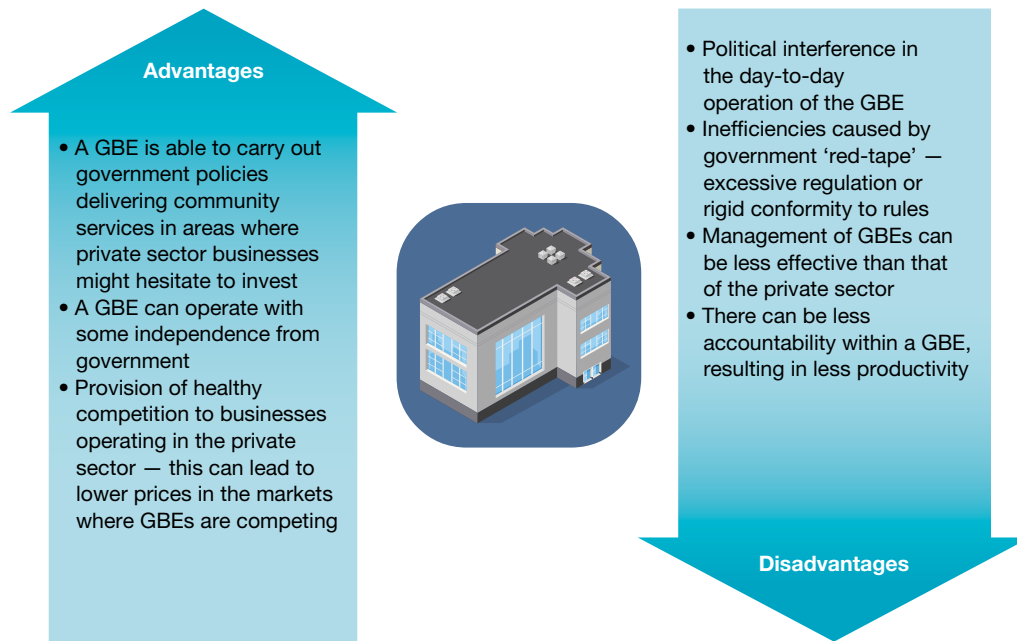
GBEs also aim to increase the value of their assets and returns to their shareholder (the government). A board of management or board of directors usually controls a GBE, with government input into the board. The government maintains a strong interest in the performance and financial returns of the GBE.

Typically, GBEs are large businesses that employ many people. Some of the largest employers in Australia are GBEs. Australia Post, NBN Co and VicRoads are examples of GBEs in Australia. VicRoads is also a statutory corporation — an Act of Parliament (a law) had to be passed to establish it.

NBN Co was established as a business in April 2009, tasked with designing, building and operating Australia's National Broadband Network. Like a privately owned enterprise, a GBE will have a chief financial officer (CFO). In February 2018, Stephen Rue (CFO at NBN Co) announced revenue of \$891 million for the second half of 2017.



The advantages and disadvantages of government business enterprises



DID YOU KNOW?

Over the past 30 years, there has been a worldwide trend to privatise GBEs. This means they are sold to the private sector, and then run as profit-making businesses. This process is known as privatisation. During the 1990s, the Australian Government privatised a number of public sector businesses, including Telstra, Qantas and the Commonwealth Bank.

The Victorian Government has privatised gas, Melbourne rail services and electricity.

study on

Unit 3 > AOS 1 > Topic 1 > Concept 5

Social enterprises Summary screen and practice questions

Unit 3 > AOS 1 > Topic 1 > Concept 6

Government business enterprises Summary screen and practice questions

1.5 Activities

TEST your understanding

1. In what ways does a social enterprise differ from a company?
2. Summarise the advantages and disadvantages of a social enterprise.
3. What is the main purpose of a government business enterprise?
4. Outline the advantages and disadvantages of a government business enterprise.

APPLY your understanding

5. Shane is planning to manufacture home water filtration units and sell the products locally. He then wants to use the proceeds of these sales to provide the same product to communities in developing countries. Explain to Shane why a social enterprise would be an appropriate business type for this idea.

6. In your notebook, construct a table with six columns labelled as in the example below. From the list of businesses provided, write each name in the correct column for its particular business type. The first business has been entered for you, as an example.

Ray Coulton Carpentry	Rural Services Co-op	Tynan Motors Pty Ltd
Fairfax Limited	Perpetual Water	Jacinta's Newsagency
M&M Communications	Tip Top Bakeries Pty Ltd	Newcrest Mining Ltd
Bigga Community Group	Paul Banwell Motors	Sue King Plumbing
Ozemail Limited	Tynan Motors Pty Ltd	R&R Antiques Pty Ltd

Sole trader	Partnership	Private limited company	Public listed company	Social enterprise	Government business enterprise
Ray Coulton Carpentry					

7. Use internet sources to research a social enterprise. An example is KereKere. Answer the following questions for the social enterprise that you find.
- Who owns the social enterprise?
 - Who manages this business?
 - What is the objective of the social enterprise?
 - How does the business contribute to the community?
8. Use the **Defence Housing Australia** weblink in the Resources tab to find out what this government business enterprise does. Answer the following questions.
- Who owns Defence Housing Australia?
 - Who manages this business?
 - What is the objective of Defence Housing Australia?
 - How many staff does Defence Housing Australia employ?

EXAM practice

- Explain the key characteristics of a social enterprise. **(2 marks)**
- Distinguish between a social enterprise and a government business enterprise. **(4 marks)**
- Discuss the use of a government business enterprise as a type of business. **(4 marks)**



Resources



Weblink: Defence Housing Australia

1.6 EXTEND YOUR KNOWLEDGE Changing the type of business through privatisation

KEY CONCEPT Businesses can change from one type to another, for example, from a government business enterprise to a public listed company.

The process of privatisation started in Australia in the 1980s, and over the past 20 years there has been a worldwide trend to privatise GBEs. Privatisation involves the transfer of ownership of government assets to the private sector. This often results in government owned corporations being sold to the private sector through a float (the issuing of shares to the public for the first time), and then run as profit-making businesses.

One of the main arguments made to support privatisation is that greater efficiencies can be achieved when an enterprise is transferred away from the public sector to the private sector. The private ownership of a business typically places more importance on maximising profit, as opposed to ownership by government, which is less concerned with profit and more concerned with policy. Critics of privatisation suggest that some goods and services, such as defence, education and health care, should be owned and managed by the government to ensure that everyone in society has equal access to them.

A recent example of privatisation is that of Medibank, which was floated on the Australian Securities Exchange (ASX) in 2014. In this way, Medibank was transformed from a government business enterprise to a public listed company.

MEDIBANK

Medibank Private Limited is a company that is listed on the ASX and is headquartered in Melbourne. It employs nearly 3000 people. It provides private health insurance and complementary health services to more than 3.7 million people in Australia and New Zealand through its Medibank and ahm brands.

However, Medibank has not always been a public listed company. The Australian government established Medibank Private in 1976 as a not-for-profit private health insurer that would provide competition for private for-profit health funds. It was a product of the then-Labor government's decision to establish a universal health scheme. Medibank was originally an operating division of the Health Insurance Commission (HIC) – now known as Medicare Australia.

In early 1997, the Australian government announced that it would incorporate Medibank, transferring ownership from the HIC to the government. The following year Medibank split from the Commission to become Medibank Private Limited. The Commonwealth became its sole shareholder.

The Howard government in 2006 announced that Medibank would be sold if it won the 2007 election. Legislation was passed enabling Medibank's sale through the *Medibank Sale Act 2006*. However, the Howard government lost the 2007 election, and in 2009 the Rudd government converted Medibank Private into a 'for profit' corporation.

The Coalition government announced that Medibank Private would be sold through an initial public offering (IPO) in March 2014, hoping to raise \$4 billion from the sale. IPO refers to the first time that a company sells shares to the open market.

When announcing the process for the privatisation of Medibank, Minister for Finance Mathias Cormann said, 'Medibank Private is already performing very well as a business, but there are obviously some restrictions that come with being government owned and we believe that in private ownership, Medibank private will be able to perform even better.'

The sale of Medibank commenced with a campaign to convince investors to pre-register their interest. A prospectus was made available in October. More than 750 000 people pre-registered for the shares, including one in six Medibank policyholders, and the IPO ended up being oversubscribed (more people wanted to buy Medibank shares than there were shares available).

The company listed on the ASX in November, with its share price opening at \$2.22 – much higher than its IPO price – before closing at \$2.14. This meant that the 440 000 retail investors who paid \$2 for each share benefited from a 14c rise in the share price. The sale ended up raising \$5.7 billion for the Australian government. It was expected that the proceeds from the sale would be invested into infrastructure through the government's asset recycling initiative.

Critics, such as the federal Labor Opposition, were concerned that the sale would negatively impact on Medibank's staff members and policy holders, particularly that it might lead to an increase in private health insurance premiums. The Opposition also believed that the sale would increase the budget deficit (because the government would lose Medibank's annual dividend payment). Some fund managers suggested that Medibank was not a company that was likely to see strong growth.

Medibank Private Ltd was originally established as a not-for-profit private health insurer. It eventually became a government business enterprise. The business was floated on the ASX in 2014, thereby becoming a public listed company.



Medibank Private is now a multi-billion-dollar revenue business, and holds just under 27 per cent of the private health insurance market in Australia. In February 2018, Medibank announced a half-year profit of \$245.6 million, an increase of 6 per cent on the previous year's first-half result. The result was attributed to higher premiums and cost cutting. Medibank chief executive officer (CEO) Craig Drummond said, '2018 marks a step change for Medibank. We are now positioning for growth which will allow us to leverage our scale to build the core business and transform into a broader health services company.'

The profit was better than market expectations and Medibank Private's share price jumped more than 3 per cent to \$3.15 by the close of trade.

In response to increasing consumer disquiet about rising premiums, Mr Drummond also announced that Medibank would start a 'priority program' to recognise and thank long-term customers. Customers who have maintained hospital and extras cover for more than 10 years will share a one-off \$20-million loyalty bonus from June 2018. For example, priority customers will be able to put the bonus towards increasing their extras limits or seeing a physiotherapist.

Medibank Private is now a multi-billion-dollar revenue business, with corporate headquarters located in Docklands, Melbourne.



DID YOU KNOW?

When Medibank Private floated on the ASX, its five female directors made history by sitting on the only board of the 100 largest companies to have more women than men. In 2018, there were still five women on Medibank's board of eight directors: chairman Elizabeth Alexander, Tracey Batten (a former CEO of St Vincent's Health Australia, Eastern Health and Dental Health Services Victoria), former premier of Queensland Anna Bligh, Japara Healthcare chair Linda Bardo Nicholls, and CSL and Transurban director Christine O'Reilly.

1.6 Activities

TEST your understanding

1. Define the term 'privatisation'.
2. Outline the arguments for and against privatisation.
3. Explain why Medibank Private was a government business enterprise.
4. Describe the process of privatisation as it applied to Medibank.
5. Explain why Medibank Private is now a public listed company.
6. Outline what a chief executive officer (CEO) is. Why does Medibank have a CEO?

EXTEND your understanding

7. A good indicator of how well a public limited company is performing is its share price. If it is achieving its objectives, such as making a profit, a company's share price will often rise. The table on the next page lists the closing share price (closing means the last price the shares sold for at end of the day's trading) for Medibank shares on the 30th of June since 2015.
 - (a) Using online sources, find the most recent closing share price for Medibank shares and draw a line chart of Medibank's performance.
 - (b) If you had purchased shares in Medibank Private when it floated in 2014, would you believe that your investment has performed well?

- (c) Using Medibank's share price as evidence, explain how successful the privatisation of Medibank Private was.

Date	Closing share price for Medibank (code MPL)
30 June 2015	\$2.01
30 June 2016	\$2.95
30 June 2017	\$2.80
30 June 2018	\$2.92

8. Use the internet to research another public listed company that was privatised after once being a government business enterprise. Some examples include Telstra, Qantas and the Commonwealth Bank. Prepare a report that covers:
- the full name of the company
 - a brief history of the business
 - a description of the company's product/s
 - why the business became a public listed company
 - the long-term plans for the company.

1.7 APPLY YOUR SKILLS Analysing and discussing social enterprises

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations

There is an increasing group of entrepreneurs across the globe setting up businesses to tackle social issues, ranging from unemployment to empowering women and girls and fighting poverty. These businesses are referred to as social enterprises: commercially viable businesses that are established to achieve social objectives, rather than focus on making profit for shareholders or owners. A social enterprise will typically seek to generate a profit from its trading activity to continue to tackle social problems and improve communities or the environment.

VANGUARD DOES THE LAUNDRY TO PROVIDE JOBS

Luke Terry's friends laughed when he decided to set up a business that would recruit unemployed people with mental illnesses to do laundry for a hospital in eastern Australia. The commercial laundry service that he founded in Toowoomba, Vanguard Laundry Services, now employs more than 40 people and cleans 20 tonnes of linen a week for 90 commercial clients.

In his former role as CEO of Toowoomba Clubhouse, a not-for-profit organisation supporting people with a lived experience of mental illness and struggling to secure employment, Terry had people from the local community asking him if he could help them to find a job. After searching locally, he received an offer to take care of the washing for St Vincent's Private Hospital in Toowoomba. He spent three years fundraising — raising \$6 million from more than 100 sources — and Vanguard was finally established when the laundry facility opened at the end of 2016. Since then, the social enterprise has experienced rapid growth and has had a substantial social impact. ►

As a social enterprise, the Vanguard laundry provides jobs to unemployed people who have a lived experience of mental illness. Any surplus it makes is re-invested back into improving the laundry services or supporting local mental health employment projects. As the managing director of the business, Terry believes that the social enterprise business model is healthy for staff and for the wider community.

Many of Vanguard's employees suffer from bipolar disorder, depression, anxiety or physical health problems. For them, having a job brings a number of benefits. A 2018 Swinburne University study funded by AMP Foundation evaluated the mental health and wellbeing impacts of Vanguard. The study found that fewer than a third of Vanguard's employees had significant employment experience before starting work at Vanguard. It was also found that after just

one year, Vanguard workers were much less likely to rely on welfare. Furthermore, the employees were less likely to visit hospital and almost 80 per cent said they simply felt better now.

One of Vanguard's goals is for its workers to, eventually, move on to other employment. The business has staff dedicated to supporting welfare and career development, and also offers courses on money management and quitting smoking.

The social enterprise's custom-built commercial laundry uses state-of-the-art technology. The business also offers a full barrier wall system — a permanent structure that is installed in the laundry facilitating the separation of the dirty (soiled) side of the building from the clean side to avoid any cross contamination and therefore meeting industry health standards.

Luke Terry, managing director of Vanguard Laundry Services



CHANGE SUPPORTS RETAILERS IN DONATING TO GLOBAL DEVELOPMENT PROJECTS

Jeremy Meltzer, a Melbourne-based entrepreneur, founded i = Change in 2013. It is a social enterprise that funds global development projects — typically ones that aid impoverished women and girls. The business partners with online retailers to encourage them to integrate social responsibility into their e-commerce platforms.

Meltzer was inspired to establish i = Change after becoming increasingly aware of the systemic violence and abuse facing women and girls across the globe. He lived for some time in Cuba and was shocked at how violence against women appeared to be considered 'normal' across Latin America.

Since then, every time that he has had the opportunity to travel, Meltzer has visited non-governmental organisations (NGOs) that work with women and girls around the world. To better understand the issue, he has met with the NGOs and women's rights activists, sat with communities and

spoken to media around the world. Meltzer has pointed out that the United Nations (UN) states that violence against women and girls is rooted in structural inequality in power relations between women and men. According to the UN, it persists in every country in the world and is one of the most systematic and widespread human rights violations.

With these issues in mind, Meltzer decided to incorporate a charitable component into a business he had already established with his father — an olive oil company, Yellingbo, that sells products online. Meltzer had woken up early one morning with an idea — what if sales could be turned into a force for good, and customers could give to charities and communities in need with every purchase? He spent weeks working on the idea, speaking to IT people about how a platform could be created, and then tweaking the initiative.

Jeremy Meltzer, founder of i = Change.



Instead of inviting customers to donate to a charity after completing a purchase, Meltzer flipped the model. Partnering with a small number of NGOs that have a focus on women and girl's development, such as the Nike Foundation and Women for Women International, Meltzer created an online platform for the olive oil business where, for every bottle that the customer purchased, the business donated two dollars to a charity of the customer's choice. There was an amazing response, with approximately 20 per cent of customers adding extra donations as well as people talking about it on social media.

Meltzer decided to develop the idea into something bigger that could be offered to other e-commerce businesses. He returned to the drawing board to transform his lightbulb moment into a bona fide social enterprise. i = Change was born.

Shoe retailer Nine West became i = Change's first retail partner. Together they tested, refined and improved Meltzer's cause marketing platform. The company soon experienced the value of appealing to customers who want to support brands that give back to society.

The i = Change platform is a simple plug-and-play application that customers experience after their purchase. It involves online retailers committing to a donation with every sale, usually \$1, and customers choosing where the donation goes, via the i = Change platform, at checkout. The customer can click a link to read about the life-changing project that the business will be donating to, or can choose to donate more if they wish. Customers can also share their choice. The entire donation is forwarded to the charity project of the customer's choice — the social enterprise does not keep any proportion of a donation. Instead, i = Change charges its retail partners a separate fee for use of the platform.

Meltzer believes strongly that social enterprises need to be successful businesses in order to have an impact on the area of social change that is being focused on. He says a social enterprise needs to be profitable to be able to pay employees and continue to use the profits to achieve its chosen social objectives.

i = Change currently has more than 40 participating retailers, including brands such as Pandora and Camilla, and recently hit \$600 000 in donations. It has partnered with over 20 charities and NGOs across the world, donating to causes ranging from providing housing for refugee families in Australia, to preventing child marriage in Bangladesh, to keeping girls in Zimbabwe in school.

The social enterprise is now focused on raising capital with the aim of expanding into the US market.

1.7 Activities

TEST your skills

1. Define the term 'social enterprise' in your own words.
2. Read 'Vanguard does the laundry to provide jobs'. Outline why Luke Terry established Vanguard Laundry Services.
3. What is Vanguard's objective?
4. Explain what Vanguard does with any surplus it makes.
5. Outline the benefits that Vanguard brings to the Toowoomba community.
6. Read 'i = Change supports retailers in donating to global development projects'. Explain where Jeremy Meltzer's idea for i = Change came from.
7. What is i = Change's objective?
8. Outline how Meltzer's online cause-marketing platform works.
9. Why does Meltzer believe that social enterprises need to be profitable businesses?

APPLY your skills

10. Using internet sources, find an example of a social enterprise. For example, you might use the 'Social Traders' website to identify names of social enterprises in Australia.
 - (a) What is the objective of the social enterprise?
 - (b) Explain how the social enterprise achieves its objective.
11. Identify whether or not the following businesses are social enterprises. Justify each response.
 - (a) Sports4U Pty Ltd designs, develops and sells sporting apparel including compression wear and general fitness garments. Its mission is to advance human performance through the development of the best available athletic garments at the lowest possible prices.
 - (b) Delia is a sole trader operating a landscape gardening business. She started the business to pay off her and her husband's mortgage.



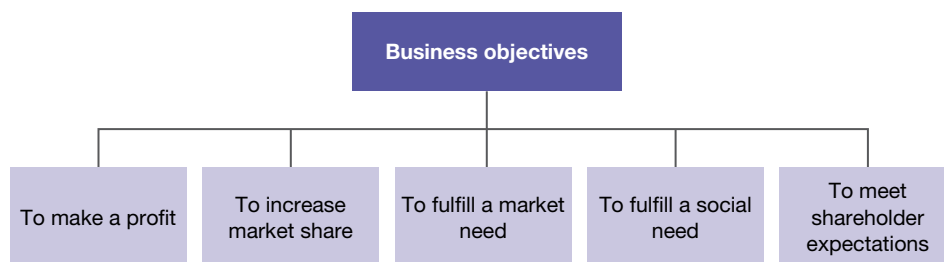
- (c) Christine owns a café that has environmental and social objectives. It provides jobs for young people with learning difficulties and other disabilities. As well as being used to provide training programs, revenue from the café funds other local community programs.
 - (d) Ossivision Australia is a private company that has an objective of aiding the homeless community. The business puts the proceeds from the sale of its sunglasses towards acquiring blankets and distributing them to the homeless.
 - (e) Assistenz Health is a public company that produces and distributes healthcare products to pharmacies. Its vision is to improve healthcare while creating unprecedented value and opportunity for customers, employees and investors.
12. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Using the example of Vanguard Laundry Services or i = Change, discuss the use of a social enterprise as a type of business.

1.8 Business objectives

KEY CONCEPT There is a range of different business objectives, including to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations. Objectives and related business strategies vary according to the type of business.

1.8.1 Business objectives

Every business aims to achieve an **objective**. An objective gives a business direction; that is, it provides the business with a path to follow, increasing its chances of being successful. The Port Arthur Historic Site Management Authority is a government business enterprise with objectives that relate to conserving, managing and promoting the Port Arthur historic sites in Tasmania as cultural tourism places of international significance. As a GBE, its objectives are very different to those of other types of businesses. Just as there are several types of businesses, there is a range of different objectives.



To make a profit

Making a profit is an objective that is central to many businesses. Profit is what is left after business expenses have been deducted from money earned from sales (revenue). A loss occurs when the expenses exceed the revenue. For example, if business expenses totalled \$100 000 per year and revenue from sales was \$300 000, the business would have made a profit.

A major indicator of a business's success is the size of its profit, so many businesses not only want to make a profit, they want to maximise their profit. A business may have other objectives that will support it in achieving its main objective of making profit, such as increasing sales, expanding the business, or increasing market share.

Port Arthur Historic Site Management Authority is responsible for the Port Arthur, Coal Mines and Cascades Female Factory historic sites. The GBE has objectives, so that its management and employees know what to do to ensure that the enterprise is successful.



To increase market share

As mentioned in section 1.2.1, market share is a business's proportion of total sales in a market or an industry. This is easy to visualise using a pie chart that shows the percentage of sales the business has in relation to all its competitors. In most industries, market share is usually an objective only for large businesses. Such businesses often develop an extensive product range, using many different brand names, to gain an extra few percentage points of market share. Small market share gains often translate into large profits for these businesses.

To fulfil a market need

For many businesses, their purpose is to fulfil some sort of market need. For example, a business may exist to meet customer expectations or provide a good or service that is not otherwise available to a market. In some cases, it is quite possible that small businesses may be able to meet specific market needs more efficiently than larger businesses. For example, a small general store in a rural area may have the objective of meeting the specific needs of a local community, whereas larger food retail businesses might struggle to meet these needs. A business may have other objectives that will support it in fulfilling a market need including objectives related to the function of the product as well as quality, price and convenience.

To fulfil a social need

Sometimes a business will aim to fulfil a social need. This objective involves the production and/or selling of goods and services for the purpose of making the world a better place. A business with such a focus may generate an income, but its primary purpose is the common good. Objectives related to fulfilling social needs might include improving human wellbeing, such as providing opportunities for local unemployed people or assisting disadvantaged people in the community, or focusing on the environment, such as minimising waste and recycling.

To meet shareholder expectations

Making profit is the primary objective of many businesses. This is particularly important for investors in a company — its shareholders. Shareholders expect to make a return on their investment. They expect the business that they have invested in to make a profit as they receive a proportion of the profits (called dividends). They also make a capital gain if the value of a company's shares increases. If the part of the profit gained by the company is returned to shareholders, or the value of a company's shares increase, then shareholders will have their expectations met.

study on

Unit 3 > AOS 1 > Topic 2 > Concept 1

Financial objectives Summary screen and practice questions

Unit 3 > AOS 1 > Topic 2 > Concept 2

Social objectives Summary screen and practice questions

Unit 3 > AOS 1 > Topic 2 > Concept 3

Shareholder expectations Summary screen and practice questions

1.8.2 Setting business objectives

As businesses seek to achieve different things, each business will have different objectives. It is obvious that many businesses exist to make a profit and will consequently measure their performance against objectives established around profitability (sales, market share, returns on investment). However, profits are not the only objective.

Many businesses today, such as Bendigo and Adelaide Bank, include customer service, community involvement, the environment and concern for employees within their objectives. Bendigo and Adelaide Bank focuses on customers, communities and partners, and sustainable earnings and growth.

Government business enterprises will, of course, have objectives reflecting the provision of services to the community. VicRoads' objective is to deliver social, economic and environmental benefits to communities. It does this by managing Victoria's roads and transport.

Social enterprises exist to achieve objectives in addition to making a profit. If there is a profit motive, that profit is used to further help those in need. The primary objective of a social enterprise is not to make profit to distribute to shareholders. For example, The Social Studio is a social enterprise; its objective is to raise awareness of the refugee experience.

Although making a profit is crucial for the long-term survival of most businesses, concentrating on this objective to the exclusion of all others may eventually harm the business. Poor customer service, low staff retention rates, and damage to the environment or to the business reputation are some likely consequences, when a business is focused solely on making profits.

Businesses develop objectives and related strategies to provide direction to stakeholders. Performance is analysed using key performance indicators.



Objectives from a range of businesses

Bakers Delight (private limited company)

Vision

‘To be the world’s best fresh bread retailer.’

VicRoads (government business enterprise)

Purpose

‘... to deliver social, economic and environmental benefits to communities throughout Victoria by managing the Victorian arterial road network and its use as an integral part of the overall transport system.’

The Social Studio (social enterprise)

Objective

‘To create awareness and change public perceptions for people who have experienced being a refugee.’

Commonwealth Bank (public listed company)

Vision

‘To excel at securing and enhancing the financial wellbeing of people, businesses and communities.’

COMMUNICATING OBJECTIVES

Businesses communicate their objectives in many different ways. The objectives of a small business are often found in the business plan. The objectives of larger businesses are often clarified in a **vision statement**, which broadly expresses what a business hopes to become; or a **mission statement**, which formally expresses the reasons for a business’s existence, its purpose and its method of operation. Sometimes business objectives may be expressed in a ‘purpose’, a ‘values statement’ or as ‘strategic priorities’. In whatever form they take, the objectives are usually communicated to stakeholders using noticeboards, websites or annual reports.

1.8.3 Developing business strategies

Once a business has established a set of specific objectives, the next step is to determine what needs to be done to achieve the objectives. **Strategies** outline how the business will attempt to achieve its objectives — they are a series of actions undertaken to achieve an end result. For example, a strategy to achieve the objective of increased profit may be the introduction of a new product range.

Successful businesses develop a range of different strategies to achieve objectives in different areas of management responsibility. A marketing objective, for example, might be to increase market share by 10 per cent. Strategies to achieve this might include:

- targeting a new group of customers
- increasing sales by using a new promotional campaign
- increasing the number of distribution outlets
- improving the performance or quality of the existing product.

A business needs to make sure all the objectives and strategies are linked. Money will be required, for example, to implement the marketing strategies, so the finance strategies need to reflect this link.

1.8.4 Analysing performance

After determining the business's objectives and strategies, management will eventually need to ask, 'How well did we do?' Performance is analysed by determining whether the business objectives have been achieved. This can be done by constantly asking:

- How is the business performing?
- How does the business's performance compare to that of similar businesses?
- Is the business performing as planned?
- Has the business's performance improved over time?

Once measurements have been collected, businesses can identify and investigate any discrepancies in comparison with original planned objectives. The business needs to ask whether the desired results were achieved and, if not, where and why they failed. If strategies were successful, the business should examine what made them a success and reuse these strategies. By analysing successful operations, the business may also identify weak spots that can be improved.

A business can analyse its performance by assessing whether it has been effective as well as efficient. **Effectiveness** indicates to what degree a business has accomplished the objectives it set out to achieve. In other words, the business is 'doing the right things'. If a business's objective was to make profit, then improving profit from one year to the next would be seen as effective. **Efficiency** refers to how well a business uses the resources needed to achieve an objective. The most efficient use of resources occurs when benefits are greater than the costs of resources employed. If a business reduced the amount of waste it produced while achieving its objective of profit, for example, then this may be considered to be efficient.

Businesses use **key performance indicators** (KPIs) to precisely analyse performance. KPIs are criteria used as a measure of the success, or the efficiency and effectiveness, of a particular area of the business's operations. Examples of key performance indicators that relate to some of the business objectives we have explored can be seen in the table below. Key performance indicators are covered in more detail in chapter 6.

Business objective	Key performance indicator	How the KPI can be used to evaluate performance
To make a profit	Net profit figures	An improvement in net profit means that the business has improved its performance, either by earning more revenue or by reducing expenses and costs.
To increase market share	Percentage of market share	An increase in market share suggests that the business is performing successfully, as it has a greater proportion of the sales in the market.
To fulfil a social need	Level of wastage	If the amount of unwanted or unusable material created by the production process is reduced, then the business has reduced its impact on the environment. It has also improved efficiency.

1.8 Activities

TEST your understanding

1. Outline the difference between an objective and a strategy.
2. Explain the importance of business objectives.
3. Examine the four businesses' objectives outlined in the figure at the end of section 1.8.2, and then answer the following questions.
 - (a) Are there common features of these objectives? What are they?
 - (b) What are the differences between these objectives?
 - (c) Would it be important for employees, managers and customers to be familiar with a business's objectives? Why?
4. Complete the following sentences by filling in the blanks.
 - (a) Making a _____ is a central objective for many businesses.
 - (b) Fulfilling a _____ involves producing and/or selling goods and services for the purpose of making the world a _____ place.

- (c) Fulfilling a _____ involves meeting customer expectations or providing a good or service that is not available to a market.
- (d) Shareholders expect to receive a proportion of the profits (called _____) as well as make a capital _____ if the value of a company's shares increases.
- (e) Market share is a business's _____ of total industry _____.
5. Why should businesses analyse their performance?
6. Differentiate between effectiveness and efficiency.
7. What is a key performance indicator and what is it used for?

APPLY your understanding

8. Working with a partner, write a suitable business objective for the following businesses.
- (a) Your local fish and chip shop
- (b) Your local accounting firm
- (c) A company that exports products
- (d) A social enterprise employing the homeless
9. What are your objectives for this year? Do you have a strategy to achieve those objectives? Complete the table below to see how strategies are linked to objectives (both personal and business ones). The table has been started for you.
10. Use the **NAB** weblink in the Resources tab to determine NAB's objective. List the strategies you find.
11. Use the **Australia Post** weblink in the Resources tab to find out what type of business it is. Outline Australia Post's objectives.

Personal objective	Strategy to achieve it	Business objective	Strategy to achieve it
Get an 'A' in VCE Business Management	1. Read textbook 2. Complete homework 3. 4.	Increase profit	1. Launch new advertising campaign 2. Improve customer service training 3. 4.

EXAM practice

12. Distinguish between the objectives to make a profit and to increase market share. **(2 marks)**
13. Explain the business objective 'to meet shareholder expectations'. **(2 marks)**
14. Anja has established a social enterprise called 'Social Bikes'. Describe two business objectives that Social Bikes will need to achieve. **(4 marks)**

on Resources

-  Weblink: NAB
-  Weblink: Australia Post

1.9 APPLY YOUR SKILLS Business objectives and KPIs

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations

1.9.1 Business objectives

OBJECTIVE: GIVE AWAY ONE MILLION MEALS A YEAR

FareShare is a small social enterprise that gives away healthy, nutritious meals to hungry and homeless people in Victoria using food donated by businesses. Its vision is 'a society where food is not wasted and no one goes hungry'. FareShare 'rescues' food that would otherwise have ended up as waste in landfill.

The enterprise started in 2000 with volunteers cooking 300 pies a week. For some time, its aspirational target has been to cook one million meals in a year. It finally achieved this in 2015, with its volunteers and staff cooking approximately 5000 meals every day. FareShare now employs 20 paid staff and has eight vans that supply meals to more than 400 Victorian charities including Vinnies vans, the Salvos and the Asylum Seeker Resource Centre.

FareShare's major food and kitchen donors include Woolworths, Coles DC, Bakers Delight, Fonterra, Corona Manufacturing and Linfox Logistics. Moorabbin Airport recently donated a block of land to FareShare. This land was transformed into an enormous vegetable garden to supply the enterprise's kitchen in Abbotsford with fresh produce. FareShare spokeswoman Lucy Farmer said, 'The one thing that really constrains us is a reliable source of ingredients, specifically vegetables'.

'We want our food to be nutritious. One of the best ways to do that is have vegetables in it, but they are often tough to source on a regular basis. But this should help solve that issue,' she said.

FareShare does have other objectives. Part of its mission relates to raising awareness about food insecurity and the value of food rescue. FareShare also helps the environment, as reducing waste that ends up in landfill reduces methane pollution and the demand for new food products. In 2017, FareShare rescued 821 tonnes of food, which it used to cook 1 158 569 meals!

FareShare is a social enterprise that gives away healthy meals to the hungry and homeless. Staff and many volunteers run it.



1.9.1 Activities

TEST your skills

1. Define the term 'business objective'.
2. Explain what a 'vision' is.
3. Describe what FareShare does and how its work benefits the community.
4. Explain why FareShare's mission is very different from that of other businesses that have a main focus on making a profit.
5. Using evidence from the case study, has FareShare achieved its objectives?

APPLY your skills

6. Use the **FareShare** weblink in the Resources tab to watch the video about FareShare.
 - (a) What objectives are businesses such as Woolworths achieving by donating food to FareShare?
 - (b) Approximately how many tonnes of food are wasted each year in Australia?
 - (c) How many volunteers work for FareShare? Why do you think people volunteer to work for no wages?
 - (d) Explain what would happen to the surplus food if FareShare did not collect it.
7. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Discuss the strengths and weaknesses of FareShare as a social enterprise.
8. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the need for social enterprises in our society.

1.9.2 Goal!

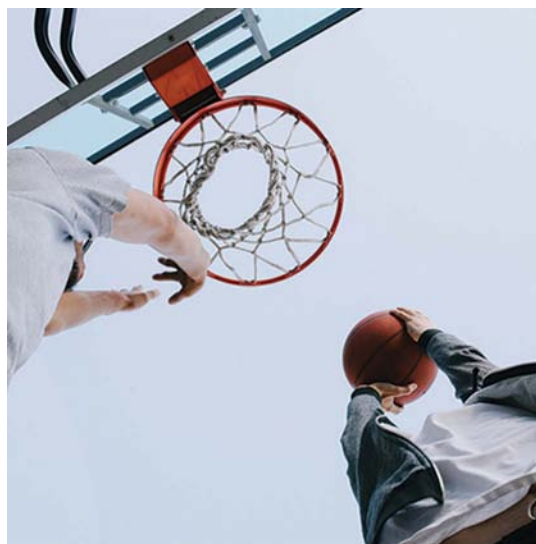
Ask your teacher for permission to complete this activity in class time. The aim of this activity is to apply your theoretical understanding of business management to a practical activity.

Materials required

- Basketballs
- Basketball rings
- Space

Instructions

1. Arrange your class into groups of three or four.
2. Find a place where your class can set up to have shots at basketball rings. You or your teacher may need to book the school gym or the basketball court. (Note: Other sports can be substituted, as long as it is possible to achieve the objective of the activity — to score a goal.)
3. Work out an order among the members of your group. Every student should have 10 shots at goal.
4. As each student is shooting at goal, record the result. Did they score a goal, hit the ring or miss completely?



1.9.2 Activities

TEST your skills

1. How did your group manage the task? Did you work well together?
2. What was the objective for your group?
3. Explain what 'effectiveness' means.
4. What does 'efficiency' mean?

APPLY your skills

5. How can you measure the effectiveness of your group's performance in this activity?
6. Can you think of a way to measure your group's efficiency?
7. Complete the following table, using the results from your goal shooting. The table has been started for you.

	Efficient	Inefficient
Effective	Score a goal from every shot	
Ineffective		

8. Is it possible for a business to be effective but inefficient?
Is it possible for a business to be efficient, but ineffective?
Explain your answer using business examples.

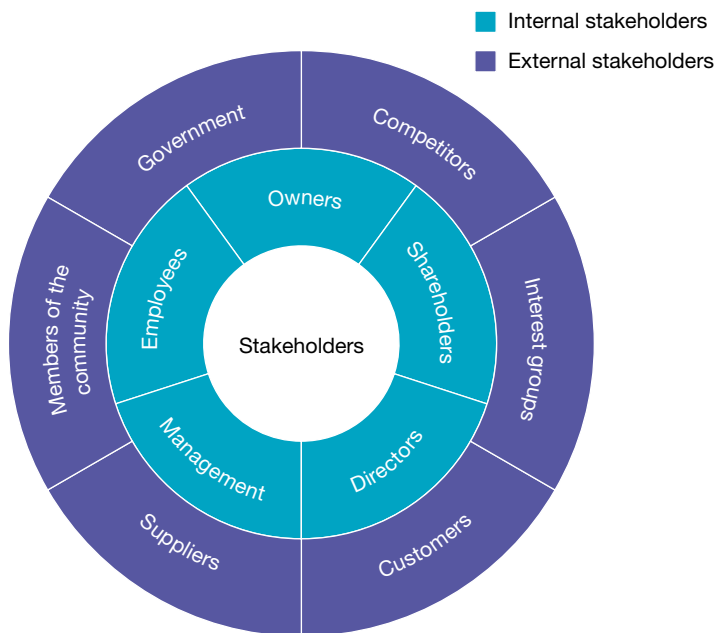
1.10 Business stakeholders in the internal environment

KEY CONCEPT Businesses have many stakeholders, with varying interests. Internal stakeholders include owners, shareholders, directors, management and employees.

Businesses have many **stakeholders**. ‘Stakeholders’ refers to the people and groups that interact in some way with the business and have a vested interest (or stake) in its activities.

Many of these stakeholders are found in the internal environment — inside the business. These stakeholders are part of the business itself, including owners, shareholders, directors, management and employees as well as any formal or informal groups that are created within the business. Other stakeholders are found in the external environment — outside the business and beyond its full control. These stakeholders include government, competitors, interest groups (such as trade unions, consumer groups and specific issue groups), customers, suppliers and members of the community. All of these groups and individuals can be affected by the activities of a business. They can also influence the activities of the business they have an interest in.

Each business will have many stakeholders that they need to consider. Stakeholders have a vested interest in the company, and successful businesses are actively aware of their stakeholders’ interests.



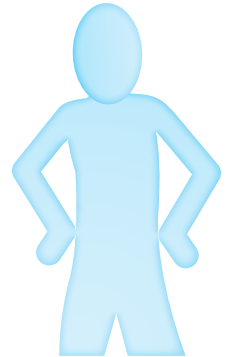
The internal stakeholders of businesses and their interests

Internal stakeholder	Interest
Owners	Want the business to make profit — they may depend on the success of the business for their income or wealth Will typically want the business to conduct itself in a socially responsible manner
Shareholders	Want the business that they have invested in to make profit as this affects the value of their shares and the amount of dividends they receive Many will want the business to be socially responsible
Directors	Have responsibility for developing and overseeing the strategic direction of the company in return for status and remuneration
Management	Want the business to perform financially, and in return, expect to be fairly remunerated Will typically want the business to be socially responsible as this is likely to lead to increased sales Need to satisfy as many stakeholder expectations as possible while making sure that their position in the business is secure
Employees	Expect to be paid fairly, trained properly and treated ethically in return for their contribution to production Need to know that their job is secure in the long term

1.10.1 Owners

A business may be owned by a sole trader, by partners or by a number of shareholders. The extent to which the owner is involved in the management or daily operations of the business will affect his or her vested interest in its activities. For example, a sole trader or a partner is likely to have a direct say in what the business does.

The owners who manage or operate the business on a day-to-day basis will possibly have a very personal vested interest in the business — they are likely to depend on the success of the business for their income or wealth. Furthermore, the performance and conduct of the business can affect the reputation of the owner. For example, operating a business that is known to have dishonest dealings with other stakeholders is likely to reflect poorly on the characters of the owners of the business. Alternatively, the failure of a small business might leave a sole trader or partner in debt.



1.10.2 Shareholders

Shareholders purchase shares in a company, so they are partial owners of businesses. Despite not usually being involved in the day-to-day operations of a business, shareholders do have some say in the running of a business, for example, by voting at a company's annual general meeting. In this way, they can influence major decisions. For example, shareholders may vote for the directors of the company or to approve an annual report. It is also quite possible that a shareholder can also be a director, manager or employee of a company.

Shareholders want the company that they have invested in to be profitable as they receive a proportion of the profits (called dividends). They also make a capital gain if the value of a business's shares increases. Many shareholders realise that by being socially responsible a business can improve its reputation, but they know that this can also increase financial costs to the business.

There are shareholders who will only invest in companies they see as socially responsible, which is known as socially responsible investing. Other shareholders might think that it would be best to ignore social responsibility. Most would be pleased, however, about the introduction of any strategy that improves productivity, boosts sales or leads to increases in profit.

Socially responsible companies are an attractive proposition to many shareholders; however, the primary objective for most shareholders is to make a profit from their investment.

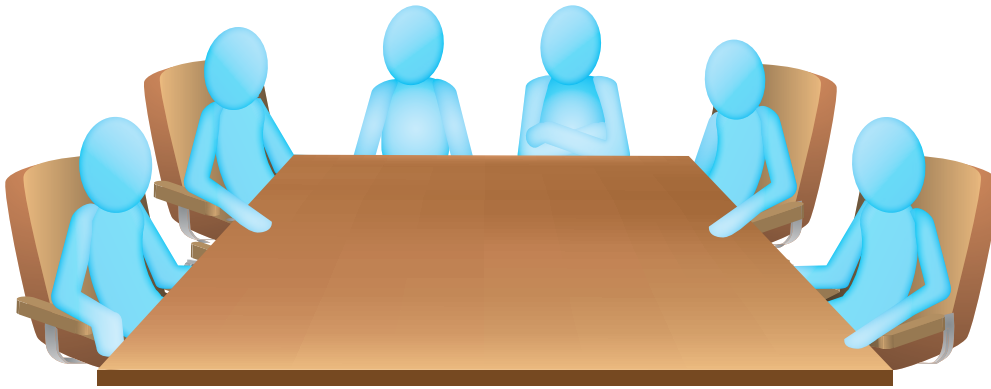


DID YOU KNOW?

In Australia, many industries generate emissions of the most common greenhouse gas — carbon dioxide. The coal and power industries and resource projects have adopted a range of measures to reduce emissions, including the use of energy-efficient technology.

1.10.3 Directors

The **directors** of a company are the people who have overall responsibility for managing the company's business activities. A director must be honest and careful in their dealings and be aware of what the company is doing at all times. Small companies must have at least one director. Larger companies may have many directors who are collectively known as the 'board of directors'. The board's role is to develop and oversee the strategic direction of the company. In return, members of the board expect to acquire power and status by being the director of a company. The directors of a company also expect to be fairly remunerated, including earning directors' fees and receiving share options.



DID YOU KNOW?

It is possible for a private limited company to have a single director who is also the sole shareholder of the company. This person must maintain minutes (a written record) of any resolutions made concerning the management of the company's business. Each resolution must also be passed and signed off by the sole director and shareholder.

1.10.4 Management

Management has the responsibility of running a profitable or successful business. These people must ensure that the strategies that the business has implemented will achieve its objectives. Poor financial performance, for example, would result in management reviewing the business's strategies, processes and employee performance. In return, management staff expect to be fairly remunerated, including through a salary and other benefits.

Most managers today understand that socially responsible activities should lead to increased sales. There are many complex legal issues that managers must contend with today, however, and introducing new socially responsible policies and procedures can be expensive and time consuming. Management could introduce new technology to reduce waste and improve productivity, so that the business remains competitive, helping to boost sales and profit, but this could mean that employees lose their jobs. Management could offer employees higher wages and better working conditions, but they may be forced to raise the price of products to cover this cost, leading to a fall in sales. Managers must endeavour to satisfy as many stakeholder expectations as possible while making sure that their position in the business is secure.



1.10.5 Employees

Employees are the people who work for the business. Their contribution is vital as they are involved in the manufacture or production of the good or service that the business sells. The quality of the product depends on their skill and commitment to the process. Employees should be valued as members of the business by being paid fairly, trained properly and treated ethically. Employees need to know that their job is secure in the long term. If businesses can provide for their needs, employees will be more inclined to put effort into work tasks and will be motivated to meet customer expectations.



DID YOU KNOW?

Henry Ford, the founder of the Ford Motor Company, purchased a small piece of land in 1929 located along the Amazon river in Brazil. His plan was to establish a prefabricated industrial town named Fordlândia for the purpose of securing a source of cultivated rubber for the company's car manufacturing operations. Ford had early success in imposing 'American' lifestyles and values on the community, but the indigenous workforce soon rejected the strict assembly-line philosophies, refusing to work. Riots ensued and management were forced to flee. Finally, after a botanist hired by Ford to assess the situation concluded that the land was terrible for growing rubber trees, the town was abandoned. Today, the venture is considered a massive failure.

1.10 Activities

TEST your understanding

1. Define the term 'stakeholder' in your own words.
2. Explain the difference between internal and external stakeholders.
3. Are a shareholder and a stakeholder the same thing? Explain your answer.
4. Use a table like the one below to summarise details of a business's internal stakeholders and their interests covered in this subtopic.

Internal stakeholder	Description	Interest

APPLY your understanding

5. In a small group, brainstorm the internal stakeholders of your school. Choose a representative to share your comments with the other groups in your class.
6. Choose a business that you have heard about and use the internet to research the internal stakeholders of the business. For example, you could find out about how many owners the business has. Do these owners have direct involvement in the operations of the business?
7. Use the **Internal business stakeholder** weblinks in the Resources tab to look at the websites of the following businesses. Choose one and complete the table below.
 - Scentre Group
 - Village Roadshow
 - Visy
 - Link Housing Ltd

Name of business	
Number of shareholders/owners	
Number of directors	
Number of senior managers	
Number of employees	

EXAM practice

8. Define the term 'stakeholder'. (1 mark)
9. Describe the interests of employees. (2 marks)
10. Distinguish between management and shareholders. (4 marks)

on Resources

-  Weblink: Internal business stakeholder: Scentre Group
-  Weblink: Internal business stakeholder: Village Roadshow
-  Weblink: Internal business stakeholder: Visy
-  Weblink: Internal business stakeholder: Link Housing Ltd

1.11 Business stakeholders in the external environment

KEY CONCEPT External stakeholders include government, competitors, interest groups, customers, suppliers and members of the community.

External stakeholders are found outside the business and beyond the full control of the business. Nevertheless, they can still either affect or be affected by the activities of a business. These stakeholders include government, competitors, interest groups (such as trade unions, consumer groups and specific issue groups), customers, suppliers and members of the community.

Qantas CEO Alan Joyce speaks to the media with Australia's former Foreign Minister Julie Bishop as the new QANTAS Boeing 787 Dreamliner aircraft arrives on its first flight into Sydney in 2017.



1.11.1 Government

Government exists at three levels in Australia (federal, state and local). Elected governments attempt to make or change laws that have an impact on businesses. Governments can regulate or deregulate business activity. Each level of government imposes its own direct and indirect regulations to which all businesses must adhere. These regulations may influence a business to change its activities; for example, if taxes become too high. Government can also encourage businesses to expand by, for example, offering government grants. The government benefits from successful business by receiving a portion of their profits through its collection of taxation revenue.



1.11.2 Competitors

Competition is rivalry among businesses that try to supply the needs and wants of a market. **Competitors**, therefore, are other businesses or individuals who offer rival, or competing, goods or services to those offered by the business. Business owners or managers need to aim to achieve a sustainable **competitive advantage** over their competitors to capture a larger share of the market.

A business needs to be constantly prepared to respond to any change in the actions of its competitors, as competitors themselves will attempt to gain a competitive edge over the business whenever they can. When ING Direct Australia, a subsidiary of the Dutch financial services company, ING Group, was launched in Australia, they began to offer customers high returns on savings accounts. To stay competitive, the big four banks — ANZ, Commonwealth, NAB and Westpac — now also offer high-interest online savings accounts. From the business point of view, competition can stimulate greater efficiency in production and usually results in a better quality good or service at a lower cost to the business.



1.11.3 Interest groups

Interest groups are organisations of people who attempt to directly influence or persuade businesses to adopt or change particular activities, processes or policies. Three common types are trade unions, consumer groups and specific issue groups.

Trade unions

Unions represent employees in many workplaces in Australia. They attempt to negotiate favourable pay and work conditions on the employees' behalf. Unions work to prevent anything that diminishes employee rights, safety or conditions. They will work with management to resolve workplace issues and act as an advocate for employees. Some people have criticised unions, saying that although they understand that profitability can lead to more jobs, they prefer to seek higher wages for union members rather than new jobs for non-union members.



Trade unions have a lot of power, including the ability to organise strikes if certain demands are not met. While the Australian Council of Trade Unions (ACTU) represents about 1.8 million workers, union membership in Australia more than halved between 1990 and 2016 (from 40.5 per cent of the workforce to just 15 per cent, according to Australian Bureau of Statistics data). The steady decline in union membership is partly due to a shift from blue-collar jobs to those in the service sector, which is less unionised.



Consumer groups

These interest groups, such as CHOICE, Australia's leading consumer advocacy group, monitor a business's performance in terms of product safety, packaging, pricing and advertising. Consumer groups pressure businesses to sell products that are safe, appropriately packaged, reasonably priced and advertised with honesty.

Specific issue groups

These groups combine to focus on one specific area, such as youth unemployment, civil liberties, anti-globalisation or environmental protection. Mining companies such as Rio Tinto and BHP, for example, often receive criticism from environmental groups over their mining activities. The companies respond by undertaking environmental impact studies and rehabilitation works.

1.11.4 Customers

Customers expect to purchase quality products at reasonable prices and they expect to receive high levels of service. They are becoming more aware of socially responsible businesses and this is one of the factors they consider when making purchasing decisions. Many customers wish to purchase products from businesses they know have acted in a socially responsible manner. A business needs to be aware of changes in customer preferences and tastes, and respond to these so that it can continue to satisfy their needs. For example, a business might introduce more environmentally friendly products to its range to ensure its future profitability in response to changing customer expectations.



1.11.5 Suppliers

Suppliers provide resources to a business that will be used in its production process. Resources can include raw materials, equipment, machinery, finance and information. It is essential for the business to develop good relationships with suppliers to ensure the timely delivery of quality resources. In return, suppliers expect to be paid promptly and in full. It is also in each supplier's best interests to ensure that the resources supplied are of high quality, and delivered in the right quantities at the right times, as this will ensure a profitable business. Most businesses will have multiple suppliers providing a range of equipment and materials to ensure a constant supply of resources. Many businesses today expect their suppliers to behave in a socially responsible manner, and believe that their relationships with suppliers also need to meet corporate social responsibility considerations.



1.11.6 Members of the community

A business has a responsibility to the general community to be a good corporate citizen. Members of the community expect that a business will give back to society something of what they take out in generating profit. A socially responsible business is likely to participate in community projects and activities. For example, She Wear — which supplies footwear and accessories for women at work — partners with three charities that the owner, Stacey Head, believes resonate with herself and with her customers. These charities are the National Breast Cancer Foundation, mental health organisation R U OK? and the RSPCA. Telstra encourages staff to become involved in issues they are passionate about by providing an annual day of paid volunteering leave and matching every dollar employees donate through payroll, giving up to \$1000 per employee per year and \$750 000 overall.



Members of the community increasingly expect businesses to show concern for the environment. Some might be worried about businesses using valuable land resources or showing disregard for carbon emissions. They may be concerned about waste disposal or pollution. There is growing pressure for businesses to adopt sustainable operating policies. Increasingly, businesses are making decisions that will allow them, and the rest of society, to continue to interact with the environment. For example, Wesfarmers Ltd strives to source products in a responsible manner while working with suppliers to improve their social and environmental practices, to reduce the emissions intensity of its businesses and to reduce its waste to landfill and water use. In its 2017 Sustainability Report, Wesfarmers outlined how it has reduced its environmental impact. Over the past five years, the company has reduced its greenhouse gas emissions intensity by 16 per cent.

Furthermore, some people within the general community may be concerned about their future welfare through their own employment within businesses. Businesses employ large numbers of people. In June 2016, the Australian Bureau of Statistics (ABS) estimated there were 4.7 million people employed in small businesses, 2.5 million people employed in medium-sized businesses and 3.5 million people employed in large businesses.

The external stakeholders of businesses and their interests

External stakeholder	Interest
Government	Make or change laws that have an impact on businesses Want the business to do well because this is good for the economy — the government also benefits from successful business by receiving a portion of their profits through its collection of taxation revenue
Competitors	Want to have a competitive advantage over the business Likely to be prepared to respond to any change in the actions of the business to gain a competitive edge — this may include changing prices or improving the quality of products

(Continued)

External stakeholder	Interest
Interest groups	Trade unions want to prevent anything that diminishes employee rights, safety or conditions — they work to achieve favourable pay and work conditions for employee members. Consumer groups want to ensure that the business sells products that are safe, appropriately packaged, reasonably priced and advertised with honesty. Specific interest groups want the business to consider their area of interest, whether it is in the area of unemployment, civil liberties, anti-globalisation or environmental protection.
Customers	Expect to purchase quality products at reasonable prices and to receive high levels of service Are becoming increasingly aware of socially responsible businesses and many will purchase products from businesses they know have acted in a socially responsible manner
Suppliers	Must provide quality materials that are delivered reliably (in the right quantities at the right times) to ensure that the business makes a profit Expect to be paid promptly and in full
Members of the community	Expect that a business will give back to society something of what they take out in generating profit Expect businesses to show concern for their future welfare through their own employment within businesses Expect the business to show concern for the environment

1.11 Activities

TEST your understanding

1. In your own words, explain what is meant by 'government'.
2. Explain the importance of:
 - (a) competitors
 - (b) customers.
3. Brainstorm as many different types of suppliers as you can in 60 seconds.
4. Identify two examples of:
 - (a) trade unions
 - (b) consumer groups
 - (c) specific issue groups.
5. Use a table like the one below to summarise details of a business's external stakeholders and their interests covered in this subtopic.

External stakeholder	Description	Interest

APPLY your understanding

6. In a small group, brainstorm the external stakeholders of your school. Choose a representative to share your comments with the other groups in your class.
7. Choose a business that you have heard about and use the internet to research the external stakeholders of the business. For example, you could find out about how many customers the business has. In what ways does the business communicate with its customers?
8. Use the **Coles** weblink in the Resources tab to find as many of Coles' stakeholders on its website as you can. Answer the following questions.
 - (a) What type of business is Coles?

- (b) List Coles' stakeholders.
- (c) Identify ways in which Coles communicates with its stakeholders.

EXAM practice

- 9. Describe the interests of customers. **(2 marks)**
- 10. Outline the characteristics of unions. **(2 marks)**
- 11. Distinguish between competitors and suppliers. **(4 marks)**

on Resources

 **Weblink:** Coles

1.12 Potential conflicts between stakeholders and corporate social responsibility considerations

KEY CONCEPT The varying interests of stakeholders can sometimes conflict. Society expects businesses to act in a socially responsible manner.

1.12.1 Potential conflicts between stakeholders

All stakeholders who interact with a business have an interest in its activities. Some of their expectations are compatible. For example, customers want quality products at reasonable prices. If the business meets this expectation, sales should increase, leading to greater profits. This, in turn, satisfies the shareholders, who are rewarded with higher dividends.

However, some expectations are incompatible; that is, they oppose each other. In this case, satisfying one set of stakeholders will most probably result in other stakeholders being dissatisfied. For example, employees and their unions require safe working conditions and reasonable wages, while customers want reasonably priced products. Providing a wage rise or working conditions beyond what is legally required is socially responsible, but it will cost the business money in the short term. If the business wishes to retain profit margins to satisfy shareholders, it may be forced to raise the prices of its products. This action will upset customers. On the other hand, the business may retain prices at the original level, reducing its profit. Doing this could cause disquiet among shareholders.

In an effort to maintain profit, the management of a business may choose to cut costs, for example, and ignore some of its responsibilities. These types of decisions can endanger employees or society or damage the environment through pollution, raising serious legal and social responsibility considerations. Management might choose to reduce costs by sacking employees or by compromising on product quality or safety, which raises other legal and social responsibility considerations.

The 1998 Longford gas disaster killed two workers and cut Victoria's gas supply for two weeks. Esso was later found guilty of solely contributing to the explosion by failing to provide adequate workplace safety and employee training.





Stakeholders	Conflicting interest
Employees and shareholders	Employees require safe working conditions and reasonable wages, but this will reduce the business's profit and dividends to shareholders.
Management and customers	Management could attempt to maintain profit and a high dividend to satisfy shareholders by raising the prices of products, but this will upset customers, who expect reasonably priced products.
Management and members of the community	Management might decide to cut costs by neglecting maintenance, which could possibly put members of the community in danger.
Suppliers and members of the community	Suppliers expect to be paid fairly and promptly, but they might reduce costs by using unethical or socially irresponsible practices, which can upset members of the community.
Management and suppliers	Management wishes to keep costs down to improve profit but suppliers providing ethical materials require higher prices to cover their costs.

DID YOU KNOW?

Ethisphere, a research-based international business dedicated to defining and measuring standards of ethical business practices, published its World's Most Ethical Companies list in 2018. In doing so, it said that companies that focus on transparency and authenticity are rewarded with the trust of their employees, their customers and their investors — the companies that support the rule of law and operate with decency and fair play will always succeed in the long term.

study on

Unit 3 > AOS 1 > Topic 3 > Concept 2

Conflicting interests of stakeholders Summary screen and practice questions

1.12.2 Corporate social responsibility

Society increasingly expects businesses to consider **corporate social responsibility** and do the 'right' thing in the interests of all stakeholders. Modern businesses are expected to be enterprising and comply with the law, as well as being socially just and ecologically sustainable in their operations. Many businesses are now extremely sensitive to public opinion and strive to be recognised as being 'good corporate citizens'.

Businesses recognise that they increase their chances of success when they pursue objectives that align with the interests and expectations of all stakeholders. However, these interests and expectations are not always compatible.

Corporate social responsibility considerations

Reconciling conflicting interests is not always easy. Senior management must constantly assess the actions of the business and attempt to satisfy as many stakeholder expectations as possible while acting in a socially responsible manner.

As society's expectations of acceptable business behaviour increase, socially aware businesses recognise the importance and necessity of concentrating on sustainable business objectives; that is, focusing on financial outcomes while also being conscious of environmental and social performance. Many businesses today focus on the **triple bottom line** — financial (or economic), social and environmental performance — where shareholder value increases through the careful management of stakeholder value. More businesses understand that reconciling conflicting interests and increasing stakeholder value ensures long-term growth and survival. That is, businesses that take their social responsibilities seriously are often 'rewarded' with improved business performance.

Customers who believe that a business has a reputation for being socially responsible are more likely to continue to deal with the business. They are also likely to refer the business to other customers. Employees will want to work for the business, reducing costs of replacing staff and increasing productivity. While it can be expensive and time-consuming to introduce socially responsible strategies, they would be expected to bring about increased sales and profits. By comparison, a lack of social responsibility can damage a business's reputation and reduce its competitive advantage. Customers may react and stop purchasing a business's product if they learn that the business is exploiting employees, accepting bribes or polluting the environment.

One way for a business to be more socially responsible is to act 'greener'. This can be done by recycling more and investing in renewable and sustainable resources.



Yarra Valley Water is a statutory corporation that provides water and sanitation services to more than 1.8 million people and over 50 000 businesses in the northern and eastern suburbs of Melbourne. The government business enterprise is committed to protecting the environment and prioritises sustainability. In 2017, Yarra Valley Water was awarded the Banksia Sustainability Award for its Waste to Energy project, in the category of Leadership in the Circular Economy Award. The Banksia Sustainability Awards are regarded as the most prestigious and longest running sustainability awards in Australia. The Waste to Energy facility converts commercial organic waste into a renewable and sustainable source of energy.



DID YOU KNOW?

It is important to note that the central theme of corporate social responsibility is 'above and beyond' making a profit and obeying the law. It is also worth noting that social responsibility is good business — customers eventually find out which businesses are acting responsibly and which are not.

study on

Unit 3

AOS 1

Topic 3

Concept 3

Corporate social responsibility considerations Summary screen and practice questions

1.12 Activities

TEST your understanding

1. Define the term 'corporate social responsibility' in your own words.
2. Explain why there are potential conflicts between the interests of stakeholders.
3. Looking at the information in the table in section 1.12.1, in what ways do the interests of stakeholders conflict?
4. Suggest ways in which a business could reconcile the following pairs of conflicting interests.
 - (a) Consumers demanding cheaper products and employees wanting higher wages
 - (b) Shareholders desiring a higher return on their investment and society wanting a clean environment
 - (c) Managers being required to keep costs of production down and socially responsible suppliers wanting higher prices for inputs

- List some business activities that could involve corporate social responsibility considerations.
- Complete the following table to identify the advantages and disadvantages of adopting socially responsible strategies.

Advantages	Disadvantages
Customers are more likely to want to deal with a socially responsible business.	It can be expensive to introduce and implement socially responsible strategies.

APPLY your understanding

- Campbell Anderson, former president of the Business Council of Australia, said: 'Business is acutely aware that being out of step with community expectations can mean losing market share and poor employee morale and productivity, all of which can dramatically affect the bottom line.' Discuss this statement, using business examples.
- You have been asked by a friend whether it is a good idea to purchase shares in businesses that have good environmental performance. What advice would you give to your friend?
- 'To be effective, corporate strategy must take into account the interests, needs, and expectations of all the business's stakeholders. Companies should have a strategy that combines business goals and broad social interests.' Do you agree? Explain your answer.

EXAM practice

- Outline the competing demands that two stakeholders may place on a business. **(2 marks)**
- Explain one potential conflict between the demands of shareholders and employees. **(2 marks)**
- Describe the positive and negative consequences of a business implementing socially responsible practices. **(4 marks)**
- 'Corporate social responsibility considerations are an unwelcome constraint on businesses.' Discuss this statement. **(4 marks)**

1.13 EXTEND YOUR KNOWLEDGE Stakeholders and corporate social responsibility

KEY CONCEPT Businesses attempt to work with all stakeholders in an effort to act in a socially responsible manner.

1.13.1 Stakeholder engagement

Stakeholder engagement refers to businesses sharing information with and seeking input from stakeholders, and involving them in decision-making. Businesses anticipate that, by discovering the social and environmental issues that are important to their stakeholders, the business is more likely to act in a socially responsible manner.

There are conflicts between some stakeholder interests, of course. Employees want high wages, which is a cost to business, but customers want cheap products. Shareholders want high dividends generated from high profits. However, by addressing expectations such as customer wishes and employee and shareholder interests, businesses expect that both of the latter groups would benefit from the increased sales. Businesses also anticipate that a positive image will be maintained if all stakeholders have their expectations satisfied. This leads to increased sales and an improved reputation for socially responsible management.

STAKEHOLDER ENGAGEMENT AT BHP

With more than 60 000 employees and contractors working in more than 25 countries, BHP (known formerly as BHP Billiton Ltd) is the world's largest mining company. It was formed in 2001, following a merger between BHP and Billiton. BHP's major businesses include coal, copper, iron ore, uranium and titanium minerals, and it also has substantial interests in oil, gas, liquefied natural gas and diamonds. The headquarters for BHP is located in Melbourne. BHP identifies its stakeholders in its sustainability reporting, as well as explaining how it engages them.

BHP claims that it regularly consults employees and contractors, local and Indigenous communities, shareholders and customers. It realises that other groups, such as the investment community, business partners, community organisations, unions, non-government organisations, suppliers, governments, media and industry associations have an influence on the business. Some of BHP's stakeholder engagement methods are described under the following headings.

Community organisations

Community organisations often represent local and Indigenous communities near BHP's operations. Community organisations need to be assured that any potential environmental and social impacts associated with BHP's operations are kept to a minimum, and that opportunities arising from the operations are maximised. BHP says that individual sites work with their own host communities, using community consultation and engagement groups.

Customers

BHP's customers are mostly other large businesses. BHP says that they are usually interested in product quality, cost and delivery. The marketing area regularly communicates with customers. Technical support assists in the use and handling of products. Customers receive information about products and have the opportunity to visit BHP operations sites to learn more about its products.

Employees and contractors

Employees and contractors are very much concerned with their own health and safety as well as working conditions in general. Members of staff need to be provided with career and training opportunities to maintain employee satisfaction. BHP realises that an operation's employees and contractors, who live locally, will also be concerned about such things as local employment, business creation and social infrastructure, schooling and health care. Quality of housing is also important to staff who live in remote communities. Processes need to be in place to enable employees and contractors to participate in performance improvement initiatives, and to take part in performance reviews and employee surveys. Communication is vital.

A BHP coalmining operation in Western Australia. BHP engages its stakeholders to meet its social responsibility intentions.



A BHP project manager discusses a development at Roxby Downs with a stakeholder.



Government

BHP respects the authority of government at national, state (or regional) and local levels. It attempts to work openly and constructively with the government of the country in which it is operating.

Shareholders

BHP has shareholders in Australia, Europe and North America. Shareholders are interested in seeing suitable business performance and governance, leading to profit. BHP communicates with shareholders at annual general meetings, through regular print and electronic communications, and through its website.

Suppliers

BHP's suppliers include local businesses close to its operations as well as large international suppliers. Its suppliers are interested in supply agreements and payment processes as well as the standards that BHP requires of them. A single point of contact at BHP ensures that regular reporting and communications are maintained between the company and its suppliers. BHP attempts to use local suppliers and supports these suppliers in enhancing community development opportunities.

1.13.1 Activities

TEST your understanding

1. What is meant by the term 'stakeholder engagement'?
2. List BHP's stakeholders.
3. Outline some of the conflicts that could occur between the stakeholders of BHP.

EXTEND your understanding

4. Complete the following table to demonstrate how BHP engages with its stakeholders.

Stakeholder	Explanation	Interests	Engagement method
Community organisations	They often represent local and Indigenous communities near BHP's operations.	They need to be assured that environmental and social impacts will be minimised and that opportunities are maximised.	Individual sites work with communities, using community consultation and engagement groups.

5. Explain how the management of conflicting stakeholder interests can lead to a business being viewed as socially responsible.
6. Use the **BHP** weblink in the Resources tab to find information about sustainable development as it applies to BHP. Write a report explaining how BHP performs in the area of socially responsible management.



Resources



Weblink: BHP

1.13.2 Environmental damage

BHP is often criticised for the massive amounts of greenhouse gas emissions resulting from its mining of fossil fuels. In 2013, it was listed as one of 90 global companies responsible for producing nearly two-thirds of the greenhouse gas emissions generated since the beginning of the industrial age. Geographer Richard Heede's research found that the vast majority of these companies produced oil, gas or coal.

BHP has also had some involvement in a number of significant accidents, one of which, in 2015, caused an environmental disaster in Brazil.

SAMARCO DAM FAILURE

In November 2015, the Fundão tailings dam located in south-eastern Brazil, which was holding back waste from an iron ore mine, failed. A company named Samarco, a joint venture between BHP and Vale (a Brazilian multinational), operated the dam.

The incident, which is considered to be the worst environmental disaster in Brazil's history, caused a mudslide and the flooding of the communities of Bento Rodrigues, Gesteira and Paracatu. Nineteen people were killed and more than 50 were injured. Families were left without homes and the local environment was damaged by mining waste. For example, the water supply in hundreds of other municipalities was interrupted and could possibly be polluted for generations. As the mine is no longer operating, thousands of people were left without work.

It was believed early on that the weaknesses in the dam that led to its collapse were brought to management's attention in a 2013 report, but BHP denied this. Samarco, Vale and BHP commissioned an investigation that was published in 2016 — it found that construction flaws had damaged the dam's original drainage system and described attempts to correct the problems. Three small seismic shocks in the area about 90 minutes before the dam failed were cited as accelerating the failure process. The companies have defended their employees and executives against accusations that they had previous knowledge of the risk to the dam's structures.

BHP continues to face government investigations and legal action in Brazil relating to the dam failure. In October 2016, it was reported that Brazilian prosecutors had charged 21 people, including executives of Vale and BHP, with homicide for their roles in the collapse of the dam. Following delays, a court in Brazil at the end of 2017 decided to resume criminal proceedings.

As well as facing criminal charges, the costs to Samarco of repairing the damage caused by the disaster and rebuilding the community could be several billions of dollars. The three companies face class actions. Samarco, BHP and Vale have established a foundation (the Renova Foundation) to develop and execute environmental and socio-economic programs to restore the environment, local communities and social conditions of the affected areas. Samarco has already agreed to a multibillion-dollar settlement with Brazilian authorities, spread out over several years. For example, in March 2016, Samarco agreed to pay the Brazilian government US\$2.3 billion — with US\$500 million paid in 2016 and US\$300 million in 2017 and 2018.

BHP chief executive officer (CEO) Andrew Mackenzie has said that rebuilding the local Brazilian community and restoring the environment impacted by the disaster is a priority. He said, 'Our team in Brazil are focused on doing everything they can to support the response efforts, repair and maintain existing dams, rebuild communities and restore the environment impacted by the dam failure.'

In late 2017, BHP agreed to fund a total of up to US\$181 million to support the Renova Foundation and Samarco. In a media statement, BHP said that, 'Funds will be released to Samarco only as required, and subject to achievement of key milestones.' In June 2018, Samarco and parent companies Vale and BHP signed a deal with Brazilian authorities settling a lawsuit related to the dam burst. The parties will continue to attempt to reach another settlement.

A general view of the village of Bento Rodrigues, in Mariana, the south-eastern Brazilian state of Minas Gerais following the bursting of the Fundão tailings dam in November 2015. After the dam failed, a deluge of thick, red toxic mud was unleashed, smothering the village and killing 19 people. The mining company Samarco, which operated the site, is jointly owned by Vale of Brazil and BHP.



1.13.2 Activities

TEST your understanding

1. Where is the Fundão tailings dam located?
2. Describe BHP's role in the dam failure.
3. Outline the consequences of the dam failure.

EXTEND your understanding

4. Use the following table to outline the effect of the Samarco dam failure on BHP's stakeholders.

Stakeholder	Effect of the dam failure on the stakeholder
Members of the local community	Lives have been lost, homes destroyed, livelihoods lost, water supply polluted, environment damaged

5. Explain the costs of a business not meeting corporate social responsibility considerations.
6. Use internet sources to find BHP's Samarco media webpage. The page is designed to keep stakeholders up to date with the efforts to rebuild local communities and restore the environment impacted by the dam failure in Brazil. Find the latest update and summarise the information you locate.

1.14 Review

1.14.1 Summary

Types of businesses

- Businesses can be categorised by size (they can be small, medium or large), by sector (they can operate in the public or private sector), and also by the industry that they operate in.
- A sole trader is a business owned and operated by one person.
- A partnership is a business owned and operated by a minimum of two people.
- A private limited company is an incorporated business that has a minimum of one shareholder and a maximum of 50 non-employee shareholders, and whose shares are offered only to those people whom the business wishes to have as part owners.
- A public listed company is an incorporated business with a minimum of one shareholder and whose shares are openly traded on the Australian Securities Exchange.
- A social enterprise is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need.
- A government business enterprise is a type of business that is government owned and operated.
- Each type of business has certain advantages and disadvantages.

Business objectives

- An objective is a desired outcome or specific result that a business intends to achieve.
- A vision statement states what the business aspires to become.
- A mission statement expresses why a business exists, its purpose and how it will operate.
- The main objective of businesses is to make profit. Profit is not the only objective, however, as many businesses also pursue goals such as increasing market share, fulfilling a market need, fulfilling a social need and meeting shareholder expectations.
- Strategies are the actions that a business takes to achieve specific objectives.

- A business will analyse performance by assessing whether it has been effective as well as efficient.
- Effectiveness is the degree to which a business has achieved its stated objectives. In other words, the business is 'doing the right things'.
- Efficiency refers to 'how well' a business uses its resources to achieve its objectives.
- Businesses can use key performance indicators to analyse performance.

Stakeholders of businesses

- Businesses have many stakeholders, with varying interests, and these interests can conflict.
- Stakeholders for a business include owners, shareholders, directors, management, employees, government, competitors, interest groups, customers, suppliers and the community.
- Businesses attempt to satisfy all stakeholder expectations, anticipating that this will result in them acting in a more socially responsible manner.
- Corporate social responsibility refers to the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment.

1.14.2 Key terms

assets items of value owned by a business

business any activity conducted by an individual or individuals to produce and sell goods and services that satisfy the needs of society, as well as making profit

competitive advantage occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.

competitors other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business

corporate social responsibility the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment

customers the people who purchase goods and services from the business, expecting high quality at competitive prices

directors (of a company) the people who have overall responsibility for managing the company's business activities

effectiveness the degree to which a business has achieved its stated objectives

efficiency how well a business uses resources to achieve objectives

employees the people who work for the business and who expect to be paid fairly, trained properly and treated ethically in return for their contribution to production

government the group of people with the authority to govern a community. In Australia, this exists at three levels (federal, state and local).

government business enterprise a type of business that is government owned and operated

incorporation the process that businesses go through to become a registered company and a separate legal entity from the owner/shareholder

industry the classification of groups of businesses related to the particular good or service they produce

interest groups organisations who attempt to directly influence or persuade a business to adopt or change particular activities, processes or policies

key performance indicators specific criteria used to measure the efficiency and/or effectiveness of the business's performance

limited liability the shareholders in a company will not be held personally responsible for the debts of that business

management the people who have the responsibility for successfully achieving the objectives of the business

market share the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time

mission statement expresses why the business exists, its purpose and how it will operate

objective a desired outcome or specific result that a business intends to achieve

partnership a business owned by two or more people

private limited company an incorporated business that has a minimum of one shareholder and a maximum of 50 non-employee shareholders, and whose shares are offered only to those people whom the business wishes to have as part owners

profit what is left after business expenses have been deducted from money earned from sales (revenue)

public listed company an incorporated business with a minimum of five shareholders, and whose shares are openly traded on the Australian Securities Exchange

revenue the income that a business earns from the sale of goods and services to customers

shareholders (or members) the owners of a company

silent or **sleeping partner** contributes financially to the business but takes no part in the running of the business

social enterprise a business with the objective of fulfilling a social need

sole trader a business owned and operated by one person

stakeholders groups and individuals who interact with the business and have a vested interest in its activities

strategies the actions that a business takes to achieve specific objectives

suppliers businesses or individuals who supply materials and other resources to a business so that it can conduct its operations

triple bottom line the economic, social and environmental performance of a business

unlimited liability the business owner is personally responsible for all the debts of his or her business

vision statement states what the business aspires to become

Resources

 **Digital doc:** Key terms glossary (doc-29432)

1.14.3 Review questions

TEST your understanding

1. Distinguish between the three main business sizes.
2. Provide one example of a business that operates in the private sector and one example of a business that operates in the public sector.
3. Define the term 'industry' and outline the three main areas of industry.
4. Describe the key characteristics of the following types of business.
 - (a) Sole traders
 - (b) Partnerships
 - (c) Private limited companies
 - (d) Public listed companies
 - (e) Social enterprises
 - (f) Government business enterprises
5. Identify and explain three advantages and disadvantages of each type of business.
6. Does every business have profit as its main objective?
7. Outline the difference between a vision statement and a mission statement.
8. Describe the five main business objectives.
9. Explain what a strategy is, using an example.
10. Explain the difference between effectiveness and efficiency.
11. Define the term 'key performance indicator' and explain what they are used for.
12. What is a stakeholder?
13. Distinguish between internal and external stakeholders.
14. List the main stakeholders of businesses.
15. In what ways can stakeholder interests potentially conflict?
16. Outline what is meant by the term 'corporate social responsibility'.

APPLY your understanding

17. Copy and complete the table below, listing several businesses that you know of in each category. The first example has been completed for you.

Size of business	Description	Example
Large	Over 200 employees	Coca-Cola Amatil, which makes Coca-Cola
Medium		
Small		

18. Summarise the characteristics and objectives of the various types of businesses, by completing the following table.

Business type	Ownership	Objective
Sole trader		To make profit
Partnership		
Private limited company	From one to fifty shareholders	
Public listed company		
Social enterprise		
Government business enterprise		

19. Compare the following types of business (how are they similar and how are they different).
- (a) Sole traders and public listed companies
 - (b) Private limited companies and social enterprises
 - (c) Partnerships and government business enterprises
20. Using an example of a real business, outline how the interests of its stakeholders can affect its activities. Try to cover at least three stakeholders.
21. Explain how attempting to meet all stakeholder expectations can lead a business to behave in a socially responsible manner.

EXAM practice

22. VicEd is a government business enterprise. Explain the difference between a government business enterprise and one other type of business. **(2 marks)**
23. Koda is planning to establish his own bakery business. He prefers to work on his own and has decided to operate as a sole trader.
- (a) Discuss Koda's decision to operate his business as a sole trader. **(4 marks)**
 - (b) Explain one business objective that Koda's business might aim to achieve. **(2 marks)**
24. Distinguish between the objectives to fulfil a market need and to fulfil a social need. **(2 marks)**
25. The demands of stakeholders on a business potentially conflict. Explain why this may occur. **(2 marks)**
26. Karratha Resources Ltd is a large mining company. It is currently experiencing financial difficulties and the CEO has decided that 100 employees will need to lose their jobs.
- Describe the interests of two stakeholders in the business and how Karratha Resources should take this into account when considering its corporate social responsibilities. **(6 marks)**



Digital doc: Missing word glossary quiz (doc-29433)



Digital doc: Crossword (doc-29434)

studyon

Sit past VCAA exam

1.14.4 School-assessed coursework

OUTCOME 1

Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills.

Note: This assessment task is for the first half of Outcome 1 only.

ASSESSMENT task — structured questions

Time allowed: 30 minutes

Marks allocated: 20 marks — The task contributes 10 marks out of a total of 20 marks for Outcome 1. (The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Qantas

Qantas is the world's second oldest continuously operating airline. The business was founded in the Queensland outback in 1920 and is Australia's largest domestic and international airline. It is also recognised as being one of the world's foremost long distance airlines, having pioneered services from Australia to North America and Europe. Shares in Qantas have been available to the public since the airline was floated in 1995.



The business now employs approximately 30 000 people and covers 86 destinations in 36 countries. A Qantas transformation program was announced in 2012, following a period of poor financial results. The goal of the program is to build a strong, sustainable business for the long term. One of Qantas's most important objectives is enhancing long-term shareholder value.



The Qantas Group's main business is transporting passengers. As well as its Qantas and Jetstar brand flying operations, Qantas operates a diverse portfolio of airline-related businesses. These include Qantas Link, Q Catering, Qantas Freight Enterprises, Express Ground Handling and Qantas Holidays.

For the full year ended 30 June 2017, Qantas reported a before-tax profit of \$1401 million, down 8.6 per cent compared to the previous year's record profit before tax. Net profit after tax was \$853 million. Qantas CEO Alan Joyce said, 'Three years ago, we started an ambitious turnaround program to make the Qantas Group strong and profitable. We tackled some difficult structural issues, became a lot more efficient and kept improving customer service. Today's announcements show this plan has well-and-truly paid off.'

Read the case study above, then answer the following questions.

1. Define the following terms and provide an example for each.
 - Stakeholders
 - Shareholders **(2 marks)**
2. (a) What type of business is Qantas? Explain your answer in terms of ownership and objectives. **(3 marks)**
(b) Discuss the use of this type of business. **(4 marks)**
(c) Explain the characteristics of one other type of business. **(2 marks)**
3. Using Qantas as an example, identify and explain one business objective. **(3 marks)**
4. Describe the key characteristics of management as a stakeholder. **(2 marks)**
5. Analyse the potential conflicts between Qantas' employees and customers. **(4 marks)**

Resources



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CHAPTER 2

The nature of management

2.1 Overview

2.1.1 Why it is important

What is management? Many business writers have asked this question and many different theories have been composed on the topic. You might believe that a manager is the boss or the person in charge of a business. It is widely accepted that management is the process of efficiently and effectively coordinating all the efforts of people and other available resources to achieve business objectives. There is no doubt that management has a significant role to play in the success of a business. In this chapter, you will be studying areas of management responsibility, how managers use a range of styles and skills when managing a business, corporate culture and the relationship between each of these.



MANAGEMENT AT MORGAN STANLEY

Morgan Stanley is a global company that provides financial services to other corporations, governments, financial institutions and individual customers. The financial services that the company provides are numerous, but to give just one example, Morgan Stanley provides a financial advisory service regarding corporate lending.

The company has its headquarters in New York City, but it started operations in Australia more than 50 years ago. It currently has more than 500 employees located in its offices in Sydney, Melbourne, Adelaide, Brisbane and Perth. Morgan Stanley operates in 42 countries around the world, with over 1200 offices and more than 55 000 employees globally. It has relatively few levels of management with a strong focus on teamwork, making use of employee-focused management styles and management skills.

The company has created a positive corporate culture. Morgan Stanley's chairman and CEO, James Gorman, has noted that, 'culture matters more than anything'. Its culture is based on diversity (recognising individual differences) and inclusion — developed by bringing together and valuing staff with diverse backgrounds, talents, perspectives, cultural identities and experiences. Morgan Stanley's culture can also be seen in its principle of 'keep your balance'. The company encourages staff to enjoy a life outside of work, and realises the importance of personal events in its employees' lives.

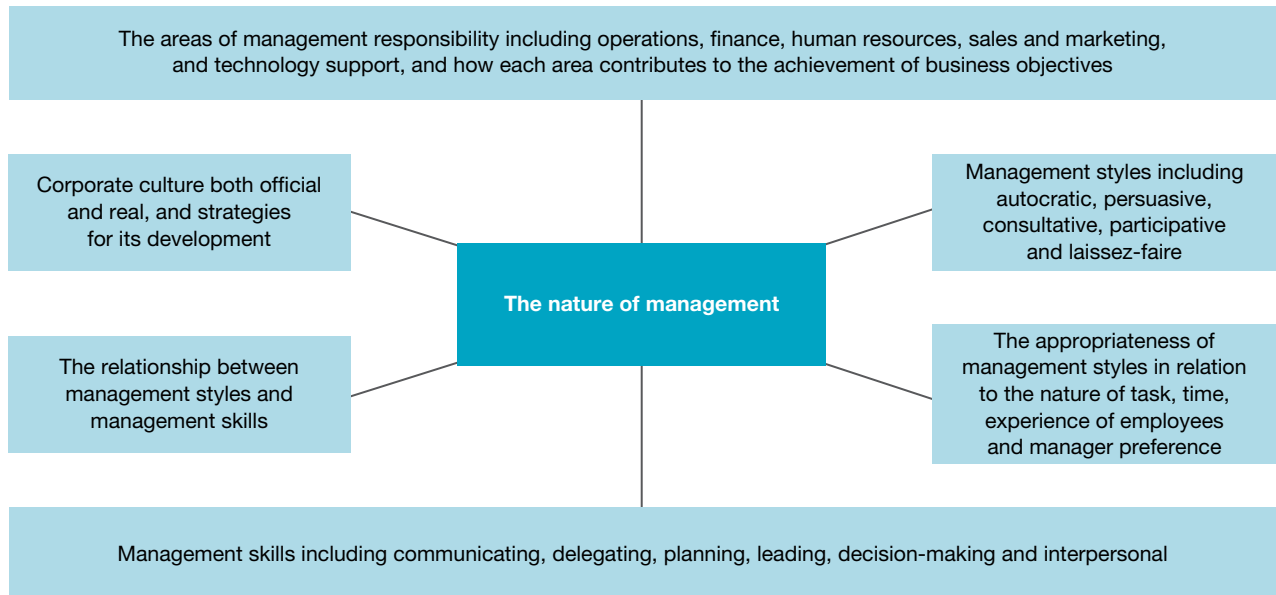
Morgan Stanley makes use of employee-focused management styles and skills.



2.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.



Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Analyse and discuss management styles and management skills necessary for successful business management
- Evaluate management styles and management skills and their appropriateness for a range of business situations
- Propose and justify management strategies for developing corporate culture

Source: VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.

on Resources

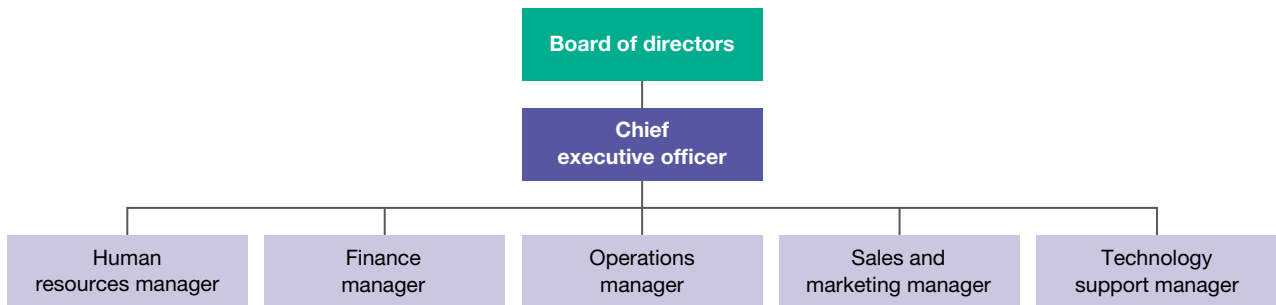
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2.2 Areas of management responsibility

KEY CONCEPT Businesses typically have areas of management responsibility including operations, finance, human resources, sales and marketing, and technology support. These areas of management implement different strategies to support the business in achieving its objectives.

All businesses, regardless of size, have areas of management responsibility that must be addressed if the business is to successfully achieve its objectives. The large numbers of staff employed by a company or a government business enterprise will often require a complex management structure, where employees who work on similar activities are grouped together into departments. This can be seen in the business structure diagram below. A different manager would supervise each area of management responsibility. A CEO (chief executive officer) might monitor the progress of the department managers. The manager responsible for each area will be involved in determining business objectives, along with the CEO. The managers of each area will also need to ensure that the strategies being used within their departments align with the objectives and strategies of the entire business.

Typical areas of management responsibility for a company or government business enterprise



The managers of sole traders and partnerships are usually the owners. The owners, and not specialist managers, will have responsibility for the different areas of management. Just like large businesses, the owner–operator of a small business will need to ensure that the strategies used in each area of management responsibility are contributing to the achievement of business objectives.

on Resources

 **eLesson:** Areas of management responsibility (eles-2940)

2.2.1 Operations

The operations area is responsible for the production of the business's product, whether it is a manufactured good or the provision of a service. It oversees the transformation of inputs into output, that is, the finished product. Being responsible for production, operations is a vital area of management responsibility — without a product to sell a business would be unable to achieve its objectives. Operations strategies contribute to business objectives including making profit, improving productivity and increasing market share.

The strategies used by the operations area depend on whether the business transforms inputs into goods or services. Generally, the operations strategies include the use of technology, materials management, quality management and waste minimisation in the

The operations area is responsible for the production of the business's good or service.



production process. An operations manager might, for example, introduce a quality strategy to improve the competitiveness of the business's product. Quality control — the use of inspections at various points in the production process — could be used to minimise waste and defects and ensure that the product meets certain standards.

The operations area is sometimes referred to by other names, such as production, quality or supply. This management area will be covered in more detail in chapter 5.

studyon

Unit 3

AOS 1

Topic 4

Concept 1

Operations Summary screen and practice questions

2.2.2 Finance

The finance area is responsible for managing the financial aspects of the business. This can include developing financial policies, raising finance, budgeting, accounting and reporting, and cash control. In doing so, the strategies used by the finance area contribute to analysing whether or not a business has achieved objectives including making profit and increasing market share.

The strategies used by the finance area will relate to accounting and financial management. Accounting involves the recording and analysis of all the business's financial transactions. Accountants will, for example, produce balance sheets that show the value of the business's assets, liabilities and owner's equity (proprietorship) at a certain point in time. This represents the business's financial position. Financial management is concerned with how a business funds its activities. It is very important that the business is able to manage all of its borrowings and to use the types of borrowings that best meet its needs.

The finance area is sometimes referred to by other names, such as administration.

studyon

Unit 3

AOS 1

Topic 4

Concept 2

Finance Summary screen and practice questions

2.2.3 Human resources

The human resources area is responsible for coordinating all the activities involved from acquiring to terminating employees of the business. It manages the relationship between the employer and employees. A particular focus of this area of management is on positive work and employment relationships, assisting employee motivation and labour productivity, and ultimately supporting the attainment of these objectives. The management of employees is an important area of management because it is employees who make a significant contribution to the achievement of business objectives. Motivated, skilled and knowledgeable employees are much more likely to work productively to achieve objectives such as profit, increasing market share, and providing a return to investors.

The human resources area is responsible for the management of the business's people.



The strategies used by the human resources area focus on improving the motivation of employees and meeting their expectations. An important aspect of human resource management is the management of the employment cycle. This begins with the establishment phase — getting people to work for the business. The right people need to be recruited and selected. They then need to be inducted, trained and developed. The performance of employees also needs to be managed, whether by observing employees, appraising their performance or by evaluating performance against objectives. This is the maintenance stage. Finally, there will be times when employees leave the business. This is known as termination. Termination management may involve retirement, redundancy, resignation or dismissal, as well as the entitlement and transition issues that go along with each of these.

The human resources area is sometimes referred to by other names, such as people and development, or personnel. This management area will be covered in more detail in chapters 3 and 4.

study on

Unit 3

AOS 1

Topic 4

Concept 3

Human resources Summary screen and practice questions

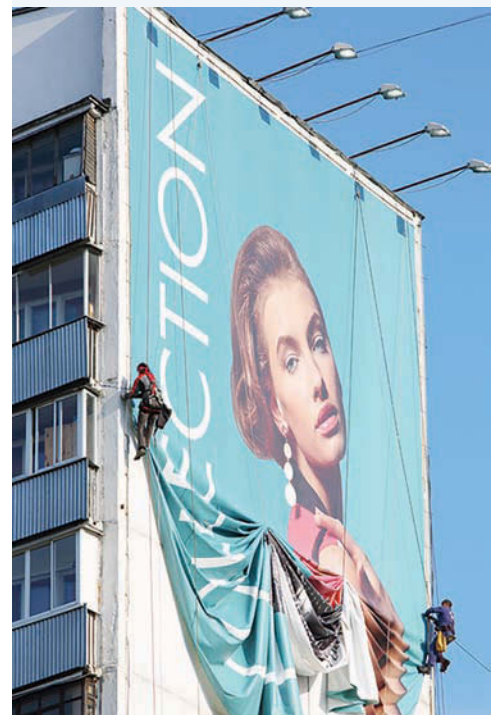
2.2.4 Sales and marketing

The sales and marketing area is responsible for promoting the business and selling its products in the market. One concern for this area is the marketing mix, often referred to as the 7Ps (product, price, place, promotion, people, physical evidence and process). Marketing strategies arise through the marketing mix: developing the product, pricing, promoting and distributing products to present and potential customers. Sales strategies include forming relationships with existing and new customers, building brand loyalty and creating new sales channels, such as online.

Sales and marketing strategies contribute to business objectives, such as improving sales and increasing market share, thereby leading to making a profit. The individual or the team responsible for the sales and marketing area might work with the finance area, for example, to determine the right price for the business's product. Pricing is very important for achieving business objectives. A price that is set too high could mean that sales will be lost, unless the business offers superior customer service. A price that is set too low may give customers the impression that the product is cheap and of low quality. Low pricing may not generate adequate profit to cover expenses and could also lead to low sales.

The sales and marketing area is sometimes referred to by other names, such as simply 'sales' or 'marketing'.

The sales and marketing area is responsible for promoting the product, such as through the use of billboards, developing, pricing and distributing the product, forming relationships with existing and new customers, building brand loyalty and creating new sales channels.



2.2.5 Technology support

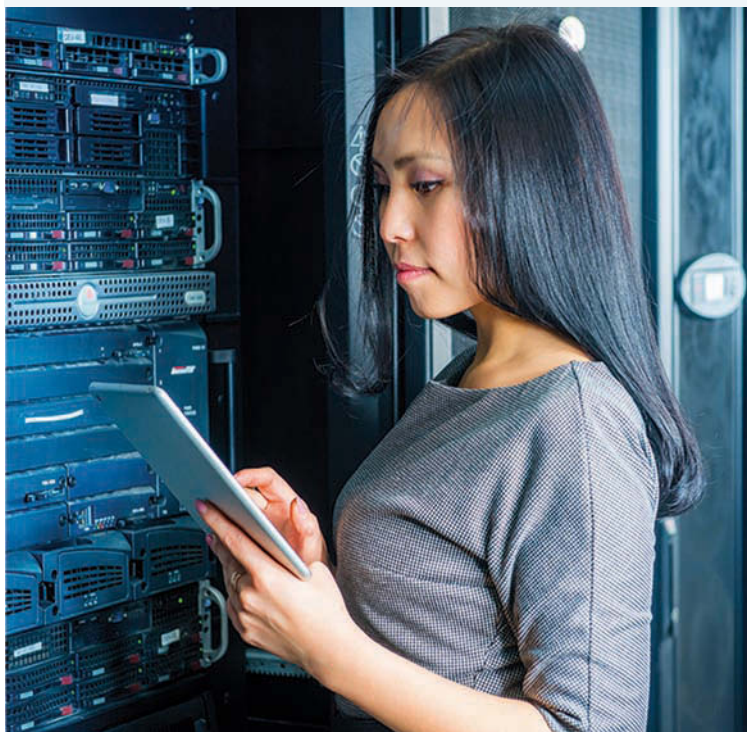
The technology support area is responsible for installing and maintaining technology, as well as providing assistance to the users of technology in the business. These technologies may include mobile phones, computers, computer networks, software products or other electronics. Technology support will often attempt to help employees solve specific computer-related problems. In doing so, the strategies used by the technology support area contribute to business objectives such as improving productivity, thereby leading to making a profit.

This area of management responsibility is very important, as many businesses today have computerised part or all of their operations. For many businesses therefore, the achievement of business objectives relies heavily on the successful integration of technology throughout the business. The technology support area is responsible for the installation and maintenance of this technology.

The technology support area needs to work closely with the other areas of management responsibility in the business to ensure that the right technologies for the business's needs are being used and that technology performs as it should. Technology support may, for example, work with the finance area to ensure that a sufficient proportion of the business's budget has been allocated to technology. Technology support may also work with the human resources area to determine the training that is needed so that all employees have the capacity to use the technology.

The technology support area is sometimes referred to by other names, such as tech support or IT.

The technology support area is responsible for the management of the business's technology.



2.2 Activities

TEST your understanding

1. Explain why operations is such a vital area of management responsibility.
2. Why are accounting and financial management useful for a business?
3. Explain what human resources is concerned with.
4. Outline the importance of the sales and marketing area to a business.
5. What is the responsibility of the technology support area?
6. Indicate which area of management would be responsible for each of the following tasks.
 - (a) Planning an advertising campaign for a new product
 - (b) Preparing a cash flow statement
 - (c) Providing training for employees
 - (d) Introducing the Just In Time materials management strategy
 - (e) Installing a new computer network
 - (f) Recruiting and selecting new employees
 - (g) Establishing a quality system

EXTEND your understanding

7. A large energy provider decides to focus on the objective of improving customer service. Identify one strategy that each area of management responsibility could implement to support the attainment of this objective.
8. Large businesses do not always use every area of management responsibility in their structure. Sometimes the areas will be referred to by other names. Examine the structures for the following two large businesses. For each one, write down the names of the areas you do find. If you think an area of management responsibility is present, but named differently, write down the name of that area as well.
 - (a) The Tasman Tank Co. designs, manufactures and installs water storage systems throughout Australasia. Use the **Tasman Tank Co.** weblink in the Resources tab to find the Tasman Tank Co.'s organisation chart.
 - (b) Toshiba International Corporation is a subsidiary of Toshiba Corporation, Japan. Use the **Toshiba International Corporation** weblink in the Resources tab to find Toshiba International Corporation's organisational structure.
9. Find the objectives for each of the businesses you looked at in question 8. How do you think the areas that you wrote down for each business support them in achieving those objectives?

EXAM practice

10. Define the term 'technology support'. **(1 mark)**
11. EcoMe is a social enterprise that has the objective of supporting households to become more environmentally sustainable. Explain how the human resources area of management responsibility contributes to the achievement of EcoMe's objective. **(2 marks)**
12. Distinguish between operations and finance. **(2 marks)**
13. Explain how the sales and marketing area of management responsibility contributes to the achievement of business objectives. **(2 marks)**

Resources



Weblink: Tasman Tank Co.



Weblink: Toshiba International Corporation

2.3 EXTEND YOUR KNOWLEDGE The contribution of areas of management responsibility to the achievement of business objectives

KEY CONCEPT Each area of management responsibility makes a contribution to meeting business objectives.

INTERVIEW WITH ASHLEY WINNETT, EXECUTIVE DIRECTOR HUMAN RESOURCES AT GM HOLDEN AUSTRALIA

GM Holden is an Australian importer and former manufacturer of automobiles. The company was established in 1856 as a saddle maker, shifted to vehicle manufacture in the early twentieth century, and became a subsidiary of US-based General Motors in 1931. In 2017, GM Holden ceased manufacturing automobiles in Australia when it closed its plant in Elizabeth, South Australia. However, the company continues to import vehicles. Holden today is headquartered in Port Melbourne. The following is an interview with Ashley Winnett, GM Holden Australia and New Zealand's Executive Director Human Resources about his job and how his area of management responsibility contributes to the achievement of business objectives.

What are some of your current HR challenges?

Holden has very low attrition which speaks volumes about the corporate culture. But in a head count constrained environment it is difficult ensuring that we don't become too insular in our thinking. We overcome this by creating new hire think tanks that meet with the Managing Director on a regular basis to get an outside-in perspective on our business and new initiatives.

Our most pressing and very public challenge is to guide the business from a past which focused on design, engineering, manufacturing, sales and service to a future that will focus on impressive world class design, and importing the best vehicles that our parent company GM has to offer — it's a fairly impressive list.

We care about the people who have been impacted by this change and I personally know many of the people impacted. So through our world-class transition centre in a careful and considered manner we ensured that more than 80 per cent of those that have exited have been able to find new employment yet remain loyal brand ambassadors. Despite this success, we still struggle with a public perception that Holden will not be here at the end of the year — nothing could be further from the truth.

What is the favourite part of your job?

Observing others and intervening where necessary to ensure the right outcome for the business — are the right people in the right roles focusing on the right things. This is achieved by becoming a trusted advisor and confidant to the Managing Director. I also very much enjoy asking two simple yet very powerful questions of my colleagues — why not and what if?



Ashley Winnett, Executive Director
Human Resources at GM Holden
Australia and New Zealand



What attracted you to a career in HR?

The commercial impact that great HR can make on a business. From purposefully hiring the right people, recreating a business a person at a time, developing the right people and creating tomorrow's leaders through to exiting those that aren't right for our business quickly and with dignity. When HR is respected for what it can deliver within a business it's interesting the issues you get to be involved in from the very outset.

What's one piece of HR-related advice you would offer?

Learn hands on how your business earns revenue, how and why it turns a profit or makes a loss and then ask how can a HR team improve your businesses profitability or cut its losses. Once you learn this you'll always be invited back to every meeting.

Source: Extracts from J. Hilton 2017, 'HR in the hot seat: Ashley Winnett of GM Holden Australia', www.hcamag.com, 31 January.

INTERVIEW WITH CLAUDINE OGILVIE, CIO AT JETSTAR

Jetstar is an Australian low-cost airline and a wholly owned subsidiary of Qantas. Jetstar's management operates independently of Qantas and has a different focus to that of the parent company. Jetstar's mission is 'to offer low fares to enable more people to fly to more places, more often'. The following is an interview with Claudine Ogilvie, Jetstar's Chief Information Officer (CIO) about her job and how her area of management responsibility contributes to the achievement of business objectives.



In June last year you replaced Grainne Kearns, who had restructured Jetstar's IT team and put into action a transformation plan made up of 21 initiatives. Kearns moved the organisation from a cost-driven start-up where teams were executing in silos to behaving more like an enterprise. Where are you taking the organisation from here?

Jetstar has always been a fast growing/evolving organisation. We've moved from a siloed start-up to an enterprise model, and this has created a foundation for the team to take the next steps.

These include creating a business-focused and strategically-aligned technology function, supporting and also helping the business drive its strategic directives; and continuously improving our operational model and effectiveness of our technology function to support Jetstar-branded airlines and the broader Qantas group.

We have moved from operating separately from the rest of the Qantas Group to exploring synergies, i.e., major contracts with companies like Telstra, and leveraging economies of scale. Qantas is becoming increasingly lean and efficient and has much to learn from Jetstar's low-cost history and evolution.

Jetstar has grown into an organisation of a size that demands mature systems and processes but is no less agile and cost-effective and can learn from Qantas Airlines' and Qantas Loyalty's journey.

We are aiming to adopt the best of both worlds and apply it to enhance the value proposition offered by the Jetstar brand.

Finally, technology is the launch pad for innovation at Jetstar. Our innovation framework is focusing on achieving specific strategic outcomes. These include improving customer experience and employee engagement, which helps us grow (particularly in Asia), providing the lowest, most affordable fares by keeping our TCO low, and innovating with the business through automation, etc.

Claudine Ogilvie, CIO at Jetstar



Qantas is building in-house software expertise, working on placing API layers in front of legacy systems. Is Jetstar doing the same with the Axway API gateway? Which software capabilities are you keeping in-house and which ones are being outsourced?

Both Jetstar and Qantas use the Axway API gateway, however Jetstar's technology environment is quite different to the Qantas environment. We have internalised some technical leadership (technical support, configuration and optimisation), and integration will continue to be important. However, at this stage I don't see Jetstar building out a particularly large team in this space.

Wherever possible, we will adopt off-the-shelf solutions which are fit-for-purpose rather than a premium product. This helps us stay agile and low-cost, which is important. Where software opportunities do arise that align with Jetstar's strategy, we will explore how we can best leverage Jetstar's and Qantas' resources while not duplicating our capabilities and making sure we stay as lean as possible.

What innovations are planned in the coming months? Artificial intelligence and machine learning technologies are being talked about quite a lot so far this year. Does Jetstar have plans to utilise these technologies?

Innovation is an integral part of our culture. We are focusing our innovation on growth across Asia with technology as a leader and enabler to improve customer experience and employee engagement. Cabin crew and airport staff are equipped with iPads, and we are supporting operations to deliver on-time performance and net promoter scores to automate and remove human error.

We will continue to invest in infrastructure with cloud so we remain flexible and agile; while improving decision-making and technical direction and ensuring it aligns with our business strategy.

We also have Jess, our virtual assistant, and will evolve towards using robotics to improve the customer experience, provide efficiencies and cost savings. We are investigating ways to better automate operational processes to reduce cost and human error to improve compliance and minimise rework.

Source: Extracts from B. Connolly 2017, 'Interview: Claudine Ogilvie, CIO, Jetstar', www.cio.com.au, 19 April.

2.3 Activities

TEST your understanding

1. Read 'Interview with Ashley Winnett, Executive Director Human Resources at GM Holden Australia'. Identify the area of management responsibility that Ashley Winnett oversees.
2. Explain how Winnett's area of management responsibility contributes to the achievement of business objectives.
3. Read 'Interview with Claudine Ogilvie, CIO at Jetstar'. Identify the area of management responsibility that Claudine Ogilvie oversees.
4. Explain how Ogilvie's area of management responsibility contributes to the achievement of business objectives.

EXTEND your understanding

5. The areas of management responsibility must contribute to the achievement of business objectives. For most businesses, this is profit. The tables below list the profit reported by GM Holden and Jetstar in recent years.

Year	GM Holden profit (loss)
2016	\$152.8 million
2015	\$128.2 million
2014	(\$255.2 million)

Year	Jetstar profit (loss)
2016–17	\$417 million
2015–16	\$452 million
2014–15	(\$230 million)

- (a) Using online sources, find the most recent profit figures for GM Holden and Jetstar. How successful have both businesses been in recent years?
- (b) In your opinion, how successfully has the human resources area contributed to the achievement of business objectives at GM Holden?
- (c) In your opinion, how successfully has the technology support area contributed to the achievement of business objectives at Jetstar?

6. For both GM Holden and Jetstar, increasing market share is important.
 - (a) Explain how the human resources area of management responsibility can contribute to the achievement of GM Holden's objective of increasing market share.
 - (b) Explain how the technology support area of management responsibility can contribute to the achievement of Jetstar's objective of increasing market share.
7. Eco Point is a social enterprise that operates with the objective of working towards sustainable environmental change. Explain how the following areas of management responsibility can contribute to Eco Point's objective:
 - operations
 - finance
 - human resources
 - sales and marketing
 - technology support.
8. Sean is a sole trader who operates a café with the objective of making a profit. Explain how the following areas of management responsibility can contribute to his café's objective:
 - operations
 - finance
 - sales and marketing.

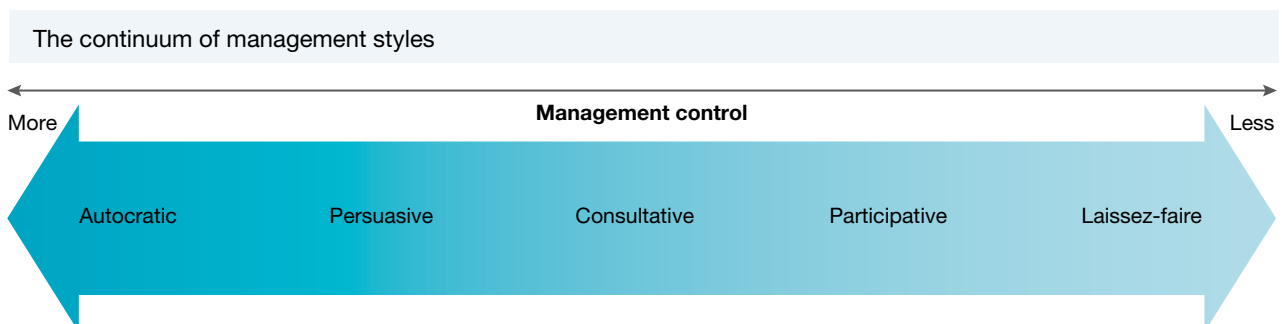
2.4 Management styles: autocratic and persuasive

KEY CONCEPT Two management styles are the autocratic and persuasive styles.

The important task faced by managers is how best to achieve the objectives of their business. This task can be accomplished only by working with and through other people, so managers must select a management style appropriate to the environment in which they operate.

A manager's style is essentially their way of doing things — their behaviour and attitude when making decisions, when directing and motivating staff to undertake set tasks, and when implementing plans to achieve business objectives. **Management styles** can be placed on a continuum (see the following figure), with the autocratic manager at one end and the laissez-faire manager at the other. The assumption is that all types of manager appear somewhere on that continuum.

We will examine the five styles shown in the figure in turn and outline their main features, advantages and disadvantages.



EXAM TIP

The **Unit 3, Area of Study 1** key skills state that you need to 'analyse and discuss management styles' as well as 'evaluate management styles'. This suggests that you should know the advantages and disadvantages of each management style.

2.4.1 Autocratic management style — ‘do it the way I tell you’

An **autocratic management style** is one where the manager tends to make all the decisions, dictating work methods, limiting employee knowledge about what needs to be done, and frequently checking on employee performance. The autocratic manager generally provides clear directives by telling employees what to do, without listening to or permitting any employee input. This style of manager motivates through threats and disciplinary action. Autocratic managers expect compliance and obedience, they are controlling (often requiring many detailed reports), and they give more negative and personalised feedback. This style is centralised (management has control) and communication is one-way.

The autocratic style of management can be effective in a time of crisis, when immediate compliance with rules or procedures is needed, or in meeting an unexpected deadline, when speed is important. This approach is also effective when team members do not know each other well or when individuals lack skills and knowledge. A frontline manager, for example, might adopt this style when supervising new employees. It is generally accepted, however, that this style does not encourage the best performance from employees.

The main advantages of the autocratic management style include the following:

- Directions and procedures are clearly defined; there is little uncertainty.
- Employees’ roles and expectations are set out plainly, so management can monitor their performance.
- Control is centralised at top management level, so time is used efficiently and problems are dealt with quickly, because there is no discussion or consultation.

The main disadvantages include the following:

- No employee input is allowed, so ideas are not encouraged or shared. This means employees do not get the chance to develop their skills, and they do not feel valued.
- When no responsibility is given to lower level staff, job satisfaction decreases. This impacts on issues such as absenteeism and staff turnover.
- Conflict, or the potential for conflict, increases. Often workers are competing for the approval of managers, which can lead to disagreements and tension.
- An ‘us and them’ mentality may develop, because of the lack of employee input.

An autocratic style is usually ineffective in getting the best out of staff.



studyon

Unit 3

AOS 1

Topic 5

Concept 1

Autocratic management style Summary screen and practice questions

2.4.2 Persuasive management style — ‘I think it is best if you do it this way’

An extension of the autocratic style, the **persuasive management style** is one where the manager attempts to convince employees that management’s way is the right way. Authority and control are centralised with senior management, but managers attempt to make employees accept the objectives of the business and work to certain plans and procedures. Communication is one-way, and workers are not given the opportunity to share ideas or provide feedback.

The persuasive management style



The persuasive style is often appropriate in similar conditions to those suiting the autocratic style.

The advantages of the persuasive management style include the following:

- Managers can gain some trust and support through persuasion.
- Workers believing that their feelings are being considered may approach tasks, and the business as a whole, more positively.
- Instructions and explanations remain clear and constant.
- There is some acceptance of negative situations (such as altered work hours) when the benefits of management decisions are explained.

The main disadvantages include the following:

- Attitudes and trust remain negative. Employees fail to give full support to management.
- Communication is still poor and limited to a top-to-bottom, one-way system.
- Employees remain frustrated, because they are denied full participation in the decision-making process.

studyon

Unit 3

AOS 1

Topic 5

Concept 2

Persuasive management style Summary screen and practice questions

2.4 Activities

TEST your understanding

1. Explain what is meant by a 'management style'.
2. Outline the characteristics of the autocratic style and the persuasive style.
3. In what ways is the autocratic style similar to the persuasive style? In what ways are the two styles different?
4. List the main advantages and disadvantages of the autocratic and persuasive styles.
5. Outline situations where the autocratic and persuasive styles would be appropriate.

APPLY your understanding

6. Do you know an autocratic manager? What features of the style do they display? How do they make staff get things done? Is their style successful?
7. For the following situations, suggest whether the autocratic or persuasive style is being used, and explain why you made your choice.
 - (a) Maurice is the manager of an inexperienced customer service team. He convinces the team that new customer relationship management software should be trialled for six months.
 - (b) Dianne is the human resources manager of a large mining company. Senior management has decided that there will have to be staff cutbacks due to the deterioration in the economy. Dianne will let staff know about this decision.

EXAM practice

8. Explain the difference between the autocratic management style and the persuasive management style. **(2 marks)**
9. Samo is the CEO of Resources and Minerals Ltd. The business is facing the threat of a takeover. He has chosen to use the autocratic management style at this time. Discuss Samo's use of the autocratic management style. **(4 marks)**
10. Analyse how the persuasive management style would be necessary for successful business management. **(4 marks)**

2.5 Management styles: consultative and participative

KEY CONCEPT Two management styles are consultative (based on relationships) and participative (which encourages responsibility).

2.5.1 Consultative management style — 'I put the people first, the task second'

A **consultative management style** is one where the manager recognises the importance of good personal relationships among employees and consults with staff on certain issues before making a decision. The consultative manager seeks the opinions of employees, holds information-sharing meetings and recognises good performance. This implies a two-way communication process, with employees sharing their ideas with a manager who is willing to listen. The consultative manager believes that employees can be motivated through their greater involvement in decision-making. Although this employee-centred management style is moving away from the two previous styles, where management is centralised, the final decision-making power remains with the manager.

This management style is most effective when a new operating procedure is to be introduced or some business change implemented. It provides an opportunity for employees to have some input at the time of decision-making.

The main advantages of the consultative management style include the following:

- Asking for suggestions from employees allows for a greater variety of ideas, and should improve the quality of management decisions.
- Employees begin to have some ownership of the way in which the business is run, so they take more of an interest in it. This is reflected in their levels of motivation and commitment, which increase substantially.
- When decisions are discussed and fine-tuned before implementation, tasks are completed more efficiently and with better results.

The main disadvantages include the following:

- The time taken to consult all the relevant employees can slow the entire process.
- Some issues to be decided are simply not suitable for a widespread consultation process. If the process is not consistent with each decision made, staff can become uncertain and confused about their role.
- When a number of ideas are shared, some are bound to be ignored or overlooked in the final decision. This may cause conflict or resentment.

The consultative management style



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Consultative management style Summary screen and practice questions

2.5.2 Participative management style — ‘I believe the people have something valuable to contribute’

A **participative management style** is one where the manager not only consults with employees, but also shares decision-making authority with subordinates. Participative managers recognise the strengths and abilities of employees and actively involve them in all the stages of the decision-making process. The degree of sharing can range from the manager outlining a solution, with the possibility of changes being suggested, to allowing the team to initiate, implement and monitor its own solutions.

Because there is staff participation and ownership of decision-making this is a decentralised management style. The participative management style makes use of two-way communication as staff are encouraged to provide ideas and feedback. Since the contribution of employees is valued, it is likely that they will have a commitment to the business’s objectives via their own input.

This management style is most effective when a business is operating in an environment undergoing rapid change. Individual employees accept responsibility for, and can implement, changes. This makes the business more responsive to change. Activities such as brainstorming generate a range of opinions and ideas, and these may lead to better decisions being made.

The main advantages of the participative management style include the following:

- Employer/employee relations are positive and there is reduced likelihood of industrial disputes. Employees are more likely to accept management decisions.

- Motivation and job satisfaction are optimal, because employees feel they have played an active role in allocating tasks and implementing actions to meet objectives.
- Employees have a greater opportunity to acquire more skills.
- There are opportunities for employees to put forward ideas. This power-sharing approach encourages the development of work teams, and employees display high levels of commitment.
- There is a high level of trust, often resulting in improved employee performance.

The main disadvantages include the following:

- Reaching decisions and introducing tasks can be time consuming when differing views have to be considered. The quality of decisions may also suffer because compromises are made rather than decisive, clear directions given.
- The role of management, and the control of the manager, may be weakened and undermined, with employees given too much power in some cases.
- Internal conflict can arise with so many views and opinions being shared. More involvement may bring about disagreement.
- Not all employees may want to contribute.

The participative management style



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Participative management style Summary screen and practice questions

2.5 Activities

TEST your understanding

1. Outline the characteristics of the consultative style and the participative style.
2. In what ways is the consultative style similar to the participative style? In what ways are the two styles different?
3. List the main advantages and disadvantages of the consultative and participative styles.
4. Outline the situations where the consultative and participative styles would be appropriate.

APPLY your understanding

5. Do you know any participative managers? What characteristics of the style do they display? How do they motivate staff to get things done? Is their style successful?
6. For the following situations, suggest whether the consultative or participative style is being used, and explain why you made your choice.
 - (a) Lisa is the project manager of a very experienced team of programmers. She has worked with her team to make all of the decisions about how to design, develop and implement new software applications.
 - (b) Greg is the production manager for a large manufacturing company. He holds a meeting to seek the opinion of his staff about introducing a direct-marketing system.

EXAM practice

7. Explain the difference between the consultative management style and the participative management style. **(2 marks)**
8. Petrea is the HR manager at Real Technologies Ltd. She uses the participative management style. Identify two characteristics of this management style, and explain one advantage and one disadvantage of using this style. **(4 marks)**
9. Analyse how the participative management style would be necessary for successful business management. **(4 marks)**

2.6 The laissez-faire management style and the appropriateness of management styles

KEY CONCEPTS

- Another management style is the laissez-faire style.
- The most appropriate management style for any given situation is the one that the manager selects after considering the nature of the task, time, the experience of employees and the manager's preference.

2.6.1 Laissez-faire management style — the employees can take complete control

A **laissez-faire management style** is one where employees are responsible for workplace operations. Management has no central role or decision-making power. Essentially, management has no role in the day-to-day running of the business. Management will set objectives and is still accountable for the overall performance of the department or business, but employees take responsibility for implementing the means of achieving the objectives. In so doing, employees are responsible for their decisions and accountable for the results. This is a completely decentralised management style, with employees operating individually or in small groups to complete tasks.

The laissez-faire management style is most effective for creative work or research, with employees who are highly talented or qualified in the tasks to be performed and where minimal supervision and direction is required.

A laissez-faire management style is effective for work situations like medical research. This management style encourages ownership, which may produce outstanding results.



The main advantages of the laissez-faire management style include the following:

- Employees feel a sense of ownership, which can promote outstanding results.
- There is continual encouragement of creativity, which is conducive to a dynamic working environment.
- Communication is completely open and ideas are both discussed and shared.

The main disadvantages include the following:

- There is a complete loss of control by management. No control or direction means there is potential for misuse of the business's resources, including time and money, because these have been placed in the hands of the employees.
- This style can breed personal conflicts, where individuals do not cooperate or wish to implement only their own ideas. In these cases, management is not there to direct or negotiate.
- The focus on meeting business objectives can be easily eroded. Management may find themselves with a failed business and nothing to manage.

DID YOU KNOW?

- Laissez-faire is a French phrase meaning to leave things as they are, or to let (them) go.
- Some people argue that the laissez-faire approach should not be recognised as a separate management style. They argue it is only an extreme example of the participative style of management.

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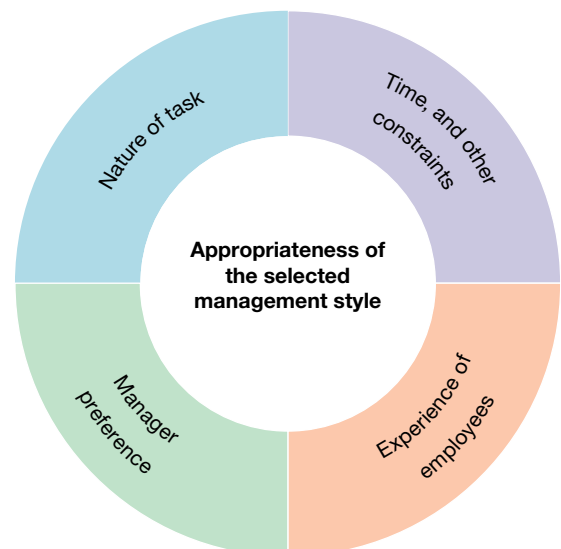
Concept 5

Laissez-faire management style Summary screen and practice questions

2.6.2 The appropriateness of management styles

Circumstances in a business are constantly changing. Managers will often simply choose the management style that they are most comfortable with. However, highly effective managers change styles depending on the situation. The most appropriate management style chosen by a manager for any given situation will be influenced by:

- the nature of the task itself — for example, an autocratic style might be used for a relatively straightforward task whereas a participative style might be used for a more complicated task that would benefit from a range of ideas
- time, and other constraints both internal and external, such as resources — for example, an impending deadline might mean that an autocratic style is appropriate. On the other hand, an extended timeframe, with access to ample resources, might lend itself to a manager making use of a more participative style.
- the experience of employees, as well as their personalities, values, beliefs and skills — for example, a workplace with inexperienced staff might necessitate the use of an autocratic style, whereas a team of experienced staff would indicate that a consultative or participative style would be appropriate
- the preference of the manager — for example, a manager's personality, experience, values, beliefs and skills might mean that they prefer to use a particular management style.



The consideration of the appropriateness of management styles in relation to the nature of task, time, experience of employees and manager preference is often referred to as ‘situational management’. Another name for this approach is **contingency management theory**. It is important to note that there is no one best management style, except the one chosen appropriately and that contributes to the business achieving its objectives.

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Situational management Summary screen and practice questions

2.6 Activities

TEST your understanding

1. What is meant by ‘laissez-faire management style’?
2. When might it be appropriate to use a laissez-faire management style?
3. List the main advantages and disadvantages of the laissez-faire management style.
4. Explain what is involved in choosing an appropriate management style for a given situation.

APPLY your understanding

5. Which management style would you prefer to adopt if you were a senior manager? Under what style of management would you prefer to work?
6. Alistair is the communications manager responsible for producing the company annual report in six months. He is a highly experienced and skilled manager but is working with a team consisting of many new employees. Outline the details of each of the situational elements (the preference of the manager, the experience of employees, the nature of the task and time) in this scenario. What management style would you recommend that Alistair use?
7. Compare the five main management styles by completing the following table.

	Autocratic	Persuasive	Consultative	Participative	Laissez-faire
Decision-making	Manager makes all decisions and tells staff				
Control		Centralised — manager controls the processes			
Staff input			Staff input is valued		
Communication				Two-way	

EXAM practice

8. Explain the characteristics of the laissez-faire management style. **(2 marks)**
9. Wilson’s Pty Ltd is a business that manufactures and retails flat-pack furniture. The CEO of the company, Shadi Wilson, is detached and often hard to find. She believes that if the business employs competent staff, they will be able to manage themselves. Identify the management style that Shadi Wilson has been using. Discuss the use of this style. **(5 marks)**

10. Paul uses the autocratic style to manage the inexperienced employees of his café. This is the management style that he feels comfortable using, therefore he has used it for some time. Referring to two factors indicating the appropriateness of management styles, justify the use of Paul's use of the autocratic style. **(4 marks)**

2.7 APPLY YOUR SKILLS Management styles

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Analyse and discuss management styles necessary for successful business management
- Evaluate management styles and their appropriateness for a range of business situations

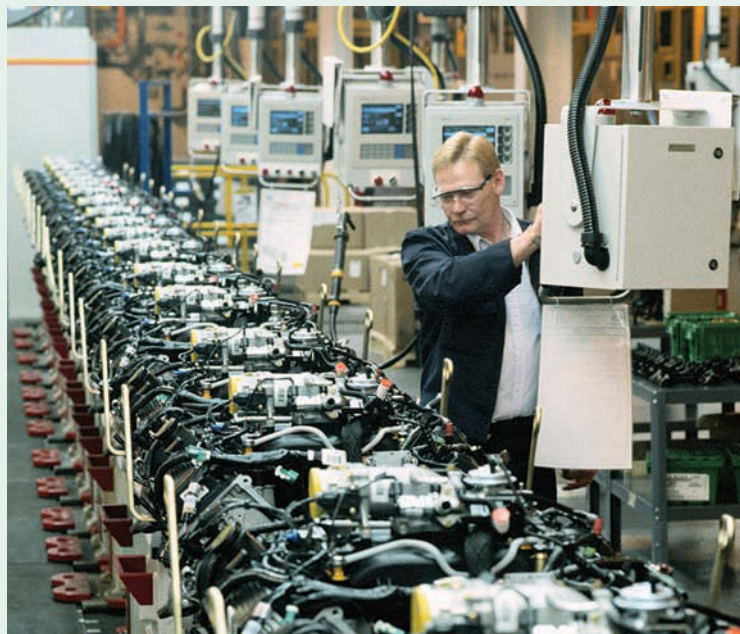
AN EXPERIENCED MANAGER

Peter Anderson is Production Manager at BKW Pty Ltd, a manufacturing company that supplies assembly parts to vehicle production companies.

The difficult aspect of Peter's job is responding to the demand to maintain adequate stock levels to service all the vehicle companies. Peter's management experience comes from working on the factory floor for over a decade before being promoted to production manager four years ago. He has extensive knowledge of equipment and procedures, and has built up a reputation for being a hard, technical man who will always get the work done. Despite this, he has avoided dealing with problems that the marketing department has created with late requests for new stock requirements.

Marketing Manager Kim Laffin is keen to take orders to provide parts for a variety of models and makes from different vehicle companies. However, she does not always communicate her ideas to Peter. As a result, production staff are often stressed because short notice is given for the production changes required.

Harvey Beck manages a team of three employees who rotate on a shift roster, including full-time and part-time workers. Working together, they plan the workload for the production department and prepare stock checklists to ensure work takes place continuously between shifts.



2.7 Activities

TEST your skills

1. Define the term 'management style'.
2. Describe the characteristics of the persuasive management style.
3. Using the information in the 'An experienced manager' case study and the scenarios below, answer the following questions.

SCENARIO ONE

Due to the marketing department's desire to service a greater range of customers, the number of parts in stock has increased by more than 30 per cent this month. However, Peter feels that his department has not been given enough time to complete the job satisfactorily. He has arranged two important meetings, one with the CEO and one with Kim Laffin. He hopes to point out that they do not fully understand and appreciate the problems in production, and that this is due entirely to the lack of communication from the marketing department.

- (a) What management style will Peter adopt with the CEO and Kim Laffin? Give reasons for your answer. How could communication between Peter and Kim be improved?

SCENARIO TWO

Peter has arranged a second meeting with his own production staff. He realises that he must accept management's decision to increase the number of parts in stock. However, he is aware that some of his staff are not happy about the situation. They resent not being given enough time to prepare adequately for the changes. They do not feel they can perform their jobs efficiently under these demanding circumstances.

- (b) What management style should Peter adopt when meeting with his staff? Give reasons for your answer.

SCENARIO THREE

When changes to the stock requirements take place, Harvey Beck is responsible for coping with the new schedule. He often experiences stress due to the need to supervise the work of his section and also the remaining sections and their staff. He is involved with three levels: (1) his manager, Peter Anderson, (2) his own staff and (3) other sections who are expected to respond to the new requirements.

- (c) Explain what management style you might expect Harvey Beck to adopt for each relationship. Give reasons for your answer.

APPLY your skills

4. The following scenarios illustrate different management styles. Working in groups of three or four, determine what style is being used. Also explain whether it is correct for the situation or whether a different style would work better.
 - (a) A manager is leading a team of research scientists working on new ways to use plastic. Although the team discusses the merits of each idea and project, she retains the final decision-making authority.
 - (b) A new supervisor has just been put in charge of the production line. He immediately starts by telling the crew what changes need to be made. When some suggestions are made, he tells the crew he does not have time to consider them.
 - (c) A construction crew has worked together for the past four years with little changeover in personnel. They always vote whenever a decision has to be made on how to proceed with the project.
 - (d) The manager of an electronics manufacturing department starts every day by telling the 15 employees what has to be done and how to do it.

- (e) A manager is working on the budget. He is told to get an important project running immediately. He calls his staff together and explains the project. He then tells them to get it up and going while he completes the budget.
 - (f) An inspection line has no supervisor. The employees are expected to have the correct staffing, procedures and expertise on each shift to ensure no defective parts get past them.
 - (g) There are seven people on a special project team, and each individual is from a different department. Although a leader was elected, for a decision to pass it must have the approval of each individual.
5. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Using the example of Peter Anderson in the 'An experienced manager' case study and the scenarios, discuss the use of the autocratic management style as being necessary for successful business management.
6. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the appropriateness of Harvey Beck using the participative management style with his team.

2.8 Management skills: communicating, delegating and planning

KEY CONCEPTS

- All managers use their skills to achieve the objectives of the business.
- Different management styles rely on the manager possessing particular management skills to varying degrees.

2.8.1 Management skills

Management skills are the abilities or competencies that managers use to help them to complete the tasks that are necessary for the achievement of business objectives. Usually, effective managers are those who possess a range of specific management skills and can use these skills in a number of management situations. Typical management skills include:

- communicating
- delegating
- planning
- leading
- decision-making
- interpersonal skills.

Managers are not required to use all of these skills constantly, but it is important that these skills are available when they are needed.

RESEARCH ON MANAGEMENT SKILLS

Beginning with the release of the Karpin Report findings in 1995, there has been much research over the past 20 years into the kinds of skills that managers need in order to carry out their work more effectively. To identify ideal management skills and characteristics, the authors of the Karpin Report (otherwise known as *Enterprising nation: renewing Australia's managers to meet the challenges of the Asia-Pacific century*) interviewed a number

of Australian management experts. The report found that businesses in Australia had failed to invest in the management skills needed for best practice; the majority of Australia's managers did not have the skill levels of those of the major trading nations. The Karpin Report suggested that managers needed better 'people' or 'soft' skills, including communicating, delegating and leading, and strategic skills, such as planning.

More recently, the results of two surveys released in 2014 revealed that managers and employees believe that frontline and middle managers lack the skills they need to do their jobs effectively. These skills include communication and leading. A Monash University and Australian Institute of Management (AIM) survey of 2000 managers and employees found that 83 per cent rated their middle manager's leadership skills as average or below average. A DDI Australia survey of 224 HR professionals found that 85 per cent had low or moderate confidence in their business's frontline leaders.

This research appears to have been confirmed by the release of findings from the Australian Management Capability Index (AMCI) in 2017 by the Institute of Managers and Leaders (rebranded from AIM). The research found that Australian management capability had continued to decline. It also found that CEOs and managing directors rate management capability in their businesses higher than middle managers.

Also in 2017, the Australian Bureau of Statistics (ABS) released the first official survey data on management capability in Australia. The data presented statistics on a number of topics including strategic plans and management skills. Approximately 14 500 businesses were sampled for the survey, with all industries and all business sizes for the whole Australian economy covered for the 2015–16 financial year. The management capability survey found that businesses that are 'innovation-active' have higher levels of management capability. Small businesses were less likely to address skills shortages than medium-sized or large businesses. The businesses surveyed suggested that the main factors affecting skills shortages were the specialist skills and knowledge required, wage or salary costs being too high and the lack or availability of training.

EXAM TIP

The **Unit 3, Area of Study 1** key skills state that you need to 'analyse and discuss ... management skills' as well as 'evaluate ... management skills'. This suggests that you should know the advantages and disadvantages of each management skill.

DID YOU KNOW?

Effective leaders can communicate with their staff — they are able to reach agreements with them not only about their tasks but also about the amount of direction and support they will need to accomplish these tasks.

— K. Blanchard, P. Zigarmi and D. Zigarmi 1986, *Leadership and the one minute manager*, Collins, London.

2.8.2 The relationship between management styles and skills

Management styles and skills are closely related. The type of management style that a manager selects will determine the range and degree of skills they use. For example, if a manager assesses a situation and chooses to use a participative style, then clear communicating, delegating, planning, leading and interpersonal skills will be important. A manager making use of this style would use two-way communication and delegate the responsibility for making decisions to staff. It is very likely that managers who are strong in decision-making would prefer to use the autocratic, persuasive or consultative styles. However, an autocratic manager would not have much use for delegating or interpersonal skills. Furthermore, the autocratic manager would also use communicating, planning and leading — they would just utilise them very differently to a manager using the participative style, for instance.

Graham Turner is the Chief Executive Officer, Managing Director and founder of Australian-based international travel management company Flight Centre. Flight Centre makes use of participative management styles, with a focus on working in teams, and strong management skills, such as communicating and interpersonal skills, which are an important part of this approach.



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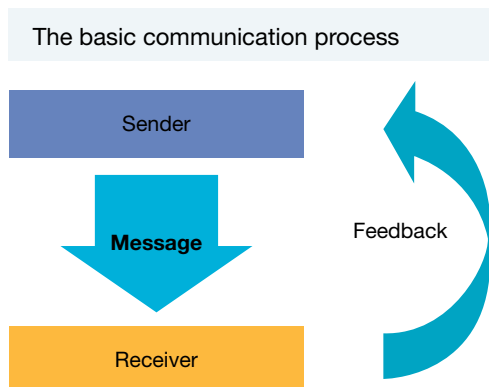
Relationship between management styles and management skills Summary screen and practice questions

2.8.3 Communicating

Communicating is the transfer of information from a sender to a receiver. Communication can occur both within and outside the business.

It can be non-verbal (body language, visual) or through the use of words (verbal — in written form or orally). Written communication includes letters, memos, emails, reports and text. Oral communication in the business world includes meetings, one-on-one conversations and conferences. The method of communication chosen will depend on the audience; that is, whether management is communicating with employees, suppliers or shareholders.

Managers use the communicating skill when explaining a vision, outlining possible changes to the business, or simply to let staff know what is expected of them. A manager may also need to answer questions from staff when introducing a new policy, or listen to feedback from other stakeholders. Communication is fundamental to almost everything that occurs in a business. Effective communication — clear, articulate and concise — helps maintain good relationships.



On the other hand, the use of this skill can lead to conflict as employees may use communication to agree or disagree with each other and with management. This can lead to resentment and tension, with the possible outcome of tasks not being completed. Effective managers should be able to use communication to resolve conflict. Sometimes the positive relationships that are formed as a result of communication become a distraction and can also reduce productivity. Communication can be time consuming and, at times, there can be too much of it, resulting in information overload.

Satya Nadella is the CEO of Microsoft. One of the first things he did when he took over the role in 2014 was to write a letter to employees outlining his objectives and vision for the company. The letter was emailed to all staff. Nadella also included some personal information about himself.

‘I am here for the same reason I think most people join Microsoft — to change the world through technology that empowers people to do amazing things. I know it can sound hyperbolic — and yet it’s true,’ he said. ‘I am here because we have unparalleled capability to make an impact.’

Nadella clearly articulates Microsoft’s vision and a consistent approach to building the company. He has since transformed Microsoft into an innovative mobile and cloud-services business. Microsoft’s share price has risen more than 150 per cent since Nadella became CEO and continues to trade at all-time highs. Nadella has received praise for his calming and collegial style of communication. He has shown that he is prepared to work with staff and listen to them. Nadella is also a confident and charismatic public speaker.

Satya Nadella, CEO of Microsoft, confidently and clearly articulates Microsoft’s vision and a consistent approach to building the company.



COMMUNICATION PROBLEMS

Messages are misinterpreted all the time. The following information comes from a number of telephone conversations between employees within a fictitious business. There is no feedback and none of the messages are written down.

Conversation 1: Managing director to the general manager

On Monday morning, at precisely 10.00 am, a total eclipse of the sun will occur — an event that takes place once in every 85 years. Please ask employees to meet in the parking area outside the main entrance, wearing safety glasses, and I will explain this rare natural event. If it rains, we will not be able to witness the event so have employees meet in the auditorium and I will show them a video of the eclipse.



Conversation 2: General manager to department head

The managing director has ordered a total eclipse of the sun above the parking area outside the main entrance on Monday at 10.00 am. If clouds cover the event, instruct the employees to wear safety glasses, then proceed to the auditorium where this natural event will take place, something that occurs every 85 years.

Conversation 3: Department head to sectional manager

At 10.00 am on Monday, the managing director, who will be wearing safety glasses, has ordered a total eclipse of the sun in the auditorium. In case of clouds, assemble in the main entrance before going to the parking area, where the managing director will give another order, something that occurs only every 85 years.

Conversation 4: Sectional manager to senior supervisor

A rare event will occur on Monday at 10.00 am. The managing director will appear in the auditorium with his son, who will eclipse him now he is 85 years old. The managing director's position has been under a cloud for some time. A presentation of rare safety goggles will be made to him in the parking area outside the main entrance, where all employees will be waiting.

Conversation 5: Senior supervisor to employees

On Monday 10, the rare 85-year-old managing director, accompanied by his son, Eclipse, will park in the main entrance before watching the clouds. Everyone will then assemble in the auditorium, where safety goggles will be presented to employees.

2.8.4 Delegating

Delegating occurs when the authority and responsibility to carry out specific activities is transferred from a manager to an employee. The manager delegating the task remains accountable for the outcome of the delegated work, but allows the employee or employees to make their own decisions. Clear communication must be used when passing on instructions about what needs to be done.

Delegating is an appropriate skill to use in order to manage time effectively and to enable staff to learn new skills. It can lead to fresh ideas and an improvement in employee motivation. Delegation can be used to build trust and a feeling of mutual understanding between the subordinate employee and manager. A manager has to be wary of delegating major projects or executive responsibilities, such as determining the strategic (long-term) business objectives. Providing support to employees, setting deadlines and evaluating the task when completed can reduce the risk of the delegated assignment not being completed adequately. Another weakness of delegating tasks is that the subordinate employee may misuse their new power. They may, for example, share confidential information with competitors or become a target for unethical practices such as bribery.

DELEGATION VERSUS ABDICATION

To succeed in business, one of the most important skills you must learn is how to delegate. Delegation allows you to get tasks done without having to chew into too much of your own time and resources.

Effective delegation is not simply giving the task to someone else. There is much more to it. When you simply hand over a task to someone else and forget about it you are abdicating. As tempting as it may be sometimes, there are many risks and consequences when you abdicate.

What is abdication and why should you avoid it?

Abdication is simply issuing a task to someone and then forgetting about it.

Signs that you are abdicating:

- you give little (often unclear) information to the person
- you don't clarify that they understand, you don't set deadlines or timeframes
- your expectations are unclear
- you don't plan to review the process.

This is the 'it's not my job any more' attitude.

The issue with abdication is that it causes distrust and a lack of respect. There is little communication, things are not productive, jobs can often get delayed and go over budget, clients get upset and often it means that you won't get future work.

What is delegation and why should you encourage it?

Delegation is a more hands-on approach than abdication.

You assess the task at hand and issue it to the right person and provide support for them.

You know that you are delegating effectively when:

- you can provide specific, crystal-clear instructions that they can repeat back to you
- it is clear that they have understood
- you set a timeframe and request clarification once the task has been achieved
- you take the time to review after the task.

If you delegate this way it builds trust and respect, there is effective communication, productivity increases, jobs are completed within budget and on time and clients are kept happy and want to work with you again in the future.

When done right, delegation is a powerful skill. But like any skill, it does take time to learn and master. Here are some guidelines you can use to help you be more effective at delegating. [Guidelines courtesy of Keith Gunningham]

- Clearly define and agree on the task/result.
- Delegate the task to someone with demonstrated competence.
- Set up the guidelines/rules and explain the resources available.
- Have a clear deadline or planned schedule to follow.
- Ask for questions and feedback, then have the person repeat the instructions back to ensure they understood.
- Define what you are going to measure to determine if the task is on track and complete 100%.
- Decide and define what the consequences will be if the task isn't completed as outlined by the scheduled date.

Using this simple process you will be able to effectively delegate and get the most out of your team.

Source: Extracts from R. Taylor 2015, 'Delegation versus abdication', Inside Small Business.

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Communication and delegation skills Summary screen and practice questions

2.8.5 Planning

Planning is the ability to define business objectives and determine methods or strategies that will be used to achieve those objectives. It provides the key to both the short-term and long-term success of a business.

Levels of planning — strategic, tactical and operational

Once business objectives have been determined, decisions about how they will be achieved must be made. This requires detailed plans for activities at all levels of the business.

- **Strategic** (long-term) **planning** is planning for the following two to five years. This level of planning will help determine where the business wants to be in the market, and what the business wants to achieve in relation to its competitors.
- **Tactical** (medium-term) **planning** is flexible, adaptable planning, usually over one to two years. It supports the implementation of the strategic plan and allows the business to respond quickly to changes. The emphasis is on how business objectives will be achieved through the allocation of resources.

- **Operational** (short-term) **planning** provides specific details of the way the business will operate in the short term. Management controls the day-to-day operations that contribute to achieving short-term actions and objectives. Examples of operational plans are daily and weekly production schedules.

It is often said that 'failing to plan is planning to fail'.



The planning process

At the core of the planning process is the need to base all decision-making on accurate information that is relevant to the business. To achieve this at the strategic planning stage, managers can use a typical planning process, such as:

Step 1. Define the objective. Management begins the planning process by considering where they believe the business is headed.

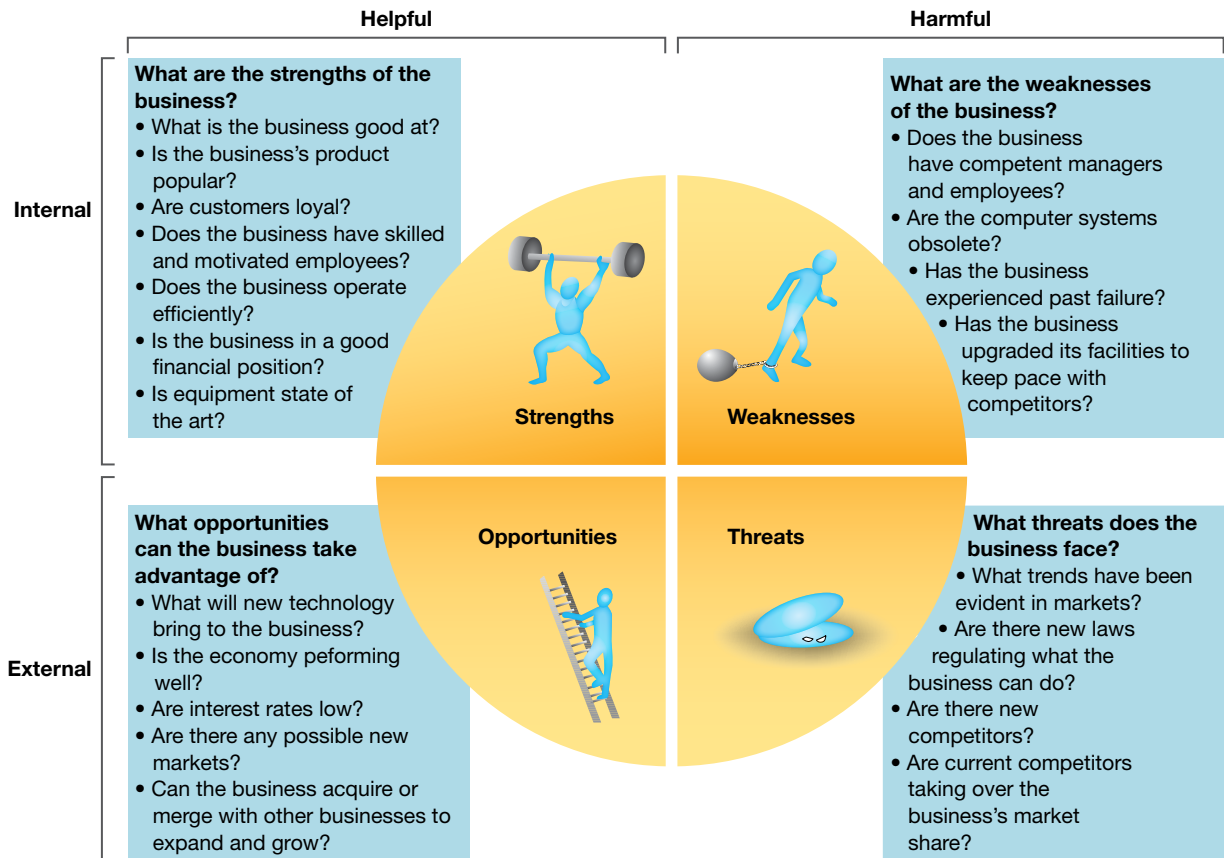
Step 2. Analyse the environment. Managers attempt to work out exactly where the business currently stands. A common analysis technique is known as a **SWOT analysis** (an acronym for strengths, weaknesses, opportunities and threats). This identifies and analyses the business's internal strengths and weaknesses, and also opportunities in, and threats from, its external environment (see the figure on the next page).

Step 3. Develop alternative strategies. In response to the question, 'How will the business get there?', managers develop several strategies and then decide to put one into action.

Step 4. Implement an alternative. The strategy that has been agreed upon needs to be put into place.

Step 5. Monitor and seek feedback on the implemented strategy. Management must set targets and check whether they are met. If business objectives are not met, the planning process would have to be repeated. Any plan formed should be a living document, regularly reviewed and revised if necessary.

A SWOT analysis



A manager using the planning skill gives the business purpose and direction. Having clear objectives and strategies creates unity and encourages motivation, as employees are likely to feel that they have a reason for working for the business. Planning reduces risk and uncertainty, and should result in resources being used efficiently. However, planning can be expensive and time consuming. Opportunities can be lost while managers are planning and innovation or creativity can be hindered because everything needs to be planned.

DID YOU KNOW?

An easy way to remember the five-step planning process is to use the acronym DADIM.

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Planning skills Summary screen and practice questions

2.8 Activities

TEST your understanding

1. Outline what reports on management have said about the skills that Australian managers will need to develop.
2. Draw a table similar to the one below to summarise details of the management skills in this subtopic. The first entry has been completed for you.

Skill	Definition	Characteristics	Application to the workplace
Communicating	The ability to transfer information from a sender to a receiver, and to listen to feedback	Communication can be in words (written — such as letters, memos, emails, reports and text, or oral — such as meetings, one-on-one conversations and conferences). Communication can be non-verbal — such as body language or visual cues.	Managers use it to explain a vision, to instigate change, to let staff know expectations, to answer questions and to listen.

3. Read the 'Communication problems' case study and answer these questions.
 - (a) Why did the original message become so confused?
 - (b) Whose responsibility is it to make sure the message is correctly understood?
 - The sender
 - The receiver
 - Both the sender and the receiver
 - (c) What suggestions would you make to improve the communication in this case study?
4. Read 'Delegation versus abdication'. Describe an effective delegation process.
5. Outline the advantages and disadvantages of communicating, delegating and planning.
6. Explain how each of the skills in this subtopic would be used if a manager decided to select:
 - (a) an autocratic management style
 - (b) a participative management style.

APPLY your understanding

7. When Josh, the owner of Get Fit gymnasium, arrived at his office in the morning, the first thing he did was check his calendar on his mobile phone. He was reminded that he had an early meeting with all of his employees. The purpose of the meeting was to discuss weekly planning schedules. At the meeting, Josh asked Kaila to work on rosters for the next week and suggested that Elly report back to the meeting next week with solutions for the recent drop in memberships.
What skills is Josh using? In what way is he using each of those skills?
8. Use the **Communication Skills Test** weblink in the Resources tab to take the test. What were your results? Do you think this is accurate? How could you improve your communication? How competent do you think you are with the other skills in this subtopic?
9. Ask your teacher to make up a statement and then play a game of 'Pass the message'. Each member must pass the message on to another person. At the end of the activity have your teacher read out the original statement and compare it with the final verbal statement from the last class member in the group who was told the statement.

EXAM practice

10. Define the term 'communicating'. **(1 mark)**
11. Distinguish between delegating and planning. **(2 marks)**
12. Discuss the use of communicating for resolving a dispute between management and employees. **(4 marks)**



 **Weblink:** Communication Skills Test

2.9 Management skills: leading, decision-making and interpersonal

KEY CONCEPTS

- Managers must also be able to lead, make decisions and make use of interpersonal skills.
- Different management styles rely on the manager possessing particular management skills to varying degrees.

2.9.1 Leading

Leading occurs when managers endeavour to influence or motivate people in the business to work to achieve the business objectives. Effective leadership is vital to the success of a business. The type of leadership in a business depends on the attitudes and assumptions that managers have about people in the business. Good managers lead by example — by modelling good practice — and encourage and praise good performance. Leaders actively listen to what employees say and welcome new ideas, remain calm in the face of conflict and stressful situations, and delegate tasks so that work and responsibilities are shared with employees who have the capacity to handle them.

Managers can be categorised as transactional or transformational leaders. A transactional leader provides staff with rewards in return for their compliance and acceptance of authority. Incentives such as pay rises or promotions are offered depending on whether or not performance goals are met. A transformational leader inspires or enthuses staff with a vision to ensure that they are committed to achieving the objectives of the business. They consider each member of staff as a unique individual and provide opportunities for team members to exercise their own judgement on decisions.

DID YOU KNOW?

One contemporary, and somewhat controversial, viewpoint on the much-debated topic of effective leadership is that of Robert K. Greenleaf. In the *Reflections on leadership* and *Insights on leadership* series, he argues that a truly effective leader is a manager who serves. He outlines a practical philosophy of 'servant leadership', which holds that people who choose to first serve, and then to lead, make the most effective leaders, because they expand services to others. Servant-leaders encourage cooperation, trust, listening, foresight and ethical use of power.

Naomi Simson, Founding Director of RedBalloon, and Daniel Flynn, Managing Director and co-founder of Thankyou, are both leaders. They set an example, earn the respect of employees and clearly communicate a vision in order to achieve objectives.



Good leadership should result in motivated employees and high staff morale. Employees who are motivated with a sense of direction and who trust management tend to work harder or more efficiently, which can lead to high productivity and the attainment of business objectives. However, leading does have disadvantages. Managers can be so busy leading that they have no time for contributing to productive activities, such as meeting with customers or making sales. Clashes can occur between leaders and employees and an ‘us versus them’ mentality can develop if staff feel that they cannot relate to management. This can be particularly true if the manager uses transactional leadership.

DID YOU KNOW?

Management is doing things right; leadership is doing the right things.

— Peter Drucker, Management Consultant

Management is not dictatorship. Top management of a company has to have the ability to manage people by leading them.

— Akio Morita, co-founder and former CEO of Sony Corporation

study on

Unit 3

AOS 1

Topic 6

Concept 3

Leading skills Summary screen and practice questions

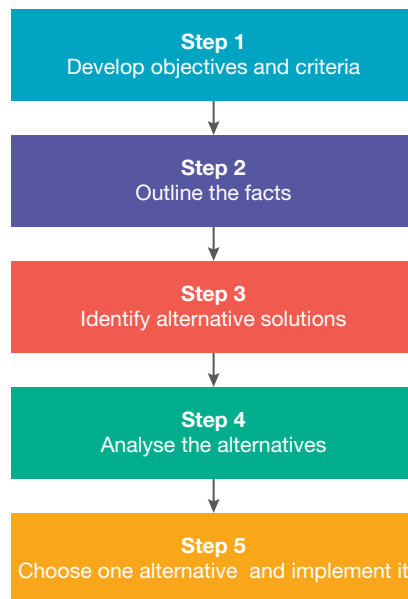
2.9.2 Decision-making

Managers today are often confronted with complex, challenging and stressful conflicts, problems and issues. The world is changing rapidly and it is necessary to possess skills to identify all possible options and possibilities. **Decision-making** involves identifying available options and then choosing one course of action from the alternatives. Effective decision-making involves being able to make decisions within a particular timeframe. It also requires a manager to adequately assess the risk involved if the decision is implemented.

There are five steps in a typical decision-making process (see the diagram at right). The first step is to clearly state what the desired goal or position is, which includes determining measurable criteria for what this situation would look like. These criteria might be, for example, to increase profit by 10 per cent or to increase market share by 5 per cent. All of the facts and information related to the situation then need to be outlined, including the circumstances that may have caused the conflict, problem or issue, as well as the possible obstacles that may prevent the attainment of the desired goal or position. Once all the facts have been outlined, the desired goal or position (step 1) should be reassessed to confirm if it was developed clearly and whether or not it is realistic.

Alternative solutions need to be generated that will possibly overcome the obstacles identified in step 2. Each alternative should then be closely examined for the resources that would be needed to carry them out and their possible consequences. As part of an analysis, the alternatives should be ranked in terms of their costs and benefits, strengths and weaknesses, or advantages and disadvantages. The best alternative according to the criteria then needs to be chosen by management, and implemented.

A decision-making process



A manager using the decision-making skill may be able to make decisions quickly, but this may not be true if decisions are made in a group. Teams working together to make decisions tend to take a longer time, because there is a need to discuss all the options and reach consensus. On the other hand, making decisions within a group has the potential to collect more ideas and knowledge, which can result in better decisions and more effective implementation. Group decision-making may not suit all situations. In the case of an emergency or a crisis requiring immediate action, an individual may be required to make a hasty decision.

In 1999 two young men, Larry Page and Sergey Brin, offered to sell their search engine to Excite CEO George Bell for \$1 million, eventually reducing their asking price to \$750 000. Bell decided to reject the offer. The search engine was Google and the company that Page and Brin founded went on to become a multinational valued at more than \$100 billion. Excite was one of the most recognised brands on the internet in the 1990s. It was later purchased by AskJeeves (now Ask.com) after its share price collapsed.



DID YOU KNOW?

In 1986, NASA management had to decide whether to launch the space shuttle *Challenger*, even though temperatures at the launch site had fallen below the levels normally required for a safe launch. Lower-level engineers expressed their concerns. However, top-level NASA managers decided to go ahead with the launch — a decision that resulted in the deaths of all the astronauts on board.

2.9.3 Interpersonal skills

Interpersonal skills refer to management's ability to deal or liaise with people and build positive relationships with staff. This skill is very important because it is through other people that managers achieve business objectives. A manager who is able to identify and recognise how other people see things and then make use of these views in a logical and understanding manner is most likely to be effective in achieving objectives.

A manager using interpersonal skills uses clear communication when working with staff and is sensitive to their needs, not threatening. Interpersonal skills can be used to inspire and influence staff while overcoming conflict, creating a workplace where people respect each other and work well together. In contrast, a manager who lacks empathy, is arrogant, opinionated, unable to communicate effectively or who has difficulty relating to people will not be able to develop positive relationships with employees. It is possible that when such a manager is absent from the workplace, employees may work much more productively because they are free from fear, intimidation and threat. Ultimately, the use of interpersonal skills is likely to lead to greater staff morale and higher productivity.

Interpersonal skills are used by management to interact with other people and build relationships with employees.



On the other hand, it can take a long time for a manager to learn and make use of interpersonal skills. It is also possible that some managers will misuse their understanding of interpersonal skills and utilise them for their own ends, possibly using these skills to manipulate other people. For example, a manager might use interpersonal skills to trick an employee into siding with management's point of view, or to lure a customer into purchasing a product that they do not need. Furthermore, a manager using interpersonal skills may be prone to making emotional decisions, rather than relying on factual information or logic.

DID YOU KNOW?

'Try honestly to see things from the other person's point of view.'

— Dale Carnegie, *How to Win Friends and Influence People*

study on

Unit 3 > AOS 1 > Topic 6 > Concept 4

Decision-making and interpersonal skills Summary screen and practice questions

2.9 Activities

TEST your understanding

1. Draw a table similar to the one below to summarise details of the management skills in this subtopic.

Skill	Definition	Characteristics	Application to the workplace

2. Outline the advantages and disadvantages of leading, decision-making and interpersonal skills.
3. Explain how each of the skills in this subtopic would be used if a manager decided to select:
 - (a) an autocratic management style
 - (b) a participative management style.
4. In your own words, outline the relationship between management styles and skills.

APPLY your understanding

5. In groups of three or four, select a management skill. Explain the skill to the class using a PowerPoint presentation, a report or in the form of a lesson. Include a definition of the skill, its characteristics and application to the workplace.
6. Form groups of three or four. Imagine that you are members of the board for a large electronics manufacturer. Your company employs 1000 staff and earns annual revenue of \$1 billion. Your company has been facing increasing competition, and sales and profits have been decreasing over the last few years. You need to hire a new CEO for the company. In your group, list the skills you would require. What type of personality and management style would you hope to find for your company? Compare your response to that of other groups in the class. Were there similarities or differences? Why might this be so?
7. Interview a senior person from your school, or a friend or relative occupying a position of authority, on the topic of management skills in the workplace. Develop a list of questions beforehand. Focus on the role of the person and the type of skills selected — why the skills were chosen and how he or she assessed the effectiveness of the selected management skills. Report your findings to your class and choose your own presentation method — video, sound recording, PowerPoint or written report.

EXAM practice

8. Distinguish between leading and interpersonal skills. **(2 marks)**
9. Explain a decision-making process that could be used by a manager introducing new technology to a business. **(2 marks)**
10. Analyse how the use of leading would be important in the achievement of business objectives. **(4 marks)**

2.10 Corporate culture and its development

KEY CONCEPTS

- All businesses have their own corporate culture — the values and beliefs of the people in the business.
- Corporate culture can be both official and real. There are a number of strategies that managers can use to develop corporate culture.

All businesses have their own **corporate culture** — the values, ideas, expectations and beliefs shared by the staff and managers of the business. Each business develops its own particular way of doing things. The style or character of a business is consequently reflected in its culture.

2.10.1 Official and real corporate culture

Corporate culture can be revealed officially in the policies, objectives or slogans of a business. This is referred to as official corporate culture.

Corporate culture can also be seen in the unwritten or informal rules that guide how people in the business behave, such as the way staff dress, the language staff use, and the way that staff treat each other and customers. This is referred to as real corporate culture.

Corporate culture may allow an informal atmosphere, encouraging teamwork and casual dress as opposed to a formal environment with more rigid standards.



2.10.2 Elements of a corporate culture

A corporate culture normally consists of four essential elements. These elements can indicate the type of corporate culture that the business has, or be used as building blocks for a positive corporate culture.

1. *Values and practices.* These are the way things are done in the business. Examples of corporate values and practices include honesty, hard work, teamwork, quality customer service, employee participation and innovation. Sony Corporation is an example of a company that values innovation. Masaru Ibuka, the company's co-founder, created the atmosphere of innovation that allowed the company to successfully introduce new products such as the Walkman (1979), the Trinitron colour television (1968), PlayStation (1994) and the first Blu-ray players (2006).
2. *Symbols.* These are the events or objects that are established to represent something the business believes to be important. Businesses that believe in fostering positive competition among employees, or an active lifestyle, can organise various sporting events. Businesses that want to reinforce a strong employee development culture can offer employees the opportunity to participate in training and development programs.
3. *Rituals, rites and celebrations.* These are the routine behavioural patterns in a business's everyday life. For example, regular social gatherings can be held to help develop a sense of belonging among employees who work in small teams during the week.
4. *Heroes.* Heroes, or champions, are the business's successful employees who reflect its values and, therefore, act as an example for others.

DID YOU KNOW?

- When Anita Roddick founded The Body Shop, her vision was to build an ethical business that supports the community. Therefore, she came up with five values: (1) support community trade, (2) defend human rights, (3) against animal testing, (4) activate self-esteem and (5) protect our planet. These values guide all employees and the business decisions they make.
- Origin Energy Australia is an energy company. Its employees are expected to reflect the company values, which include caring, working as a team, being accountable and finding a better way.

study on

Unit 3

AOS 1

Topic 7

Concept 1

Elements of corporate culture Summary screen and practice questions

2.10.3 Developing a positive corporate culture

A manager must understand and assess all facets of a business's unique culture, because this is a powerful tool for achieving objectives. Knowing and appreciating a business's culture makes it easier to get things done or to initiate a change to routine or procedures. A positive corporate culture should encourage employees to produce goods or services that meet high standards.

A positive corporate culture has a number of other benefits. Research has shown that a business with a healthy, well-developed and strong culture is more likely to be successful, because such a workplace is perceived by the employees to be more positive and personalised. Employees should experience high morale and a positive attitude toward the business. They would be expected to be loyal to the business, which should reduce the level of staff turnover. Improved morale of employees could also increase productivity. Furthermore, a business with a positive corporate culture should gain a positive reputation, allowing the business to attract talented and skilled employees.

Strategies for developing corporate culture

Management can develop a positive corporate culture by introducing or building on any of the four essential elements of a corporate culture. Management might, for example, establish social gatherings that will allow employees to feel valued because they are part of the rituals, rites and celebrations of the business. The senior managers, as well as the ‘heroes’, of the business should act as role models for staff in the values that they believe are important.

Some other strategies that can be used by management to develop corporate culture include:

- ensuring that staff members are given sufficient training to reflect the values of the business — for example, if treating customers respectfully is important in the business, it should be part of its customer service training program
- communicating desired values to staff
- rewarding employees who exemplify appropriate values
- recruiting staff who fit in with the values of the business
- changing the prevailing management style — for example, a business might make greater use of the participative style to emphasise the way it values staff input and the contribution of its employees
- changing the style of dress and language used in the workplace.

The corporate culture of Domino's is based on the idea of having fun at work, which leads to great things happening.



study on

Unit 3

AOS 1

Topic 7

Concept 2

Strategies for developing corporate culture Summary screen and practice questions

2.10 Activities

TEST your understanding

1. Explain how corporate culture can influence the success of a business.
2. What is the main difference between official and real corporate culture?
3. Why is a positive corporate culture important when new work methods are being introduced?
4. Briefly outline the four essential elements of a corporate culture.
5. Identify other indicators of corporate culture using the information in this subtopic.
6. In your opinion, what is the difference between a positive and a negative corporate culture? Explain your response.
7. Outline two strategies that management can use to develop a business's corporate culture.

APPLY your understanding

8. Working in groups of three or four, describe the culture of your school. Identify the shared values, practices, symbols, rituals, rites, celebrations and heroes. Present your information in a table. Share your answers with other members of the class.
9. Discuss the following statement: 'It takes years for a business to establish a positive corporate culture, yet a return to a negative culture may occur overnight'. In your answer, refer to:
 - (a) the importance of a positive corporate culture
 - (b) strategies to develop a positive corporate culture
 - (c) circumstances that result in a negative corporate culture.
10. Choose a business. Use the internet to find out about its corporate culture.
 - (a) Explain the values employees of that business would be expected to demonstrate.
 - (b) What symbols or celebrations did you find that reflect the business's culture?

EXAM practice

11. Define the term 'corporate culture'. **(1 mark)**
12. Distinguish between official corporate culture and real corporate culture. **(2 marks)**
13. Then Data Ltd is a business with a poor corporate culture. Justify two management strategies for developing corporate culture at Then Data Ltd. **(4 marks)**

2.11 APPLY YOUR SKILLS Styles, skills and corporate culture

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Analyse case studies and contemporary examples of business management
- Interpret, discuss and evaluate business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Analyse and discuss management styles and management skills necessary for successful business management
- Evaluate management styles and management skills and their appropriateness for a range of business situations
- Propose and justify management strategies for developing corporate culture

2.11.1 Managing brand identity and corporate culture

PACKED WITH PASSION: NIGEL GARRARD, MD AND CEO OF ORORA

The demerger of Amcor's Australasian packaging and distribution division as Orora in 2013 acknowledged that the two companies were different in terms of product segment and geographic attention. Therefore, it made sense to separate the packaging and distribution arm from the rest of Amcor's operations, which concentrates predominantly on flexibles and rigid plastics packaging.

The last time *The CEO Magazine* spoke to Nigel Garrard, he was president of Amcor's Australasian packaging and US distribution business. Now he is the Managing Director and CEO of Orora — we ask him to explain the catalyst behind the split. 'It mainly came down to focus. The demerger has enabled both businesses to focus on their core business models and to have their own direction. Amcor shareholders received one share in Orora for each Amcor share they owned,' he says.

Staff were involved with the rebranding process from the get-go. Inclusion was key, Nigel shares, as was being respectful of the history and excited about the future of the business. 'We started out the way we wanted to finish. We asked our people what they thought we should call the business. We gave them five days to come up with ideas. We had 1560 suggestions from five different countries. Six people from the business all suggested Orora.'

The Orora Way

The company then went on to ask the unofficial leaders in the business to nominate 300 opinion leaders to invent a new brand identity and culture. The communication process resulted in a new operating model — 'The Orora Way' — and the brand has come from that. 'It's what we believe, what we value, and what we deliver,' Nigel notes.

Rather than send out emails, booklets, pamphlets or brochures the traditional way, Orora rolled out a live event in its various locations worldwide which went about explaining the upcoming transformation. 'People were expecting change and expecting things to be different, and it was important that we delivered that.'

With the company operating in seven countries, the live show visited about a dozen of its sites around Australasia and North America, reaching more than 65% of its people. It was important that choices regarding the demerger reached as many employees as possible, Nigel shares.

'We did our best to get to as many sites as we could with face-to-face communication, and when we weren't able to present "Orora Live", we did a scaled-down version of it at every site. The vast majority of people heard the message direct, everybody got given the material and had the opportunity to ask questions about how we were going to be different.'

Nigel Garrard creates a culture of belonging

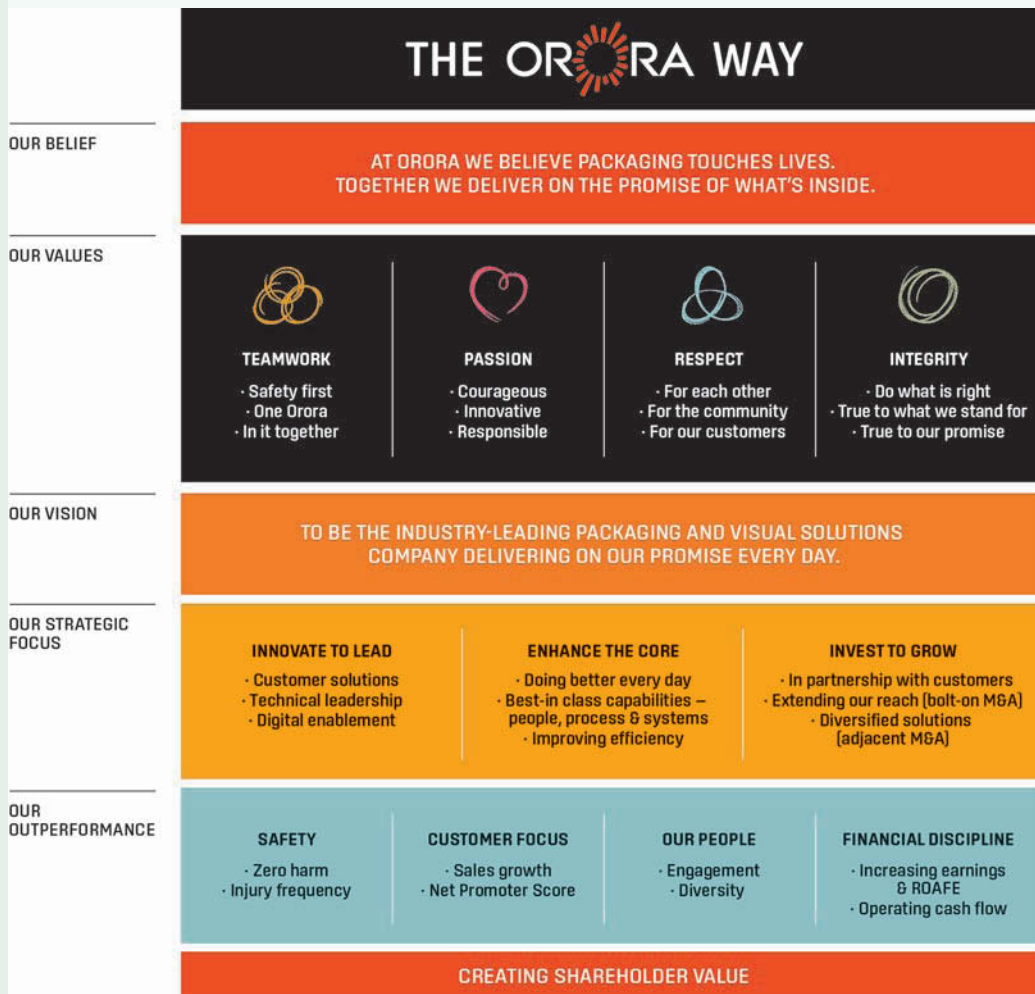
Feeling that it was an opportunity to create something significant, Nigel knew the importance of creating an environment where people belonged. It's one thing the executive is proud of — the passion of its employees. 'It's a great lesson — how people really want to belong to something that they believe in — and that has been one of the highlights of the past three and a half years since we demerged.'

Through Orora Live, the company established a good cultural and brand platform. The shift in company dictum proved to be both challenging and rewarding for Nigel, with him recalling two highlights specifically. The first in Los Angeles: 'I remember two people coming up to me. One was a gentleman who was nearly 70. He had been working for the business for nearly 50 years. He came up and said, "Nigel, I just wanted to give you some feedback. I really enjoyed the presentation; I understand where we are. I've worked for this business for a long time and I want to tell you this: this is the first time I feel like I really belong," and he had tears in his eyes when he was saying that to me.'

Nigel Garrard, Managing Director and CEO of Orora.



The Orora Way summarises who the business is and what it stands for.



The second involved one of the company's leading salesmen seeking Nigel's permission to bring his wife and children along the next time so they would 'know the type of company that I'm working for'. Nigel believes this gives Orora its point of difference. 'Assets are one thing, but it's people who make a company and it is people who make a difference.'

Orora has invested approximately A\$400 million in growth since listing on the ASX in December 2013. With more than 6700 team members and 54 000 shareholders, it's evidence of its success so far. A fit balance sheet and healthy cashflow mean Orora is well-positioned for a period of accelerated innovation, with ongoing enhancements to its core business operations and calculated investments to push future growth for shareholders.

Its A\$45-million global innovation initiative saw it recently sell surplus land to allocate money to the Orora Global Innovation Fund. This move sent a clear statement, internally and externally, of delivering to its customers and stakeholders while also reaffirming its cultural journey. A further demonstration of its cultural shift was the innovative implementation of a crowd-sourcing initiative inside the business.

Nigel adds: 'It's quite an innovative approach where everybody can contribute. We had collaboration across different countries and business units where people could get on board knowing they can make a difference. By involving people in the process, they're part of the solution rather than being threatened by change. This is a key part of who we are and what we stand for.'

This ethos of engagement that has now been established at Orora is what Nigel is most proud of. 'Which is why we spell Orora with an O, because O stands for 'our'. It's our company. It's our opportunity. It's our future. It was named by our people and it's something that I think everybody's embraced.'

Source: B. Di Costanzo 2017, 'Packed with passion: Nigel Garrard, MD & CEO of Orora', theceomagazine.com, November.

2.11.1 Activities

TEST your skills

1. In what ways were Amcor staff involved in the demerger process?
2. Outline how the change at the business was communicated.
3. Describe the culture at Orora.
4. Identify the strategies used by management at Orora to develop corporate culture.
5. What role does a managing director/CEO play in changing corporate culture?

APPLY your skills

6. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.
 - (a) Propose one strategy used by management at Orora to develop corporate culture and justify the use of this strategy.
 - (b) In your opinion, what management style was adopted by management at Amcor to manage the demerger and to change the culture at Amcor? Justify your response.
7. Provide an example of how Nigel Garrard did use, or may use, the following management skills to influence corporate culture at Orora.
 - (a) Communicating
 - (b) Delegating
 - (c) Planning
 - (d) Leading
 - (e) Decision-making
 - (f) Interpersonal skills
8. The task word (sometimes referred to as command word or instructional word) 'analyse' generally requires you to identify the main features of concepts and terms and then examine them closely or show how the parts relate. In many cases, it will involve explaining the relationship between concepts or terms. Analyse how a management style and a management skill can be used to develop corporate culture.

2.11.2 Management styles and skills

HEALTHY MANAGEMENT

City Health is a private healthcare provider serving a population of 500 000 people and operating with a budget of \$500 million. It employs 3000 staff and has grown steadily over the last five years due to the merging of several major city hospitals. Chief Executive of City Health, Dr Jan Dvorak, recently called a meeting of the executive team to discuss a strategic plan. These discussions explored the objectives of:

- developing a culture of quality and innovation
- working in partnership with all stakeholders to enhance the health of the community
- providing an environment that values and supports staff
- achieving a financially sustainable health service.

Up until now, Dr Dvorak has managed and guided City Health through its period of high growth. She has led the business to where it is today by listening to her employees, the hospital's patients and the community. She includes staff unconditionally in the decision-making process of the business. She is considered to be a great leader by her staff.

Dr Dvorak considers that the change to a new corporate culture will be her greatest challenge so far, but believes that the hospital is well on its way to achieving this goal.

Many hospitals today are introducing cultures that expect quality healthcare.



CHOCO MANAGEMENT

Jack has been General Manager of Nars Chocolates for only six months. He had previously worked for a company with serious financial and staffing problems. From that experience he concluded that it is best to be very firm with staff in order to get results.

Jack's recent behaviour has prompted staff to consider leaving. He shows very little interest in the needs of individuals, or their concerns. He severely criticised the work of the marketing manager at a planning meeting last week. 'Carly, I just don't think you have all the facts here,' Jack said. 'Firstly, from what I can see, you've done a poor job. And secondly, the rest of you people will need some clear guidelines or you will all be producing the sort of rubbish that Carly has presented.'

Some time later, two managers were discussing the conditions over a cup of coffee. 'Can you believe the way that Jack treated Carly in the meeting last week?' complained Josh. 'Carly is a great manager, she listens to her staff and encourages her team to work with her to make decisions.'

'And she was totally embarrassed by Jack's comments because the new chocolate bar project her team is working on is still in its developmental stages,' said Mai.

'I heard him telling off Khalid last week for expressing an idea,' said Josh. 'He told him that he's the boss, and if he wanted opinions, he certainly wouldn't ask a subordinate for them. Mai, he's treating us like we're kids. But we're experienced professionals.'

'I agree,' said Mai. 'It won't be long before I'm out of this place!'



2.11.2 Activities

TEST your skills

1. What management style is Jan Dvorak using? What are the characteristics of this style?
2. What management style is Jack using? What are the characteristics of this style? Compare this style to the one being used by Carly.
3. Are these the best styles to use in each of these situations or should any of the managers reconsider? Justify your answer.
4. Identify and explain two management skills that could be used by Jan Dvorak to develop the corporate culture.

5. Identify and explain two management skills that Jack could use to improve the workplace conditions at Nars Chocolates.
6. Explain and apply a decision-making process that could be used either to develop the corporate culture at City Health, or at Nars for the new chocolate bar project.

APPLY your skills

7. The task word (sometimes referred to as command word or instructional word) 'analyse' generally requires you to identify the main features of concepts and terms and then examine them closely or show how the parts relate. In many cases, it will involve explaining the relationship between concepts or terms.
 - (a) Match the two different management styles with the management skills below and then explain why you think each skill matches up with that style.

Management skill	Management style	
	Autocratic	Participative
Communicating		
Delegating		
Planning		
Decision-making		
Interpersonal		
Leading		

- (b) Explain how the choice of management style will affect the way in which management skills are used.
 - (c) Using your answers to part (a) and (b), analyse the relationship between management styles and management skills.
 - (d) Analyse the relationship between corporate culture, management styles and management skills.
8. The task word (sometimes referred to as command word or instructional word) 'discuss' generally requires you to consider both sides of something. This might mean writing about the advantages and disadvantages, the strengths and weaknesses or the benefits and costs of that thing. Using the example of Jan Dvorak in the 'Healthy management' case study, discuss the use of one management skill necessary for successful business management.
9. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Using the example of Jack in the 'Choco management' case study, evaluate the appropriateness of the use of the autocratic management style at Nars Chocolates.

2.12 EXTEND YOUR KNOWLEDGE The relationship between corporate culture, management styles and management skills

KEY CONCEPT The use of employee-centred management styles and related skills can develop a positive corporate culture.

One of the best ways to improve a business's productivity is to give employees some input into the decision-making process. Most people care about what they are directly involved in, so employees who have an input in the decision-making processes of their business tend to be more committed, productive and creative. Inclusive

and democratic management practices (management practices that include employees) are often talked about, but rarely practised — this process is more difficult and takes longer than traditional management techniques.

Another trend is to structure businesses around the needs of the employees. This may mean allowing flexible working hours, or encouraging employees to work in teams and set their own goals. Semco is a company that has led the world with its commitment to participative work practices.

SEMCO — WORKPLACE PARTICIPATION IN ACTION

Semco Partners, based in Brazil, South America, is a most unusual business as a result of its absolute commitment to workplace participation. It has had a noteworthy history, managing to grow when whole industries collapsed, and an international reputation for its democratic employment relations practices. Today, Semco is active in managing portfolios for a variety of corporations doing business in Brazil.

Semco actually began life in the 1950s as a company manufacturing centrifuges for the vegetable oil industry (a centrifuge is a piece of equipment where a compartment spins on a central axis to separate materials). Between the 1950s and the 1980s, Semco became a traditional hierarchical business, characterised by many layers. However, after running into trouble as a result of employee reaction to autocratic management, changes began in the mid 1980s that have continued to the present day.

Ricardo Semler, the founder's son, took over as the CEO of Semco and fired 60 per cent of the top managers on his first day.

In the 1980s, Semco was heavily involved in producing pumps, axles and other components for the naval industry. Semler believed that the company could be rescued by diversifying (moving into other industries). Semco introduced a new management structure, but this did not deliver the improvements that Semler was after. Responding to the suggestions of employees, Semco then developed the idea of satellite units or strategic business units to develop new businesses and product lines. This provided greater freedom as well as more responsibility for managers and staff.

Semco is now completely based on the concept of employee ownership, full employee participation, flexibility and a focus on meeting customer needs. Employees design their workplace, set their own hours and share all information. At Semco, there are no managers. There are team leaders, but leadership depends on the leader passing an appraisal that subordinates conduct every six months. A leader who fails more than twice to meet the standards expected of them by employees will be sacked.

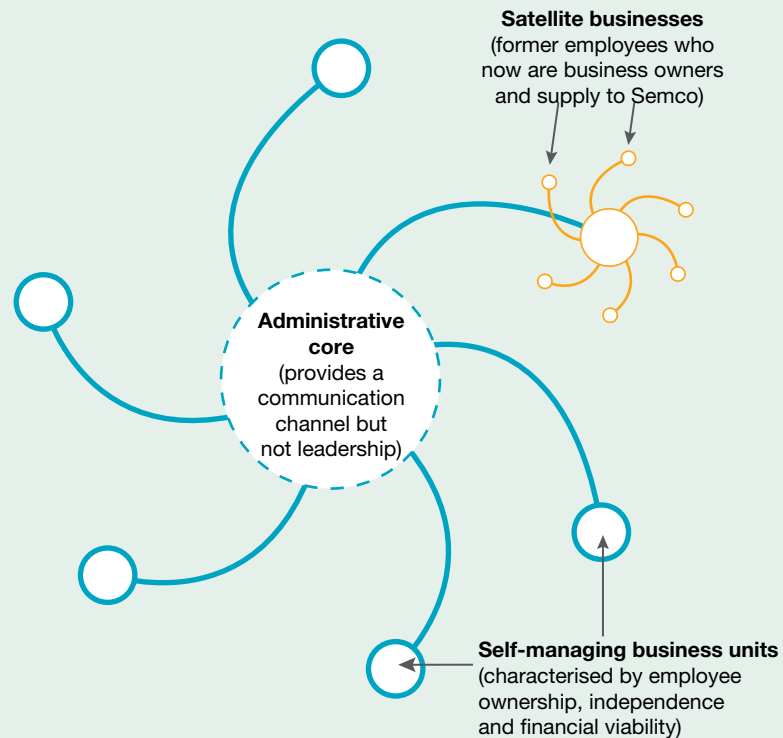
There is an emphasis on ownership and disclosure — all wages are tied to the performance of the business, and each person's wage is published so team leaders are shown not to be earning unfairly high salaries. Staff set their own salaries, but need to be careful because there are no secrets. Staff are provided with information about how much they could make if they worked for another business using similar skills. Each employee has been trained in accounting so they can understand the business's earnings and how their work affects the business.

An illustration of Semco's commitment to flexibility is the way in which it is structured, which looks a lot like an 'octopus' (see the diagram). This arrangement arose when recession hit and Semler wanted to avoid sacking people, even though the business could not afford to keep them. The business sold off parts of itself to employees, who would otherwise have been retrenched. Semco then purchased its supplies from these former employees who, now in their own businesses, were able to sell not only to Semco but also to Semco's competitors.

Ricardo Semler empowered staff at Semco and threw out the management chart.



Semco is structured like an octopus, in that there is an administrative core at the centre with business units or satellite businesses branching off from the core.



2.12 Activities

TEST your understanding

1. Identify the principles or values that are important to Semco.
2. Suggest how requiring team leaders to be appraised by subordinates every six months can benefit Semco.
3. Why does Semco train each employee in accounting?
4. What would it be like to work at Semco (in other words, describe the corporate culture at Semco)?
5. Describe how Semco's business is structured.

EXTEND your understanding

6. What lessons can modern managers learn from Semco?
7. Explain how Semco deals with some of the aspects of management that have been covered in this chapter, by completing the following table.

Aspect	What Semco does
Decision-making	Staff participate in decision-making.
Communicating	
Leading	
Values	

2.13 Review

2.13.1 Summary

Areas of management responsibility

- Businesses typically have areas of management responsibility and each area of responsibility implements different strategies to support the business in achieving its objectives.
- The operations area is responsible for the production of the business's good or service.
- The finance area is responsible for managing the financial aspects of the business, including the development of financial policies, raising finance, budgeting, accounting and reporting, and cash control.
- The human resources area is responsible for coordinating all the activities involved from acquiring to terminating employees of the business — it manages the relationship between the employer and employees.
- The sales and marketing area is responsible for promoting the business and selling its products in the market.
- The technology support area is responsible for installing and maintaining technology, as well as providing assistance to the users of technology in the business.

Management styles

- Management styles are the ways managers work with and through other people to achieve the objectives of the business. They differ according to the degree of decision-making control that management exercises, the direction of communication and the value that management places on staff input.
- The autocratic style is one where the manager tells staff what decisions have been made.
- The persuasive style is one where the manager attempts to sell decisions made.
- The consultative style is one where the manager consults employees before making decisions.
- The participative style is one where the manager unites with staff to make decisions together.
- The laissez-faire style is one where the employees assume total responsibility for, and control of, workplace operations.
- The management style chosen by a manager will be influenced by the nature of the task; time and other constraints such as resources; the experience of employees, as well as their personalities, values, beliefs and skills; and the preference of the manager.

Management skills

- All managers use skills (abilities or competencies) as they seek to achieve the objectives of the business.
- Communicating refers to the ability to transfer information from a sender to a receiver, and to listen to feedback.
- Delegating is the ability to transfer authority and responsibility from a manager to an employee to carry out specific activities.
- Planning is the ability to define business objectives and determine methods or strategies that will be used to achieve those objectives.
- Leading is the ability to influence or motivate people to work towards the achievement of business objectives.
- Decision-making is the ability to identify the options available and then choose a specific course of action from the alternatives.
- Interpersonal skills refer to management's ability to deal or liaise with people and build positive relationships with staff.
- Different management styles rely on different management skills to varying degrees.

Corporate culture

- All businesses have their own corporate culture — the values and beliefs of the people in a business.
- Official corporate culture can be revealed officially in the policies, objectives or slogans of a business.
- Real corporate culture can be seen in the unwritten or informal rules that guide how people in the business behave, such as the way staff dress, the language staff use, and the way that staff treat each other and customers.
- The elements of corporate culture include the practices that are valued by the business, such as honesty, innovation and hard work, the symbols that are important to the business, the rituals of the business (such as social gatherings and celebrations), the heroes of the business and the degree of staff participation in the business.
- A manager must understand a business's culture and how it can be maintained or developed.
- Corporate culture can be developed by introducing or building on any of the four essential elements of a corporate culture, such as introducing rituals, rites and celebrations, or by senior managers and 'heroes' acting as role models.
- Some other strategies that can be used by management to develop corporate culture include providing training, communicating desired values to staff, rewarding employees who exemplify appropriate values, recruiting staff who fit in with the values of the business, changing the prevailing management style or by changing the style of dress and language used in the workplace.

2.13.2 Key terms

autocratic management style one where the manager tells staff what decisions have been made

communicating the ability to transfer information from a sender to a receiver, and to listen to feedback

consultative management style one where the manager consults employees before making decisions

contingency management theory stresses the need for flexibility and the adaptation of management styles to suit the situation

corporate culture the values, ideas, expectations and beliefs shared by members of the business

decision-making the ability to identify the options available and then choose a specific course of action from the alternatives

delegating the ability to transfer authority and responsibility from a manager to an employee to carry out specific activities

interpersonal skills the ability to deal or liaise with people and build positive relationships with staff

laissez-faire management style one where the employees assume total responsibility for, and control of, workplace operations

leading the ability to influence or motivate people to work towards the achievement of business objectives

management skills the abilities or competencies that managers use to achieve business objectives

management style the behaviour and attitude of the manager when making decisions, directing and motivating staff and when implementing plans to achieve business objectives

operational planning specific details about the way in which the business will operate in the short term

participative management style one where the manager unites with staff to make decisions together

persuasive management style one where the manager attempts to 'sell' decisions made

planning the ability to define business objectives and decide on the methods or strategies to achieve them

strategic planning long-term planning, usually over two to five years

SWOT analysis the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment

tactical planning flexible, adaptable, medium-term planning, usually over one to two years, which assists in implementing the strategic plan

Resources

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2.13.3 Review questions

TEST your understanding

1. List the typical areas of management responsibility in a business.
2. Distinguish between the operations and human resources areas.
3. Describe the following areas of management:
 - (a) finance
 - (b) sales and marketing
 - (c) technology support.
4. Explain the importance of management styles to a business.
5. Compare the autocratic management style to the persuasive management style.
6. Identify two advantages and two disadvantages of the autocratic and persuasive management style.
7. Distinguish between the consultative and participative management styles.
8. Identify two advantages and two disadvantages of the consultative and participative management style.
9. Describe the laissez-faire management style and outline two advantages and two disadvantages of this style.
10. Outline the factors a manager will need to consider when choosing an appropriate management style.
11. Define each of the following management skills and outline their main features.
 - (a) Communicating
 - (b) Delegating
 - (c) Leading
 - (d) Interpersonal skills
12. Explain the difference between the three levels of planning.
13. Outline the steps involved in a planning process.
14. Define 'decision-making' and identify the steps in a decision-making process.
15. Explain how management skills relate to the management styles.
16. Define 'corporate culture'.
17. Explain the difference between official and real corporate culture.
18. Why is it important for a manager to understand a business's corporate culture?
19. Briefly outline elements or indicators of the type of culture a business has.
20. Explain two strategies that management can use to develop a business's corporate culture.

APPLY your understanding

21. Summarise the way in which each area of management responsibility contributes to the achievement of business objectives by completing the following table.

Area	Main characteristic	Strategies
Operations	Responsible for the production of the business's good or service — oversees the transformation of inputs into output	
Finance		
Human resources		Recruitment and selection Motivation strategies Training Performance management
Sales and marketing		
Technology support		

22. Chloe is the marketing manager for Exceptional Technology Company. She prefers to use a participative style where her staff have some responsibility in the decision-making process. Chloe regularly holds brainstorming meetings to generate a range of ideas from staff.
- Discuss Chloe's use of the participative management style.
 - Identify one management skill that Chloe is making use of and justify why it is necessary for the successful management of Exceptional Technology Company.
23. Brendan is the owner of a small paint store. The business is struggling financially and he needs to consider the best course of action to ensure its survival. He can see two options: close the store or introduce new products to broaden the business's target market.
- Evaluate the use of the autocratic management style in this situation.
 - Discuss the appropriateness of decision-making skills for this situation.
24. Complete the following table. List any management skills that you think could be used to achieve the business objectives, as well as how they could be used. Some entries have already been completed for you.

Business objective	Skills	How
Improve the culture of a business		Explain to staff the changes that will take place. Use the decision-making steps to work out solutions to improve the culture.
Make a profit	Communication Planning Leading	
Increase market share		
Fulfil a social need		

25. Management at Australian Industries is very concerned about the culture of the business. The negative culture appears to be affecting the company's performance. Management would like to develop a positive corporate culture.

Describe two management strategies for developing corporate culture at Australian Industries.

EXAM practice

- Define the term 'real corporate culture'. **(1 mark)**
- Rochelle uses the autocratic management style. Identify two factors indicating the appropriateness of this style. **(2 marks)**
- Explain the difference between management styles and management skills. **(2 marks)**
- Describe two skills that would be appropriate for a manager making use of the autocratic management style. **(4 marks)**
- Using examples, explain the relationship between management styles and management skills. **(4 marks)**
- Fit Fads is a fashion workout business that started selling activewear through its website five years ago. It currently operates from a converted warehouse in Richmond. The number of employees has rapidly grown to 350. The business now ships to more than 100 countries and stocks more than 70 brands. Sales have increased by 50 per cent over the past year. The CEO, Dinesh, has suggested that the reasons for Fit Fads' success include the global activewear trend, positive relationships with suppliers, as well as loyal and experienced employees who have respect for management. Fit Fads is planning to continue to grow with the objective of increasing market share.
 - Describe one area of management responsibility and explain how the area would contribute to the achievement of Fit Fads' objectives. **(4 marks)**

- (b) Discuss a suitable management style for the successful management of Fit Fads. **(4 marks)**
- (c) Propose and justify a management strategy for developing the corporate culture that will be required to accommodate Fit Fads' growth. **(4 marks)**

on Resources

-  **Digital doc:** Missing word glossary quiz (doc-29437)
-  **Digital doc:** Crossword (doc-29438)

study on

Sit past VCAA exam

2.13.4 School-assessed coursework

OUTCOME 1

Discuss the key characteristics of businesses and stakeholders, and analyse the relationship between corporate culture, management styles and management skills.

Note: This assessment task is for the second half of Outcome 1 only.

ASSESSMENT task — structured questions

Time allowed: 30 minutes

Marks allocated: 20 marks — The task contributes 10 marks out of a total of 20 marks for Outcome 1. (The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Fedcomm

Fedcomm is one of Australia's leading telecommunications companies and has its head office in Melbourne. The business employs 20 000 people and is listed on the share market. Its vision is to meet customer needs in the simplest and best way.

Fedcomm provides staff with promotion opportunities and very satisfying rewards for high performance. This has encouraged strong staff loyalty. Staff members enjoy working at Fedcomm — it is a fun place to be. Fedcomm has grown to be the business it is today by management listening to employees and customers. Staff are included in the decision-making processes of the business unconditionally.

The CEO of Fedcomm has recently announced a new five-year strategic plan that will focus on improving customer service.



Read the case study above, then answer the following questions.

1. Define 'planning'. **(1 mark)**
2. Identify an area of management responsibility. Outline one strategy that this area could use to improve customer service at Fedcomm. **(2 marks)**
3. (a) Identify and explain the management style currently used at Fedcomm. **(3 marks)**
(b) Evaluate the use of this management style at the company. **(3 marks)**
4. Outline the factors that managers at Fedcomm would consider when choosing an appropriate management style. **(2 marks)**
5. Explain a decision-making process that could be used at Fedcomm to improve customer service. **(5 marks)**
6. Analyse two strategies for developing a positive corporate culture at a business such as Fedcomm. **(4 marks)**

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CHAPTER 3

Human resource management — motivating employees

3.1 Overview

3.1.1 Why it is important

It is often said that employees are a business's most important resource. However, employees are more than just resources for a business. They are, first and foremost, people — people with their own hopes, ambitions, likes and dislikes, and ultimately their own individual reasons for working. Motivation is the force that drives people to exert individual effort over a sustained period of time. When that effort is exerted in the workplace it is likely to lead to improved productivity and greater success at achieving business objectives.

Finding ways to motivate employees can be the key to getting the best out of them. This will not only benefit the business, but can provide a means of rewarding employees with interesting and challenging career paths, promotion, improvements in pay, and a sense of achievement and personal satisfaction.



FEDEX CARES

FedEx Express is a well-known transportation company, delivering packages all over the world. FedEx Express employs more than 300 000 people — that is a lot of employees to keep satisfied. Nevertheless, FedEx has gained a reputation as a great place to work.

According to Kim Garner, FedEx Express Australasia's managing director, employees are encouraged to excel and contribute to the company. FedEx has a strong people culture; this means that employees are valued and management works towards creating a supportive workplace culture that develops talent.

'At FedEx, our people are the heart and soul of our business. This is why our founding People-Service-Profit (PSP) philosophy is based on the premise that if we take care of our people, they will take care of our customers, and that will take care of our profit', says Garner. 'Our focus has been on our people since we began our operations and our ongoing commitment to building a positive working environment at FedEx through

FedEx delivers packages to 97 per cent of the world within 24 to 48 hours.



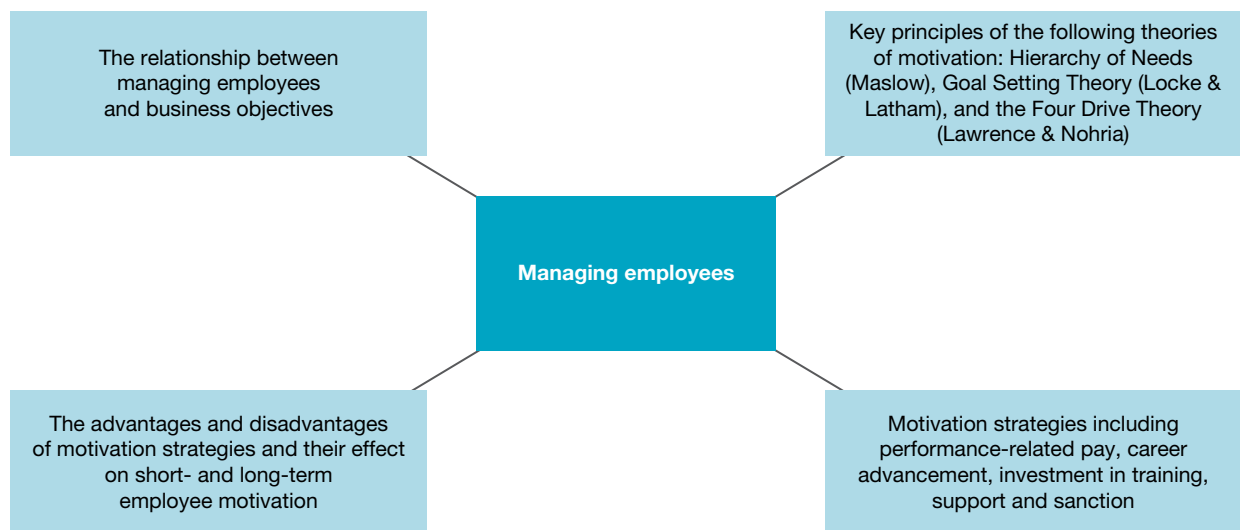
a combination of leadership development and training programs which make our employees feel valued and engaged.’

FedEx has frequently been recognised for its people-first culture including an Australian HR Award for employer of choice. The company values its diverse workforce and is a supporter of gender equality, mature workers and advancement of women in the workplace.

3.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.



Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management related to managing staff in a business
- Interpret, discuss and evaluate business information and ideas
- Apply knowledge about managing employees to practical and/or simulated business situations
- Examine and apply the key principles of the theories of motivation
- Compare and evaluate strategies used for motivation and training when managing a business
- Propose and justify strategies to manage employees effectively

Source: VCE Business Management Study Design (2017-2021) extracts © VCAA; reproduced by permission.

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 Digital doc: Key terms glossary (doc-29440)

3.2 The relationship between managing employees and business objectives

KEY CONCEPT Effective management of people (human resource management) is likely to result in a business achieving success and fulfilling its objectives.

3.2.1 Human resource management

Iluka Resources Limited is a great place to work. Staff at the Australian mining company (that explores and processes titanium-based products and zircon) are treated fairly and honestly. Positive work relationships between management and staff are considered vital to the company's success. Iluka provides a fitness-for-work program for employees, supports flexible work arrangements, including part time, working from home and modified start and finish times, and invests in the development of employees.

Responsibility for maintaining the relationship between employees and the business is known as **human resource management**. In small and medium businesses, human resource management is one of the many responsibilities of the business owner; however, in larger businesses, this task is the responsibility of a specialised **human resource manager**. Such a person will work as part of a team to ensure that the business has the appropriate employees, with the appropriate skills, available to carry out the various duties needed in the locations and at the times they are required.

Human resource managers will also take responsibility for ensuring that the business is able to get the best out of its employees, and that the employees are able to contribute to the achievement of business objectives. Motivated employees are more likely to work hard to achieve those objectives, so employee motivation is central to human resource management.

Iluka prides itself on looking after the 900 people employed across its operations; this is what human resource management is all about.



on Resources

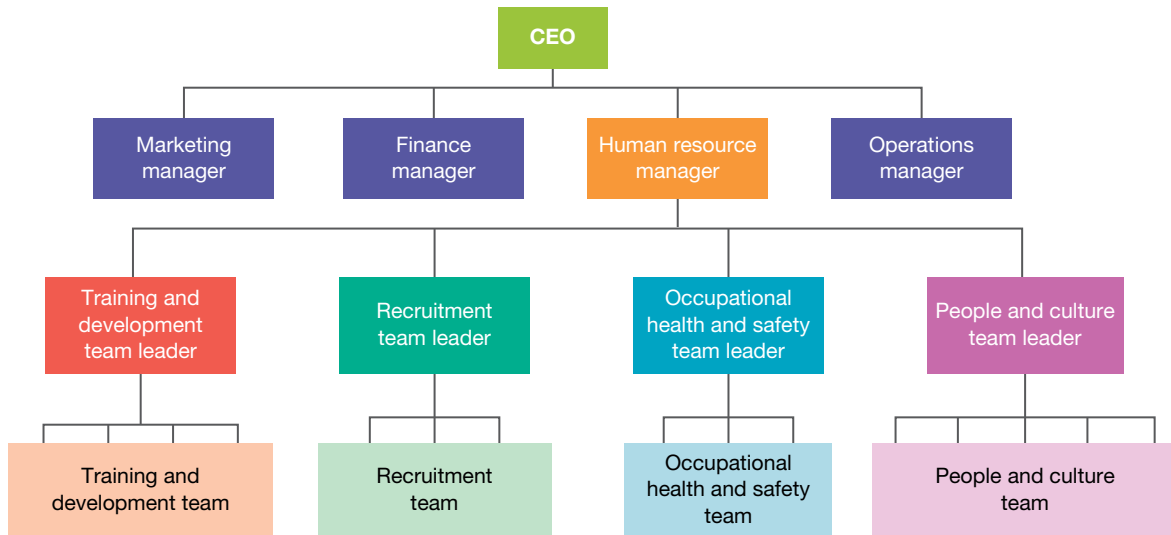
 eLesson: Human resource manager — Cancer Council (eles-1051)

3.2.2 Relationship to business objectives

Businesses such as Iluka are successful in achieving their objectives by balancing the need for profitability (and satisfying shareholders) with a regard for the wellbeing of employees. Human resource management's focus on positive work and employment relationships should lead to a motivated staff, increased productivity and, consequently, the achievement of business objectives.

A large-scale business will usually establish a human resources function or department (sometimes simply referred to as HR) to be responsible for all aspects of staffing (see the organisational structure diagram on the next page). The human resources manager will be involved in determining business objectives, along with the other senior managers. The human resources manager will also need to ensure that the strategies used by the HR department align with the objectives and strategies of the entire business.

An example of how the human resource management function fits into the organisational structure



The HR department will work closely with the other departments in the business. The HR department may, for example, work closely with the operations management department to recruit and select new staff. Human resources strategies can be used to achieve business objectives by supporting strategies in other areas of the business. The table below provides more examples of how HR strategies can be used to help the business achieve its objectives.

How HR strategies can support business objectives

Business objectives	HR objectives	HR strategies
Expand market share	Increase worker productivity	Introduce motivation strategies
Increase in sales	Develop sales skills	Performance related pay
Increase in profits	Improve product knowledge	Ongoing training
Provide safe workplace	Reduce number of accidents	Establishment of work teams Introduction of flexible work practices

Ultimately, it is the employees' job to achieve the objectives of the business. Because the HR area of management responsibility is responsible for managing the relationship between employees and the business, as well as the motivation of employees, there is a direct relationship between the management of employees and business objectives.

The human resources management will need to have strategies that ensure that decisions that affect employees are decisions that enhance the objectives of the business. If an objective is to increase sales, human resources will need to ensure it has staff with good knowledge of the goods or services sold by the business, either by recruiting appropriately skilled employees, or by training existing staff. The objective of increasing profits can be enhanced by ensuring staff are sufficiently motivated and contribute

HR departments take on many important roles in a business, so a successful HR department can help to increase the success of the business.



to improving business productivity. Ultimately, no business objective can be achieved unless employees are able to make a positive contribution.

TOP EMPLOYERS INSTITUTE

The Top Employers Institute provides certification for businesses that create outstanding conditions of employment for their employees. Businesses wishing to gain certification are required to participate in the HR Best Practices Survey, which is a comprehensive analysis of the business's HR environment. This survey explores learning development processes, performance management, leadership development, career planning and development, as well as the remuneration and benefits offered to employees. Results of the survey are validated and audited to ensure accuracy, and only those that pass the strict evaluation criteria are granted certification. Gaining Top Employer certification is a clear indication that the business is an 'employer of choice'. This is a huge positive for any business as it will attract quality employees, whose skills and talents will make business objectives more achievable.



GOOGLE'S HUMAN RESOURCES DRIVING BUSINESS GROWTH AND DEVELOPMENT

At Google, human resources is central to driving business growth and development. According to Google, it is people that:

... keep Google going and growing. Our People Operations [POps] team (known elsewhere as HR) and administrative staff are the curious and creative colleagues that anchor us to our foundations and help us shoot for the moon. The POps team lives by the mantra 'find them, grow them, keep them', and is dedicated to staffing, development, and a distinct and inclusive culture. Not just co-workers, we're proud Google colleagues who help our company thrive.



Google's people reflect the type of culture it has built from the outset and continues to develop. Its workplace promotes strong staff involvement and high levels of engagement through a common purpose that embraces the company's vision and goals. The workplace is designed to encourage interaction between staff that often manifests in new ideas for products. Its people-first culture has enabled Google to rank in the top 50 of the world's global companies and be recognised as one of the best employers.

As Google demonstrates, it is the link between human resources and the other functional areas of the business that need to be managed to ensure a synergy and ultimately business success.

Source: Extracts from <https://careers.google.com/fields-of-work/people>

study on

Unit 3 > AOS 2 > Topic 1 > Concept 1

Human resources Summary screen and practice questions

Unit 3 > AOS 2 > Topic 1 > Concept 2

Human resource objectives and strategy Summary screen and practice questions

3.2 Activities

TEST your understanding

1. What are human resources?
2. Define what you understand by 'human resource management'.
3. Why are human resources the most important resource used by businesses?
4. What is the relationship between HR and business objectives?
5. Why is employee motivation central to HR management?

APPLY your understanding

6. An accident in the workplace has closed a factory for two days. How do you think a human resources manager could attempt to avoid a similar situation in the future?
7. A company has an objective of 'increasing exports to Asian markets'. What HR strategies would need to be put in place to achieve that objective?
8. Why might a business want to gain certification from the Top Employers Institute?

EXAM practice

9. Explain the relationship between managing employees and business objectives. **(4 marks)**
10. Jess has purchased new software to improve the management of her clothing store. She has four employees who will need to use the software to carry out their duties.
 - (a) Explain one business objective that Jess might be attempting to achieve through this purchase. **(2 marks)**
 - (b) Describe a human resources strategy she will need to implement to achieve this business objective. **(2 marks)**

3.3 An introduction to motivation and Maslow's Hierarchy of Needs

KEY CONCEPT The force that drives a person to exert individual effort over a sustainable period of time is called motivation. Psychologist Abraham Maslow believed that our needs are the forces that motivate individuals.

3.3.1 Introduction to motivation

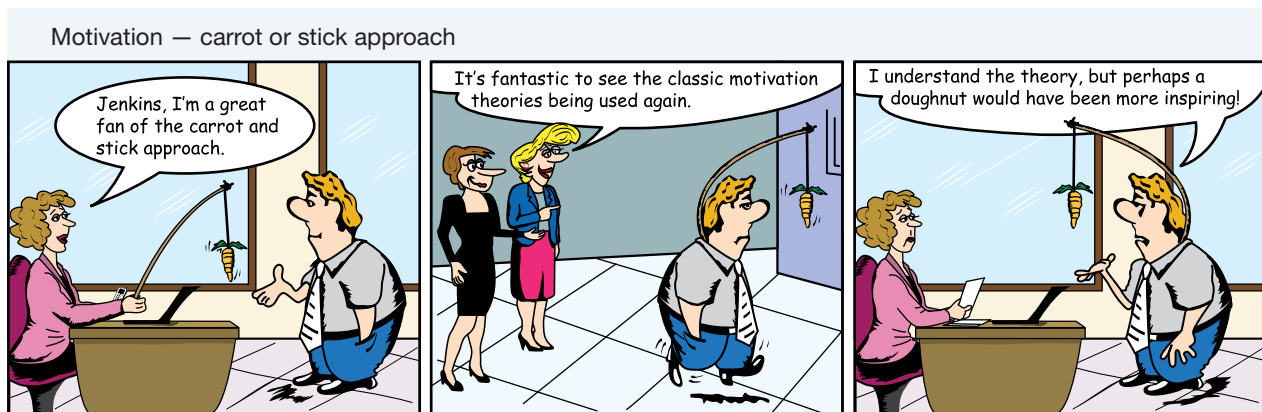
Motivating employees is one of the most important management functions, because high levels of motivation result in increasing rates of productivity. **Motivation** is what drives a person to apply individual effort over a sustainable period of time.

To put it in another way, motivation is what drives a person to behave in a certain way, or to achieve a certain goal; for example, what motivated you to:

- return to Year 11 after completing year 10
- complete the latest Business Management homework exercises
- look for a part-time job?

In a work setting, motivation makes people want to work, but what is it that motivates people? For many years, managers have relied on the use of either rewards or punishments to motivate employees. An analogy is often used to try to explain what motivates people: what is most likely to motivate a donkey to move forward (that is, change its behaviour)? Either a carrot can be dangled in front of the donkey (a reward) or the donkey can be hit with a stick (a punishment). Either method may motivate the donkey. In the work environment, 'rewards' refer to increased pay and improved conditions, 'punishment' refers to fear of a reprimand, demotion or dismissal.

However, research over the past 70 years has revealed that motivation is much more complicated than just these two variables. Different theories have been formulated that conclude that individual employees respond differently to various motivational techniques.



3.3.2 Maslow's Hierarchy of Needs

Abraham Maslow (1908–1970), a psychologist, believed that all people have needs to be satisfied, and that they will work towards satisfying those needs. A **need** is what a person requires. Maslow proposed that needs could be arranged according to their importance in a series of steps known as Maslow's **Hierarchy of Needs** (see the figure on the next page).

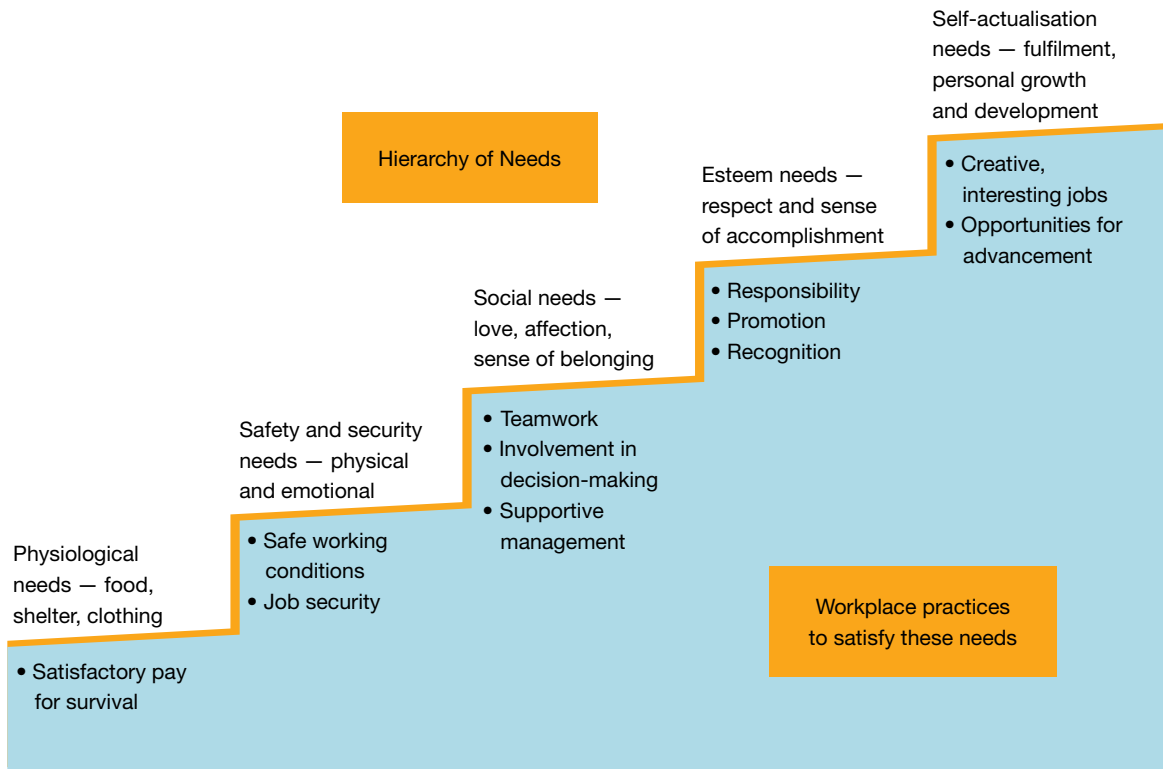
Maslow theorised that people work to satisfy their physiological needs first, such as food and water. The wage that a business pays to an employee helps satisfy these needs. People then attempt to satisfy their safety needs, such as shelter and clothing. Businesses help to satisfy this need by providing safe working conditions and job security. Once these first two needs have been satisfied, employees seek to satisfy their social needs. People need to be loved and love someone in return, to be a friend and have friends, for example. Work provides an opportunity for people to meet and form working relations that provide a sense of belonging. Esteem needs are satisfied when an employee's work is appreciated and he or she is given recognition, promotion or added status in the business. Finally, self-actualisation needs refer to an employee's desire to reach his or her full potential. To satisfy these needs, businesses must provide a workplace that encourages personal growth and development, interesting and creative jobs, and opportunities for advancement.

Maslow's theory was important because it suggested that businesses have to create workplaces that attempt to satisfy all the needs of an employee. Businesses that attempt to motivate workers through pay rises or job security would only be satisfying lower order needs. Employees would not be fully motivated; they would become despondent, waiting for the day to finish, hating their jobs and only doing them for the money. Occasionally, these employees become so dissatisfied and unmotivated that they become unproductive and/or leave the business, creating costs for the business in reduced efficiencies.

According to Maslow's Hierarchy of Needs theory, a business might provide a creative or interesting work environment for employees to satisfy their higher order needs, in addition to satisfying all of the needs on the lower levels of the hierarchy.



Maslow's Hierarchy of Needs



EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'examine the key principles of the theories of motivation' as well as 'apply the key principles of the theories of motivation'. The task word 'examine' generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). This suggests that you should know the strengths and weaknesses/limitations of Maslow's theory of motivation. The task word 'apply' generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections. This indicates that you need to know the Hierarchy of Needs well enough to be able to relate it to a practical example or a case study or to link it to an example or case study.

An advantage or strength of Maslow's theory is that it allows management to develop an understanding of individual needs. All individual employees are different and they all have specific needs. Maslow's theory also allows management to be aware that employees will be at different stages of development and that they will need to be motivated using a variety of methods. However, Maslow's theory is not perfect and it does have limitations or weaknesses. A weakness of Maslow's Hierarchy of Needs is that it is only a theory. It is not supported by empirical evidence and the stages in the hierarchy do not apply to all individuals. Furthermore, a manager making use of the theory may struggle to identify the stage at which each individual employee is. This may make it difficult to determine an appropriate strategy to motivate each employee.

DID YOU KNOW?

Naomi Fraser, a well-respected management consultant, has concluded that 'What motivates people is similar to how Winston Churchill viewed Russia ... an enigma, inside a puzzle wrapped up in a mystery'.

on Resources**eLesson:** Theories of motivation: Hierarchy of Needs (Maslow's) (eles-2925)

3.3 Activities

TEST your understanding

- Which of the following is correct? Motivation is:
 - the drive that makes a person do something well once
 - the drive that makes someone exert effort over a sustained period of time
 - the wish to succeed
 - what makes us go to work each day.
- When talking about motivation, the carrot or stick approach is sometimes mentioned. Explain why giving someone a reward or a punishment might motivate them to act.
- Arrange these needs in order according to Maslow's theory:
 - esteem needs
 - physiological needs
 - safety needs
 - self-actualisation needs
 - social needs.
- Why is Maslow's theory important?

APPLY your understanding

- Explain how managers could use Maslow's theory to motivate staff.
- How could a business help a person meet their self-actualisation needs?

EXAM practice

- Apply the key principles of Maslow's Hierarchy of Needs to a contemporary business case study. **(4 marks)**
- MetFab metal fabrication business employs over 100 staff, many of them highly skilled tradespeople. The employees are all paid well above the industry average, the business has won a number of safety awards, and has an active social club for its employees. Despite these positives, management is concerned that many of its employees are content to coast along and not put much effort into their work.
Examine how MetFab could make use of Maslow's theory to improve the motivation of its employees.
(6 marks)

3.4 Motivational theories: Goal Setting Theory (Locke and Latham)

KEY CONCEPT Locke and Latham's Goal Setting Theory is based on the notion that employees are more likely to be motivated if they are able to strive for specific goals, and can be rewarded for achieving those goals.

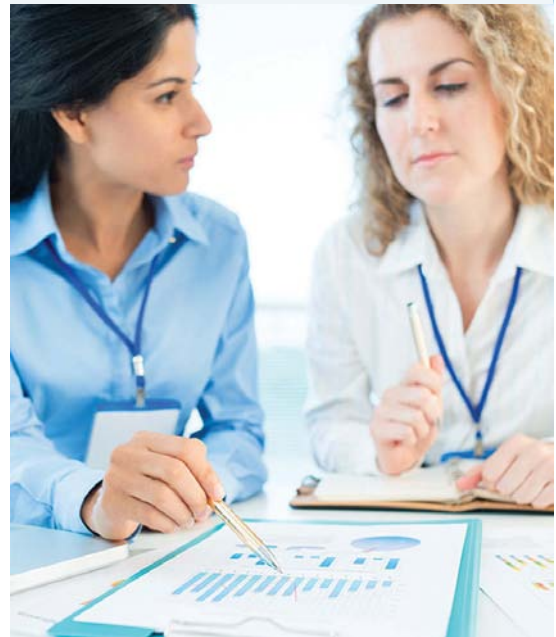
3.4.1 Goal Setting Theory (Locke and Latham)

Dr Edwin Locke researched goal setting and motivation during the 1960s. He concluded that employees were motivated by clear goals and appropriate feedback regarding their achievement. Locke maintained that working towards a goal provided the motivation to reach that goal and this, therefore, improved performance. He found that specific and challenging goals led to better performance than vague goals or goals that were too easy to achieve.

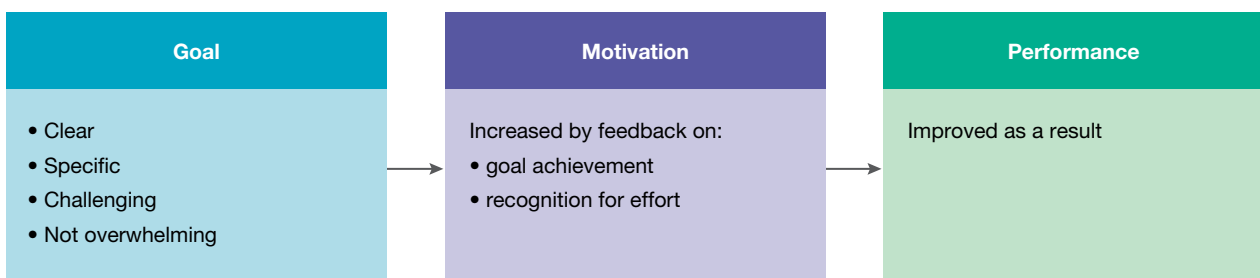
That is, Locke found that in order to motivate employees, goals must be clear, specific and provide a challenge. The employee must also be committed to meeting the challenge, and it helps if each employee receives regular feedback that provides clarification and adjustment of the goals and recognition for the efforts being made. The goal or task should not become so overwhelming that a person loses motivation.

Dr Gary Latham is a Canadian researcher who experimented with and tested Locke's theories, producing research results that endorsed the strong connection between goal setting and workplace performance. In 1990, Locke and Latham published *A Theory of Goal Setting and Task Performance*, which further developed Locke's original proposals.

According to Locke's theory, employees are motivated to achieve goals they have helped to set. The goals should be clear and specific, challenging but not so overwhelming that they are impossible to achieve. Constant feedback on progress and recognition for the effort being made is vital.

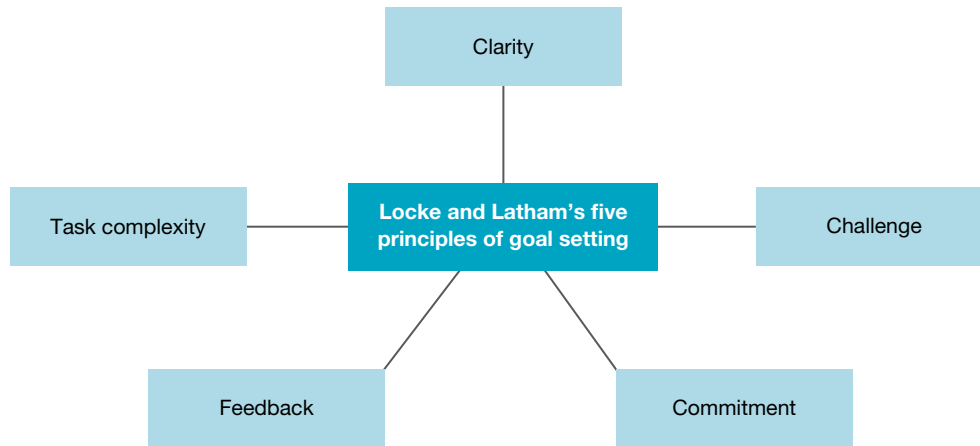


Locke's theory has been applied in many circumstances over a number of years.



The five goal-setting principles

Locke and Latham identified five principles that should be applied when setting goals for employees. They can be summarised as shown in the following diagram and outlined below.



Clarity

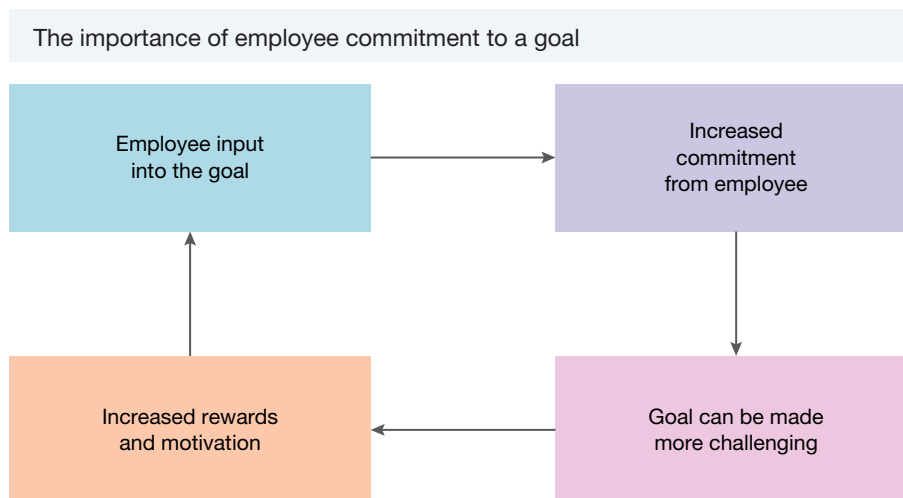
Simply telling someone to ‘do your best’ or ‘improve your performance’ is not as effective as setting clear achievable and specific measures, such as ‘improve sales by 10 per cent’ or ‘increase production output by 5 per cent’. Giving goals clarity means making them unambiguous and measurable. Goals should be simple, clear and as specific as possible. It is important that everyone understands what is expected, and the result that will be rewarded. A vague goal such as ‘provide leadership to your work colleagues’ has very little value as a means of motivation, because it does not include any specific actions that could be taken to achieve this. In addition, goals should be developed within a time frame, so there is a clear end date for the goal to be achieved. This will vary according to the nature of the goal.

Challenge

People are often motivated by achieving something they have not successfully completed before. The opportunity to complete a task that is highly valued by the owner or management of a business can provide a level of challenge that can motivate an employee. The goal should extend the employee, but should still be achievable. There is no point in setting a goal that is beyond the capabilities of the employee, or that sets him or her up for failure. At the same time, a goal that is too easy, or does not seem to have much importance in the operations of the business, will not provide much in the way of motivation. The significance of the challenge should also govern the rewards available to the employee for successfully achieving the goal. Goals must also be related in some way to the objectives of a business, in that they help to realise the overall business objectives.

Commitment

In order to ensure the employee will actively pursue the achievement of a goal, there must be a commitment on the part of the employee. While it is possible for the goal to be provided entirely by the employer or management, a goal into which the employee has had some input is more likely to serve as motivation. It is here that management styles can play an important role. A manager who adopts a participatory style will seek to give employees maximum input into the determination of appropriate goals. This does not mean that the employee decides the goal, but that it is negotiated between manager and employee, to achieve a balance between the objectives of the business and the particular strengths and skills of the employee. It is generally recognised that the greater the input from the employee, the more likely it is that the employees will commit to it, which means that a more challenging goal can be set, leading to greater rewards in the end. Increased rewards for achieving a goal will provide greater motivation for the employer to attempt the next goal.



Feedback

An effective goal program must also include opportunities for feedback to the employee. Frequency of feedback can depend on the timeframe of the goal. Feedback provides opportunities to offer recognition for progress achieved, to make adjustments to the goal if necessary, and to ensure expectations are clear. Sometimes a goal can be broken down into smaller milestones to allow for progress to be measured along the way and achievements to be recognised. Feedback can be informal and may consist of little more than a catch-up over coffee. For longer term and more complex goals, formal feedback sessions may be required to ensure necessary detail is communicated.

Regular feedback can ensure that an employee is on track to achieve goals.



Task complexity

While goals should be challenging enough to motivate employees, it is important the level of complexity should not overwhelm them. It is important that any additional training that is required to assist the employee to complete the task is provided in a way that allows for genuine skill development over time. It is also important that deadlines and completion dates are appropriate for the task and the skill level of the employee. The aim of the exercise is to motivate the employee to contribute to the objectives of the business, and so every effort should be made to ensure that the process provides success for both the employee and the business.

EXAM TIPS

- Goal setting is often associated with the concept of setting SMART goals. Be aware that SMART goals are not a part of Locke and Latham's Goal Setting Theory and should not be used to cover the key elements of the theory in your VCAA exam.
- The **Unit 3, Area of Study 2** key skills state that you need to 'examine the key principles of the theories of motivation' as well as 'apply the key principles of the theories of motivation'. The task word 'examine' generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). This suggests that you should know the strengths and weaknesses/limitations of Locke and Latham's theory of motivation. The task word 'apply' generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections. This indicates that you need to know Goal Setting Theory well enough to be able to relate it to a practical example or a case study or to link it to an example or case study.

Strengths and weaknesses of Locke and Latham's Goal Setting Theory

Strengths	Weaknesses
Setting goals that are clear and specific, challenging but not overwhelming, will motivate employees and improve their performance, thereby contributing to business objectives.	Setting goals that are too vague can lead to poor performance — goals that are not challenging (or that are overwhelming) can become demotivating.
Many studies support the theory — that challenging and specific goals, together with commitment and feedback will motivate employees.	Individual employee goals may clash with each other or with business objectives, or may not support the attainment of business objectives.
Staff will perform at a higher standard due to their clear and specific goals, leading to a higher rate of productivity.	Employees may focus so intently on their goals that they ignore other aspects of their job.
Better relationships between management and employees will occur as managers work with each employee to collaboratively set goals and provide feedback.	Goal Setting Theory only focuses on the setting of goals to improve performance — there are other factors that can contribute to improved performance.
	Failing to meet a goal could be detrimental to an employee's confidence.

study on

Unit 3 > AOS 2 > Topic 2 > Concept 2

Goal Setting Theory (Locke and Latham) Summary screen and practice questions

on Resources

 eLesson: Theories of motivation: Goal Setting Theory (Locke and Latham) (eles-2926)

3.4 Activities

TEST your understanding

1. Explain how goal setting affects a person's motivation.
2. Explain what is meant by 'clarity' when it comes to setting goals for employees.
3. Why do you think that setting goals that are easy to achieve might lower motivation?
4. Why is 'task complexity' an issue in the process of goal setting?
5. Outline the strengths and weaknesses/limitations of Locke and Latham's Goal Setting Theory.

APPLY your understanding

6. Have you set goals for yourself recently? If you did, how did this affect your motivation?
7. What goals might a football club establish at the start of a new season? Why do clubs set such goals?
8. Dean is a sales manager in charge of 15 sales representatives. He wishes to provide motivation for each of these representatives to improve their sales figures during the coming six-month period, and believes that Locke and Latham's Goal Setting Theory may provide him with the means of doing this.
 - (a) Outline how Dean could make use of Goal Setting Theory with each of the sales representatives.
 - (b) Explain how he might monitor the process during its operation.
 - (c) What would you expect to occur at the completion of the six-month period?

EXAM practice

9. Describe two differences between Maslow's and Locke and Latham's theories of motivation. **(4 marks)**
10. MetFab metal fabrication business employs over 100 staff, many of them highly skilled tradespeople. The employees are all paid well above the industry average, the business has won a number of safety awards, and has an active social club for its employees. Despite these positives, management is concerned that many of its employees are content to coast along and not put much effort into their work.
Examine how MetFab could make use of Locke and Latham's Goal Setting Theory to improve the motivation of its employees. **(6 marks)**

3.5 Motivation theories: Four Drive Theory (Lawrence and Nohria)

KEY CONCEPT The Four Drive Theory attempts to identify the basic human drives that determine all human behaviour and apply these as a means of motivating employees in the workplace.

3.5.1 Four Drive Theory (Lawrence and Nohria)

The Four Drive Theory was developed by Dr Paul Lawrence and Dr Nitin Nohria, from the Harvard Business School, and outlined in their book *Driven: How Human Nature Shapes Our Choices*, published in 2002. They identified what they believe are the four main drives that shape the way in which all human beings think and behave. In doing so, they were attempting to explore the very core of human nature and the key determinants of all human behaviour. By applying what they saw as the four basic human drives to the business world, they hoped to be able to identify what motivates a range of stakeholders, including employees, customers, competitors and others.

The four drives

Lawrence and Nohria identified the following as fundamental to all human behaviour:

- the drive to **acquire** — includes the desire to own material goods, and encompasses the desire for status, power and influence
- the drive to **bond** — includes the strong need to form relationships with other individuals and groups
- the drive to **learn** — includes our desire to satisfy our curiosity, to learn new skills and to explore the world around us
- the drive to **defend** — the desire to remove threats to our safety and security and to protect what we regard as 'ours'.

The Four Drive Theory provides an interpretation of human behaviour that covers all of our emotions and motivations, and is firmly planted in our evolutionary past. The drives to acquire, bond and learn are active drives, while the drive to defend is a latent drive that becomes active only in the face of a threat.

Resources

 **eLesson:** Theories of motivation: Four Drive Theory (Lawrence and Nohria) (eles-2927)

3.5.2 The four drives and employee motivation

An employer or manager can harness the four drives in the development of a work environment that will motivate employees and encourage them to work productively towards achieving business objectives.

Drive to acquire

The drive to acquire can be expanded to include *achievement* as a means of identifying and including the desire for non-material things, such as status and influence. Employers and managers can apply this in the workplace by:

- ensuring levels of remuneration are comparable with those of competing businesses, to ensure that valued staff are satisfied and not easily lured away
- tying monetary rewards to improvements in performance
- recognising good performance from employees with appropriate financial incentives
- providing opportunities for employees to feel proud of the work they do, and to feel that they can distinguish themselves through their work
- clearly expressing the expectations of the business, particularly in relation to the ways in which work performance will be evaluated
- establishing high levels of performance as the norm, and the standard by which all employees are judged and rewarded.

Providing opportunities for employees to feel proud of the work they do can satisfy the need to acquire and achieve.



Drive to bond

In the context of motivating employees within a business, the drive to bond is most commonly expressed through a sense of *belonging*. Businesses wishing to harness this drive as a means of motivating employees will encourage this in the following ways:

- Managers and leaders will be people oriented, and will seek to interact with all employees in a positive and encouraging manner.
- Management will seek ways to develop corporate culture and improve relationships between management and employees, by recognising achievements outside of the workplace and milestones such as birthdays, or years of service.
- Teamwork and collaboration will be encouraged and recognised, and collective achievements highly valued.
- Sharing of best management practice among employees will be rewarded and staff will be encouraged to support the team culture.
- Employees will be encouraged to trust and support each other.
- Personal friendships between employees will be fostered and supported.

Harnessing the drive to bond allows collective achievements to be highly valued by employees.



Drive to learn

The drive to learn encompasses the need to understand the world around us, to be challenged mentally and be faced with interesting and varied experiences. This drive can be used to provide motivation in the following ways:

- Opportunities to learn new skills are provided on a regular and ongoing basis.
- Tasks are made as interesting as possible.
- Each person's duties include a variety of different tasks to provide stimulation and avoid the boredom that can come from constant repetition.
- Challenges are built in to all work assignments to increase satisfaction when a difficult task has been completed.
- Employees feel that they are gaining additional skills and valuable experience as they go about their daily work.
- Management actively supports employees in gaining new skills and qualifications, including formal qualifications from external institutions such as universities and TAFE colleges.
- Each job or set of duties within the business is valued as making a significant and meaningful contribution to the achievement of the business's objectives.

Opportunities to acquire new skills can satisfy the drive to learn.



Drive to defend

As the latent drive, defending comes into play in ensuring that the work environment is safe and non-threatening, with high levels of trust between employees and management. Motivation comes from removing fears and insecurities from the workplace.

- The workplace is welcoming and supportive, and intimidation is not used as a management technique.
- Managers treat all employees fairly and are seen to do so consistently.
- Systems and processes for determining rewards and recognition within the business are fair and transparent, so that no-one feels that any other employee is the subject of favouritism, or that they have been discriminated against.
- Managers and leaders foster an atmosphere of trust, by ensuring they are consistent and honest in all dealings with employees.
- Employees are encouraged to speak up, to air their concerns and offer suggestions, with full support of management, and without any fear of reprisals.

EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'examine the key principles of the theories of motivation' as well as 'apply the key principles of the theories of motivation'. The task word 'examine' generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). This suggests that you should know the strengths and weaknesses/limitations of Lawrence and Nohria's theory of motivation. The task word 'apply' generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections. This indicates that you need to know the Four Drive Theory well enough to be able to relate it to a practical example or a case study or to link it to an example or case study.

Strengths and weaknesses of Lawrence and Nohria's Four Drive Theory

Strengths	Weaknesses
The drives work independently, allowing management and employees to be flexible in the behaviours or strategies selected or implemented.	Other drives besides the four outlined by Lawrence and Nohria may exist — these don't necessarily explain all the individual characteristics that may motivate a person.
Four Drive Theory is very adaptable to complicated or intricate environments or situations.	Some of the workplace applications involve competition between employees, which can have detrimental effects; for example, a workplace may suffer from a lack of cooperation or a lack of information sharing.
The four drives will convert into effort that is directed at improving behaviour, thereby improving business performance and achieving objectives.	

study on

Unit 3 > AOS 2 > Topic 2 > Concept 3

Four Drive Theory (Lawrence and Nohria) Summary screen and practice questions

3.5 Activities

TEST your understanding

1. What are the 'four drives' identified by Lawrence and Nohria, which they believe provide motivation for all human behaviour?
2. Explain two ways in which the drive to acquire can be harnessed to motivate employees in a workplace.
3. How can the drive to bond be used to motivate employees?
4. In what ways does the drive to learn usually show itself in human behaviour? How can employers make use of this drive to improve work performance?
5. Outline two ways in which an employer can provide a workplace that satisfies the drive to defend.

APPLY your understanding

6. Create two checklists, one under the heading 'Things to do', and one under the heading 'Things NOT to do'.
 - (a) Under the first heading, provide a list of at least eight actions that a manager could take to ensure he or she is making use of the Four Drive Theory to improve employee motivation.
 - (b) Under the second heading, develop a list of at least eight actions that a manager should NOT do if he or she wishes to maximise employee motivation using the Four Drive Theory.

EXAM practice

7. Describe two differences between Locke and Latham's and Lawrence and Nohria's theories of motivation. **(4 marks)**
8. TechSol is an IT consultancy business that is expanding rapidly. It hired four new computer science graduates at the beginning of the year, but now all of them have indicated that they wish to leave because of low job satisfaction.
Examine how TechSol could make use of Lawrence and Nohria's Four Drive Theory to improve the motivation of its employees. **(6 marks)**
9. Outline the strengths and weaknesses/limitations of Lawrence and Nohria's Four Drive Theory. **(4 marks)**

3.6 EXTEND YOUR KNOWLEDGE Comparing theories of motivation

KEY CONCEPT The motivational theories of Maslow, Locke and Latham, and Lawrence and Nohria are not mutually exclusive. There are a number of similarities and some overlap between the different theories.

Motivated employees are very important to a business owner or human resource manager, but whose approach to choose: Maslow, Locke and Latham, or Lawrence and Nohria? It is useful to look at the similarities and differences between these theories of motivation, and even the ways in which they can be used together. For example, it is possible to set goals (Locke and Latham) which satisfy higher level needs such as self-actualisation in an employee (Maslow). To fully appreciate the similarities and differences between the theories studied so far, it is useful to understand the difference between extrinsic rewards and intrinsic rewards.

Resources

 eLesson: Comparison of motivation theories (eles-2928)

3.6.1 Extrinsic and intrinsic rewards

An *extrinsic reward* is a tangible or physical reward given to someone for achieving something. It can be a financial reward, a certificate or trophy, or some other form of recognition coming from another person or organisation. It is a tangible recognition of performance, so it comes from outside the person. An *intrinsic reward* is an intangible reward that comes from within the person achieving success or performing well. It is the sense of satisfaction or fulfilment that the person feels at having accomplished something, or successfully met a challenge.

An easy way to understand the difference is to think of your own aims as a VCE student. If you gain good marks at the end of the year, you may gain the extrinsic reward of a place in your preferred course at your tertiary institution of choice. You may also gain the intrinsic reward of pride in your achievement, in having not only survived Year 12, but having met or exceeded your own expectations. The extrinsic reward is something someone else provides; the intrinsic reward is the good feelings that come from within.

It is possible to compare and contrast the three motivational theories by looking at how they relate to intrinsic and extrinsic rewards. It is generally recognised that intrinsic rewards can be stronger than extrinsic rewards in providing high levels of motivation in the workplace.

Maslow's Hierarchy of Needs

Maslow's theory assumes a series of steps, each taking the person to a position where their higher order needs can be satisfied. When applied to the workplace, the employee progresses up the hierarchy of needs, moving from a position of receiving extrinsic rewards, to a greater emphasis on intrinsic rewards. At the lowest level, physiological needs are satisfied by the employee receiving a satisfactory level of pay to provide food, clothing and shelter. At the next level, safety and security needs are met by the employer providing safe working conditions and a degree of job security. At the lower two levels on the hierarchy, extrinsic incentives are provided to help satisfy these basic needs.

At the third level, social needs, the rewards are both extrinsic and intrinsic. The employer provides a supportive management, and opportunities for teamwork and involvement in decision-making (extrinsic), and the employee gains a sense of belonging and loyalty to the business (intrinsic). At the two highest levels, where esteem needs and self-actualisation needs are satisfied, the employer provides the environment, but the emphasis is on the intrinsic rewards gained by the employee. It is the intrinsic rewards that motivate the employee — the sense of accomplishment and fulfilment, and the personal growth and development that comes from achievement.

Locke and Latham's Goal Setting Theory

Goal Setting Theory assumes that employees will be rewarded as they achieve goals in the workplace. In many cases such rewards will be extrinsic — a pay rise or some other financial reward, or a promotion to a more responsible position, but rewards can also be intrinsic. If the five principles of goal setting are applied, the employee may also receive intrinsic rewards that improve overall motivation.

- Clarity of goals provides certainty and predictability, leading to the employee feeling more comfortable in their endeavours.
- Challenging goals can lead to a greater level of satisfaction when they have been successfully achieved.
- Commitment to a goal will come from the employee having had some input into the setting of that goal, leading to a greater level of satisfaction once the goal is achieved.
- Positive and regular feedback assists in keeping the employee focused and can contribute to the sense of achievement once the goal has been attained.
- A task that is sufficiently complex to challenge, but not to overwhelm the employee, can increase the level of satisfaction and sense of achievement felt by that employee.

Just as it is hoped that intrinsic rewards that come from the esteem and self-actualisation stages in Maslow's hierarchy can lead to greater levels of employee motivation, the intrinsic rewards that come from the application of goal setting can have a similar impact.

Lawrence and Nohria's Four Drive Theory

The Four Drive Theory assumes a set of factors that influence the way humans behave. The theory assumes these drives are intrinsic to all humans, but in an employment situation, satisfying these drives can come from both extrinsic and intrinsic rewards.

- The drive to acquire is most readily satisfied by the provision of extrinsic rewards, such as the acquisition of material goods, but can also be satisfied by the intrinsic rewards that come from the satisfaction of having achieved status and influence.
- The drive to bond is likely to be satisfied primarily by intrinsic rewards. It is supported by the way in which management encourages teamwork, sharing of best practice, the fostering of personal friendships within the workplace and a level of trust between management and employees. Interpersonal relationships within the workplace provide intrinsic rewards through a sense of belonging on the part of the employee.
- The drive to learn is also satisfied primarily through intrinsic rewards. Employees can gain pride in their work through the acquisition of new skills and qualifications. Work tasks are as interesting and challenging as possible, providing a sense of satisfaction and achievement for the employee.
- The drive to defend can also be satisfied through intrinsic rewards. Fairness and consistency in management style fosters a sense of trust, and employees do not feel threatened or intimidated in the workplace. The removal of fears and insecurities from the workplace can improve employee motivation.

Comparing the different theories of motivation

Maslow compared with Locke and Latham

Similarities	Differences
• The successful achievement of a goal in Locke and Latham's Goal Setting Theory is similar to meeting esteem and self-actualisation needs in Maslow's theory. • Recognition and feedback are significant in both theories. In Maslow's theory this comes through the satisfaction of esteem needs, while for Locke and Latham's theory this occurs with the relationship between the employee and manager in the setting of goals and the provision of feedback. • Both theories highlight the importance of achieving job satisfaction as a key motivator. • Both theories focus on achieving one thing at a time — Locke and Latham is one goal at a time, Maslow is one step in the hierarchy at a time.	• Maslow's theory is an ongoing, long-term process through a series of steps, whereas Locke and Latham's theory is more short term, in that the achievement of a goal ends the process, and a new process with new goals may be implemented. • Locke and Latham's theory concentrates on the achievement of a variety of different goals, each relevant to an individual employee, while the implementation of Maslow's theory can lead to processes and procedures within the business that encourage all employees to progress through each stage of the hierarchy. • Maslow concentrates on internal needs of employees, while Locke and Latham concentrate on the setting of goals that are external to the employee and designed to contribute to the goals of the business. • Individual employees can be very significant in the goal-setting process, while managers are more significant in setting a tone that allows for the satisfaction of the different levels in Maslow's Hierarchy of Needs.

Maslow compared with Lawrence and Nohria

Similarities	Differences
• Both theories were originally devised as a means of explaining human behaviour in general and have been adapted for application as theories of workplace motivation. • Both theories place a great deal of importance on the achievement of employee satisfaction. With Maslow's theory it is satisfying the higher order esteem and self-actualisation needs, while with Lawrence and Nohria's theory it is satisfying the four human drives. • The drive to acquire can be compared to Maslow's physiological needs. • The drive to bond aligns closely with social needs on Maslow's hierarchy. • Satisfying the drive to learn can be compared with having self-actualisation needs satisfied.	• Maslow's theory has five different levels of needs in a hierarchical structure, while Lawrence and Nohria's four drives are all considered to be of equal significance. • Maslow's theory assumes a sequential set of steps. A person will satisfy one level in the hierarchy before moving to the next one. In contrast, satisfying the four drives can occur simultaneously. • Satisfying the drive to defend is effectively minimising a potential negative, and so is different from the progression through the stages in Maslow's hierarchy, which concentrates on positive motivators.

Locke and Latham compared with Lawrence and Nohria

Similarities	Differences
• The rewards that come from the achievement of a goal in Locke and Latham's theory can be linked to Lawrence and Nohria's drive to acquire. • In both theories it is important that the manager understands the needs of their employees. In one case this understanding will assist in the setting of goals. In the other, it can enable the manager to implement appropriate strategies that will satisfy the four drives in each employee. • Both theories are primarily focused on employees. In Locke and Latham's theory, employees have a significant role in setting goals and in Lawrence and Nohria's theory, what drives the employees is at the centre of achieving required levels of motivation. • In both theories, cooperation between manager and employee is essential. With Locke and Latham this comes with the setting of goals, and feedback during the process. With Lawrence and Nohria it comes from the manager having to understand how each of the four drives will affect the motivation of each employee.	• The fundamental basis for the two comes from different sets of ideas. In Lawrence and Nohria's theory, an individual is motivated to satisfy four drives, which come from within the person. In Locke and Latham's theory, the individual is motivated to achieve a goal, which is external to the person. • In Locke and Latham's theory, a person is usually pursuing one specific goal at any given time, while Lawrence and Nohria's theory assumes that a person needs to satisfy all four drives simultaneously. • Goal Setting Theory can be closely aligned to the objectives of the business while the Four Drive Theory concentrates more on the internal motivating forces within each employee.

3.6 Activities

TEST your understanding

1. Explain the difference between extrinsic rewards and intrinsic rewards and provide an example of each.
2. Using examples from each theory to illustrate your response, outline the similarities and differences between Maslow's Hierarchy of Needs, Locke and Latham's Goal Setting Theory and Lawrence and Nohria's Four Drive Theory.

EXTEND your understanding

3. Outline how each of the following theories makes use of both extrinsic rewards and intrinsic rewards as a means of motivating employees.
 - (a) Maslow's Hierarchy of Needs
 - (b) Locke and Latham's Goal Setting Theory
 - (c) Lawrence and Nohria's Four Drive Theory
4. Imagine you are the HR manager in a business employing 40 employees of varying ages and experience. The CEO has identified low levels of motivation in the workforce as a contributing factor to the business not achieving many of its objectives and has asked you to prepare a report on how employee motivation might be improved. Your report should include:
 - (a) a comparison of the three theories of motivation you have studied, their similarities and differences
 - (b) a recommendation as to which theory you would adopt for the business
 - (c) the reasons why you believe this theory would be the most appropriate.

3.7 APPLY YOUR SKILLS Motivation theories — do they work?

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management related to managing staff in a business
- Interpret, discuss and evaluate business information and ideas
- Apply knowledge about managing employees to practical and/or simulated business situations
- Examine and apply the key principles of the theories of motivation

In order to increase productivity, it is very important that managers understand the factors that motivate their staff to want to work. The theories of Maslow, Locke and Latham, and Lawrence and Nohria provide us with some guidance as to what motivates staff, but do they work in the real world? Through the following case studies, let us have a look at whether they are just theories, or if they can be put into practice.

A BIKE AND SOME LIGHTS: A STUDY IN MOTIVATION

The Lantern Group is a motivational consulting firm that specialises in working closely with their clients to increase the engagement and motivation of their workforce. In July 2016, the group set up an experiment at the World at Work Total Rewards Conference in San Diego, California, USA. It involved hooking up a stationary bike to a bank of six LED lights on a vertical pole, so that the longer and harder someone pedalled the bike, the more lights lit up. The group offered free promotional T-shirts to anyone who could light up only one of the lights, so there was no requirement for anyone to light up more than one light to receive a reward.

In addition, a leader board was set up to record the names of the five fastest participants to light up the whole board. This was a simple whiteboard that recorded the five fastest participants and their times, and could be changed whenever a new person beat the record of one of the previous participants. A total of 103 people rode the bike over the two days of the conference, and only one of them stopped at the first light. While the offer of a free T-shirt was the key motivator for getting people on the bike, once they were on it, they kept on pedalling to see what they could achieve.

This experiment can tell us a lot about motivation. For most people the offer of a free T-shirt was a motivating factor in encouraging them to get on the bike. It only required a simple extrinsic reward to encourage them to participate. Of greater interest was the fact that only one person stopped at one light, while all the others kept going to see how many lights they could illuminate. The intrinsic reward of achieving something more than the basic level became a motivator. Because they could get instant feedback by seeing how lights were lit up, they were motivated by the activity, rather than the extrinsic reward of a T-shirt.

When applying theories of motivation, we can see the importance of intrinsic rewards. Within the context of Maslow's Hierarchy of Needs, the self-esteem need motivated 102 riders to prove how much they could achieve.

Once participants were on the exercise bike, almost all were motivated to achieve the highest level of performance possible.



As an example of Goal Setting Theory, there was a clear clarity of task (lighting as many LEDs as possible), as well as a challenge, and a need to make a commitment to meet that challenge. In terms of the Four Drive Theory, the drive to acquire was a motivating factor both for the extrinsic reward offered by the T-shirt, but also by the intrinsic reward of having the status of seeing one's name on the leader board. The drive to learn was also activated, with riders wanting to challenge themselves to find out what level they could achieve.

All three theories rely on recognition, and the leader board provided this as it was changed whenever a new record was set. Some riders returned to have second, third or even fourth attempts when their names had been replaced on the leader board. They did not receive a second T-shirt for doing so but were simply motivated by the challenge of improving on their previous attempt, and perhaps returning to the leader board. In doing so, they could see the times achieved by previous riders, and now had a specific goal to aim for. This goal clarity and the fact that they could get instant feedback provided an immediate motivation to do better.

The experiment showed that while an extrinsic reward might be necessary to encourage initial participation in an activity such as this, the intrinsic rewards of meeting a challenge, gaining self-esteem and recognition for meeting a goal, were far more influential in motivating participants to try and achieve their best.

PUTTING THE FOUR DRIVE THEORY INTO PRACTICE

In addition to its experimental work in relation to employee motivation, the Lantern Group regularly publishes informative articles on its website. The following article appeared in one of their online blogs.

What great leaders need to do

Rightfully or not, many employees look to the company to provide them with their motivation for work. While many of these motivations are inherent in a company, good leaders know that they have to work at it constantly to ensure that they are satisfying all four drives.

1. Focus on all 4 Drives

It is important to understand that all the good work that a company or leader does in these four areas can be ruined if one of the four drives is lacking. Research shows that weakness or fulfilling one of the 4-Drives 'casts a negative halo' effect on how the company or leader performs on all the other 3 drives. It is important then for a leader to ensure that they are identifying and addressing any issues that they see in any of the four drive areas.

2. Individualise motivation

It is also important to know that individual employees each have a unique 4-Drive Motivational profile. In other words, some employees will respond or require greater satisfaction of the A drive, while others will focus more on the C drive (or B or D). Each employee will perceive how the company or leader is performing on each of these drives differently. Good leaders are those who understand these differences and can focus specific employees on satisfying the drives of their specific needs.

3. Communicate effectively

Leaders need to effectively communicate how their systems, policies and structure align with the four drives. In other words, they need to be able to explain, or to map out the connections between what the company is doing or providing and how this would satisfy one or more of the drives. For instance, a leader could identify the reasons that they are sponsoring a community service event is not only to help the community (drive D) but also to provide an opportunity for employees to get to know each other and their families (drive B) and to give them a chance to learn a new skill (drive C).

4. Experiment

Good leaders constantly look for ways of enhancing each of the four drives, by being committed to looking for different ways and different opportunities for employees to satisfy their needs. One such way could be to implement new structures and processes and see how they work.

Source: The Lantern Group, <https://thelanterngroup.wordpress.com/2011/04/28/how-leaders-can-impact-the-4-drives-of-employee-motivation/>

3.7 Activities

TEST your skills

1. What can the experiment with the exercise bike and lights tell us about the relative importance of intrinsic rewards when compared with extrinsic rewards?
2. Why is it important that a leader focuses on all four drives when managing employees?
3. Explain what is meant by 'individualising motivation'.
4. Outline the importance of communication and experimentation in enhancing the use of the Four Drive Theory with employees.

APPLY your skills

5. Outline the ways in which the bike experiment demonstrates the effectiveness of each of the three theories of motivation you have studied in this subtopic.
6. 'Goal setting provides a sense of direction and purpose for employees.' Discuss whether or not you agree with this statement.
7. The task word 'examine' generally requires you to make the details or meaning of something clear (possibly exploring both sides or cause and effect). The task word 'apply' generally requires you to use the information provided or knowledge relevant to a particular situation and make links and connections.
 - (a) Examine the use of Maslow's Hierarchy of Needs at Lantern Group.
 - (b) Apply the key principles of Lawrence and Nohria's Four Drive Theory to the bike experiment at Lantern Group.
 - (c) Explain Locke and Latham's Goal Setting Theory and apply it to Lantern Group.
8. In groups of three, prepare a short role play, demonstrating your understanding of one of the motivational theories. Your play should illustrate situations before and after a motivational theory is applied. For example, if you choose to present the five needs highlighted in Maslow's theory, you might dramatise a scenario where a young, inexperienced employee in a bakery, employed for the Christmas period, is unsure of their long-term job prospects. For example, you could outline whether or not their physiological needs are met, and whether or not their safety and security needs are met. Finish your play by showing how these needs could be resolved.

3.8 Motivation strategies: financial

KEY CONCEPT A business may use financial or non-financial strategies to motivate employees. Financial strategies usually involve the provision of additional wages or salaries, or other financial benefits as a means of motivating employees.

We all go to work to earn money, in order to purchase the goods and services we need. The opportunity to earn additional wages or salary by increasing or improving work performance can be a powerful form of motivation for employees. An employer has a number of ways of using financial incentives to motivate employees, including performance-related pay, as well as access to a share in the profits of the business.

3.8.1 Performance-related pay

Performance-related pay is a means of rewarding employees when they perform their duties in a manner that equals or exceeds a set of pre-determined goals or criteria. It is usually designed as a means of motivating employees. An employer can provide motivation with direct payments to employees, such as pay increases, bonuses and commissions.

Pay increases

When an employee begins work at a particular business the level of pay will be set by either an Award or an amount agreed to in an employment contract. This will probably be a standard amount paid to any new employee carrying out the same duties in that business. It is then open to the employer to offer pay rises to any employees who work hard, or who make a significant contribution to the achievement of business objectives. Such a pay rise would usually involve an increase in the hourly or daily rate of pay, and can serve as a strong incentive for employees to make that extra effort.

Bonuses

A bonus is a one-off payment given to a particular employee or group of employees as a reward for meeting particular targets, or some other special effort. It does not involve any ongoing pay rise. Different employees within the business may receive bonuses of differing amounts, depending on their contribution to the business as perceived by the employer.

Commissions

A commission is an amount paid for accomplishing a sale. It is usually a fixed percentage of the sale price, and is paid to the salesperson who accomplished the sale of the service or product. The real estate industry is one in which salespeople earn most of their income from commissions. The finance industry also uses commissions for salespeople selling products such as insurance policies. Often the salesperson will be paid a relatively low base salary, which is topped up by commissions. The more sales the person makes, the greater their pay, so they have a strong incentive to make as many sales as possible.

Real estate salespeople earn most of their income from commissions.



3.8.2 Other financial incentives

One of the objectives of a business is to increase profits, so providing employees with access to a share of those profits can be a powerful form of motivation.

Share plans

A registered company can offer shares in the ownership of the business to its employees. If the business is successful, the profit is paid as a dividend to its shareholders, so the employees will gain additional income from contributing to increased profits. If the business is a public company with its shares listed on the Australian Securities Exchange (ASX), good levels of profit can lead to an increase in the share price over time, so the value of the employees' shareholdings can increase, providing them with a valuable asset.

The ASX was formed on 1 April 1987 and has an average daily turnover of more than A\$4.5 billion.



Profit sharing

Instead of providing employees with shares, a company can offer a percentage of the profits to its employees as an incentive to work hard and raise the level of those profits. Usually the employees will be offered a fixed percentage of the profits, so the amount will vary from year to year.

Gainsharing

A particular type of profit sharing is a system known as gainsharing. In a gainsharing program, employees are encouraged to offer suggestions to improve **productivity**, or to reduce production costs. The savings to

the business from those improvements are then distributed to the employees. Because it relies on ideas and suggestions from employees, it can provide a useful tool to engage employees in improving the operational systems of the business.

3.8.3 Effects on short- and long-term employee motivation

In general, performance-related pay is considered to have a short-term effect on employee motivation. Financial benefits such as pay increases, bonuses and commissions can influence short-term employee motivation in that they provide an immediate and tangible reward for effort and/or commitment to the business. Commissions are usually paid when earned, and bonuses and pay increases can often occur on an annual basis. When these types of rewards become an ongoing strategy, they can provide longer term employee motivation, as the employees recognise that they will be regularly rewarded for their efforts.

Share plans, profit sharing and gainsharing tend to provide longer term motivation, as the rewards may take a number of years to be achieved. Shares can rise and fall in value in the short term, but generally trend upwards in value over a longer period. Profits are not guaranteed every year, and so require the employee to take a longer term view of the success of the business. Productivity improvements from employee suggestions may also take time, and so gainsharing is also more likely to have an effect on long-term employee motivation.

EXAM TIP

The **Unit 3, Area of Study 2** outcome states that you need to ‘analyse and evaluate strategies related to the management of employees’. This suggests that you should know the advantages/strengths and disadvantages/limitations of each motivation strategy (performance-related pay, career advancement, investment in training, support and sanction). The task word ‘analyse’ will require you to identify the main features of each motivation strategy and then most likely how they relate to a situation in a business. The task word ‘evaluate’ generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why.

3.8.4 Advantages and disadvantages of financial motivation strategies

The advantages and disadvantages of different financial motivation strategies can be summarised as follows.

Strategy	Advantages	Disadvantages
Pay increases	- The pay rise can be tied to levels in an Award, and so can be predictable and easily calculated. - When more experienced employees are on the higher level of pay, it provides the newer employee with a clear target to aim for in a pay rise.	- Once the employee is receiving the higher level of pay it is difficult to cut pay if the employee’s performance declines. - Other employees doing the same work may expect a similar level of pay, even if their performance is not as good, leading to jealousies and lower morale.
Bonuses	- Can be varied from employee to employee, depending on level of performance, as each employee’s bonus is confidential - Only have to be paid when there is actual performance improvement	- If confidentiality is not maintained, different levels of bonus can lead to conflict between employees. - If the value of the bonus is not maintained or increased each year, it may lead to employee dissatisfaction.

(Continued)

Strategy	Advantages	Disadvantages
Commissions	- Only apply when sales take place, so a relatively low cost for the employer - Can motivate sales staff to work harder to close a deal, so genuinely rewards effort	- If base pay is too low, some employees may not earn enough, so may leave, resulting in high staff turnover. - Can lead to large differences in staff pay, with possible morale issues
Share plans	- All employees have an interest in increasing profits and improving the share price. - Employees feel a sense of ownership and belonging in the business as they are shareholders.	- Share prices can go up and down independently of the performance of the business because of the vagaries of the market, so may not be a secure investment for the employees. - Employees are usually not permitted to sell their shares until they leave the company.
Profit sharing	- Tied to levels of profit, so genuinely rewards improvements in that measure - Is relatively easily calculated, and the percentage can be determined in advance, so is very transparent	- Usually does not vary between employees so does not always identify individual effort or performance - If profit drops because of external factors, employees may feel unfairly treated when their share declines.
Gainsharing	- Involves employees in improving productivity, so improves level of engagement and commitment - Paid according to measurable improvements, so has a readily calculated value	Employees who have made suggestions for improvement may have to share the benefits with those who have not made such a contribution.

EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'compare and evaluate strategies used for motivation... when managing a business'. This suggests that as well as knowing the advantages/strengths and disadvantages/limitations of each motivation strategy (and being able to then provide an overall conclusion or judgement related to which argument is the more persuasive and why), you should also be able to comment on the similarities and differences between each motivation strategy.

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Unit 3 > AOS 2 > Topic 3 > Concept 1

Performance pay and career advancement Summary screen and practice questions

Unit 3 > AOS 2 > Topic 3 > Concept 3

Evaluating motivation strategies Summary screen and practice questions

3.8 Activities

TEST your understanding

1. Explain how an employer can use performance-related pay to motivate employees.
2. What is the difference between bonuses and commissions?
3. Outline the possible advantages and disadvantages of financial motivation strategies, including performance-related pay.
4. How can schemes such as profit sharing and gainsharing reward employees for their contribution to achieving business objectives?

APPLY your understanding

5. If you were managing a business and had the choice of offering permanent pay rises to employees over time, or bonuses once a year for good performance, which would you choose? Provide reasons for your choice.
6. If you were offered a sales job that included a low base pay, but had access to commissions based on the number of sales you achieved, would you be happy to accept those conditions of employment? Give reasons for your answer. What additional information would you want before accepting the position?
7. A small manufacturing business decides to set up a gainsharing program for its employees, while at the same time following Locke and Latham's Goal Setting Theory. Explain how these two approaches could work together to improve motivation and help achieve business objectives.

EXAM practice

8. Describe how performance-related pay could be used to improve the performance of employees. **(2 marks)**
9. Peter runs a courier business, where productivity is measured by the number of deliveries carried out by each driver per day.
 - (a) Explain how Peter could use performance-related pay to provide short- and long-term motivation to his employees to increase the number of daily deliveries they perform. **(4 marks)**
 - (b) Explain the advantages and disadvantages of performance-related pay. **(4 marks)**

3.9 Motivation strategies: non-financial

KEY CONCEPT In addition to providing financial rewards, employees can use a number of other strategies to motivate employees. These usually relate to the ways in which managers and leaders respond to the personal needs and ambitions of employees.

As we have seen with the motivation theories of Maslow, Locke and Latham, and Lawrence and Nohria, people's motivations are often closely related to their personal and emotional needs. Effective managers and business leaders recognise the importance of going beyond purely financial incentives to provide motivation that reflects the individual needs and ambitions of their employees.

3.9.1 Career advancement

Career advancement occurs when a person takes on a job that carries greater responsibilities or increased opportunities to provide leadership.

For most people in the workplace, the opportunity to advance to a better job is an important objective in their career plans. This can occur within a workplace, or by moving to a new workplace. Many employees today are willing to change employers every few years in order to move up to a better paid or more challenging or interesting job. In this context, it is important for employers to provide career advancement within the workplace if they wish to retain valued employees.

The opportunity to move into a more challenging or stimulating position, with some supervisory or managerial responsibilities can provide valuable short- and long-term motivation for employees. In the short-term it usually brings a pay rise and greater job security, which satisfy the low order needs on Maslow's hierarchy. In the longer term it provides a means by which some of the higher level needs in Maslow's hierarchy can be satisfied. An opportunity to be involved in decision-making in a leadership position can satisfy the social needs; gaining responsibility through promotion can satisfy esteem needs; and providing creative and interesting work can satisfy self-actualisation needs. In the same way, career advancement also satisfies some of the four drives as outlined by Lawrence and Nohria. The drive to achieve and acquire status and influence, the drive to bond and belong, and the drive to learn and comprehend can all be satisfied by promotion and career advancement. In the short term, satisfying these drives provides employees with a level of motivation to do their job well each day. Satisfying these drives can affect long-term motivation by encouraging the employee to remain with the organisation, and not seek opportunities elsewhere.

Career advancement can satisfy some of the higher level needs in Maslow's hierarchy and some of Lawrence and Nohria's four drives.



EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'propose and justify strategies to manage employees effectively'. The task word 'propose' suggests that you should put forward a motivation strategy (performance-related pay, career advancement, investment in training, support or sanction) for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the motivation strategy as well as explain a little about it. The task word 'justify' requires you to show how the motivation strategy you have selected is the best choice or to provide evidence to support your argument.

3.9.2 Investment in training

Investment in training refers to the direction of finances into the teaching of skills to employees. Improving the skills of employees has benefits for both the business and the workforce. A skilled workforce can improve productivity, and help achieve core business objectives. Providing employees with additional skills can increase job satisfaction, and promote higher levels of both short- and long-term motivation. A more highly skilled job will usually pay more, so naturally employees will take the opportunity to take on additional training in the short term to give them access to those types of jobs. A business that invests in training can gain a number of advantages.

Investment in training can also effect long-term motivation of employees. In terms of Maslow's hierarchy, successful completion of additional training supports the esteem need by providing the employee with a sense of accomplishment. The personal growth that comes from gaining new skills can also help satisfy the self-actualisation need. In terms of Locke and Latham's Goal Setting Theory, skill development goals can be established for employees to improve their own abilities, as well as to contribute to the business in a concrete way. Completing a particular training course is a clear and unambiguous goal; it can provide a suitable challenge; it requires commitment on the part of the employee; it provides many opportunities for positive feedback; and it can be set at an appropriate level of task complexity. Staff training also satisfies a number of the drives identified by Lawrence and Nohria. A sense of achievement through the acquisition of new skills; an opportunity to bond and belong by demonstrating a higher level of skills to contribute to business objectives; and the learning and improved comprehension that comes from training can all satisfy these basic drives.

3.9.3 Support

Support is the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance. Most employees want to work in a supportive environment. They want to feel that the employer values their contribution to the workplace, and that they will be treated fairly and with sympathy towards their personal needs. A supportive management style can be an important factor in developing and sustaining such an environment.

Providing support and encouragement for employees can motivate them to do better, and should always apply when an employee has done a particularly good job, or achieved a pre-arranged goal or target. Support can also be relevant when an employee has made a mistake, particularly if the employee is relatively new or inexperienced. Most people learn from their mistakes, and provided the mistake has not endangered other workers, or seriously jeopardised the relationship with a valued customer or supplier, the employee may benefit from the experience. A supportive workplace can have a positive effect on the employee's long-term motivation, as it encourages a sense of loyalty, and willingness to remain in that work environment.

3.9.4 Sanction

A **sanction** is a penalty or form of discipline imposed on an individual. It may become necessary when an employee does the wrong thing in the workplace. This is particularly relevant if the error is deliberate or reckless, and may be potentially harmful to other staff or customers. Fear of sanctions can be a motivating factor for some employees, but will generally only influence lower order needs on the Maslow hierarchy, such as physiological, or safety and security needs. It can also influence the defence drive as identified by Lawrence and Nohria. A desire to avoid unpleasant consequences has very limited value. It is only likely to impact on short-term motivation, as it does not encourage the employee to make a long-term commitment to the business.

Blaming an employee when things go wrong has very limited value.



3.9.5 Advantages and disadvantages of non-financial motivation strategies

The advantages and disadvantages of different non-financial motivation strategies can be summarised as follows.

Strategy	Advantages	Disadvantages
Career advancement	• Can provide a means of retaining valuable employees • Can be used to reward past performance and provides the opportunity to increase the contribution of employees to the business in the future • Satisfies three of the higher level needs of Maslow's hierarchy • Can satisfy some of the four drives (Lawrence and Nohria)	• Promotion positions cannot just be created — they have to have some purpose. • Employees may have to compete for a limited number of promotion positions, creating some rivalries and conflict. • Employees may be promoted beyond their capacity.

(Continued)

Strategy	Advantages	Disadvantages
Investment in training	- Indicates to employees that the business values their contribution, and that the business will support them in advancing their careers - Benefits the business by improving the skills of employees - Improving skills can satisfy higher level needs in Maslow's hierarchy, as well as providing goals for goal-setting theory, and satisfying some of the four drives. - May improve employee retention as staff loyalty and motivation are improved	- Unless there are sufficient jobs within the business requiring higher level skills, training may be wasted. - The business may pay the cost of training only to have the employee leave for a position in another business. - If a business has poor systems, poor facilities or equipment, or if employees are performing the wrong tasks or in the wrong job, training will not motivate them.
Support	- Support and encouragement can influence employee attitudes, improving motivation. - Can act as a long-term motivator	- It may be difficult to find reasons to support and encourage some employees. - Requires a business to have a positive corporate culture
Sanction	Sanctions for poor behaviour in the workplace can motivate some workers to improve their work performance.	- Excessive emphasis on sanctions can reduce employee sense of belonging, and therefore have a negative impact on motivation. - Tends to act as only a short-term motivator

studyon

Unit 3 > AOS 2 > Topic 3 > Concept 2

Investment in training, support and sanction Summary screen and practice questions

Unit 3 > AOS 2 > Topic 3 > Concept 4

Effect on short- and long-term motivation Summary screen and practice questions

3.9 Activities

TEST your understanding

- Why is it important for employers to provide career advancement opportunities?
- Explain why investment in training is able to provide benefits for both employers and employees.
- Under which circumstances might it be appropriate to use a sanction with an employee?
- Why is it usually better to use support rather than sanction?

APPLY your understanding

- Jane is Human Resource Manager at a pharmaceuticals company. She is a strong believer in using Maslow's Hierarchy of Needs as a means of motivating employees within the company. How can each of the following strategies help her to meet the motivational needs of employees?
 - Providing career advancement opportunities
 - Investing in the training of employees

6. Identify and explain three of the difficulties Jane may face in implementing these strategies.
7. Heather's mother is suffering from cancer and is in hospital being treated. Heather needs to see her mother frequently, and pretends to be ill so she can take time off work to visit the hospital. She is entitled to paid sick leave but is afraid that visiting her mother does not qualify as a reason for paid leave. If the employer found out about her deception, what would be the possible advantages and disadvantages of each of the following strategies?
 - (a) Imposing a sanction on Heather, such as cutting her pay for the time missed from work
 - (b) Supporting Heather by giving her paid time off work during her mother's illness

EXAM practice

8. Explain the term 'career advancement' and analyse how it might satisfy any two of the four drives identified by Lawrence and Nohria in their motivational theory. **(6 marks)**
9. Charlie is the owner of a publishing business called Monster Publishing. A survey has revealed that some employees are lacking in motivation.
 - (a) Explain how Charlie could use investment in training to provide short- and long-term motivation to his employees. **(4 marks)**
 - (b) Explain the advantages and disadvantages of support. **(4 marks)**

3.10 EXTEND YOUR KNOWLEDGE Financial and non-financial motivation

KEY CONCEPT It is desirable for an employer to make use of a combination of financial and non-financial motivation to encourage employees to make the maximum contribution to the achievement of business objectives.

Motivated employees will always perform better in the workplace than those who simply turn up, do the bare minimum and collect their pay. Everyone recognises the importance of money as a motivating force, and employees who contribute to business success deserve to be rewarded with appropriate levels of pay. In addition, the use of non-financial motivation strategies can help get the best out of employees, adding to business performance and greatly assisting in achieving business objectives.

MOTIVATING MEANS MORE THAN MONEY

Managers often instinctively resort to financial reward as the main method of motivating their staff. However, many studies have shown that for people with good salaries, non-financial motivators are more effective than offering extra money. Some non-financial motivators that have been found to be very effective include:

1. *regular attention from leadership*. This may occur, for example, through monthly one-on-one conversations, which can nurture the bond between employee and manager as well as improve performance. This involves a manager taking time out to reflectively discuss performance with each employee and create individual action plans. Many businesses have replaced their annual performance appraisals with regular check-ins.
2. *praise or recognition*. Acknowledgement from management is very important for engaging employees. This does not necessarily require the recognition of staff at annual awards nights or functions; however, many businesses do this. A simple thank you note handed to a staff member or an email praising them for a job well done can also have very positive consequences. Employees can also be encouraged to praise or recognise each other.
3. *responsibility*. By giving employees more responsibility they feel their contribution is more valuable to the business. This might include the opportunity to lead a project or a special task force.



4. *providing creative, challenging and varied work.* Employees will find their jobs more engaging if they are challenging and interesting. Sometimes tasks can be made more interesting simply by removing unnecessary aspects of the job, such as excessive paperwork or bureaucratic systems.

Financial rewards can result in short-term motivation, which can have damaging, unintended consequences. Non-financial motivators can be much more cost-effective. They also have the extra benefit of making employees feel that the business values them, leading to improved productivity. Motivated employees are more likely to be retained by the business, which reduces recruitment and training costs. Research carried out by RedBalloon and AltusQ in 2013 suggests that a highly engaged workforce is a highly productive workforce. Their *Employee Engagement Capabilities Report* found that businesses with the highest levels of engagement outperformed other businesses in performance indicators including sales and turnover, profit, productivity, staff retention, attracting talent, customer loyalty and customer satisfaction.

So why don't more managers make use of non-financial motivators? One factor deterring businesses from using non-financial motivators is the traditional management belief that only money matters as a form of incentive. Another reason is the greater amount of time and commitment required from managers to use the non-financial motivators. Many of these motivators require management to interact with employees, and failing to do so can seriously harm employee engagement.

Optiver

Optiver is a Dutch market-maker trading company. A market maker is a company that quotes a buy and a sell price for financial commodities, such as shares, options and futures. The traders and IT developers who work at Optiver generate large numbers of instructions, using automated trading software, to move in and out of trades very quickly.

The company has created an engaged, highly satisfied workplace at its Australian headquarters in Sydney. It was voted the best place to work in Australia by *BRW* in 2013, and has featured in the top 10 workplaces regularly since then.

Optiver hires talented people and teams new recruits with a buddy to make the induction process work smoothly. It offers flexible conditions and training in ethics, and makes an effort to cut 'red tape' and bureaucracy. Employees are encouraged to pursue interests outside of work. Open communication and teamwork are used to gather and act on the ideas of staff. The use of these motivation strategies at Optiver reflects the positive real corporate culture of the business.

The work that staff do at Optiver is, in itself, interesting. Many employees report a major buzz from the experience of trading.



MOTIVATING EMPLOYEES AT FONDA MEXICAN RESTAURANT

The word 'Fonda' is used in Mexico to describe a house with an open kitchen, where visitors are always welcome. The Fonda restaurant chain was founded in Melbourne by David Youl and Tim McDonald in 2011, and aims to carry on this tradition of a relaxed and welcoming dining experience. Although the restaurant now operates at seven different sites in Melbourne and one in Sydney, David and Tim have chosen not to make use of a franchise model, as they wish to maintain a consistent management culture across each of the restaurants. This culture encompasses the following features:

- Alignment between the business objectives and employee objectives is given highest priority. This means that employees have a direct interest in improving the profits of the business through a system of profit sharing.
- Each branch of the business is managed by a Restaurant Business Leader. This person is paid a base salary, which is augmented monthly by a 7 per cent share of the profit of that restaurant. The higher the profit, the larger the amount paid to the RBL. Base salaries are kept relatively low, but the share in the profits has meant that the actual take home pay is generally higher than the industry average.

- Assisting the RBL in each restaurant is a Senior Assistant Business Leader, who is paid 3 per cent of the profits, and two or three Assistant Business Leaders who are each paid 2 per cent. While base salaries for each of the members of the leadership team is also relatively low, their share of profit inevitably means they actually take home salaries that are higher than comparable employees in other restaurants.
- The leadership teams meet together monthly with the business owners, when profit share payments are made and ideas for improving productivity are shared. Leaders are encouraged to learn from each other and to celebrate the achievement of business goals.
- Every three months, all staff meet for a 'Buzz Breakfast', at which a wide variety of staff achievements are reported and celebrated.
- An annual awards dinner is held each year for all employees, and this is seen as the company's equivalent to a Brownlow Medal celebration.
- Each May, the leadership teams meet to set the objectives for the next financial year. These objectives are broken down into monthly, weekly and even daily goals, and these goals are made measurable and communicated to all staff. It is not unusual for customers in one of the restaurants to see staff stop for 20 seconds and break out into cheering and applause when a daily sales goal or a food preparation time goal has been achieved.
- Staff are known as 'Fondarians', and are encouraged to see themselves as important team members. Ideas and suggestions for improvement from all staff are strongly encouraged, acknowledged regularly and celebrated.

In 2015, Fonda was recognised by the *Business Review Weekly* as the 22nd fastest growing company in Australia, up from 39th the previous year. Aligning staff motivation with business objectives has proved a recipe for success for Fonda in the very crowded and competitive hospitality industry.

A strong alignment between staff motivation and achieving business objectives is central to the culture at Fonda Mexican Restaurants.



3.10 Activities

TEST your understanding

1. Read 'Motivating means more than money'. Summarise the incentives that have been found to be effective in motivating staff.
2. To what motivational theories do these motivators relate?
3. Outline factors that could deter managers from using non-financial motivators.
4. How do the owners of Fonda Mexican Restaurants make use of both financial and non-financial strategies to motivate staff?
5. In what ways are the business objectives of Fonda Mexican Restaurants aligned with the objectives of employees in those restaurants?
6. Explain why customers at a Fonda restaurant may occasionally see employees break out into cheering, applause, and congratulating each other.



EXTEND your understanding

7. Survey your family and friends about what motivates them in the workplace. Use a selection of the main motivators as categories, including pay, working conditions, setting goals, achievement, recognition, creative and interesting work, and teamwork. Present your results neatly in graphs supported by a written conclusion, then compare and contrast your findings with those of your classmates.
8. Outline the ways in which the Fonda Mexican Restaurant business demonstrates how each of the following theories of employee motivation can be applied in a practical business situation:
 - (a) Maslow's Hierarchy of Needs
 - (b) Locke and Latham's Goal Setting Theory
 - (c) the Four Drive Theory of Lawrence and Nohria.

3.11 APPLY YOUR SKILLS Evaluating motivation strategies

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management related to managing staff in a business
- Interpret, discuss and evaluate business information and ideas
- Apply knowledge about managing employees to practical and/or simulated business situations
- Examine and apply the key principles of the theories of motivation
- Compare and evaluate strategies used for motivation when managing a business
- Propose and justify strategies to manage employees effectively

3.11.1 Employee effort

TURNING UP AT WORK, BUT LEAVING MOTIVATION AT HOME

In September 2016, Business Insider website reported on a survey carried out by the consultancy company CEB, that measured the amount of extra effort employees are putting into their work. The survey, known as the Global Talent Monitor, found that only 19 per cent of Australian workers are putting a high discretionary effort into their work. Discretionary effort is the amount contributed over and above what is basically required to complete a task. The Global Talent Monitor found that most Australian workers are motivated by more than money, with work-life balance, respect in the workplace and location of the work premises rating more highly. In times of economic uncertainty, employees who are not particularly happy at work are not prepared to risk moving to another job. The authors of the report believe that it is essential for employers to engage with their employees, focus on good relationships and effective people management in the workplace, and provide career path opportunities to rebuild trust and motivate the workforce.

Source: Adapted from Business Insider, Sept 23, 2016, <https://www.businessinsider.com.au/australians-turn-up-to-the-office-but-their-motivation-is-increasingly-on-holiday-2016-9>

A large percentage of Australian workers are not putting in high levels of discretionary effort at work.



3.11.1 Activities

TEST your skills

1. The Global Talent Monitor found that only 19 per cent of Australian workers were putting a high discretionary effort into their work.
 - (a) Define the term 'discretionary effort'.
 - (b) Why is discretionary effort significant for Australian businesses?
2. Identify two factors in the workplace that Australian workers rate more highly than money.

APPLY your skills

3. The authors of the report focus on the need for employee engagement, good relationships, effective people management in the workplace and the provision of career path opportunities to rebuild trust and motivate the workforce. Apply the key principles of one theory of motivation to these strategies.
4. Gemma is disappointed by the discretionary effort that her employees are putting into their work for her sheet metal business. Examine the key principles of Maslow's Hierarchy of Needs for improving motivation at Gemma's business.

3.11.2 Hiring motivated people

THE MOTIVATION DILEMMA

Dr Jana Matthews is Director of the Australian Centre for Business Growth at the University of South Australia. She is an internationally recognised expert on business leadership. She doesn't believe that it's possible to motivate people in isolation. Her view is that businesses should hire motivated people and then make sure they don't demotivate them. Hiring motivated people comes down to finding out what the job applicant wants to do with their life, their personal goals, what type of job they are looking for and what type of business they want to work for. Assuming the applicant has the required skills and experience to actually do the job, it is essential to match the applicant's goals and values with those of the business. If the person is a good fit for the business, they will bring a strong level of motivation with them.

Research carried out by Dr Matthews and her colleagues has indicated that the best prospective employees are motivated (in order) by the company's goals and mission; the level of support they can get from managers and leaders to develop professionally and personally; the people they will be working with; and their pay. People who are motivated primarily by the level of pay will probably not stay long because they will always be looking for higher pay elsewhere. People who believe that they can achieve their own personal goals by contributing to the achievement of the business's goals will usually be highly motivated employees.

Having hired the best person, how does the business owner or manager keep them motivated and build on their levels of motivation? Dr Matthews has the following hints:

- The first day is absolutely critical. The new employee will arrive with a mixture of excitement, nervousness and uncertainty. Making them feel welcome, introducing them to the culture of the organisation, and providing them with as much information as possible about the business can reduce any first-day nerves. Introducing them to supervisors and co-workers who can support and mentor them can make them feel comfortable and ready to contribute.
- Provision of professional and personal development opportunities can help maintain the enthusiasm and motivation of employees. Keeping employees up to date with the plans and goals of the business can also contribute to the sense of belonging.
- Face-to-face time with managers helps to educate employees in how the business wants its workforce to operate. Employees will often follow an example set by their supervisors, so the examples should always be positive.
- Informal feedback and advice can also help to motivate employees and give them confidence to contribute.
- Recognition for a job well done, and appropriate rewards, are an essential part of maintaining the levels of motivation that will ensure valuable contributions from employees.

Dr Matthews also believes it is essential that the manager or business owner is not a demotivator. Demotivation can be a result of poor management; for example, when a manager claims all the credit for successes, blames

everyone else when things go wrong, and refuses to admit to mistakes. Confusion and inconsistency can also be serious demotivators, so having clear goals and making sure everyone understands them is vital. Unhappy workers and poor performers can undermine the motivation of others. It is better to have these workers leave than risk them bringing the whole organisation down.

Source: Adapted from Matthews, J. 'The motivation dilemma', May 2016, at <https://centreforbusinessgrowth.com/news-and-events/the-motivation-dilemma>

3.11.2 Activities

TEST your skills

1. How does Dr Matthews believe that an employer can identify a prospective employee who has the right levels of motivation for a job vacancy?
2. Why does Dr Matthews believe that people who are motivated primarily by levels of pay are not the best people to hire?
3. What is 'demotivation'? Outline two types of behaviour that could lead to a manager being a 'demotivator'.

APPLY your skills

4. The task word 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. Based on Dr Matthews' hints for maintaining high levels of motivation, propose two motivation strategies that would be consistent with her views.
5. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument. Based on Dr Matthews' hints for maintaining high levels of motivation, justify two motivation strategies that would be consistent with her views.

3.11.3 Maintaining motivation

KEEPING YOUR EMPLOYEES MOTIVATED

SEEK began as an online employment website in 1997 and in over 20 years has expanded to become a worldwide company that focuses on needs/solutions and provides educational services in human resource management. Its *Insights and Resources* website offers the following eight suggestions for keeping employees motivated.



1. **Communicate your vision** — at every possible and relevant opportunity.
2. **Get feedback from your employees** — and use their suggestions to develop plans for improvement into the future.
3. **Start planning** — and communicate your plans to your employees.
4. **Reward employees** — and link staff reward programs to performance and positive behaviours.
5. **Small rewards do encourage** — keep rewards small and frequent to give everyone the opportunity to succeed.
6. **Openly reward achievements** — public praise and presentations can encourage everyone to try harder.
7. **Keep them keen** — take opportunities to discuss career progression opportunities with employees and encourage them to develop personal goals.
8. **Celebrate** — set up occasions for all staff to celebrate together.

Source: Adapted from *SEEK Insights and Resources*, at <https://insightsresources.seek.com.au/8-ways-keep-employees-motivated>

3.11.3 Activities

TEST your skills

1. Identify three ways listed in the 'Keeping your employees motivated' case study in which communication between employer and employees is seen to be important as a motivating strategy.
2. What are the key features of a successful employee rewards program, as identified in the above case study?

APPLY your skills

3. To what extent do you believe that each of Seek's eight suggestions can contribute to the following motivation strategies?
 - (a) Performance-related pay
 - (b) Career advancement
 - (c) Investment in training
 - (d) Support
 - (e) Sanctions
4. The task word 'compare' generally requires you to comment on the similarities and differences between two things.
 - (a) Compare performance-related pay and career advancement.
 - (b) Compare investment in training and support.
5. Collins Construction has been in operation for 10 years and employs 30 people throughout Victoria. Sales and staff morale have been declining. The Human Resource Manager has been asked to improve the situation.
 - (a) The task word 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument. Propose two motivation strategies that will assist the Human Resource Manager to motivate the employees. Justify which strategy would be the most suitable for Collins Construction.
 - (b) The task word 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate how one motivation strategy will assist the Human Resource Manager to motivate.

3.12 Review

3.12.1 Summary

Human resources and business objectives and strategy

- Human resource management involves effectively managing employees in a business and the relationship between employees and the business, as well as the motivation of employees, with the aim of ensuring the business objectives are successfully met.
- The overall business objectives of the business will determine the objectives and strategies adopted by human resources.

Motivation and Maslow's Hierarchy of Needs

- In order to achieve business objectives, staff must be motivated. A number of theories have been developed proposing how workers can be motivated.
- Maslow's Hierarchy of Needs theory requires that managers understand where each worker is situated according to a hierarchy of needs in order to try to satisfy employee needs appropriately.

Motivation theories: Locke and Latham's Goal Setting Theory

- Locke and Latham's Goal Setting Theory involves the establishment of clear, challenging goals as a way to motivate staff and improve their performance.
- Clarity, challenge, commitment, feedback and task complexity are the essential principles of Goal Setting Theory.

Motivation theories: Lawrence and Nohria's Four Drive Theory

- Lawrence and Nohria's Four Drive Theory identified four basic human drives that determine all human behaviour and applied these to the motivation of employees in the workplace.
- These drives are the drives to acquire, bond, learn and defend.

Motivation strategies: financial

- Performance-related pay refers to the monetary compensation provided to employees relative to how their performance is assessed according to set standards.
- Financial motivation strategies can include direct payment incentives such as pay increases, bonuses and commissions.
- Employees can also be motivated by having the opportunity to share in the performance of the business through share ownership, profit sharing and gainsharing.

Motivation strategies: non-financial

- Career advancement is the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities.
- Investment in training refers to the direction of finances into the teaching of skills to employees.
- The opportunity for career advancement and investment in training can provide levels of personal challenge and satisfaction that will motivate employees.
- Support is the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance.
- Sanction is a form of penalty or discipline for poor performance.
- Support and encouragement will generally produce better results than sanctions in the workplace.

3.12.2 Key terms

career advancement the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities

Hierarchy of Needs Maslow's sequence of human needs in the order of their importance

human resource management the effective management of the formal relationship between the employer and employees

human resource manager coordinates all the activities involved in acquiring, developing, maintaining and terminating employees from a business's human resources

investment in training the direction of finances into the teaching of skills to employees

motivation the individual, internal process that directs, energises and sustains a person's behaviour

need a personal requirement

performance-related pay the monetary compensation provided to employees relative to how their performance is assessed according to set standards

productivity a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services)

sanction a form of penalty or discipline imposed on an employee for poor performance

support the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance



Resources



Digital doc: Key terms glossary (doc-29440)

3.12.3 Review questions

TEST your understanding

1. Devise your own definition of 'human resource management'.
2. Explain how human resource objectives and strategies are linked to overall business objectives.
3. Choose one motivational theory and explain how it could be used by a business to motivate staff.
4. Explain how an employer can use pay increases, bonuses and commissions to improve employee motivation.
5. How can share ownership plans, profit sharing and gainsharing be used to align business objectives with the personal objectives of employees?
6. Outline the key non-financial strategies that can be used to motivate employees.

APPLY your understanding

7. An accountant in a major accounting firm is often late to work, his productivity has decreased, and some clients have complained that he is slow to respond to their requests. As the human resource manager, how would you handle this situation? Apply a motivational theory that you think could be used to improve his performance.
8. Examine the advantages and disadvantages of each motivation strategy and describe the three most effective strategies that you would recommend a business use to maximise the motivation of its employees. Give reasons for your choices.

EXAM practice

9. Stacey is responsible for human resource management in a food processing factory in regional Victoria.
 - (a) Define the term 'human resources'. **(2 marks)**
 - (b) Outline how the management of employees can contribute to the achievement of the business objectives of the food processing factory. **(3 marks)**
10. Crompton's Cleaning Service is a domestic cleaning and housekeeping business owned by Cathy Crompton. It caters to the upper end of the market, charging higher fees but offering 'blue ribbon' service. Following a staff survey, it was found that some of the employees are lacking motivation. In addition, some customers have complained that their homes have not been cleaned to a standard they would expect for their higher fees.
 - (a) Propose and justify one motivation strategy that Cathy could use to improve the performance of her employees. **(4 marks)**
 - (b) Locke and Latham's Goal Setting Theory has been recommended to Cathy to motivate her employees. Examine whether this theory is appropriate for Crompton's Cleaning Service. **(6 marks)**
11. 'Motivated employees will always produce better results for a business than those lacking in motivation.' Discuss this statement, with particular reference to the use of Maslow's Hierarchy of Needs in motivating employees. **(6 marks)**
12. Harry wishes to use performance-related pay to help motivate his employees.
 - (a) Define the term 'performance-related pay'. **(2 marks)**
 - (b) Compare performance-related pay to one other motivation strategy. **(4 marks)**
13. Two strategies for providing motivation for employees include career advancement and investment in training.
 - (a) Evaluate the use of career advancement as a motivational strategy. **(4 marks)**
 - (b) Explain the effect of investment in training on short- and long-term employee motivation. **(4 marks)**



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Digital doc: Crossword (doc-29442)

Sit past VCAA exam

3.12.4 School-assessed coursework

OUTCOME 2

Explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees.

ASSESSMENT task — structured questions

Time allowed: 50 minutes

Marks allocated: 30 marks (The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Part of the furniture

You are the HR manager in a large furniture-manufacturing company. You have become concerned about the performance of two valuable employees.

Peter has worked in the company for many years and is on a relatively high salary due to his experience and skill development. He has been supervisor in his section of the factory for several years, but recently he seems to have lost some interest in his work, especially after being overlooked for promotion to the position of production manager three months ago.

Veronica is a single mother with young children. She works in the sales and marketing department of the business and is responsible for promoting new products to furniture retailers, and ensuring orders from retailers are filled promptly. She is scheduled to start work at 8.00 am, but is often late to arrive. She says she is unhappy with the poor pay she receives and is looking for a new job. She is a very good worker, who produces good results, is well liked in the company and has developed good relationships with many of the furniture retailers who sell the company's products.



Read the case study above, then answer the following questions.

1. Outline the relationship between managing employees and business objectives. **(2 marks)**
2. Explain what you think currently motivates each of the workers in the furniture company.
(2 + 2 = 4 marks)
3. Apply the key principles of one theory of motivation you have studied to the motivation of the employees at the furniture company. **(6 marks)**
4. Propose and justify two motivation strategies that could be used to improve the motivation of the employees at the furniture company. **(8 marks)**
5. Compare performance-related pay and investment in training. **(4 marks)**
6. Evaluate how either career advancement or support could be used to motivate the employees at the furniture company. **(6 marks)**

Resources



Digital doc: School-assessed coursework (doc-29443)

CHAPTER 4

Human resource management — managing employees and workplace relations

4.1 Overview

4.1.1 Why it is important

1-Stop is an Australian Information and Communications Technology company that produces solutions for businesses operating in the freight and logistics area. In particular, it supplies shipping and port operators with IT products that allow for improved efficiency in the movement of cargo and containers. The company has twice been recognised in the Australian Business Awards as an Employer of Choice, most recently in 2017. The company employs 77 people from a variety of different countries, and most of them have a high level of IT expertise. Because of ongoing change in the IT industry, employees are constantly in need of upgrading skills and undergoing training and professional development. The company encourages its employees to continually improve skills by offering both leave and financial support to those employees wishing to engage in further training. When employees and management discuss performance targets each year, training and performance management of the employee is a central part of those discussions. Improving and upgrading employee skills is an essential part of achieving the business objectives of remaining at the cutting edge of the freight and logistics support industry.

When you learn about the management of employees in this chapter, you will be studying how businesses train employees, manage the performance of employees and manage termination, as well as gaining an overview of workplace relations.



TRAINING AND RETAINING STAFF AT acQUIRE TECHNOLOGY SOLUTIONS

Perth-based acQuire Technology Solutions is an employee-owned company that provides a geoscientific information management system to companies operating in the mining and resources industry. It takes great pride in its processes of training staff and retaining them, with staff turnover a relatively low 4 per cent. It either hires geologists and trains them in the IT aspects of the business, or hires technologists with a background in IT, and then trains them in geology. Employees have their career path with the company planned three to five years in advance. Individual career needs and future succession planning are at the centre of these plans, and annual reviews help identify the next steps to be taken in each individual's career path. All employees have access to a training levy to help fund any professional or personal development that is seen to be appropriate in benefiting both the employee and the company.

Employees are encouraged to contribute suggestions for improvement and innovation through a computerised system known as 'Novedad' (Spanish for 'new ideas'). All ideas are assigned to an action officer, who has the responsibility for evaluating them and making recommendations to management. Novedad also provides a forum for other employees to have input into any new suggestions, often allowing for additional ideas to refine and improve the original concept. The company also makes use of a job satisfaction calculator to measure the level of employee satisfaction with their current role, and balance this with their anticipated career path. In completing this calculator, employees allocate 100 points across five employment categories, in terms of current position compared to their ideal job. Scores are discussed with mentors who work with the employee to take action where necessary.

The company has in place a number of strategies to support maximum use of employee skills, and to reinforce the strong desire to retain valued staff. Flexible working hours allow staff to come and go as they please. There are no time clocks as employees are trusted to put in the necessary time to complete their assigned duties. Staff are also able to work from home if they have a reliable internet connection. Profit sharing also forms part of the company's commitment to retaining staff, with eligible employees able to access shares in the company after three years of service.

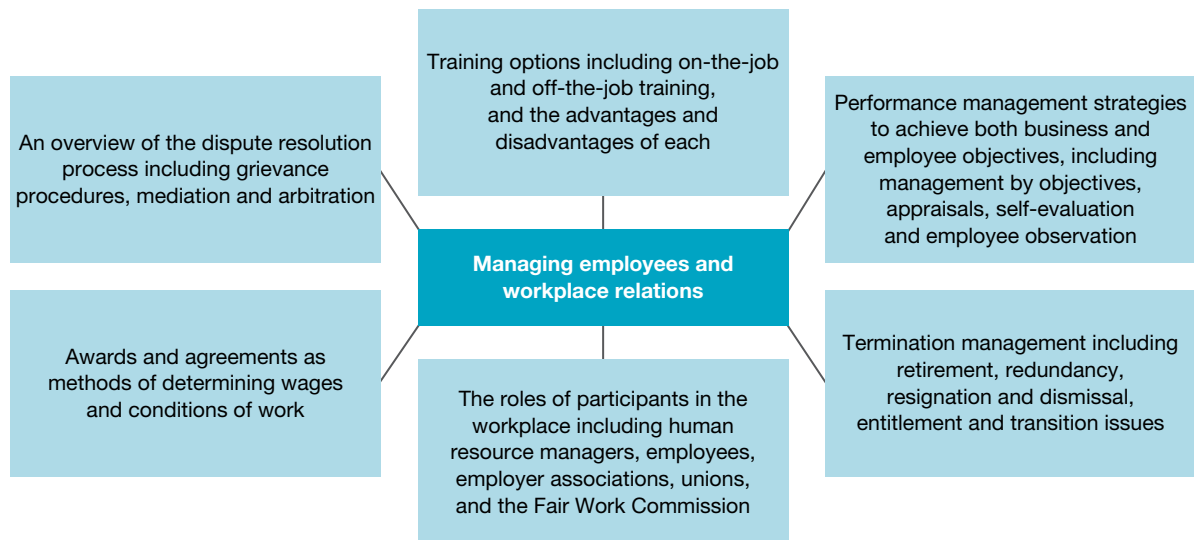
A high level of training is provided to all employees at acQuire Technology Solutions.



4.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.



Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management related to managing staff in a business
- Interpret, discuss and evaluate business information and ideas
- Apply knowledge about managing employees to practical and/or simulated business situations

- Examine and apply the key principles of the theories of motivation
- Compare and evaluate strategies used for motivation and training when managing a business
- Propose and justify strategies to manage employees effectively

Source: VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.

on Resources

 **Digital doc:** Key terms glossary (doc-29444)

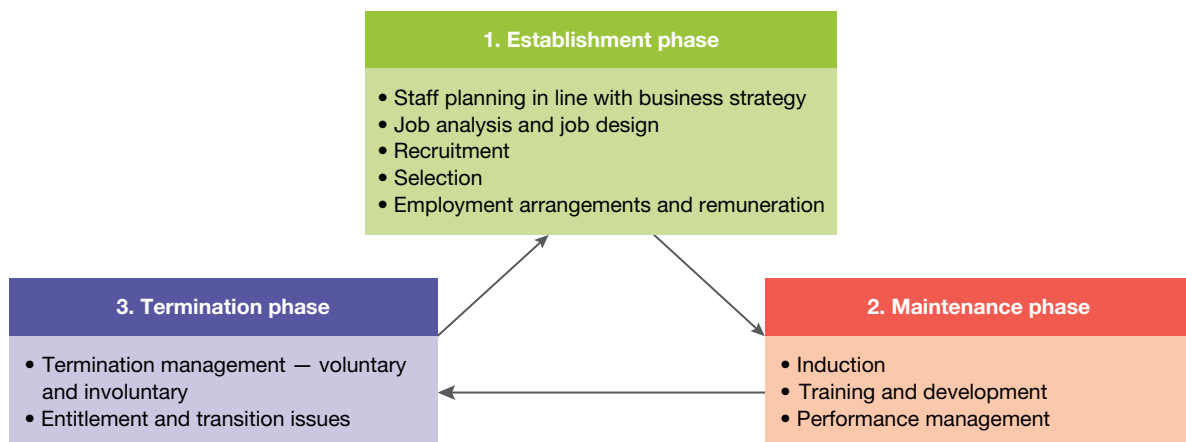
4.2 BACKGROUND KNOWLEDGE Overview of the employment cycle

BACKGROUND INFORMATION The employment of staff involves a three-stage cycle, consisting of the establishment phase, the maintenance phase and the termination phase.

4.2.1 The employment cycle

The employment cycle refers to the relationship between a business and its employees, from the initial decision to hire a new employee, until the time that employee eventually leaves the business. The three phases of the employment cycle are summarised in the diagram below. In Unit 3 we will look in detail at the training and performance management aspects of the maintenance phase, and at the termination phase.

The three phases of the employment cycle



The establishment phase

The establishment phase involves the planning of staffing needs, the recruitment and selection of staff, and the determination of employment arrangements and remuneration. These were covered in detail in Unit 2 of the Business Management course.

Planning

The staff planning process begins with the identification of staffing needs. This may involve increasing the number of employees who carry out existing functions within the business, or identifying new tasks that need

to be performed, and the particular skills that will be needed to perform those tasks. In either case a process of job analysis is carried out. This usually consists of two parts:

1. Job description: the duties, tasks and responsibilities associated with the job.
2. Job specification: the qualifications, skills and experience that an employee would need to have to carry out the job.

Recruitment

Recruitment is the process of attracting suitable applicants to the position, using advertisements, employment agencies and word of mouth. A business may choose to recruit externally, which involves bringing in a new employee from outside the business. Alternatively, it may choose to recruit internally, which usually involves transferring an existing employee into a new position, or promoting an existing employee into a position of greater responsibility.

Selection

This is the process by which the most suitable applicant is chosen to fill the position. It can involve all or any of the following:

- requiring applicants to provide detailed information on an application form
- carrying out interviews
- various forms of testing, including aptitude testing and psychological testing
- examining references and other background checks.

The applicants will then be ranked, with the highest ranked applicant offered the position. If that person does not accept the offer, the next highest ranked applicant can be approached.

Employment arrangements and remuneration

Employment arrangements can include ongoing permanent employment, casual employment or fixed-term employment for a designated period of time. **Remuneration** refers to the payments made to the employee. Most industries are governed by **Awards**, which establish a minimum set of wages and conditions for employees. Employers may choose to pay above this minimum and, as outlined in chapter 3, they may also build in a variety of additional financial incentives for employees.

The maintenance phase

This phase covers the period of time during which the employee actually works for the business. It involves induction, training and development, and performance management.

Induction

This is a process of acquainting the new employee with the business — its history, structures, objectives, culture, policies and practices. It also involves ensuring that the new employee has full knowledge of the tasks and responsibilities associated with their new job. If the new employee is to become a new member of an established team, it is important that the employee be given opportunities and time to get to know other members of that team. One or more existing team members may take on the responsibility of mentoring the new employee. This aspect of the maintenance phase was covered in Unit 2.

The induction period begins on the first day in a new job and will be completed within the first few days.



Training

On various occasions in the employee's time with a business, new processes may be introduced, or the employee's duties may otherwise change. Preparing employees for these changes will usually involve some training, to provide them with any new skills they may need. Staff training is covered in more detail in subtopic 4.3.

Performance management

All businesses seek to achieve their objectives by improving productivity, and getting the best value from employees. It is important to monitor the performance of all employees, and find ways of improving that performance over time. We have already seen how employee motivation can be a powerful driver of improved performance. Performance management strategies are dealt with in subtopic 4.5.

The termination phase

All employees will eventually leave the business. This phase involves managing the termination of the employment relationships and dealing with entitlement and transition issues. Subtopics 4.7 and 4.8 cover these issues in more detail.

Managing termination

The employment relationship may end voluntarily, when an employee retires at the end of their working life, or resigns, often to take up a position elsewhere. Departures of this nature will be managed differently from involuntary departure, such as when a position becomes redundant and the person in that job can no longer be retained; or in the case of dismissal, usually as a result of unsatisfactory job performance or unsatisfactory behaviour.

Entitlement and transition issues

An employee leaving a business may be entitled to the payment of outstanding benefits, such as accumulated annual leave, or long service leave. It is important that accurate records are kept to allow these benefits to be calculated and paid. In some cases of involuntary termination of employment, counselling and support for affected employees may be appropriate. This may include the provision of assistance to the departing employee to help them transition to a new job elsewhere.

4.2 Activities

TEST your understanding

1. Name the three phases of the employment cycle.
2. Explain the difference between a job description and a job specification.
3. Identify three possible methods of selecting the most suitable applicant to fill an employment position.
4. Explain why it is important to carry out an induction program with new employees.

APPLY your understanding

5. Peter has completed a degree in marketing and has gained employment with a real estate agency to manage their advertising, both through their website and through a section in the local newspaper.
 - (a) Describe an induction process that may help Peter settle into his new position.
 - (b) Following his induction, what additional training might be useful for Peter, and for his employer?
 - (c) Explain how a process of performance management could benefit both Peter and the real estate business.
6. Why might an employer need to manage a voluntary termination of employment differently from an involuntary termination? Make a list of the issues that might arise with each type of termination.

4.3 Training options

KEY CONCEPTS

- Giving a person the right knowledge and skills to perform their job effectively is what training is all about.
- Training options include on-the-job and off-the-job training, which both have advantages and disadvantages.

4.3.1 An introduction to training

Training is aimed at improving employees' skills and abilities — they are necessary for both personal and business growth. New employees may need training, depending on their level of experience, education and expertise. Existing employees also need training and development to continually upgrade their skills. **Training** is teaching staff to perform their job more productively. In addition, good quality training can also target a broader range of skills such as decision-making, planning and communicating. Employees receiving such training can be developed to take on leadership roles within the business. It is interesting to note that many employees expect their business to provide them with opportunities to grow and learn and ultimately improve their employability. Training benefits both the employee and the employer. These benefits are listed in the table below.

Importantly, a well-organised and well-presented training program develops and maintains a business's sustainable competitive advantage. Ongoing training for all employees is becoming critical due to rapid technological change and global competition — so critical that many businesses now promote the concept of a learning organisation. A learning organisation is aware of its actions and its environment and tries to improve its understanding of the relationship between the two. All employees are involved in developing knowledge and insights that allow the business to continually grow and improve.

Life is a continual learning curve — once you've finished VCE, you might go to university or start full-time work. In any case you will receive training to help you gain knowledge and learn skills to work productively.



Benefits of training	
Benefits for employees	Benefits for the business
Opportunity for promotion and self-improvement	Higher productivity through better job performance and more efficient use of human resources
Improved job satisfaction through better job performance	Goals and objectives more effectively met
A challenge — the chance to learn new things	Reduced costs due to less labour turnover and absenteeism, and fewer errors and accidents
Adaptability — greater ability to adapt to and cope with changes	A more capable, 'mobile' workforce

Technology creates the need for ongoing training

It is the task of the human resource manager to plan for the effective introduction of new technology. Training needs must be identified well in advance of any proposed technological implementation. This will ensure change happens at a pace consistent with the capabilities and expectations of the workforce. It also means human resource managers must constantly consider the skills required by the workforce in the future. The existing workforce must be trained and, if very rapid technological change demands it, retrained within a short time. While training of employees is often expensive, it cannot be ignored. Untrained employees will often resist new technology or not use it effectively.

Most major hospitals are integrating advanced technology into their operations and thus have required training for all employees.



DID YOU KNOW?

The Australian Government Department of Education and Training operates a program known as Australian Apprenticeships Ambassadors. The Ambassadors are all people who have successfully completed an apprenticeship, and many are available to speak about their experiences at functions or events, all promoting the advantages of job training. They include young people from a huge variety of trades, as well as high profile names such as AFL legend Kevin Sheedy, who originally trained as a plumber; Scott Cam, presenter of *The Block* on TV and a trained carpenter; and celebrity chef Neil Perry.

4.3.2 Training options

Employers have a number of different options available to them. Generally these fit into two categories: on-the-job training and off-the-job training.

On-the-job training

On-the-job training occurs when employees need to learn a specific set of skills to perform particular tasks in the workplace. This training usually occurs within the working environment, and uses the equipment, machinery and documents that are present in that workplace. It may occur while the employee is performing their regular duties, or it may occur at their regular workstation. Training may be provided by an experienced co-worker, or by a leader or manager with particular or specific expertise. Managers and leaders can ensure that the culture and strategies of the business are passed on to employees. Sometimes external providers are brought in to the business to provide training. This can apply when new equipment is being introduced, and the supplier of the equipment runs training sessions for employees who will be using the equipment. It can also apply when a business makes use of new software.

Advantages and disadvantages of on-the-job training

Advantages	Disadvantages
It is the most cost-effective alternative, as no travel expenses or other costs are incurred.	The quality of the trainer may vary — not everyone has the ability to teach others.
Employees are often actually working while training, so are more productive.	Bad habits of older staff may be passed on to younger employees.
Trainees use the actual equipment that is required to do the job.	The learning environment may be noisy, with distractions from other work activities.
Employees are in a familiar environment, with colleagues they are used to working with.	If real tools and equipment are used, it may disrupt production.
Immediate feedback from more experienced colleagues is available.	The trainer may have to leave their own duties to carry out the training.

Off-the-job training

The conduct of training away from the workplace is known as **off-the-job training**. It usually involves sending individuals or groups of employees to a particular specialised training institution. This may be a university or TAFE college, where employees can gain a recognised qualification that will assist them in performing more effectively and efficiently at work. It may be a specialist provider, with particular knowledge relevant to an industry, type of equipment or product. For example, the Institute of Chartered Accountants offers special courses in a range of financial issues for employees in the finance industry.

Advantages and disadvantages of off-the-job training

Advantages	Disadvantages
Availability of a wider range of skills and qualifications than those in the workplace	May be too theoretical without access to workplace tools or equipment
Outside experts and specialists can provide broader experiences.	More expensive, with fees charged, travel costs, etc.
Usually more structured and organised, with clear assessment processes	Lost working time while the employee is absent from the workplace
Can provide a formally recognised qualification for employees	Employees with an externally recognised qualification may be tempted to leave to find a better job.
Can be more intense without workplace distractions for both trainer and trainee	May not relate directly to the exact skills required in the workplace

EXAM TIPS

- The **Unit 3, Area of Study 2** outcome states that you need to ‘analyse and evaluate strategies related to the management of employees’. This suggests that you should know the advantages/strengths and disadvantages/limitations of on-the-job and off-the-job training. The task word ‘analyse’ will require you to identify the main features of each training option and then most likely how they relate to a situation in a business. The task word ‘evaluate’ generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why.
- The **Unit 3, Area of Study 2** key skills state that you need to ‘compare and evaluate strategies used for ... training when managing a business’. This suggests that as well as knowing the advantages/strengths and disadvantages/limitations of each training option (and being able to then provide an overall conclusion or judgement related to which argument is the more persuasive and why), you should also be able to comment on the similarities and differences between each strategy.

4.3.3 Training to develop employees

Development refers to the process of providing employees with better knowledge and skills as they gain more experience in their position in the business. A key role of training is to develop the skills that will allow employees to take on greater responsibilities in the future. In the early stages of an employee's career, the focus may be on gaining qualifications. As they move from one employment area to another, younger employees focus on experiencing a variety of roles to determine their interests and talents. Later, developing specialist or managerial competencies may become important as employees move into senior positions.

Programs aimed specifically at training effective managers may focus on the use of:

- *job rotation* — the employee experiences many different aspects of a business. For example, a manager may move from one section of the business to another, taking with them their management skills and applying them to a different situation.
- *mentoring* — a mentor acts a bit like a coach, supporting the employee as they learn. The employee is able to gain from the experience and skills of another person in the business.
- *formal business training* — this may be done through programs such as the Masters of Business Administration (MBA).

Closely related to developing staff is the concept of succession planning. Succession planning is ensuring that there are managers in the business who can step into senior management positions, if for some reason a vacancy occurs.

A mentor will pass on knowledge and skills to an employee, with the expectation that one day the employee will be ready to fulfil a more senior role.



DID YOU KNOW?

Training at the communications company Motorola is high on the agenda. Every Motorola employee must complete at least 40 hours of training a year.

4.3 Activities

TEST your understanding

1. Explain the purpose of training within a business.
2. Outline how training and development can benefit both the employee and the employer.
3. Outline why advances in technology create a need for the ongoing training of employees within a business.

APPLY your understanding

4. What are the benefits to a business of promoting a 'learning organisation' concept?
5. Use the **Succession planning** weblink in the Resources tab to define succession planning and state why many businesses undertake succession planning.

EXAM practice

6. Distinguish between on-the-job and off-the-job training. **(3 marks)**
7. Virginia has purchased new IT equipment to track the receipt, processing and despatch of orders for her online fashion business. She needs to train her employees to use this system.
 - (a) Discuss the use of on-the-job-training to achieve this. **(2 marks)**
 - (b) Discuss the use of off-the-job training in this case. **(2 marks)**
 - (c) Which method would you recommend, on-the-job or off-the-job training, in this situation? Provide a reason for your answer. **(3 marks)**

Resources

-  **Weblink:** Succession planning 1
-  **Weblink:** Succession planning 2

4.4 APPLY YOUR SKILLS Comparing and evaluating training strategies

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management related to managing staff in a business
- Interpret, discuss and evaluate business information and ideas
- Apply knowledge about managing employees to practical and/or simulated business situations
- Compare and evaluate strategies used for motivation and training when managing a business
- Propose and justify strategies to manage employees effectively

TIME OFF FOR THE BUSINESS OWNER

Many owners of small to medium businesses find that the running of the business is so dependent on their day-to-day presence that they can barely afford to be out of the office, let alone take time off for a holiday. Hector Henriquez runs a signage business called Visual Graphics, and he faced this problem as his business began to grow. He would find himself working for up to 15 hours per day, and unable to take any time off. His solution to the problem has included the following:

- Hiring multiskilled staff who can be trained to fulfil a number of different roles. By having an overlap of skills, the business does not grind to a halt when any particular employee is absent.
- Sharing knowledge, skills and experience among staff so that no-one has a monopoly on any particular skill or role within the business.
- Engaging staff who he has faith in and who he can trust to complete work without having to be constantly supervised.



- Producing instruction manuals that comprehensively cover all procedures operating within the business. This provides an important reference for all employees to complete tasks that might otherwise be unfamiliar to them.

As a result of this strategy, Hector has been able to take time away from the business, confident that everything continues to run without him.

Business owners such as Hector Henriquez often find that their business is growing and they need to implement a training strategy in order to be able to take time off from running the business.



TRAINING TO IMPROVE STAFF RETENTION

Leah Calnan joined the staff of Metro Property Management in 2000, and now owns the company. As the sole director, she employs a staff of 25 who manage and lease properties across metropolitan Melbourne. The real estate industry is notorious for high staff turnover, so Leah has used a variety of staff training and development strategies to retain a high percentage of her staff for much longer periods than the industry average. The key is staff training, particularly implementing a training program that allows employees to know what to expect each week, and to be able to regularly review their strengths and weaknesses. Much of the direction in staff training comes from the staff themselves, with employees contributing ideas at weekly and monthly staff meetings. Leah also believes in being very open with her team and ensuring they all know what is happening in the business. Adopting good ideas from across the industry and implementing good practice she sees operating in other businesses has also been key to maintaining a dynamic staff training environment.

FROM SECURITY GUARD TO CHEF

The Marriott Resort in Surfers Paradise employs over 350 workers during the peak season, with a number of these workers now reaching mature age. With a number of highly-skilled employees approaching retirement, the Marriott had to think about retaining valuable skills while ensuring career paths for some younger employees. One example was the impending retirement of the head Teppanyaki chef. It was important not to lose the skills and experience of this chef, so a retraining program was put in place. A mature-aged former security guard was given the opportunity to train as a Teppanyaki chef. He completed that training and was able to be assigned to that role before the head chef retired. A number of younger trainees were also taken on to train as Teppanyaki chefs. The newly trained former security guard was able to step into a senior role as Teppanyaki chef and the head chef was able to gradually reduce his hours in preparation for retirement without the Marriott losing all of that valuable skill and experience.

A mature-aged former security guard was able to retrain as a Teppanyaki chef.



4.4 Activities

TEST your skills

1. Define the term 'training'.
2. Describe one training strategy implemented by Hector Henriquez to assist him in being able to take time off from running his business.
3. Other than the opportunity for Hector to take time off from his business, what other benefits does Visual Graphics gain from the employment and training strategies utilised?
4. Explain why staff training and development was such a high priority for Leah Calnan at Metro Property Management.
5. Identify two strategies used by Leah Calnan to help her retain staff within her business.
6. What strategy did the Marriott use to deal with the impending retirement of its head Teppanyaki chef?

APPLY your skills

7. The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Compare on-the-job and off-the-job training.
8. The task word 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct, or to provide evidence to support your argument. Propose and justify two training options that Leah Calnan could use to help her retain staff at Metro Property Management.
9. The task word 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the use of on-the-job or off-the-job training for managing employees at the Marriott in Surfers Paradise.
10. Visual Graphics, Metro Property Management and the Marriott Resort in Surfers Paradise all used staff training to achieve different purposes. Identify and explain two issues that each of these businesses has in common in relation to their use of staff training.

4.5 Performance management strategies

KEY CONCEPT Just as a business will attempt to measure and evaluate the degree to which it is achieving its strategic objectives, it will also attempt to measure how well the performance of its employees is contributing to the achievement of those objectives.

4.5.1 Performance management

Performance management aims to improve both business and individual employee performance by relating the business's performance objectives to the employee's performance objectives. A business can utilise a number of different strategies to measure and evaluate the contribution each employee makes to achieving those objectives. These include performance appraisals, management by objectives, self-evaluation by employees and broader employee observation.

Performance appraisal

Performance appraisal is the formal assessment of how well an employee is performing their role in the business over a set period of time. It involves a number of purposes:

1. to provide feedback from management to employees regarding work performance
2. to act as a measurement against which promotion and pay rises can be determined
3. to help the business monitor its employee performance
4. to identify employees' training and development needs
5. to identify new objectives for employees and put a plan in place to improve future performance
6. to review employee objectives in line with the business's objectives.

Performance appraisal typically occurs at frequent intervals, such as every 12 months, every 6 months or every quarter. The performance appraisal process is usually set out in advance and normally matches the corporate culture of the business. It will often include an initial meeting, the arrangement of regular reviews, discussion between the manager and employee, determination of measurements or standards of performance, and agreement on plans for future development and improved performance including any benefits that may be attached. A performance appraisal can be formal or informal. Although many managers are uncomfortable with the idea of evaluating employees, effective performance appraisal is a crucial function of good management.

Performance management is about improving business and individual performance. If individuals are performing well, chances are the business should perform well too.



DID YOU KNOW?

The recruitment firm Hudson found that 42 per cent of Australian employers did not have a way of monitoring staff performance.

EXAM TIP

The **Unit 3, Area of Study 2** outcome states that you need to 'analyse and evaluate strategies related to the management of employees'. This suggests that you should know the advantages/strengths and disadvantages/limitations of performance management strategies, including management by objectives, appraisals, self-evaluation and employee observation. The task word 'analyse' will require you to identify the main features of each performance management strategy and then most likely how they relate to a situation in a business. The task word 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why.

4.5.2 Common methods of appraisal

Following are some of the commonly used techniques for carrying out appraisals.

- *Essay method.* A manager keeps a journal on each employee being appraised. Notes may be restricted to specific aspects of job performance, such as customer service, sales, personal presentation and cash register use.
- *Critical incident method.* This is similar to the essay method except that the manager records only exceptionally good or bad aspects of work performance.
- *Comparison method.* Each employee is ranked according to a list of predetermined performance criteria. This method often incorporates statistical values as a means of measurement. For example, a rating scale of 1 to 5 may be employed (1 being poor and 5 being excellent). This scale may be used to assess knowledge, speed, accuracy, communication, interpersonal skills, oral and written skills, personal presentation and administration techniques.

For performance appraisals to be effective, employees have to know what is expected of them, how their performance will be measured and feel confident that their efforts will be recognised.



No matter which appraisal technique is used, the results should be discussed with the employee as soon as possible. The manager should explain both the positive and the negative aspects of an employee's performance, encourage the employee to continue with his or her positive behaviour, and let the employee know what to do to be recognised as a more productive employee in the future. The manager will also be able to identify training needs for the employee so that he or she can improve in areas that may be lacking. Without this performance feedback, performance appraisals are a pointless exercise.

Performance appraisal facilitates communication and allows positive relationships to develop between management and employees. Feedback can help employees to improve their performance. However, the performance appraisal process can be time consuming, particularly if the cycle becomes shorter (such as monthly or weekly). Performance appraisal can be stressful for both managers and employees.

REGULAR FEEDBACK EQUALS SUCCESSFUL PERFORMANCE APPRAISAL

While the end of the financial year provides businesses with an opportunity to do a 'stocktake' on their financial performance, equally important, but often overlooked, are regular reviews of the team's performance.

It is often said employees are the most important asset. If this is accepted, it would also stand to reason that people leaders would also review the performance of their employees. . . .

Performance reviews [or appraisals] are a key aspect of keeping your team engaged and 'buying in' to what the business is trying to achieve. However, for some — both people leaders and employees — performance appraisals can be seen as a tiresome and difficult process, but it need not be.

When both parties know what is expected of them, a performance review should not contain any nasty surprises. However, lack of clear expectations is often where problems begin.

Most employees have a strong work ethic and want to do well . . . Notwithstanding, feedback from peers and people leaders is an important gauge for what an employee is doing well and what areas need development.

It is important to remember that feedback should not happen only at the end of the year in the form of an official performance appraisal. Feedback should happen regularly to ensure all parties are on the same page and any issues can be addressed quickly.

. . . this four step process of performance management has traditionally worked well for setting employees up to achieve the best possible results.

Step 1. Ensure expectations are clear, for no other reason than employees are typically more productive when they know what is expected of them and when. These expectations may be set on a weekly basis but also typically cover a longer term, say half yearly or yearly. Some employers fall into the trap of assuming that their staff know what is expected of them. As a people leader, it is your responsibility to be clear.

Step 2. Assess performance regularly. Some people leaders complete an annual performance review and think their job as a people leader is done. Of course, an annual performance review is important to discuss what has been achieved over the year, but performance should be assessed on a regular basis to make sure projects are on track, milestones are being met and any queries resolved. A monthly catch up is a good starting point, to review . . . not only what is being achieved, but also . . . how it is being achieved.

Step 3. Provide feedback on a regular basis. Ideally, you should not need a formal catch up to provide feedback, but it is imperative that feedback is provided when performance is assessed. Feedback should include recognition of the effort, improvements and achievements throughout the past month, quarter or year, which is an excellent motivator for many employees. This is also the time to provide constructive feedback for development areas. Providing constructive feedback to highlight and bridge performance gaps, if delivered in the right way, can be equally motivating, as most employees want to continually improve their knowledge and skills.

Step 4. Continuous development will keep employees engaged and will ultimately result in increased productivity. Development planning looks not only at what the employee needs to do to complete their current role, but also helps to up-skill them for their next role. Development means different things to different people, but typically encompasses learning new skills on the job, mentoring, new responsibilities or stretch targets and formal courses.

Source: Extracts from 'The benefits of performance reviews', www.probonoaustralia.com.au/news/2014/06/benefits-performance-reviews.



study on

Unit 3

AOS 2

Topic 5

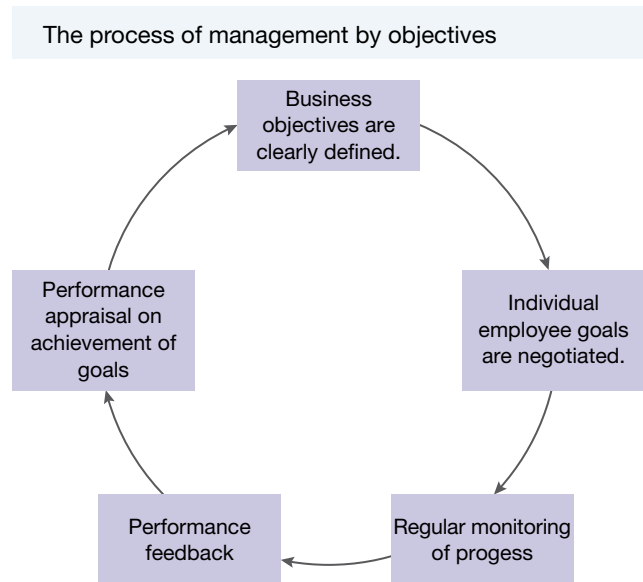
Concept 1

Management by objectives and appraisals Summary screen and practice questions

Management by objectives

One method of giving clear purpose to the process of performance appraisal is **management by objectives**. This concept was first popularised by Professor Peter Drucker of New York University in 1954, in his book *The Practice of Management*. It is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole. Included in the process are the means of measuring progress towards the achievement of these goals, as well as performance appraisals when goals have been achieved. Each employee should be aware of the objectives of the business, as well as their own responsibilities in achieving those objectives. The process can be summarised as shown in the diagram at right.

When employees have involvement in setting goals and choosing the course of action to be followed to achieve those goals, they are more likely to work productively and fulfill their responsibilities. The use of management by objectives means that both manager and employee know what is expected of them, reducing ambiguity and confusion in relation to roles. Management by objectives can highlight the area/s where an employee has training needs, which can lead to career development. It can also improve communication and result in employees being more aware of a business's objectives. However, management by objectives can be a costly and time-consuming process. The meetings and reports required can add to the responsibilities and burden of both management and employees. Management by objectives is not always useful for all types of employees.



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Unit 3 > AOS 2 > Topic 5 > Concept 3

Performance management to achieve business and employee objectives Summary screen and practice questions

Employee self-evaluation

Self-evaluation assumes that employees are able to assess their contribution to the business, their own strengths and weaknesses, and how they can improve their performance. This strategy involves employees carrying out a process of self-assessment, based on a set of agreed criteria. Employees would normally be expected to honestly ask themselves questions such as:

- What are my strengths?
- What are my weaknesses, and what can I do overcome them, or reduce their impact on my work performance?
- What could I have done better during the period under review?
- What initiatives can I take to become a better employee in the future?

Self-evaluation should also take into account an employee's career aspirations. He or she should be prepared to:

- examine their current role in the business
- consider how that role may change
- identify how greater responsibility and leadership could be taken on in the future.

Employee self-evaluation can also highlight the need for training, and allows employees to request training opportunities to assist them to improve work performance and productivity. Employees undertaking the self-evaluation process should be encouraged to keep documentary evidence of their achievements, as this helps provide a factual and measurable basis for that evaluation.

However, employees can often overstate their own performance when completing a self-evaluation, and management may need to take some responsibility for monitoring performance, documenting any weaknesses or strengths, and making efforts to correct poor performance. Some employees may feel ill-equipped to undertake a self-assessment.

study on

Unit 3

AOS 2

Topic 5

Concept 2

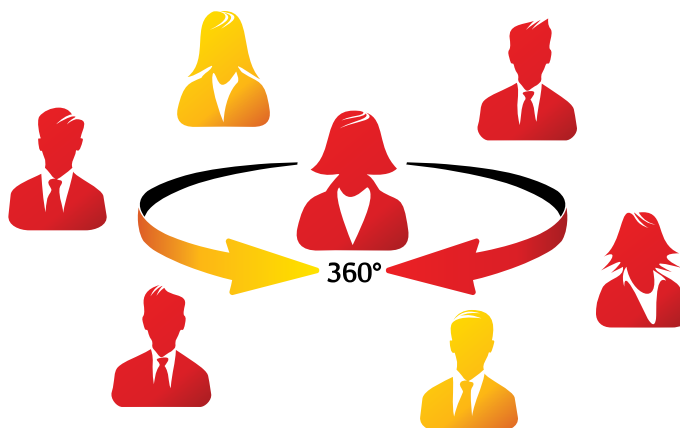
Self-evaluation and employee observation Summary screen and practice questions

Employee observation

Employee observation is used by managers to gain insights into the performance of employees. Often it is useful to seek a variety of opinions on the performance of employees. The aim is to get feedback from a variety of different parties in order to arrive at a more comprehensive picture of past and current performance. One common approach to utilising employee observation of performance is known as '360-degree feedback'. This is commonly used to evaluate the performance of managers and supervisors, but, depending on the corporate culture of a business, could be used with all employees. Feedback can be sought from subordinates, colleagues and superiors. For example,

a diverse group of people who work with an employee might complete confidential evaluations of the employee's performance. Other stakeholders including customers and suppliers may be involved in the 360-degree process. The idea is to identify strengths and weaknesses, and the broad range of observations from a variety of different sources can provide a comprehensive picture of employee performance. This process is very useful in evaluating skills such as leadership, teamwork and interpersonal abilities. It is not always as valuable in assessing technical skills, or the achievement of objectives, as these may not always be fully understood by every participant in the process. Further, employee observation will need to be applied in businesses with a high degree of trust. The process could be damaging if any one of the participants has a personal vendetta against the employee. The process can also be expensive and time consuming.

360-degree feedback relies on observations from fellow employees.



4.5 Activities

TEST your understanding

1. Distinguish between performance management and performance appraisal.
2. Read the 'Regular feedback equals successful performance appraisal' case study. What are the benefits of a regular informal catch up with employees?

3. How does the author of 'Regular feedback equals successful performance appraisal' believe performance appraisals can contribute to ongoing employee development?
4. Briefly outline two different methods of conducting a performance appraisal.
5. Describe each of the key steps in the process of management by objectives.
6. What are the two main advantages of employee self-evaluation?
7. Outline the process used in 360-degree feedback.

APPLY your understanding

8. Have you been asked to appraise your own learning or performance? Research how self-appraisal could be used as a part of a performance appraisal process.
9. Survey five people, asking them to respond to the following statements. Collate the results as a class and write a paragraph about what the survey has revealed about performance management.

		Yes	No
1	When appraising work, everyone should be given the same score.		
2	If the business as a whole has not made a profit, no employee should receive a bonus.		
3	Poor performers should be sifted out and sacked.		
4	Pay increases should be linked to good individual performance.		
5	A good rating in a performance review is more likely to reveal excellent self-promotion skills than anything else.		

EXAM practice

10. Define the term 'performance appraisal'. **(3 marks)**
11. Fatima is keen to introduce a staff performance management process into her restaurant. Explain how each of the following might operate in her workplace.
 - (a) Employee self-evaluation **(3 marks)**
 - (b) Management by objectives **(3 marks)**

4.6 EXTEND YOUR KNOWLEDGE Getting value from performance management

KEY CONCEPT Traditionally businesses have carried out performance appraisal as an annual process, with rewards such as pay rises determined by the annual performance review carried out by a manager or supervisor. In recent times, the major annual review has fallen out of favour, with greater emphasis on frequent and informal feedback.

GOODBYE ANNUAL PERFORMANCE REVIEW?

The annual performance review, by which employees are assessed against a number of performance indicators, may well have outlived its usefulness. A number of problems have been identified by psychologists and other researchers. These include the following:



- The review has often become little more than a tick-the-box exercise in many companies. In attempting to streamline and simplify the process, the original reason for having reviews has been lost.
- Employees will often react negatively to a low rating in their review and this can become a demotivating factor. This has often meant that managers have given higher ratings to avoid conflict, so the review becomes meaningless.
- Companies are often large social organisations where interpersonal relations are important. The supervisor or manager may also be a friend to some and not so close to others, and so a review may be influenced more by personal relationships than by an accurate assessment of an employee's skills or value the business.

Annual performance reviews have often been reduced to little more than a tick-the-box exercise.



Researchers have suggested that a more informal, less structured and continuous form of appraisal and feedback may be more appropriate. It is important that the work environment be non-threatening, with open communication among employees and between employees and management. Continuous feedback in a less formal environment is likely to have a bigger impact on employee performance than an annual review that is either feared by staff or dismissed as a waste of time. It is also important that the employees themselves continuously reflect on their own position within the organisation, and their own career development. Informal interaction among themselves, as well as with managers and supervisors, can assist with this.

DELOITTE GETS RID OF ANNUAL REVIEWS

Multinational accounting and business consulting firm Deloitte has scrapped annual performance reviews for its 6000 Australian staff, following a similar move for 10 000 of its US employees. The move has been led by Deloitte Australia's head of people and performance, Alec Bashinsky, who recently likened annual reviews to a drive-by shooting. 'You never know when you're going to get hit!' he commented. Like many in human resource management, and with expertise in the psychology of large organisations, Bashinsky believes the annual review is not just pointless, but can be a demotivating experience.

Deloitte is moving to a less formal, continuous appraisal and feedback approach. Employees will be given ongoing feedback, and coaching and mentoring where appropriate, with a view to promoting ongoing staff engagement and development. The starting point is a weekly 10-minute check-in with the manager or supervisor. This will often be initiated by the employee, who may have just finished a particular task or project and seeks to have a chat about it. Employees have embraced the new system enthusiastically, as the regular check-in provides immediate feedback, which is usually positive.

Bashinsky has pointed out that approximately 97 per cent of Deloitte employees are good at their job, with only 2 to 3 per cent underperforming. The old system was set up to identify those 2 or 3 per cent, and yet everyone was subjected to it. The new Deloitte process centres around weekly and monthly check-ins, quarterly surveys of 10 questions the manager sends out to employees, and regular talent reviews. There are no forms to fill in and the key factor is the continuous interaction between supervisor and employee.

4.6 Activities

TEST your understanding

1. Identify and explain two problems that have arisen with the use of annual reviews as a method of performance management.
2. What type of approach is considered to be preferable to annual reviews of employees?
3. Why did the head of people and performance at Deloitte describe annual reviews as being like a 'drive-by shooting'?
4. In addition to weekly 'check-ins', what other strategies has Deloitte put in place as part of its performance management strategy?

EXTEND your understanding

5. Why might a 'tick-the-box' activity have little value in appraising employee performance?
6. One of the issues identified as a problem with annual reviews is an unwillingness of some managers to rate some employees poorly for fear of demotivating them. Is this a real problem, or should managers be brutally honest with their employees? Discuss this issue in small groups and formulate arguments for and against the 'brutal honesty' approach.
7. The weekly 'check-in' at Deloitte can be initiated by the employee rather than the employer. Why is this a positive approach, and what benefits can both the employer and employee gain from such an approach? Discuss these issues in small groups and report your findings to the rest of the class.
8. In terms of your own experience at school, what have you valued most: immediate feedback from a teacher, or the end of term or mid-year report? Discuss in small groups which you believe has the greater motivating (or demotivating) effect on your performance. Are the classroom and workplace similar or completely different when it comes to performance feedback?

4.7 Termination management: retirement, resignation and redundancy

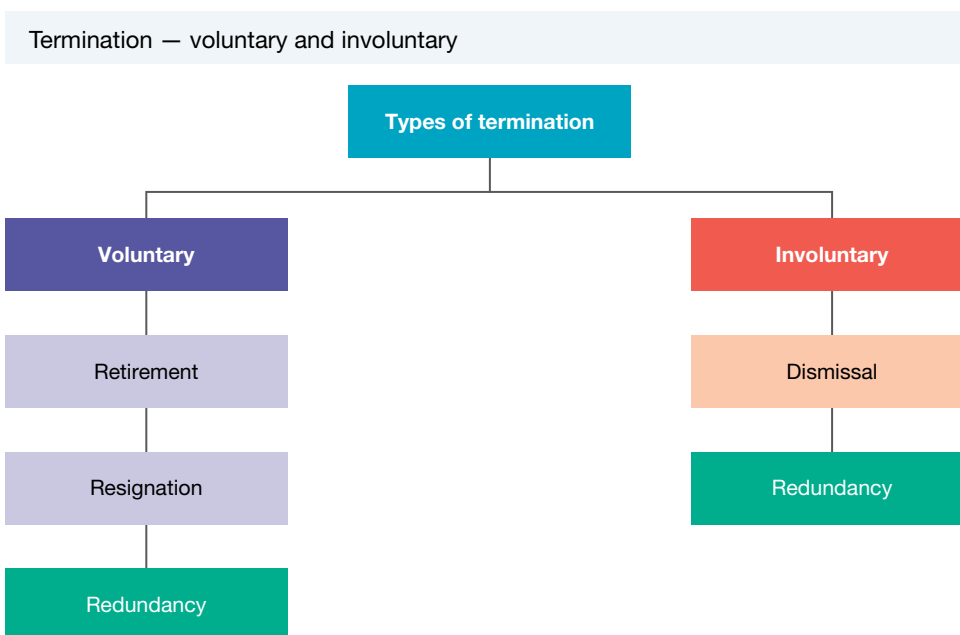
KEY CONCEPT The final stage in the employment cycle is the 'termination stage', in which workers leave the workplace on a voluntary or involuntary basis. This stage needs to be handled carefully and sensitively by the human resource manager.

4.7.1 Termination of employment and how it is managed

Gone are the days when a person would commence their full-time working life at the age of 16 or 17, work for approximately 45 years, and then retire. Work patterns and business operations have undergone radical change over the past two decades and this has dramatically altered the movement of people into and out of jobs. Due to increased international competition and changing work cultures and practices, many businesses — large, medium and small — have been forced to restructure. As a result, there has been a marked increase in the number of voluntary and involuntary redundancies being offered.

Termination of employment is when an employee leaves a particular workplace, ending the employment relationship. Termination of employment is usually managed by the human resource manager, who must ensure that the employee is treated both fairly and within the law.

There are many reasons why employees leave a business. However, it is possible to classify the different types of termination into two broad categories: voluntary and involuntary (shown in the following figure).



Retirement

Retirement is when an employee voluntarily leaves the workplace and the workforce. In Australia there is no mandatory age at which employees must retire. Until the mid 1980s, it was common for men to retire when they reached 65 years of age and women when they reached 60 years of age. A recent trend is for people to retire ‘early’ — that is, in their mid to late 50s. Many people now choose a gradual transition to retirement, often reducing their working days over a period of years. Some people retire as a result of losing their job and not being able to find new work.

The choice to retire normally depends on whether an employee can afford to. A person thinking about retirement will need to consider whether they have repaid their mortgage, amassed enough superannuation and if their retirement savings will fund their intended lifestyle. The way businesses have approached employee retirement has also changed. Today, many businesses provide advice and assistance to employees to help them prepare for retirement.

Early retirement allows people to enjoy a high quality of life for many years after their working life.



Resignation

Resignation, or ‘quitting’, is a voluntary ending of the employment relationship. People resign for a variety of reasons, including:

- the offer of a promotion with another business
- to start their own business
- boredom with their present job
- a change of lifestyle.

Usually, the employee needs to give the employer sufficient notice of his or her intention to resign. The length of notice varies from job to job, ranging from a few hours, for example, for casual employees to a month for some professionals. An employee’s award, employment contract or agreement will set out how much notice (if any) they have to give when they resign.

Whenever a business wants to downsize — that is, decrease the size of its operation — it will not fill vacancies that have come about due to retirements and resignations. This allows the size of the workforce to reduce through natural attrition (the gradual reduction of a workforce by employees leaving and not being replaced).

Redundancy — voluntary and involuntary

Redundancy occurs when the job a person does is no longer necessary, usually due to technological changes, restructuring or a merger or acquisition. Unless the existing employee can be redeployed (given another job or retrained for another job), he or she will be retrenched — this means the employee will lose their job and will not be offered another.

Redundancy can be either voluntary or involuntary. Voluntary redundancy occurs when employees are informed of the situation and given the opportunity to nominate themselves for voluntary redundancy. Involuntary redundancy occurs when an employee is asked to leave the business against his or her will because their job no longer exists. In this case, the employee is not at fault in any way; the decision to make the employee redundant is purely based on the ongoing needs of the business.

The human resource manager must be aware of the rights of an employee in relation to redundancy and retrenchment, and must follow correct procedures and the law. These procedures might include providing necessary information to the employee being made redundant or retrenched, a consultation process, time off leading up to the final day when the employee leaves, and organising redundancy pay (sometimes referred to as severance pay). The amount of redundancy pay will usually depend on how long the employee has been continuously employed in that workplace. Other entitlements, such as payment for accrued annual leave or long-service leave, may also be owing to the employee when they leave the business.

Ethical employers also take responsibility for assisting departing employees in finding new employment, particularly if the employee is leaving as a result of redundancy or retrenchment. Providing references and recommendations to other employers in the same industry can be of assistance to departing employees. Those being made redundant can also be given paid time off work to attend interviews with potential new employers.

An employee may leave a business for many reasons. If an employee is retrenched (laid off) or dismissed, it can lead to feelings of disappointment and rejection. Fear of not getting a replacement job and being able to pay the bills make termination difficult to bear for some people.



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Unit 3 > AOS 2 > Topic 6 > Concept 1

Retirement and resignation Summary screen and practice questions

Unit 3 > AOS 2 > Topic 6 > Concept 2

Redundancy and dismissal Summary screen and practice questions

4.7 Activities

TEST your understanding

1. Explain the difference between voluntary and involuntary termination of employment, and give an example of each.
2. In what ways has the process of retirement changed in recent years?

3. Outline two reasons why a person may decide to resign from their current employment.
4. How can a business use the resignation or retirement of employees as a means of downsizing its workforce?
5. Explain what redundancy is.

APPLY your understanding

6. Rather than retire completely from work, many people now transition to retirement by gradually reducing their hours and working part-time before giving up work completely. Outline two advantages for a business and two advantages for the employee of allowing such a process to occur.
7. Following the introduction of new equipment, Ace Engineering Pty Ltd has found that it only needs to retain four of its team of eight machine operators, so four positions are now redundant. Outline a process that the management could follow that would be fair to all affected employees.

EXAM practice

8. Define the term 'redundancy'. **(1 mark)**
9. Distinguish between retirement and resignation. **(4 marks)**

4.8 Termination management: dismissal, entitlement and transition issues

KEY CONCEPT A common form of involuntary termination is dismissal. This needs to be handled carefully as employees have a number of legal entitlements that need to be observed. Termination management involves a number of entitlement and transition issues.

4.8.1 Dismissal

There will be occasions when the behaviour of an employee is unacceptable and it then becomes necessary for a business to terminate the employment contract of that employee. This is called **dismissal**. The most serious form of dismissal is summary dismissal — when an employee commits a serious breach of their employment contract. For example, an employee who is drunk at work or is found to have engaged in criminal activity may be summarily dismissed. If an employee is given a summary dismissal, no notice is required. Another form of dismissal is referred to as dismissal on notice, when an employee is not performing the job satisfactorily. Poor performance may be identified during an appraisal or performance process. The amount of notice (or payment given in lieu of notice) will vary depending on a number of factors, such as whether the employee is governed by a particular Award or contract, the age of the employee and how long they have worked for the employer on a continuous basis. Selecting staff for dismissal can be risky and requires awareness of legislation and industrial agreements to avoid litigation and industrial action.

Unfair dismissal occurs when an employer dismisses an employee for discriminatory reasons. This is an issue that both employers and human resource managers need to be aware of. Some examples of discrimination under Commonwealth workplace relations laws include dismissal because of:

- absence from work due to illness or injury
- either belonging or not belonging to a trade union
- race, colour, sex, sexual preference, age, disability, marital status, family responsibilities, pregnancy, religion, political opinions held, or nationality.

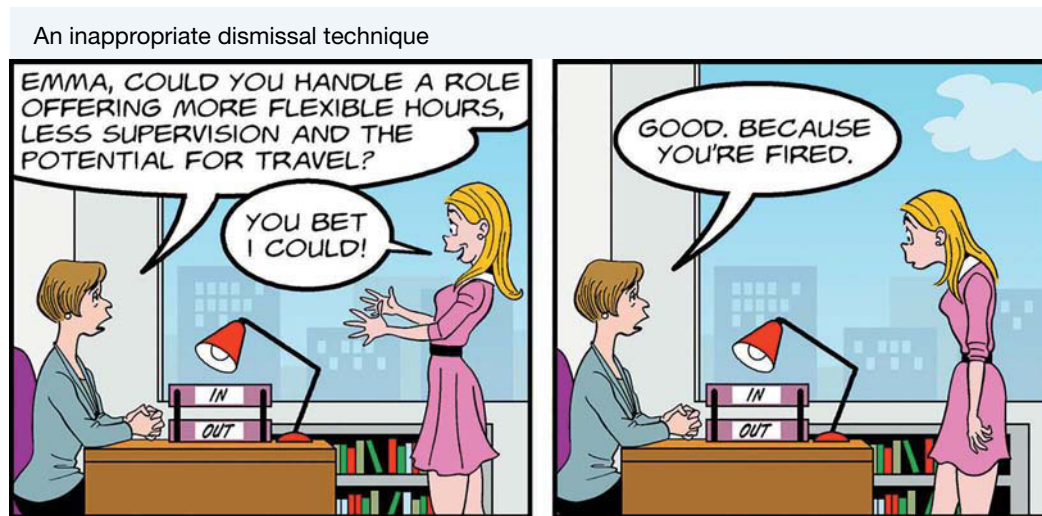
An employee who believes they have been unfairly dismissed may lodge an unfair dismissal claim with an industrial tribunal, such as the Fair Work Commission.

More businesses are recognising that managers need to be trained to handle dismissals in a way that:

- takes account of the legal and financial implications
- minimises the trauma for both parties
- does not have adverse effects on the morale of the remaining staff.

DID YOU KNOW?

- An employment contract is legally binding. Therefore, employers must terminate the contract in a legally compliant manner. Gone are the days when a boss can simply shout: 'You're fired!' on a whim.
- Many colloquialisms are used to describe involuntary termination: 'given the bullet', 'shown the front door', 'fired', 'booted out', 'told to pick up my pay and go', 'no longer required' and 'given an offer I couldn't refuse'. They all have one feature in common: the business requests that the employee leaves the business.



4.8.2 Entitlement issues

At the time of leaving the business, whether through retirement, resignation, redundancy or dismissal, the employee will have a number of rights to certain benefits (or entitlements). In general, these entitlements are required by law. **Entitlement issues** can include any wages or salary owing, as well as leave entitlements such as accrued annual leave and long-service leave. These leave entitlements will usually be paid out at the employee's normal rate of pay. In the case of an employee being made redundant, a redundancy payment may also be included in that employee's entitlements. This will usually be calculated on a pro rata basis, determined by the number of years of service. Allowing four weeks of pay for every year of service is an example of this. Further, employees who have been made redundant or dismissed must be given notice of their termination.

4.8.3 Transition issues

When an employee leaves the business, whether through retirement, resignation, redundancy or dismissal, managers must consider the issues that relate to the process that the employee will go through in changing from one job to another, or from one set of circumstances to another. These issues or considerations are referred to as **transition issues**. As mentioned in subtopic 4.7, an employer will often provide advice and support to the employee leaving the business. It is important to note that the advice and support provided to employees arising as transition issues are generally offered above and beyond the requirements of the law. Businesses that decide to provide such services choose to do so to assist their employees to move forward in a positive manner. In this way, the business is acting responsibly.

In the case of retirement, the transition issues that may be considered involve a gradual reduction in days worked over a period of time to allow the employee to make a smooth transition to retirement. The transition may also involve counselling and support on issues such as superannuation and government pension entitlements. Advice and assistance regarding income planning and future lifestyle choices might be provided. When an employee has been made redundant, the employer may provide assistance in the form of help with writing job applications for other positions, the provision of references for potential employers, as well as time off to attend job interviews. Employees who have been made redundant, or those who have been dismissed, may also require exit interviews or counselling before they leave the workplace.

Many responsible businesses ensure that employees are provided with outplacement services — assistance given to employees who are exiting the business (voluntarily or involuntarily). An external organisation will typically provide the outplacement services, paid for by the business. Outplacement services may be completed one-to-one or in groups depending on the needs of the business and/or employees. The services will usually consist of helping employees to transition to a new job or career, and may include:

- job interview training
- career coaching
- assistance with improving resumes
- career counselling.

EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'propose and justify strategies to manage employees effectively'. The task word 'propose' suggests that you should put forward a termination management strategy (retirement, redundancy, resignation, dismissal, an entitlement issue or a transition issue) for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the termination management strategy as well as explain a little about it. The task word 'justify' requires you to show how the termination management strategy you have selected is the best choice or to provide evidence to support your argument.

study on

Unit 3 > AOS 2 > Topic 6 > Concept 3

Entitlement and transition issues Summary screen and practice questions

4.8 Activities

TEST your understanding

1. Which of the following scenarios would be most likely to lead to summary dismissal?
 - (a) John bribes another employee not to tell his manager that he had been accessing pornographic websites during office hours.
 - (b) Peter arrives for work drunk. He has just been out to see a client, driving a company car. It is the third time this week he has arrived in such a condition.
 - (c) Jane is just not very good at her job. She frequently makes mistakes and does not have the knowledge or skills to perform the job satisfactorily.
2. In which situations would a dismissal be considered unfair?
3. Explain the entitlements that may be owed to an employee who has been made redundant. How can a business assist that employee to find alternative employment?

APPLY your understanding

4. Termination management is about managing the final phase of the employment cycle, when the employee leaves. Give a general outline of the issues a human resource manager must be aware of when dismissing an employee.
5. Outline the difference between summary dismissal and dismissal on notice, and provide an example of each.
6. Use the **Termination of employment** weblink in the Resources tab to summarise the latest employee rights and rules that apply to termination of employment.

EXAM practice

7. Define the term 'dismissal'. **(1 mark)**
8. Using examples, distinguish between entitlement and transition issues. **(4 marks)**
9. Josh has had 15 sick days off work in the past three months. He phones in sick again on a day when the business is under pressure to meet some large orders and needs everyone available. Thomasia, his boss, is also aware that Josh was recently caught stealing money from another employee in the workplace. Propose and justify a termination management strategy to deal with this situation. **(4 marks)**

Resources

 **Weblink:** Termination of employment

4.9 Workplace relations: participants in the internal environment

KEY CONCEPT The key workplace relations participants in the internal environment of a business are the employer and the employees. Human resource managers form the key link between these two groups.

4.9.1 Workplace relations

Workplace relations refers to the interaction between employers and employees, or their representatives, to achieve a set of working conditions that will meet the needs of employees as well as allowing the business to achieve its strategic, tactical and operational objectives. It encompasses the total relationship between employers (and their representatives) and employees (and their representatives) in regard to the establishment of conditions of employment such as levels of pay, working hours, duties, responsibilities and entitlements. Workplace relations also involves the resolution of disputes between employers and employees. It is understood that legitimate differences may exist in workplaces, but the aim is to reduce conflict through effective procedures and relationships.

DID YOU KNOW?

The proportion of employees who are trade union members has dropped to around 16 per cent according to Australian Bureau of Statistics figures. Over 38 per cent of government employees are members of a union, while only 10 per cent of private sector employees are union members. Over two-thirds of union members have been members for more than five years, while only 11 per cent had been union members for less than 12 months.

4.9.2 Employers

In a small or medium business, workplace relations issues are among the many responsibilities that will be handled by the business owner as the employer. With a larger business employing greater numbers, responsibility for workplace relations matters will often become the responsibility of a human resource manager and an entire human resources department. Employers and human resource managers handle workplace relations issues on a daily basis, including their involvement in developing programs that focus on improving business performance. Many large businesses will employ one or more workplace relations specialists within their human resource management departments. Such specialists are particularly valuable as the legal responsibilities of business in relation to workplace relations matters have become more complex.

4.9.3 Employees

Employees today are, on average, more highly educated than in the past. They demand more challenging, interesting work, greater involvement in decision-making processes and autonomy in their workplace. The increasing practice of negotiating employment agreements at the workplace level means that employees will be more closely engaged in the process of developing new or changed agreements. This may happen if they are required to negotiate individual employment conditions directly with the employer. Alternatively, they may be called on to vote to approve a new agreement that has been negotiated on behalf of all employees in that workplace by a representative organisation, such as a union (a collective agreement). In either case, employers are likely to want improved productivity, or the achievement of specified objectives, in return for improved wages or conditions, so the process may involve employees having to modify existing work practices to achieve those objectives.



DID YOU KNOW?

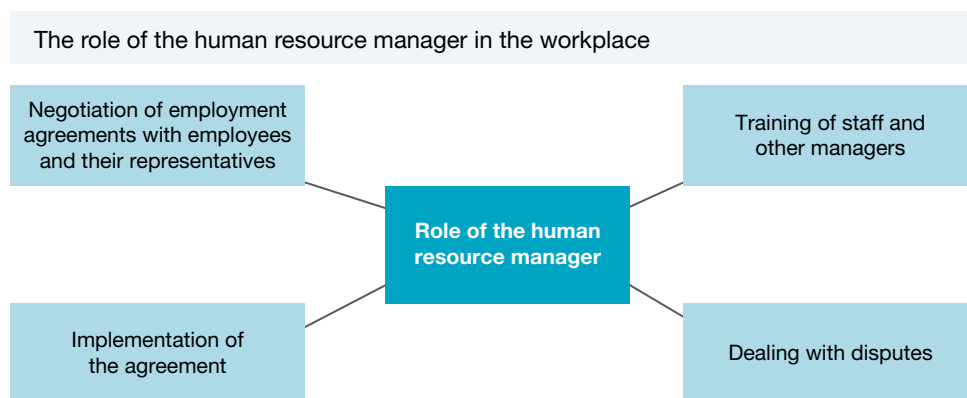
Negotiating agreements at the workplace level where workers collectively bargain for better working conditions with their employer is one way of improving working conditions, and can mean that both the employer and employee 'win'. Often employees negotiate to improve productivity in some way in order to get better working conditions.

4.9.4 Human resource managers

The role of human resource managers in the workplace relations environment includes:

- negotiating employment agreements with employees and their representatives
- training other managers and supervisors to facilitate the implementation of agreements within their areas of responsibility
- ensuring the implementation of all key terms of agreements
- dealing with disputes and conflict that may arise during the life of an agreement.

The manner in which the role of the human resource manager will be performed is determined by the corporate culture, vision and objectives, and dominant management style of the business. The degree to which employees are valued by management, the level of employee participation in decision-making and the importance of using non-monetary motivational approaches will all influence the manner in which the human resource manager approaches the development of enterprise agreements. The degree to which the business adopts ethical and socially responsible management practices will also have an impact on the way these agreements are negotiated and implemented.



Negotiating employment agreements

The role of negotiating workplace agreements with employees and their representatives will often fall to the human resource manager and specialist workplace relations managers within the HR department. In order to carry out this task, the relevant managers need to be aware of all legal issues, Awards, and National Employment Standards (see subtopic 4.11), so that any negotiated agreement satisfies all of these requirements. They will need to keep in mind the overall objectives of the business, to ensure that any agreement is consistent with those objectives. Strong interpersonal skills are necessary to achieve an outcome that is fair and reasonable to all parties.

Training other managers and supervisors

Other managers and supervisors need to be fully informed of the details of any agreement to ensure that processes for achieving productivity improvements are put into operation. Monitoring processes with appropriate key performance indicators (KPIs) is necessary to track the success of changes in work practices. Production managers, operations managers and supervisors will be responsible for day-to-day implementation of these aspects of the agreement.

Other managers must be made aware of changes in work practices, and assisted to set up monitoring procedures.



Implementing agreements

Changes to wages, hours of work, leave entitlements and flexibility arrangements will be handled by human resource managers. They also have responsibility for preparing and distributing the legally required Fair Work Information Statement. Assisting other managers in preparing performance indicators to measure productivity improvements and seeking regular feedback on the operation of the agreement are other parts of the human resource manager's role.

Dealing with disputes and conflict

Human resource managers are central to managing the resolution of disputes that may arise under an enterprise agreement. This is discussed in detail in subtopic 4.13.

study on

Unit 3

AOS 2

Topic 7

Concept 1

Human resource managers and employer associations Summary screen and practice questions

4.9 Activities

TEST your understanding

1. Why would a business use the services of employee relations specialists within its human resource management department?
2. Identify and explain two ways in which employees might be directly involved in the employee relations processes at their workplace.
3. Outline the role of human resource managers in the workplace.
4. What would be the benefits of providing a business's financial reports to employee representatives during the negotiation process?
5. What role will a human resource manager have in:
 - (a) the negotiation of an employment agreement
 - (b) the implementation of an employment agreement?

APPLY your understanding

6. Hannelore Wuth is the Human Resource Manager for Delite Cakes and Pastries, which has a factory supplying supermarkets throughout Victoria. The current employment agreement with employees is due to expire in three months. Hannelore is new to the company and was not involved in negotiating the current agreement.

- (a) Identify and explain the key issues Hannelore needs to be aware of before she begins the process of negotiating a new agreement.
 - (b) What are the three most important issues that she needs to keep in mind during the negotiation process?
7. Use the internet to research possible sources of information from outside the business that could assist in the development of an employment agreement.
 8. Use the internet to research the ways in which management might be able to determine the success of an employment agreement.

EXAM practice

9. Define the term 'employee' and explain their role as a participant in the workplace. **(3 marks)**
10. Describe the role of a human resources manager in the performance of each of the following workplace functions.
 - Negotiation of agreements **(2 marks)**
 - Training of staff and other managers **(2 marks)**
 - Implementing agreements **(2 marks)**
 - Resolving disputes **(2 marks)**

4.10 Workplace relations: participants in the external environment

KEY CONCEPT In dealing with workplace relations issues, businesses have to be aware of the influence of external organisations that can affect decisions made at the business level.

External organisations within both the operating and macro environments can have an impact on workplace relations decisions within a business.

4.10.1 Participants in the operating environment

Trade unions

Trade unions that have members employed by a business will have a direct stake in the employee relations processes of that business. They will often be called to represent their members in the development of new or changed employee agreements, with the aim of getting the best possible deal for the employees. Another role is to work with management to help resolve workplace issues, acting as an advocate for employees. Unions will also investigate suspected breaches of workplace laws, discrimination laws or workplace safety laws.

Historically, the centralised industrial relations system in Australia gave unions a powerful role in employee relations. Working conditions were often determined for entire industries, rather than for individual businesses, and this provided unions with an official bargaining position in the making of industrial agreements. Through test cases, unions won major improvements in terms and conditions of employment. These established key principles that flowed on to other workers. Union membership, as a proportion of the total workforce, has been falling in recent years. In 1986, 46 per cent of employees were union members. By 2017, the proportion of employees who were union members had declined to 15.6 per cent of the total workforce. This figure is boosted by the fact that 38.5 per cent of government employees are union members while only 10.1 per cent of private-sector employees belong to a union. The typical image many of the public may have of unionists is that of militant construction workers, but in fact only 9.4 per cent of construction workers

are members of the CFMEU. Data from the Australian Bureau of Statistics suggests that more union members identify as having ‘managerial’ or ‘professional’ occupations than all the trade and technical workers, sales workers, machinery operators or drivers, and labourers combined.

Employer associations

Employer associations were originally created by employers in response to employee membership of unions, to represent employers in the making of Awards through the centralised employee relations system. Just as unions originally represented employees in particular trades or industries, employer organisations represented employers in those industries. Organisations such as the Master Builders Association, the Australian Retailers Association and the Australian Mines and Metals Association represent the interests of employers in those industries. Over the years they have assisted employers in formulating policies and processing **logs of claims** served on their members by unions.

Since the late 1980s, legislative changes decentralising employee relations processes have placed greater emphasis on the negotiation of working conditions at the individual workplace level. Employer associations have taken on the responsibility of keeping their members informed of the implications of these legislative changes, and assisting their members to negotiate workplace agreements that are consistent with the legislation.



DID YOU KNOW?

Employer associations are more likely to be involved in unionised workplaces, and in mining, manufacturing, wholesaling, health and community services sectors.

4.10.2 Participants in the macro environment

Employers and employees, and their unions and employer associations, will be influenced by government policies and legislation as well as the policies and activities of peak employee and employer organisations.

Peak union bodies

Most unions are also affiliated with state bodies such as the Victorian Trades Hall Council, and federal bodies such as the Australian Council of Trade Unions (ACTU). The ACTU formulates and coordinates national union policies, and represents the union movement in courts and tribunals and in dealings with government and other organisations. The ACTU often assists in the settlement of disputes, particularly those involving large companies, or those in which a dispute in one business is likely to have an impact on other related businesses. It also campaigns politically on behalf of unions and their members.



The union movement sometimes conducts campaigns on issues that affect its members.



Peak employer bodies

Most employer organisations are affiliated with peak bodies such as the Australian Chamber of Commerce and Industry (ACCI). These bodies perform a similar role for employers to that performed for unions by the peak union organisations at the state and federal level.

DID YOU KNOW?

The peak trade union body is the Australian Council of Trade Unions (ACTU). Some of the larger unions include:

- Australian Services Union (ASU), which includes a wide field of employees such as airline staff; service technicians; call centre staff; transport, social and community service workers; and local government workers
- Australian Workers' Union (AWU), which includes workers in many fields such as agriculture, building construction, engineering, the gas industry, the metal industry, oil refineries and security companies
- Australian Manufacturing Workers Union (AMWU)
- Construction, Forestry, Mining and Energy Union (CFMEU)
- Finance Sector Union (FSU)
- Maritime Union of Australia (MUA)
- Transport Workers Union (TWU)
- Community and Public Sector Union (CPSU).

study on

Unit 3

AOS 2

Topic 7

Concept 2

Employees, unions Summary screen and practice questions

4.10.3 Governments and government organisations

Governments have five key roles in employee relations processes:

1. *Legislator.* State and federal parliaments pass laws that provide the legal framework for employee relations. The Commonwealth *Fair Work Act 2009* is the major legislation governing the operation of employee relations in Australia.
2. *Employer.* Federal and state governments employ almost one-third of Australian workers, as teachers, nurses, clerks, police officers, postal workers, transport workers and in other roles.
3. *Economic manager.* Governments are concerned to ensure that wages costs do not lead to inflationary pressure in the economy.
4. *Administrator of government policies on employee relations.* Governments implement legislation by publishing information and guidelines, and providing advice to employers, employees and their representatives (see the 'Did you know?' feature on the next page).
5. *Representative of Australia in the international arena.* Australia is a foundation member of the International Labour Organization and has been represented on its governing body.

The Fair Work Commission

Governments over the years have also set up various bodies to deal with the resolution of industrial disputes, and to act as an independent umpire in setting minimum wages and employment standards. The current body is known as the **Fair Work Commission** (FWC). The Fair Work Commission is Australia's national workplace tribunal that has the power to carry out a range of functions under the *Fair Work Act*. The FWC is responsible for making and varying awards in the national workplace relations system. It approves agreements reached between employers and employees at the enterprise level, ensuring all parties comply with those agreements. The FWC can also:

- help parties to resolve workplace disputes when no agreement can be reached through conciliation, mediation and arbitration
- deal with applications in relation to unfair dismissal
- administer the regulation of industrial action
- review and set a minimum wage level for the lowest paid workers through its Minimum Wages Panel (MWP).

More information about the role and functions of the FWC can be found in subtopics 4.11, 4.12 and 4.13.

The FWC does not investigate claims involving underpayment of wages and entitlements. It also does not act for one party against another. The Fair Work Ombudsman carries out investigations and provides advice about underpayment of wages and entitlements. The Office of the Fair Work Ombudsman promotes compliance with the legislation through education, information and assistance. It also appoints Fair Work Inspectors to monitor compliance with the legislation and take enforcement action through the courts if necessary.

In 2018, the Fair Work Commission lifted the national minimum wage by 3.5 per cent to \$719.20 per week. Employer groups criticised the decision, suggesting that the increase was too great and that it would stifle growth in jobs. Unions were also not happy with the decision, arguing that the rise would do nothing to help people who are living in poverty.



DID YOU KNOW?

The federal department responsible for industrial relations is currently the Department of Jobs and Small Business. This department:

- represents the government in national wage cases before the Minimum Wages Panel of the Fair Work Commission, and in other cases before the Fair Work Division of the Federal Court
- conducts research and disseminates information
- provides advice
- promotes good industrial relations practices
- investigates breaches of Awards and certified agreements.

studyon

Unit 3

AOS 2

Topic 7

Concept 3

The Fair Work Commission Summary screen and practice questions

4.10 Activities

TEST your understanding

1. Why were employer associations originally created?
2. What functions are performed by the peak employer and employee organisations?
3. List and briefly explain the five key roles played by government in employee relations.
4. What is the role of the Fair Work Commission in the employee relations system?

APPLY your understanding

5. Amalgamated Printing and Containers (APC) Ltd is a printing company that produces cardboard packaging and containers for a number of different manufacturers. The current employment agreement is due to expire in six months, and the company now needs to enter negotiations to develop a new agreement with its employees. Most of the employees are members of the Australian Manufacturing Workers Union, and members are prepared to strike to gain improvements in their working conditions. Other companies that rely on APC Ltd to provide their packaging would be seriously affected by any such action.
 - (a) Outline the role each of the following could have in the development of the new agreement.
 - Australian Manufacturing Workers Union
 - Printing Industries Association of Australia (employer organisation)
 - (b) Under what circumstances might either a peak union body or a peak employer body become involved in the process?

EXAM practice

6. Explain the role of trade unions in workplace relations. **(2 marks)**
7. A major participant in workplace relations is the Fair Work Commission.
 - (a) Describe what the Fair Work Commission is. **(2 marks)**
 - (b) Explain the role of the Fair Work Commission in workplace relations. **(2 marks)**

4.11 Awards and agreements

KEY CONCEPT In the past, employment conditions were determined by sets of rules known as Awards. Awards now provide only a safety net of minimum conditions, while collective and individual agreements provide the opportunity for employees to gain improved pay and conditions in return for improvements in productivity.

4.11.1 Industry-wide Awards

Historically most employees in Australia have had their wages and working conditions set by Awards. These were usually established by industrial tribunals following submissions from unions and employer organisations. Since the early 1990s, there has been greater emphasis on **collective bargaining** between employers and employees, leading to the growth in agreements between the employers and employees within a particular enterprise. The significance of industry-wide Awards today is that they provide a set of minimum employment standards for employees working within an industry. In most cases, however, the process of enterprise bargaining has provided the opportunity for employees to gain employment conditions that improve on these minimum standards. In practical terms, this means that Awards still apply in businesses that have developed an agreement at enterprise level, to the extent that they are the test of the agreement made — an agreement cannot provide conditions that would make employees worse off than an Award. However, an Award would still apply to any businesses in the same industry that have not developed such an agreement.

Award modernisation

Under the *Workplace Relations Amendment (Transition to Forward with Fairness) Act 2008* a process was set in place to modernise all Awards, removing inconsistencies and amalgamating overlapping Awards that previously covered different parts of an industry. In carrying out this process, a consultation structure was set up to gain assistance and input from relevant unions and employer associations. The process commenced in April 2008. By the end of 2009, the Fair Work Commission had reviewed more than 1500 Awards, and created 122 industry and occupation Awards. These Awards came into effect on 1 January 2010, but most of the Awards include transitional provisions to phase in changes in wages, loadings and penalties over a five-year period. The aim of the process was to reduce the number of Awards to cover just over 100 industries.

What do Awards include?

Modern Awards combine with the 10 National Employment Standards to provide the safety net of basic employment conditions for all employees. The table below summarises the National Employment Standards and the matters included in modern Awards.

All modern Awards that came into effect on 1 January 2010 are to be reviewed by the Fair Work Commission every four years, a process that occurred in 2014, and again in 2018. The National Employment Standards and modern Awards provide minimum working conditions for all employees. Enterprise bargaining allows employees to negotiate better pay and conditions over and above the Award, particularly when linked to changes in work practices that can deliver improvements in productivity within the business.

DID YOU KNOW?

Modern Awards are new and streamlined and created to replace thousands of existing ones. The new Awards apply to many employees and employers in the national workplace relations system. For example, the security industry will see a reduction from 10 Security Awards to just one National Security Award.

Matters covered by Awards and collective agreements

The 10 National Employment Standards	The 10 matters that can be included in modern Awards
1. Maximum weekly hours of regular work	1. Minimum wages, including disability and training wages
2. The right to request flexible work arrangements	2. Types of employment, such as full time, part time, outworker
3. Parental leave and related entitlements	3. Arrangements for the hours during which work is performed
4. Annual leave	4. Overtime rates where applicable
5. Personal, carers and compassionate leave	5. Penalty rates
6. Community service leave	6. Annualised wages and salaries
7. Long-service leave	7. Allowances
8. Public holidays	8. Details of leave, leave loadings etc.
9. Notice of termination and redundancy pay	9. Superannuation arrangements
10. Provision of a Fair Work Information Statement, which details the rights and entitlements of employees, and how to seek advice and assistance if required	10. Procedures for consultation, representation and dispute settlement

Source: Information derived from a Department of Employment fact sheet; and 'Current and emerging issues for the Australian Industrial Relations Commission', speech by Justice Giudice, AIRC President, at the Australian Mines and Metals Association National Conference, 2 April 2008.

4.11.2 Collective and individual agreements

The workplace relations structure now in place in Australia has agreements as the means of determining the wages and conditions of most employees. Even though many employees will sign an individual employment contract when they commence work with a new employer, the terms and conditions of the contract will generally be based on the enterprise agreement that has previously been negotiated. If no enterprise agreement exists, the relevant Award may still be applicable. There have been recent cases in Australia where employers have been prosecuted for attempting to pay below Award wages, and imposing long working hours without paying suitable **penalty rates**.

DID YOU KNOW?

If an employer refuses to bargain with its employees, an employee representative can ask the Fair Work Commission to determine if there is majority employee support for negotiating an enterprise agreement. If so, the employer will be required to bargain collectively with its employees. The Fair Work Commission can issue good faith bargaining orders, which specify the bargaining requirements that both sides must follow.

Enterprise agreements

An **enterprise agreement** is a collective agreement made in a workplace between an employer and a union, acting on behalf of its employees, or between the employer and a group representing the majority of its employees. In addition to the 10 National Employment Standards, enterprise agreements must include the following:

- a nominal expiry date, usually two or three years after the commencement of the agreement
- procedures for settling any disputes that might arise in the implementation of the agreement, including the right of employees to be represented in the dispute settlement procedure

- terms that allow for individual flexibility, so that arrangements can be made between the employer and individual employees
- provisions for consultation with employees on major workplace change.

There is an expectation that parties should enter negotiations in good faith. This means that both employer and employee representatives should:

- attend and participate in meetings at reasonable times
- disclose relevant information (other than confidential or commercially sensitive information) to the other party to the negotiations in a timely manner
- provide responses to proposals made by other bargaining representatives in a timely manner
- give genuine consideration to the proposals of other bargaining representatives and provide reasons if these proposals are not accepted
- not engage in unfair conduct that undermines freedom of association or collective bargaining.

Good faith bargaining does not mean that either side should be forced into signing an agreement where they do not agree to the terms. Good faith bargaining is primarily about the process and conduct of negotiations, not about forcing either side to make particular offers, or accept offers made by the other side.

Once the parties to an enterprise agreement have concluded their negotiations, the agreement needs to be submitted to the Fair Work Commission for approval before it can commence operation. The agreement must be signed by the employer and the bargaining representatives acting on behalf of employees, to certify that the agreement has been entered into voluntarily by both sides. The Fair Work Commission will examine the detail of the agreement to ensure that:

- there is genuine evidence that both the employer and employees agree to the terms of the agreement
- a majority of employees has been consulted, either by the relevant union or any other group or individual representing the employees in negotiations
- employees will be better off overall by entering into the agreement than simply being covered by the relevant Award
- the agreement is consistent with the National Employment Standards
- no unlawful content is included in the agreement, such as provisions that might contradict equal employment opportunity legislation.

Both sides must voluntarily approve of the terms for a collective agreement to be made.



on Resources



eLesson: The difference between awards and enterprise agreements (eles-2941)

Individual contracts

In many cases it is common practice for an employee to sign a **common law individual employment contract** with an employer. While this may be seen as an individual agreement between the two parties, it is still governed by the terms of the *Fair Work Act*. All individual employment contracts must comply with the relevant Award, and must be consistent with the 10 National Employment Standards. Such contracts may provide conditions that are better than the relevant Award, but cannot exclude any Award condition,

or reduce the relevant conditions or benefits. The only cases in which a common law employment contract can exclude relevant Award conditions is when the employee is guaranteed an income that is above the high income threshold. This threshold is indexed each year on 1 July, and at 1 July 2018 was set at \$145 400. As Awards are seen to have less relevance to employees earning high salaries, an employee earning above this figure can enter an individual agreement with their employer, which renders the Award not applicable to them. These types of employment contracts can be enforced through the courts in the same way as any other legally binding contract between two parties.

When two parties negotiate they should bargain in good faith. This means they are to meet regularly, and discuss issues honestly and with a willingness to reach an agreement. Where an employer refuses to bargain, and the Fair Work Commission determines, via a ballot or petition, that there is majority employee support for pursuing an enterprise agreement, the Fair Work Commission can force the employer to bargain collectively with the relevant employees.

Can your Employer Refuse to Bargain?



FAIR WORK COMMISSION CUTS PENALTY RATES

In February 2017, the Fair Work Commission brought down a finding that began a process of cutting penalty rates for some employees working on Sundays and public holidays. Workers employed under the Retail, Hospitality, Restaurant, Fast food and Pharmacy Awards would be affected. The changes came into effect on 1 July 2017, although in many cases the reductions in penalty rates were to be phased in over a three-year period.

Full-time and permanent part-time workers saw their penalty rates for public holidays reduced from 250 per cent to 225 per cent, effective from 1 July. Casual employees saw a reduction to 250 per cent for public holidays, which includes the casual loading.

Sunday penalty rate changes are being phased in between 2017 and 1 July 2020 under each of the above Awards. The intention is that these will be the same as Saturday penalty rates by 2020. In the Retail and Pharmacy Awards, Sunday penalty rates were cut from 200 per cent to 195 per cent on 1 July 2017, 180 per cent on 1 July 2018, 165 per cent on 1 July 2019 and 150 per cent on 1 July 2020. Saturday penalty rates under these Awards remain at 150 per cent. Sunday penalty rates under the other four Awards considered were to be reduced by similar amounts to bring them into line with Saturday penalty rates by 2020.

Political reaction to the Fair Work Commission decision was varied, with then Prime Minister Malcolm Turnbull declaring that, 'We think it was the right decision and we believe it would do the industry good'. The Leader of the Opposition, Bill Shorten, took an opposing view, saying, 'This is an appalling decision and comes at a time when wages are falling in real terms'. ACTU secretary Sally McManus said any pay cut would be devastating for families.

4.11 Activities

TEST your understanding

1. Explain the role of industry-wide Awards in the current employee relations environment.
2. What is the purpose of the Award modernisation process?
3. What mechanism is in place to ensure that Awards remain relevant into the future?
4. List and explain the key elements that must be included in an enterprise agreement.
5. Explain the meaning of the term 'bargaining in good faith'.
6. What requirements must be satisfied before the Fair Work Commission will approve an enterprise agreement?
7. Explain what an individual common law employment contract is.
8. Explain the special provisions that apply to employees earning over \$145 400 per year.
9. Explain the effect of changes to penalty rates made by the Fair Work Commission in 2017.

APPLY your understanding

10. Use the **Fair Work Commission** weblink in the Resources tab to find the modern Award relevant to the retail or hospitality industry, or any other industry in which you or your classmates have part-time employment. List and briefly explain the key matters that are covered by this Award.
11. Obtain a copy of either an enterprise agreement that applies to an employer in one of the industries mentioned in question 10, or an individual common law contract as provided by your own or a classmate's employer, and compare it with the relevant Award.
 - (a) What features does this document contain that are the same as the relevant Award?
 - (b) Identify those provisions, if any, that improve on the basic conditions allowed for in the Award.

EXAM practice

12. Distinguish between Awards and agreements as methods of determining wages and conditions of work. **(4 marks)**
13. Jacinta has just been successful in her application for a top managerial role in a major accounting firm. Her salary is \$150 000 per year plus bonuses for excellent performance.
 - (a) Explain the type of agreement that Jacinta is likely to be employed under. **(2 marks)**
 - (b) Compare awards and agreements as methods of determining wages and conditions of work. **(4 marks)**



Resources



Weblink: Fair Work Commission

4.12 BACKGROUND KNOWLEDGE Disputes in workplace relations

BACKGROUND INFORMATION Even with the most positive employee relations environment, disputes between employers and employees can still occur. These disputes can be expressed as industrial action on the part of either the employers or the employees.

4.12.1 Workplace disputes

Workplace **disputes** occur as a result of disagreements between the employer and employees. The Australian Bureau of Statistics defines an industrial dispute as a withdrawal from work by a group of employees, or refusal by an employer or number of employers to permit some or all of their members to work. Each withdrawal or refusal is made to enforce a demand, resist a demand or express a grievance. Withdrawal of labour by employees is known as **strike** action, while refusal by employers to allow employees to work is known as a **lockout**.

Other forms of industrial action include:

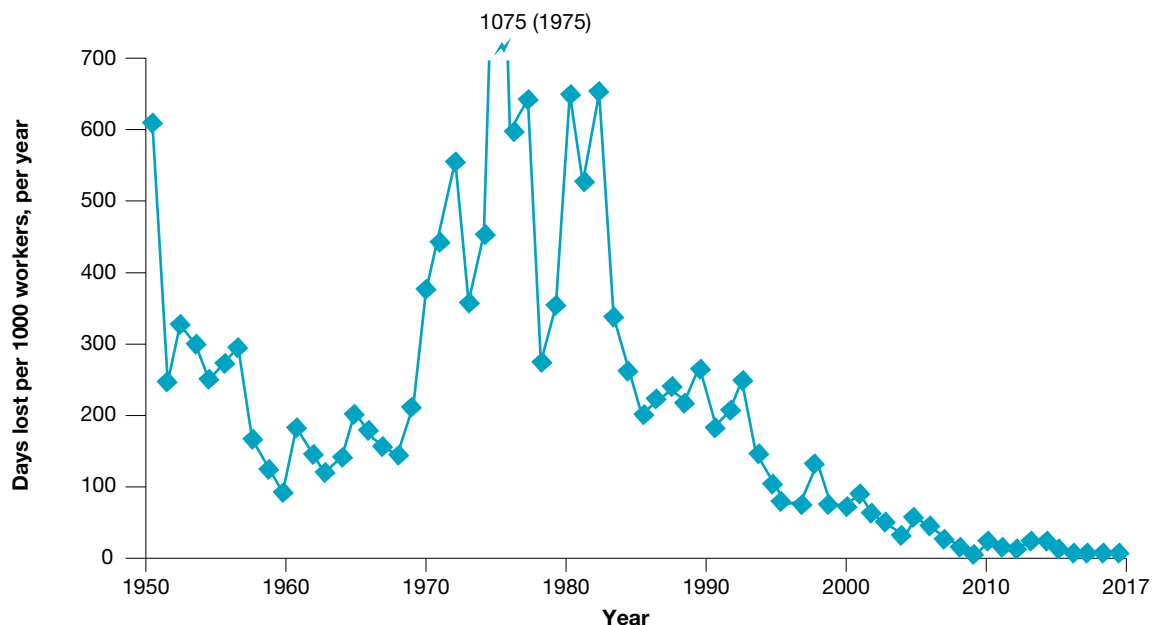
- *Picket lines*. Also called blockades, picket lines are protests that take place outside the workplace, generally associated with a strike. Unionists stop the delivery of goods and try to stop the entry of non-union labour into the workplace.
- *Work bans*. A ban is a refusal to work over-time, to handle a product or piece of equipment, to carry out a particular process, or even to work with particular individuals.
- *Work-to-rule*. In this action, employees refuse to perform any duties that are additional to the work they normally are required to perform.
- *Absenteeism, vandalism and sabotage*. These concealed (covert), unofficial expressions of conflict may be even more costly to businesses than open (overt) official industrial disputes.

'Sickies', or 'mental health days', are part of the Australian workplace culture. A recent survey by Gallup found that the main reason people take a 'sickie' is because they are unhappy with the style used by their manager. Employees who are unhappy at work, or who do not feel adequately rewarded or appreciated, use the 'sickie' as a form of hidden revenge.



The Australian Bureau of Statistics publishes statistics on industrial disputation in Australia. The number of working days lost through industrial disputation has decreased over the past 35 years or so, as can be seen in the following figure, largely due to the trend towards enterprise bargaining.

Working days lost to industrial disputes relative to population, 1950–2017



Source: J. Stanford, *Historical Data on the Decline in Australian Industrial Disputes* (The Australia Institute, January, 2018)

4.12.2 Causes of disputes

The major causes of industrial disputes recognised by the Australian Bureau of Statistics are:

1. disputes relating to negotiation of Awards and collective/enterprise agreements. These issues include disputes about:
 - remuneration, which includes matters such as wages, allowances, entitlements and superannuation
 - employment conditions, such as working hours, leave, benefits, and other general employment conditions
 - other agreement-related matters, such as job security and other causes relating to the process of enterprise bargaining negotiation.
2. disputes relating to outside Awards and collective/enterprise agreements. These issues include disputes about:
 - health and safety that relate to physical working conditions, including safety matters, and workers' compensation provisions, protective clothing and equipment, and employee amenities
 - job security issues, such as retrenchment of employees, downsizing, restructuring, use of contractors, and outsourcing
 - managerial policy issues, such as discrimination, Award restructuring, terms and conditions of employment, promotion, discipline, personal disagreements and changing work practices. Because of the increasing emphasis on enterprise bargaining, managerial policy is the most common cause of disputes. The overwhelming number of disputes relate to the negotiation and implementation of employment conditions, and the attitude of management during that process.
 - union issues dealing with matters that relate to employer approaches to the union, inter-union and intra-union disputes (demarcation disputes), sympathy stoppages in support of employees in another industry, and recognition of union activities
 - other non-agreement-related matters, including political or social protests, such as Green Bans — bans imposed by trade unions on any development that is considered harmful to the environment or an area of historical significance.

DID YOU KNOW?

Staff turnover costs Australian businesses \$100 billion a year in lost productivity and training and recruitment costs, according to research. Staff turnover is currently running at 18 per cent overall and at 40 per cent for workers in their twenties. According to Exit Info, which interviews employees about to leave their jobs, one in five cite poor management as the main reason behind their resignations.

4.12.3 Protected and unprotected action

Commonwealth employee relations legislation distinguishes between protected and unprotected industrial action. **Protected industrial action** is considered to be a legitimate tactic in pursuit of claims in a new enterprise agreement and will usually occur during the process of negotiating that new agreement. For strike action on the part of employees to be protected, the union involved must conduct a secret ballot of members, the majority must vote in favour of the action, and the employer must be informed of the proposed action at least three working days in advance.

If the action by either party is considered to threaten the wider economy, or other businesses which have a commercial relationship with the business involved in the dispute, the Fair Work Commission can order the end of the action, and set up a conciliation process to resolve the dispute. If the conciliation fails to resolve the dispute, the Fair Work Commission can determine a solution through a process of arbitration.

Industrial action that takes place before the expiry date of the previous agreement is considered to be unprotected industrial action; therefore, unlawful. Strike action taken without a proper warning is also unprotected. Either party taking unprotected action may be subject to legal action before the Fair Work Division of the Federal Court, which can order the payment of compensation or impose fines.

DID YOU KNOW?

A union wishing to conduct a secret ballot for protected industrial action must first apply to the Fair Work Commission. This application will normally be dealt with within two working days. The Fair Work Commission must be satisfied that the union or employees seeking the ballot have made genuine attempts to negotiate with the employer. The order for a ballot will include details of the types of employees who are to be balloted, the timetable for the ballot and the questions to be put. In most cases a postal ballot is conducted by the Australian Electoral Commission. A ballot is successful if at least 50 per cent of those eligible to vote actually voted, and more than 50 per cent voted in favour of the action.

BLOCKADE OF MELBOURNE WHARF BY MARITIME UNION

In early December 2017, the Maritime Union of Australia (MUA) imposed a picket line on Webb Dock in Melbourne, blocking the entry and exit of shipping containers. The dispute between the union and the Victorian International Container Terminal (VICT) had arisen when it was discovered that 22 dock workers did not have a Maritime Security Identification Card, which allows workers to enter secure areas. The company chose to terminate the employment of one of these workers. He was a casual employee who was an active member of the union, and who had made complaints to the Fair Work Ombudsman about bullying in the workplace. The union claimed that this worker was being singled out because of his union activism, and because he had made complaints against the employer. None of the other 21 employees had been treated in this way.

VICT claimed that the employee in question had a criminal record and so could not be issued with a Maritime Security Identification Card, although his criminal offences were some 20 years beforehand, and he had held the relevant security identification card previously. The picket line lasted over two weeks, until the company agreed that the worker would be reinstated. He was paid by the company but did not return to work until the outcome of a court case that was finalised in 2018.

The MUA picket at Webb Dock was supported by many other unionists.



4.12 Activities

TEST your understanding

1. Differentiate between a strike and a lockout.
2. Unscramble the following terms, and then use each of them in a sentence to explain their meaning.
 - (a) tpikce enil
 - (b) krwo snab
3. Outline the main causes of industrial conflict.
4. Explain why industrial disputes over 'managerial policy' are the most common in Australia when compared to the other causes of industrial conflict.
5. Under what circumstances will industrial action be 'protected' under current legislation?
6. Describe the steps that the Fair Work Commission could take to deal with unprotected industrial action.
7. Read the 'Blockade of Melbourne wharf by Maritime Union' case study. Many members of other unions came to support the MUA picket. Why do you think this occurred?

APPLY your understanding

8. Jules works for Empire Engineering. His union is currently negotiating a new enterprise agreement with the employer, but negotiations are not going well. The union wants to arrange for the employees to take industrial action in the near future.
- (a) What type of action might the employees take?
 - (b) What might they hope to achieve by taking this action?
 - (c) What has to happen for this action to be 'protected'?
 - (d) Three other businesses that rely on Empire Engineering for supplies are concerned that industrial action at that company will affect their businesses. What can they do to address the problem?

4.13 Dispute resolution

KEY CONCEPT A number of different approaches are available to resolve industrial disputes when they arise. The successful resolution of conflict will often depend on the styles and skills of managers, particularly human resource managers.

All enterprise agreements must contain dispute resolution procedures to gain the approval of the Fair Work Commission. If the relationship between the employer and the employees and their representatives is likely to be hostile, these procedures are likely to be very formal, with strict procedural rules and clearly defined roles for the employer, employees, unions, employer organisations and any third parties that may be brought in to assist with the resolution. Where the workplace relationship is positive, through a consultative or participative culture, disputes can often be resolved informally through discussions between the local employee representatives and human resource management without any involvement of external third parties. In the case of an autocratic management style, more formalised dispute resolution methods are likely to be preferred.

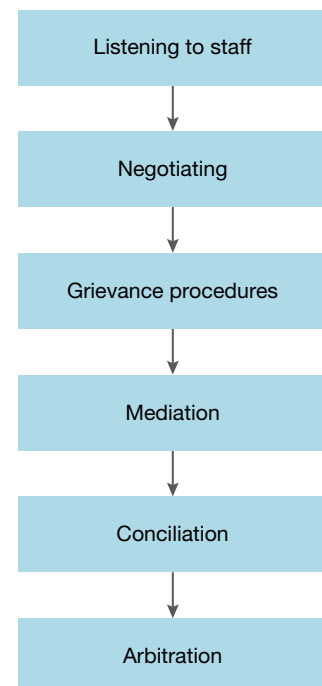
4.13.1 Negotiation

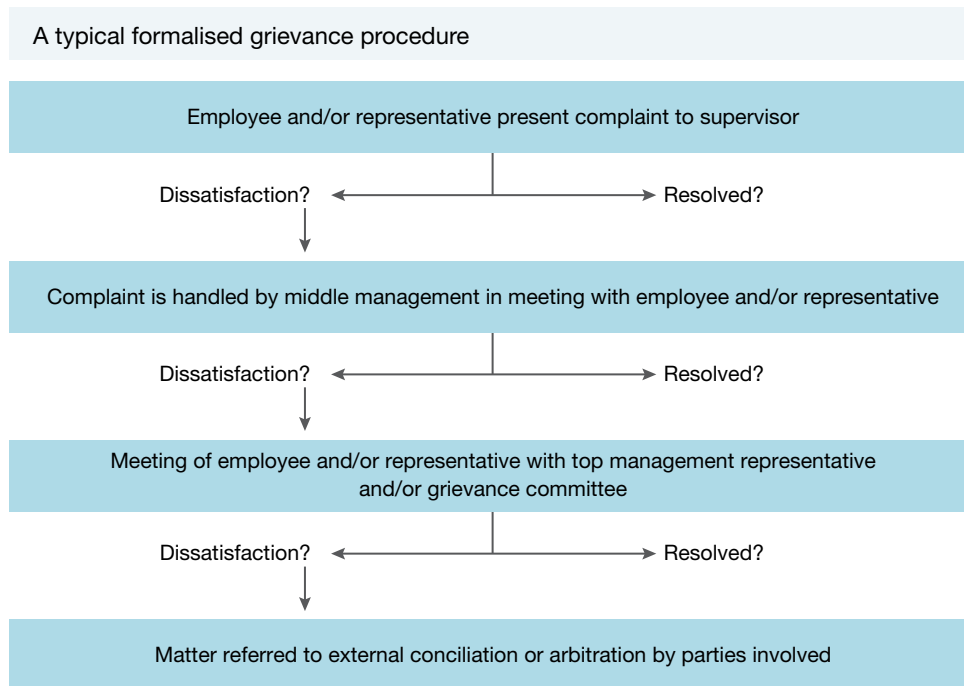
Negotiation is the least formal method of dispute resolution, in that it involves direct discussions between the parties, without the involvement of external third parties. This method is likely to be most effective when the employer utilises a consultative or participative management style, and possesses the interpersonal and communication skills to be able to negotiate a suitable compromise solution.

4.13.2 Grievance procedures

Grievance procedures are a formalised set of steps that can involve management, local union representatives and/or external advisers. Since the introduction of enterprise bargaining, most businesses have established a formal process by which issues can be handled. Around 70 per cent of managers are involved in grievance handling and cite the most common issues as being personality conflicts, allowances/pay and discipline.

A typical dispute resolution process





DID YOU KNOW?

Around 84 per cent of workplaces with over 20 employees have formal grievance procedures, and these procedures are used all or most of the time.

study on

Unit 3

AOS 2

Topic 7

Concept 4

Dispute resolution: grievance procedures Summary screen and practice questions

4.13.3 Mediation

Mediation is a more formal method of dispute resolution, in that it involves the assistance of a third party. The third party helps the parties in dispute to work towards their own agreement, but will usually not offer suggestions or solutions, preferring to allow the parties to develop the agreement in their own terms. The third party may either be independent and agreed upon by key parties in a dispute, or a representative from a business, tribunal or government agency, such as the Human Rights and Equal Opportunity Commission.

A mediator can assist the parties to resolve a dispute in the workplace.



4.13.4 Dispute resolution at the Fair Work Commission

The Fair Work Commission is the national independent workplace relations tribunal and can help parties resolve workplace disputes in a variety of ways, particularly through **conciliation**, mediation and, in some cases, **arbitration**. In a conciliation at the Fair Work Commission, a tribunal member (or a member of staff trained as a conciliator for unfair dismissal matters) brings both sides together, either in person or over the phone, and attempts to help them reach an agreement. This may include assisting to clarify the issues, asking the parties to continue negotiations and report back, or developing strategies to resolve the dispute. Mediation is a similar process, but the tribunal member may take a less proactive role than they would in conciliation. Depending on the type of workplace dispute, conciliation and mediation at the Fair Work Commission may be voluntary or compulsory.

In some circumstances, a dispute may be referred to the Fair Work Commission for arbitration by a tribunal member. Arbitration at the Fair Work Commission involves a tribunal member considering the arguments of each side and, unlike conciliation or mediation, making a decision that resolves the dispute. Examples of when the Fair Work Commission may arbitrate a dispute include where it is authorised to do so under an enterprise agreement or where an employee has been unfairly dismissed. An arbitration is similar to a court hearing, with each side presenting their case, calling and cross-examining witnesses and, sometimes, being represented by a lawyer or advocate. A member of the Fair Work Commission conducts the hearing and, at its conclusion, makes a decision that is legally binding on all parties.

A human resources manager must have a thorough understanding of workplace laws and procedures as detailed preparation will be necessary if a dispute is referred to the Fair Work Commission.



4.13.5 Common law action

Legal action before the courts is open to any party involved in or affected by industrial action. Parties may make direct claims for damages caused by the parties taking the action, or for breach of contract resulting from such action. Legal action arising from employee relations issues is usually heard in the Fair Work Division of the Federal Court. If the industrial action is protected during a bargaining period, the parties taking the action cannot be sued through the courts. Taking legal action would be considered a 'last resort', when all other avenues have been exhausted. Any business seeking to operate under a consultative or participative management style would tend to avoid this method of resolving conflict, as it is likely to prolong hostility and mistrust in the workplace.

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Unit 3 > AOS 2 > Topic 7 > Concept 5

Dispute resolution: mediation and arbitration Summary screen and practice questions

4.13 Activities

TEST your understanding

1. Explain the differences between negotiation, mediation and conciliation as alternative means of resolving industrial conflict.
2. Why do around 84 per cent of workplaces with more than 20 employees have established grievance procedures?
3. Explain the conciliation and arbitration procedures utilised by the Fair Work Commission.

APPLY your understanding

4. Identify the term used to describe the way in which the following disputes have been resolved.
 - (a) A third party is called in to assist the employer and employee to work towards a mutually beneficial solution themselves.
 - (b) A Fair Work Commission tribunal member orders Sener Sofas to reinstate 12 workers who were sacked last month.
 - (c) Millar Machines finally reaches agreement with the union after regular meetings with a Fair Work Commission tribunal member and the union. The tribunal member actively works with all parties, helping them to reach a solution.
 - (d) Lafitani is fed up with his workmates playing practical jokes on him. He complains to Rhonda Pok, his supervisor, who records the complaint and, because it is serious, takes it to the company's group specially established to help deal with such problems.

EXAM practice

5. Distinguish between mediation and arbitration. **(4 marks)**
6. Ellen believes she has been overlooked for a promotion because of her gender, particularly as she has higher qualifications and more experience than the man who received the promotion. She wants to have the matter resolved through a grievance procedure.
 - (a) Explain the term 'grievance procedure'. **(2 marks)**
 - (b) Outline a process that could be implemented by the human resource manager to attempt to resolve Ellen's grievance. **(4 marks)**

4.14 APPLY YOUR SKILLS Dispute resolution and methods of determining wages and conditions of work

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management related to managing staff in a business
- Interpret, discuss and evaluate business information and ideas
- Apply knowledge about managing employees to practical and/or simulated business situations
- Propose and justify strategies to manage employees effectively

4.14.1 Dispute resolution and grievance procedures

WORKPLACE DISPUTES: HOW TO EXTINGUISH THE FLAME AND AVOID A FIRE

When an employee has a grievance it means they have a complaint about a situation in the workplace they perceive as unfair. It may be a situation where the employee feels they are working in an unsafe environment. For example, an employee grievance was soon referred to the union when management ignored the complaints made by employees who constantly tore their clothing on the old wooden furniture in the office. This issue finally came to a head when an employee suffered from a splinter in their knee. The frustrated employee went to their union and that was the catalyst for management to agree to purchase new furniture.



Research has shown that a manager's skill in averting the escalation of such workplace disputes is critical. According to a senior human resource management executive at ANZ, encouraging communication and listening to staff is one way to avert potential problems in the workplace. He says: 'What we have done quite consciously is to build better communications with our staff — direct relationships face to face with our staff for matters that affect them in the workplace and there is no substitute for that'. Supervisors and human resource managers are recommended to approach grievances in the first instance at the workplace level in the following ways:

- Treat the grievance seriously and in private.
- Listen to what the employee is saying.
- Establish exactly what the problem is.
- Identify the source or sources of dissatisfaction.
- Remain calm. Lost tempers and accusations can only escalate bad feeling.

After the manager has heard the grievance, some time should be set aside for establishing the facts. This could mean visiting the workplace to see firsthand what the problem is and talking to witnesses that the employee has identified. Lengthy delays in responding to the employee grievance should be avoided and a decision, once made, must be communicated. The reason behind the decision should be clearly articulated. It is considered unhelpful to just pass off the decision by saying to the employee that it is 'management policy'.

The procedure described is based on the concept of natural justice, which means that employees must be given a fair hearing and that decisions should be made without bias.



DID YOU KNOW?

Dealing with bullying in the workplace is one conflict that needs to be handled carefully. Bullying may take the form of yelling, offensive language, excluding or isolating employees, giving employees impossible tasks to perform or assigning them meaningless tasks. A 2010 Productivity Commission report found the total cost of bullying and harassment to be about \$14.8 billion a year. In 2010, a case of bullying in the workplace was decided in the Magistrates' Court against the owner of Cafe Vamp in Hawthorn. The owner pleaded guilty to failing to provide and maintain a safe working environment, and the company was fined \$220 000. In this case, bullying resulted in a waitress committing suicide. Managers have a legal and a moral obligation to ensure that bullying is appropriately dealt with in the workplace. Education about bullying is one step in the right direction, and ensuring that proper grievance procedures are in place to handle bullying complaints when they occur can help avert a crisis.

4.14.1 Activities

TEST your skills

1. Define the term 'grievance procedure'.
2. Describe a typical formalised grievance procedure.
3. Why is the manager's skill in resolving disputes at the workplace level crucial in avoiding the escalation of an industrial dispute?
4. Explain why a manager who adopts an autocratic management style may find it difficult to resolve disputes at the workplace level.
5. Explain the steps a manager should take when confronted with an employee grievance in the first instance at the workplace level.

APPLY your skills

6. Read the following scenarios and identify in each case:
 - (i) why the dispute was not resolved adequately
 - (ii) what skills the manager lacked.
- (a) Jennifer told her manager that the new procedure for ensuring the customer received product within 24 hours meant that she consistently had to miss lunch. Her manager said that it was a cost-effective way of losing weight and laughed it off.
- (b) Tran told his manager that he wanted to talk to him because he thought the equipment he was using was dangerous. Tran's manager said he was more than happy to talk about it, but that it would have to wait at least three weeks because he was so busy. He also added that it has never been a problem in the past.
- (c) Tough cost-cutting at the firm meant that John had to pay for his own tea and coffee. John thought that this was ridiculous and spoke to his manager. John's manager informed him that it was just 'tough luck', and that he couldn't do anything about it because it was a decision made by head office.
- (d) Geoff wants to talk to his manager about a co-worker who constantly has personal telephone conversations and will not lower her voice. Geoff's manager said: 'You're a big boy, I'm sure you can handle it yourself.'
- (e) Trina wanted to ask her manager for a pay rise. She felt that she had worked very hard, and it was time that her manager acknowledged her efforts. Trina's manager organised a time to meet and discuss the issue. He listened to everything Trina had to say, and then exploded, saying that Trina was lucky to get the pay she got and should be thankful she has a job in the current economic climate.
7. Choose one of the scenarios from question 6 and conduct a role play demonstrating the appropriate way workplace level grievances should be handled.

4.14.2 Methods of determining wages and conditions of work

When a job applicant accepts an offer from an employer, a contract is established between the two parties. An employment contract is a legally binding, formal agreement between an employer and an employee. Let us examine two different types of employment contracts: enterprise agreements and individual contracts.

EMPLOYMENT CONTRACTS FOR BUSINESS MANAGEMENT STUDENTS

Imagine that your Business Management class has the opportunity to negotiate a set of working conditions for the students in your class.

Enterprise agreement

All the students in your Business Management class need to meet with a representative of the school to negotiate a set of working conditions for your class. Apart from the essential conditions, such as completing all the work and respecting each other's opinions, you might negotiate a homework-free month in return for one extra assessment task.

Remember that an enterprise agreement is a negotiated agreement between an employer and a union or a group of employees. The agreement deals with the pay and conditions of people employed in that workplace or enterprise.

Your class will need to decide if you will meet with the representative of the school as a group, or if you will choose a group of students to represent the students. If the class does decide that a group will represent the students, this group will become 'the union'.

Your class can also need to decide who will represent the school — this could be your teacher or a group of students.

The final step is for the school representative (or group of representatives) to meet with the students (or 'the union') and negotiate the enterprise agreement.

Someone will need to record the details of the enterprise agreement.



Common law individual contract

Now the school and you, after a period of negotiation, will come to an agreement about your conditions of work for this subject. The conditions agreed on will apply only to you. The new contract will do away with the classroom conditions agreed to in the enterprise agreement. For example, the new agreement may offer you a 'classroom (employment) package' that includes more homework in return for the right to attend only two Business Management lessons each week. You will have entered into a common law individual contract.

Remember, a common law individual (employment) contract covers employees who are not under any Award or enterprise agreements. They are most common among professional and managerial employees. Such contracts are signed individually and are secret; that is, not open to public scrutiny.

Again, your class can decide on who will represent the school — this could be your teacher or a group of students. Each individual student then needs to meet with the representative of the school to negotiate a contract. This could occur outside the classroom in private.

The final step is for the school representative (or group of representatives) to meet with each individual student and negotiate separate common law individual contracts. (Note that individual students in the school representative group should also negotiate contracts. They may need to come out of the group, and meet individually with remaining students in the group to negotiate their contract.)

You will need to record the details of your common law individual contract.

4.14.2 Activities

TEST your skills

1. Define the term 'common law individual contract'.
2. Describe what an enterprise agreement is.
3. Outline how the enterprise agreement was negotiated in your classroom.
4. What was the outcome of the enterprise agreement (what conditions were in the agreement)?

5. Outline how the common law individual contracts were negotiated in your classroom.
6. What was the outcome of your individual contract?
7. Compare the conditions of the enterprise agreement to the conditions of your individual contract. Which has the better conditions? Why do you think that this is the case?
8. Compare the conditions of the enterprise agreement to the conditions of the individual contracts negotiated by other students in your class. Which has the better conditions? Why do you think that this is the case?

APPLY your skills

9. In your opinion, which method of determining wages and conditions of work produces better outcomes for employees — enterprise agreements or common law individual contracts? Explain your response.
10. In your opinion, which method of determining wages and conditions of work produces better outcomes for businesses — enterprise agreements or common law individual contracts? Explain your response.
11. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.

Imagine now that legislation has just been introduced allowing students to be paid for the work they complete at school. Propose and justify a method of determining wages and conditions of work that your school could use to manage students (employees) effectively.

4.15 EXTEND YOUR KNOWLEDGE Dispute resolution and enterprise agreements

KEY CONCEPT Learning to negotiate effectively is a skill that all managers should aim to refine, especially now that working conditions and pay are increasingly being negotiated at the enterprise or workplace level.

4.15.1 The importance of negotiation in employee relations

If you have ever convinced someone to give you what you want, even though they may not have wanted to, you will have used your negotiation skills. Negotiation is a process where one party (such as a union), asks for something (for example, change to work hours) from another party (such as a manager). With the move towards a more decentralised employee relations system, the human resource manager and other managers increasingly have to negotiate with their employees. The employer and employee may negotiate on a range of issues, some of which might include:

- benefits
- date when employment is to commence
- compliance with HR policies, such as equal employment opportunity policies
- hours of work
- standards of performance
- termination procedures
- overtime
- pay
- probationary periods.

The negotiation process

Effective managers will understand that negotiation is a process, such as the one shown in the figure on the right. The negotiator must understand not only *what* they want to achieve but *how* they want to achieve it.

Effective negotiators

Research suggests that the skills required to be an effective negotiator include:

- *communication* — listening and asking questions, providing information and demonstrating empathy
- *preparation* — knowing that negotiation is a process and preparing and anticipating how a meeting might proceed puts the negotiator in a strong position
- *problem solving* — creatively looking for the most effective ways to solve problems. In today's economic climate, some creative solutions are being negotiated to find deals that are right for both the employer and employee (such as the one in the case study below).

Research has also found that the following attributes are important when negotiating:

- *trustworthiness* — the negotiator must try to build trust and maintain goodwill towards the person or persons they are negotiating with
- *adaptability and flexibility* — this involves a willingness to listen to the opinions and ideas of others, change previously held views, and look for new approaches and solutions to help reach agreement.

Approaching negotiation from the right angle

Set objective
(what you want to achieve)
Why are we here?



Have a strategy
(a game plan)
How will we be able to achieve our objectives?



Choose tactics
(ploy used to achieve objective and strategies)
Delaying an immediate response by saying 'I'll get back to you' can buy the negotiator some time.

PREPARING FOR ENTERPRISE AGREEMENT NEGOTIATIONS

A successful enterprise agreement is like a well-constructed building. It is essential to lay firm foundations before the bargaining process begins. The following steps provide a useful guide.

1. Be aware of when the current agreement expires, so that you allow an adequate period of time to prepare for a new round of negotiations. Remember that you may need to consult with other stakeholders and model a variety of different proposals during the negotiation process.
2. Ensure that you have a clear grasp of the strategic plan for the business over the period of the next agreement and beyond.
3. Use the strategic plan as a measuring stick for any proposed inclusions in the agreement. Your agreement must be consistent with your plan, or flexible enough to allow for future change.
4. How well do you understand the priorities of your employees? A successful negotiation will recognise the issues of greatest importance to them.
5. The financial implications of all proposed inclusions need to be tested against budget expectations to ensure they are feasible.
6. All stakeholders need to be fully aware of the process and comfortable with the business strategy.
7. A strategy that clearly separates the non-negotiable items from the negotiable items is essential.
8. All those involved in the process should be well versed in the legislative requirements, and have the necessary negotiating skills.

Preparations for the negotiation process should start long before the expiry date of the current agreement.



9. Communication is fundamental at all stages to maximise employee confidence in both the process and the final outcomes.
10. Bargaining should be seen as part of an ongoing employee engagement process. At the conclusion of negotiations seek feedback from all participants to determine their successes and lessons for the future. Ensure all details of the final agreement are thoroughly communicated to all stakeholders. Setting clear priorities, thorough planning and maintaining clear lines of communication are the keys to a successful bargaining process.

4.15 Activities

TEST your understanding

1. Why is being able to negotiate even more important considering we have moved to a more decentralised employee relations system?
2. Define 'negotiation'.
3. To be an effective negotiator, what skills are important?
4. Give four examples of the types of things that may be negotiated between an employer and an employee.

EXTEND your understanding

5. Read the following scenario. Role-play the negotiations that take place between management and the union regarding Mark's work. Remember to prepare well for your negotiation and know your objectives, strategies and tactics.
Mark works for a large supermarket chain, packing shelves. In the past, he could always be relied on to turn up to work on time and put in a good day's work. However, over the last two months he has had a lot of time off. His co-workers have had to make up the work that he has not completed and there have been several occasions when Mark has lost concentration on the job and has said that he feels ill and needs to go home. It's getting to a point where the other workers are fed up and Mark's employer feels that no work is being done in return for the wage that is being paid.
6. In what way can each of the 10 steps above contribute to a win-win for both parties in a negotiation process?
7. Why is a win-win attitude important for negotiation in today's workplace?

4.16 Review

4.16.1 Summary

Training options

- Training involves learning how to do a job more effectively. The aim is to increase the person's knowledge and skills.
- On-the-job training occurs when employees learn a specific set of skills to perform particular tasks in the workplace.
- Off-the-job training occurs when employees learn a specific set of skills to perform particular tasks away from the workplace.
- Training can be used to prepare and develop employees to take on more responsibility in the future.

Performance management strategies

- Performance management focuses on improving both business and individual performance through relating business performance objectives to individual employee performance objectives.
- An appraisal refers to the formal assessment of how efficiently and effectively an employee is performing their role in the business.

- Management by objectives is a process by which management and employees agree on a set of goals for each employee, with these individual goals all contributing to the objectives of the business as a whole.
- Self-evaluation involves employees carrying out a process of self-assessment, based on a set of agreed criteria.
- Employee observation involves gathering feedback on past and current performance from a range of stakeholders including management, other employees and customers.

Termination management

- Termination refers to when an employee leaves a particular workplace, ending the employment relationship. An employee may leave the business voluntarily through resignation, retirement or accepting redundancy. Sometimes an employee will be forced to leave the business because they have been made redundant or have been dismissed.
- Entitlement issues are the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis.
- Transition issues relate to the process or a period of changing from one job to another or from one set of circumstances to another.

The roles of participants in the workplace

- Employers and employees are major stakeholders in employee relations processes.
- As human resource managers negotiate employment agreements, they need to be aware of relevant Awards, ensure that all parties are kept informed, check that a completed agreement meets legislative requirements, and arrange lodgement with the Fair Work Commission. Implementation of employment agreements may involve regular monitoring, training of fellow managers and other employees, and dealing with any disputes that may arise.
- Unions, employer organisations, peak bodies and government are all key stakeholders that strongly influence the relationship between employers and employees.
- The Fair Work Commission is a body set up by government to deal with the resolution of industrial disputes. It creates awards for different industries and determines and maintains minimum wages, it approves agreements and ensures that all parties comply with those agreements, and helps to resolve a range of collective and/or individual workplace disputes through conciliation, mediation and/or arbitration.

Awards and agreements

- Modernised Awards now provide only a safety net of minimum conditions.
- Collective agreements are now the key instruments for employees to gain improved pay and conditions in return for improvements in productivity.
- Individual agreements apply in only a minority of workplace situations, and must conform to Award standards.

Dispute resolution

- Even with the most positive employee relations environment, conflict between employers and employees can still occur, leading to industrial action by either employees or employers.
- For industrial action to be protected, a number of legal requirements must be met prior to the action occurring.
- A variety of avenues are available for the resolution of disputes in the workplace.
- The successful resolution of conflict will often depend on the management styles and skills of management, particularly human resource managers.
- A typical dispute resolution process includes grievance procedures, mediation and arbitration.

4.16.2 Key terms

arbitration a process that occurs when a ‘judge’ (such as a commissioner of the Fair Work Commission) hears both arguments in a dispute in a more formal court-like setting and determines the outcome

Award a legally binding agreement that sets out minimum wages and conditions for whole industries or occupations

collective bargaining determining the terms and conditions of employment through direct negotiation between unions and employers

common law individual (employment) contract covers those employees who are not under any Award or collective/enterprise agreements

conciliation a process that occurs when a third party participates in the resolution of a dispute and attempts to resolve the differences through discussion

development the process of preparing employees to take on more responsibilities in the future, acquiring better knowledge and skills, gaining more experience

dismissal occurs when the behaviour of an employee is unacceptable and a business terminates their employment

disputes a result of disagreements or dissatisfaction between individuals and/or groups

employee observation a strategy where a variety of opinions on the performance of employees is sought with the aim of arriving at a more comprehensive picture of past and current performance

employer associations organisations that represent and assist employer groups

enterprise agreement an agreement on pay and conditions of work made at the workplace level and negotiated between groups of employees (or represented by their union) and employers

entitlement issues the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis

Fair Work Commission Australia’s national workplace tribunal that has a number of responsibilities under the *Fair Work Act*

grievance procedure provides an orderly system whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action

lockout occurs when employers close the workplace for a period of time as a means of applying pressure to employees during a period of industrial conflict

log of claims a list of demands made by workers (often through their union) against their employers. These demands cover specific wages and conditions. Employers may also serve a counter-log of claims on the union.

management by objectives a process by which management and employees agree on a set of goals for each employee, with these goals all contributing to the objectives of the business as a whole

mediation the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party. Many businesses now specify mediation as a first step in their dispute resolution or grievance procedures.

negotiation a method of resolving disputes whereby discussions between the parties result in a compromise and a formal or informal agreement about a dispute

off-the-job training occurs when employees learn skills in a location away from the workplace. It usually involves sending individuals or groups of employees to a particular specialised training institution (such as a university or TAFE college).

on-the-job training occurs when employees learn a specific set of skills to perform particular tasks within the workplace. This training usually occurs in the working environment, and uses the equipment, machinery and documents that are present in that workplace.

penalty rates additional wages paid to employees who work outside of normal working hours

performance appraisal the formal assessment of how efficiently and effectively an employee is performing their role in the business

performance management a focus on improving both business and individual performance through relating business performance objectives to individual employee performance objectives

protected industrial action action taken by either party to a dispute that has been approved by the Fair Work Commission

redundancy occurs when a person’s job no longer exists, usually due to technological changes, a business restructure or a merger or acquisition

remuneration payments made to the employee for work or a service performed

resignation the voluntary ending of employment by the employee ‘quitting’ their job

retirement occurs when an employee decides to give up full-time or part-time work and no longer be part of the labour force

self-evaluation a process whereby employees carry out a process of self-assessment, based on a set of agreed criteria

strike occurs when employees withdraw their labour for a period of time in pursuit of improvements in their employment conditions

termination the ending of the employment of an employee

trade unions organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and the working conditions of their members

training the process of teaching staff how to do their job more efficiently and effectively by boosting their knowledge and skills

transition issues the process or a period of changing from one job to another or from one set of circumstances to another

unfair dismissal when an employee is dismissed because the employer has discriminated against them in some way, such as firing someone because she is pregnant

Resources



Digital doc: Key terms glossary (doc-29444)

4.16.3 Review questions

TEST your understanding

1. Name the three stages of the employment cycle.
2. Distinguish between on-the-job and off-the-job training.
3. Explain the advantages and disadvantages of on-the-job training.
4. Explain the advantages and disadvantages of off-the-job training.
5. Define the following terms.
 - (a) Management by objectives
 - (b) Appraisals
 - (c) Self-evaluation
 - (d) Employee observation
6. Outline one entitlement issue and one transition issue related to retirement.
7. Outline one entitlement issue and one transition issue related to redundancy.
8. Explain the difference between resignation and dismissal.
9. Explain the role of the following participants in the workplace.
 - (a) Human resource managers
 - (b) Employees
 - (c) Employer associations
 - (d) Unions
 - (e) The Fair Work Commission
10. Distinguish between Awards and agreements.
11. Explain how the Award modernisation process has changed the nature of industry-wide Awards.
12. Give three examples of additional matters that can be included in workplace agreements.
13. Under what circumstances might the Fair Work Commission not approve an enterprise agreement?
14. List and explain the key steps that should be followed by a human resource manager in the negotiation of an enterprise agreement.
15. Outline the matters that must be considered by a human resource manager in implementing an enterprise agreement.
16. Describe a step-by-step process that a human resource manager could use to resolve a dispute.

APPLY your understanding

17. A performance appraisal of a worker indicates a lack of computer competency. What should the business do about this?
18. Compare 'voluntary' and 'involuntary' departures in terms of:
 - how difficult each is for the business to manage
 - effects on the business
 - effects on the staff leaving
 - effects on the staff remaining.
19. Read the following hypothetical case study and explain in one paragraph why Natasha's termination was handled inappropriately.

Natasha had been employed by Top Line Printers Ltd for 12 years. During this time, she had worked at a number of different jobs in the factory. In her last position as a clerk, she received a very poor assessment from her supervisor. He complained about her performance and warned her that if it did not improve she might be dismissed.

Prior to her job as a clerk, she worked in the graphic design section of the business. Because she is a creative person, she enjoyed this work and received many favourable comments from her customers. However, for economic reasons, the graphic design section was closed and all the employees were given other jobs within the company. Natasha was given the clerk's job in the personnel records section.

One Friday afternoon, she was called in to her supervisor's office. She was told that another supervisor had complained to him about her poor performance and that her services were no longer required. Natasha was not aware of any other complaint about her. She had never been given any written advice that her service was unsatisfactory. However, the supervisor's decision was final. She was dismissed.

20. Read the Timboon Fine Ice Cream case study below and answer the questions that follow.

SUPPORTING STAFF IN A REGIONAL BUSINESS

Timboon Fine Ice Cream was established in 1999 by Tim Marwood and his wife Caroline Simmons. Tim came from a dairy farming family and used the family farm as a base for his business. Tim recognised that the quality of service he wished to offer his customers had to be reflected in the quality of his staff. The business employs a core staff of between 15 and 20, with diversity a key feature. The mixture of ages, cultural backgrounds and skills means that staff are constantly learning from each other. As the business has expanded, existing staff have taken on new roles, allowing for new staff to begin by taking on less complex tasks. Being based in a regional community, where locals all know each other, the business fosters a family-oriented culture, where staff feel valued and included. Tim and Caroline take a genuinely personal interest in their staff members and spend social time with them away from the workplace.

The quality of service offered at Timboon Fine Ice Cream is reflected in the quality of the staff.



- (a) Describe the key features of the workplace environment at Timboon Fine Ice Cream.
- (b) Propose and justify an appropriate training option for Timboon Fine Ice Cream.
- (c) Analyse the use of a performance management strategy within Tim and Caroline's business.

EXAM practice

21. Define the term 'employer association'. **(1 mark)**
22. Evaluate either on-the-job training or off-the-job training as an option for effectively managing employees. **(5 marks)**
23. Compare on-the-job training to off-the-job training. **(4 marks)**
24. Describe the relationship between performance management and training. **(4 marks)**
25. Identify and explain two roles of the Fair Work Commission in workplace relations in Australia. **(5 marks)**
26. Using examples, distinguish between grievance procedures and arbitration. **(4 marks)**
27. Propose and justify one performance management strategy for managing employees effectively. **(4 marks)**



Resources



Digital doc: Missing word glossary quiz (doc-29445)



Digital doc: Crossword (doc-29446)

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4.16.4 School-assessed coursework

OUTCOME 2

Analyse and evaluate strategies related to the management of employees.

ASSESSMENT task — structured questions

Time allowed: 65 minutes

Marks allocated: 40 marks (The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

1. Define the term 'retirement'. **(1 mark)**
2. Distinguish between the following terms. **(4 marks)**
 - (a) 'Dismissal' and 'redundancy'
 - (b) 'Performance management' and 'appraisal'
3. Discuss the use of on-the-job training or off-the-job training. **(4 marks)**
4. Explain how management by objectives can be used to achieve both business and employee objectives. **(3 marks)**
5. Besides management by objectives, propose and justify a performance management strategy for managing employees effectively. **(4 marks)**
6. Dana's children's party business is struggling financially. She realises that she must terminate a number of her employees in order for the business to survive. Analyse one termination management strategy that Dana could implement to effectively manage her business and employees. **(4 marks)**

Read the following case study, then answer questions 7–12.

Impending strike action

Members of the Manufacturing Workers Union employed at Supa Dupa Foods Ltd yesterday voted to take strike action, if they have received no response to their log of claims for a new enterprise agreement by the end of the work week.

A union spokesman claimed that although an offer had been received from the company in June, company representatives had not been prepared to enter into negotiations to develop a new agreement, and the current agreement was due to expire at the end of this month.

'The company's offer is completely unacceptable to our members employed at the Dandenong factory,' the spokesman said. 'They have only offered a 2 per cent pay rise for each of the next three years, and have not responded to our superannuation claims.'

The union spokesman went on to claim that the workforce had achieved productivity gains of over 6 per cent per year over the last two years, and that the company had made record profits over the last three years.

It is understood that the union is seeking a 5 per cent pay rise per year over the next three years and an increase of employer contributions to the employees' superannuation from 9 per cent to 12 per cent.

Mr James Moore, HR Manager for Supa Dupa Foods, described the union's claim as excessive. He claimed that the company could not afford to meet the union demands.

Spokespeople for both Coles and Woolworths last night expressed concern at the possible impact of the proposed industrial action on the supply of a variety of food lines to their supermarkets.

7. Which type of industrial dispute is occurring at Supa Dupa Foods? **(1 mark)**
8. Outline two matters, other than those mentioned above in the Supa Dupa Foods dispute, that are permitted to be included in an enterprise agreement. **(4 marks)**
9. What steps must the union take to ensure that any strike action taken by the workers at Supa Dupa Foods is protected action? **(3 marks)**
10. Identify and explain two possible means of resolving the dispute that have not yet been used by the parties. **(4 marks)**
11. If the parties cannot reach agreement, name the organisation that could become involved, and explain the processes that organisation could use to arrive at a resolution. **(3 marks)**
12. Using examples, describe a suitable dispute resolution process for Supa Dupa Foods. **(5 marks)**

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CHAPTER 5

Operations management

5.1 Overview

5.1.1 Why it is important

An operations system is used to transform inputs into outputs. In a chocolate factory, this means using labour and raw resources, such as cocoa beans, to make chocolate. The Mars chocolate factory in Ballarat manufactures well-known brands including Mars and Snickers bars, Maltesers and M&Ms, and the plant has the capacity to produce 1 million Mars bars in just 8 hours. Mars Australia sources its cocoa beans from Rainforest Alliance certified farms. Most of the process of chocolate making is automated (done by machines) — just picture huge vats of melting chocolate and caramel with lots of workers in white coats. When you learn about operations management in this chapter, you will be studying how businesses actually make their good or service as well as how they maximise the efficiency and effectiveness of their production processes and meet the needs of stakeholders.



TOYOTA'S OPERATIONS SYSTEM

Operations is the part of the business that 'gets the job done'. At Toyota, that means producing almost 9 million vehicles each year, of which approximately 14 000 are manufactured each day in Japan. The process of producing vehicles at Toyota's many manufacturing plants around the world is similar to producing a cake (or any other product for that matter). You need inputs (resources used in the production process, such as labour and raw materials). The next step is to transform those raw materials into output (finished products). Many of the components used to build an engine, such as pistons and cylinder head covers, are produced in-house by Toyota. Some parts are sourced from local and global suppliers. What else is needed to make a car? Lots of steel panels that are welded, painted and undergo a multitude of processes to finally reach the assembly line.

Operations is not just about making goods or producing services though. Many businesses strive to produce the best good or service on the market. Toyota uses the concept of continuous improvement to do this

Welding on the assembly line at Toyota. Toyota is credited widely for its high quality, low cost, short lead time and flexible production system.



(referred to in Japanese as *kaizen*). This means that all company activities — from the assembly line to customer service — are continually scrutinised, so that new and better ways of doing things are introduced if needed.

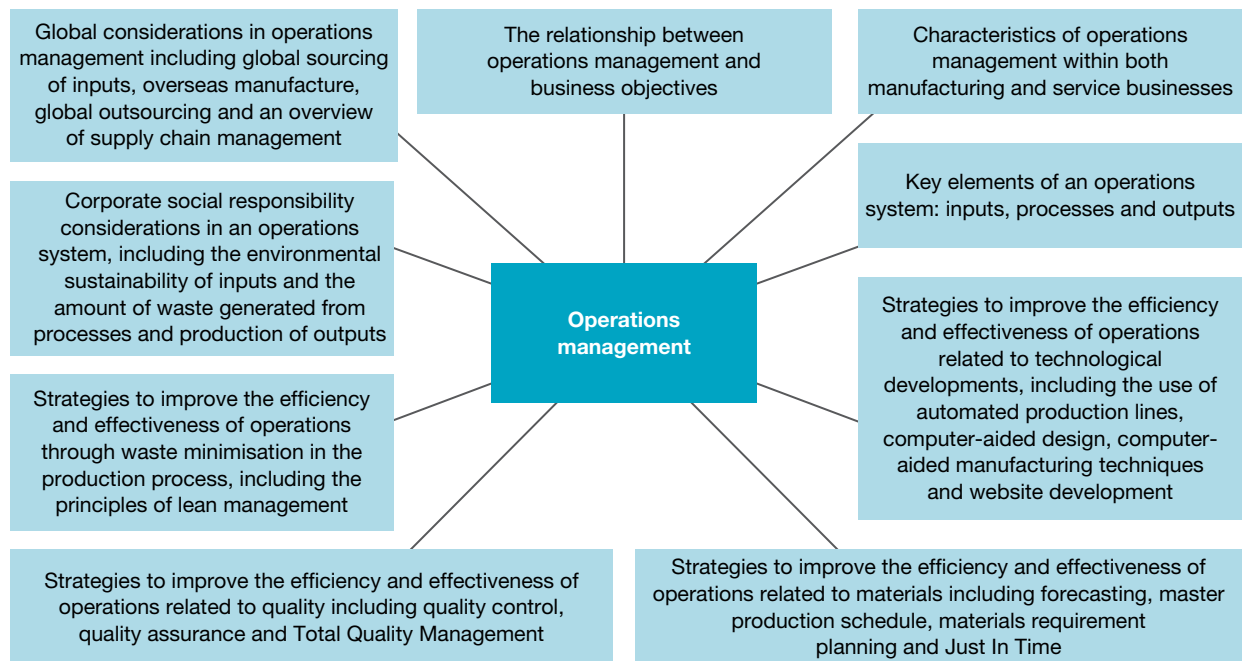
Just In Time (JIT) production is also used at Toyota. This means that the right parts and materials are manufactured and provided in the exact amount needed, and when needed. The number of cars produced is directly related to customer demand.

Toyota uses technology to its advantage. For example, the welding required for making the shell of a car involves hundreds of welding processes and parts. Robots on the automated production line do many of the welding jobs and the remainder are carried out by workers. Toyota says they are automated, but ‘with a human touch’.

5.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.



Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of management applicable to managing production in a business
- Interpret, discuss and evaluate business information and ideas
- Apply operations management knowledge to practical and/or simulated business situations
- Compare and evaluate strategies used in operations management
- Propose and justify strategies for improving the efficiency and effectiveness of operations

Source: VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.

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 Digital doc: Key terms glossary (doc-29448)

5.2 The relationship between operations management and business objectives

KEY CONCEPTS

- Operations management is about producing goods and/or services based on business objectives.
- The characteristics of operations management within manufacturing businesses are different to those of service businesses.

5.2.1 Operations management

If you have ever attempted to prepare a meal, you will know that you need ingredients and a recipe, or a method, to create a final product. Just like you, businesses will follow a recipe when they are producing their good or service. The area of management that is responsible for this is known as operations.

In some way, all businesses must consider the challenges of **operations management**. This area of management is concerned with the strategies that are used to create, operate and control the transformation of inputs from a variety of resources into output, or goods and services, to satisfy the demands of customers. Operations managers make use of strategies including management of materials, quality, waste and use of technology.

A restaurant will make use of operations management. Inputs such as ingredients, labour and equipment are combined through a production process to produce a meal, which hopefully exceeds customer expectations.



HOW IMPORTANT IS OPERATIONS TO A BUSINESS?

Operations is vital to any business, because this area of management produces the good or service. Without a product to sell there would be no business.

South32 is a global mining and metals company that operates in Australia, Southern Africa and South America. The area of operations is vital to its performance. In a statement to the ASX in 2016, South32 Chief Executive Officer, Graham Kerr, said, 'We will continue to focus on the things that we can control; safety, volume, costs and capital expenditure, as we seek to optimise the performance of our operations. This strategy to maximise value rather than volume, our high quality operations and well-defined financial policies underpin our resilience at current commodity prices and we remain exceptionally well positioned for any improvement in industry fundamentals.'

Australia Post is another business that highly values operations. Australia Post is the government-owned corporation that is responsible for postal services in Australia. In a business briefing by Australia Post's former managing director and CEO, Ahmed Fahour said, 'We have also streamlined our operations through automation and process improvement, which has delivered productivity improvements of 5 to 6 per cent, per annum. We have 3000 less people and run a very lean and efficient operation, handling 20 million items, 11 million addresses and 1 million customers in our shops every business day. These changes are necessary to provide the contemporary services and solutions that Australian government, businesses and citizens need.'

5.2.2 Efficiency, effectiveness and business competitiveness

Two key areas that the operations area of management responsibility must focus on are effectiveness and efficiency. We briefly examined these concepts in relation to business objectives in chapter 1; effectiveness refers to the degree to which a business has accomplished its stated objectives, while efficiency refers to how well a business uses resources in achieving these objectives. If a business's objective is to make profit, then improving profit from one year to the next means that the business is considered to be effective. Operations strategies such as the management of materials, quality, waste and use of technology should reduce costs and improve quality, contributing to the attainment of objectives such as making a profit and increasing sales. Of particular importance to operations is improving productivity — a measure of the amount of output compared to the amount of inputs going into production. An improvement in productivity is typically associated with reduced costs and waste, meaning that the business is using resources more efficiently. Efficiency and effectiveness are covered in more detail in subtopic 5.3.

Businesses that can improve productivity and/or quality will become more competitive. **Business competitiveness** refers to the ability of a business to sell products in a market. A business will be competitive when it is able to produce goods or services at the same level or better than competitors. Cost, the quality of the product and speed of delivery are all areas that a business can compete on. Approaches to competitiveness are covered in more detail in chapter 6.

DID YOU KNOW?

- Businesses can become more competitive by looking at their production processes. For example, the 'Better Mangoes project' identified why so many mangoes were arriving at retail outlets bruised or overripe. Improved handling techniques and temperature control have resulted in more consistent fruit quality and better profits.
- In 1913, Henry Ford developed an approach to car assembly that involved a chassis moving down an assembly line on a conveyor belt. A small team of workers would move with the car, fitting the various components that had been carefully set out along the production line. The end result was a reduction of the hours spent on the assembly of a car, from 728 to just 1.5.

5.2.3 Relationship between operations and business objectives

The core objective of all businesses is to maximise profit. This aim therefore requires businesses to efficiently use resources to produce goods or services at the lowest possible cost. Operations management is responsible for achieving this objective. Businesses such as South32 and Australia Post are successful in achieving their objectives because they focus on the management of quality, customer service, productivity, technological development, management of materials, waste minimisation and speed of delivery. Efficient and effective operations should lead to satisfied customers, sales, and consequently, the achievement of business objectives. Besides profit, these objectives include increasing market share, fulfilling a social need and providing a reasonable return for investors.

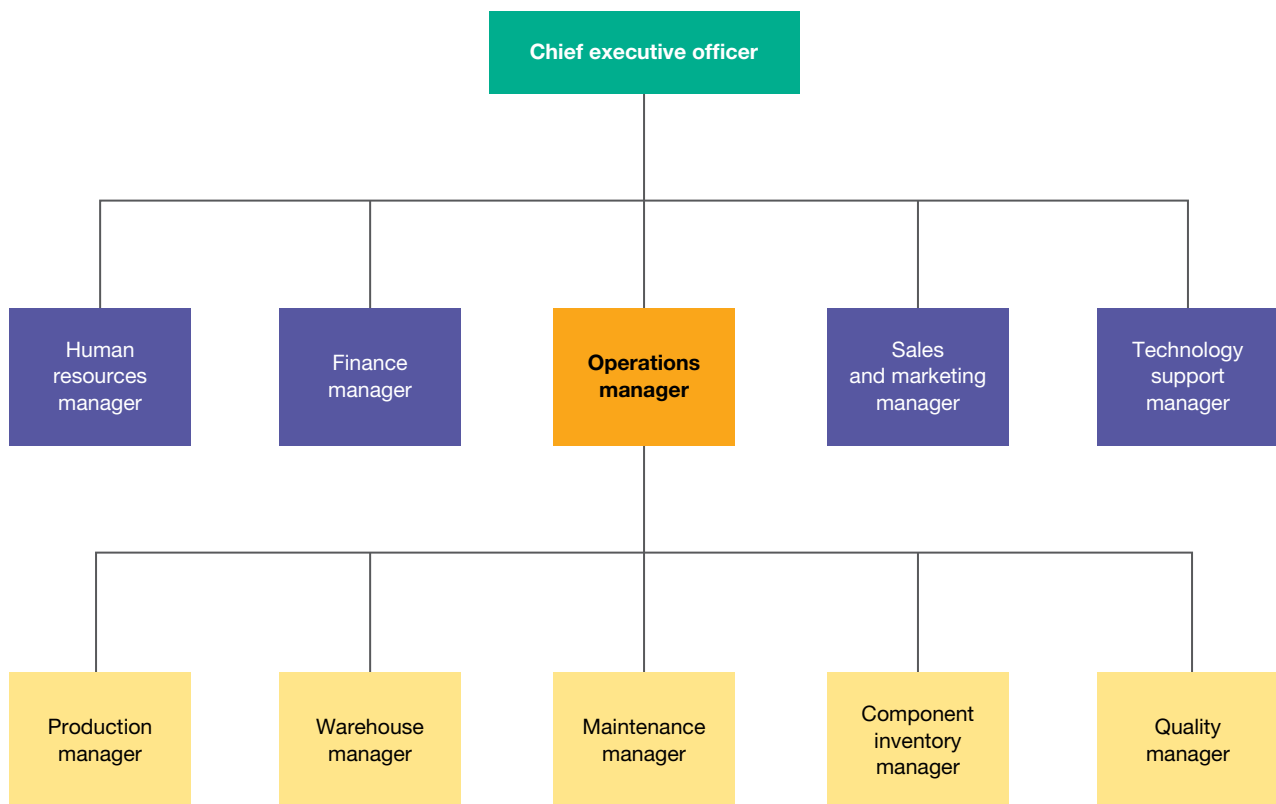
The operations area also contributes to the attainment of business objectives in less obvious ways. Keep in mind that the nature and type of operations will vary considerably from one type of good or service to another and from one type of business to another. For example, the responsibility for the operations area in small businesses tends to be held by the owner-operator or one or more employees. It is very likely that the owner of a small business will determine business objectives and ensure that operations strategies meet those objectives. However, larger-sized businesses will usually establish an operations department (see the business structure diagram on the next page). The manager responsible for operations will be involved in determining business objectives, along with the other senior managers. This manager will also need to ensure that the strategies being used within operations align with the objectives and strategies of the entire business.

The operations department will work closely with other areas in the business. Operations may, for example, work closely with the Human Resource Management department to recruit and select new staff to work in the area of operations. Additionally, operations strategies can be used to achieve objectives by supporting strategies in other areas of the business. The table below shows more examples of how operations strategies can be used to help the business achieve its objectives.

How operations strategies can support business objectives		
Business objectives	Operations objectives	Operations strategies
To make a profit	Reduce costs	Through Just In Time
Increase market share	Improve quality	Quality control
Provide a return for shareholders	Increase productivity	Introduce automated production lines
Contribute to the wellbeing of the community	Minimise waste	Establishment of lean management

Operations management differs from other areas of management, because it applies specifically to the productive or transformational process. It is important to note, however, that operations managers should no longer be considered as simply engineers of a manufacturing process (production managers), as was the case before the 1970s. Today, operations managers carry out a wide range of tasks.

An operations manager in a large business is likely to be part of the senior management team. A large business is also likely to have many managers who report to the operations manager, such as a production manager, warehouse manager and quality manager.



INTERVIEW WITH AN OPERATIONS MANAGER

Harry Souris: National Operations Manager

Company: M&J Chickens

Studied: Business Management, University of Western Sydney

What are your primary roles and responsibilities in your job?

I am responsible for the operational side of the business on a national level; I liaise with our teams across Australia on a daily basis to maintain stock control and to generally make sure that things are running smoothly. In doing so I'm also required to travel regularly and conduct meetings and training for our management teams to then pass onto their staff.

How did you get to where you are today?

Together with my siblings I have been actively involved with the business since we were old enough to walk and talk; I remember packing product into boxes at the tender age of eight years old. These days we all play an active part in the running of the business on a national level, being based and having worked in the Sydney head office we endeavour to maintain all of our warehouses at the level of quality and service that is synonymous with the M&J Chickens name which is ultimately our family's reputation.

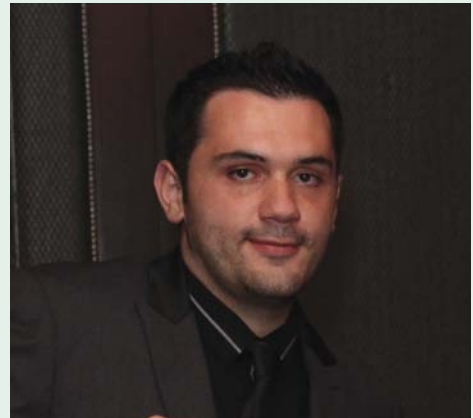
What tools and/or software do you use on a daily basis?

We operate using a software system called Clear Objective; this system processes all our sales orders and purchase orders, I refer to this system as the 'brains' behind our business because it allows us to maintain stock control and forecast stock moving forward to ensure we are not caught off guard.

What is your biggest frustration in your job?

If I were to get frustrated it would be on the rare occasion when something goes wrong that it is out of my control, for example a supplier not being able to fulfil our product needs in order for us to produce product for a client is the ultimate frustration for me because letting down our clients is always the worst case scenario. I would exercise every possible option before letting down the client.

Source: Food Magazine, 9 April 2013, <https://foodmag.com.au/24-hours-with-mj-chickens/>



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Unit 3 > AOS 3 > Topic 1 > Concept 1

Relationship between business objectives and operational strategy Summary screen and practice questions

5.2.4 Characteristics of operations management within both manufacturing and service businesses

A manufacturer will transform inputs into tangible products. **Tangibles** are physical products that can be handled and stored before they are sold to the consumer, such as bread, clothing or a car. The production process and consumption are not linked. That is, there is little customer involvement in production.

A service business will transform inputs into services. Services are **intangible**, which means that they cannot be touched. For example, if you attend a training course, you cannot physically touch it, but you benefit from gaining knowledge and learning new skills. Services cannot be stored and the customer may actually need to be present when the service is being delivered. For example, the customer must be present when receiving a haircut.

The characteristics of operations management within manufacturing and service businesses

Manufacturing businesses	Service businesses
Produce goods that are tangible (can be touched)	Produce services that are intangible (cannot be touched)
Manufactured goods can be stored for later use	Services cannot be stored
Little customer involvement in production — the consumer is typically not present when the good is produced	Customer is involved in production — the consumer typically has to be present when the service is produced
Production process and consumption are not linked	Production process and consumption typically occur at the same time
Manufactured goods tend to be homogenous or standardised	Services tend to be differentiated or tailored to individual customers
Examples include bread, clothing, cars	Examples include haircut, transport, education

In reality, many businesses today produce a combination of both manufactured goods and services. Products such as cars or electronic equipment often come with a warranty and other services. When a customer enters a contract with an internet provider, they will receive a service (their broadband connection), a modem and other goods necessary to enable the connection.

Regardless of whether a business manufactures a good or produces a service, most large businesses will have an operations function or department. Sometimes, it may be referred to by other names, such as production or supply. The strategies that the operations area uses will differ according to whether the business manufactures a good or provides a service. A bank, for example, would not be as concerned with the management of materials as a car manufacturer would be.

Training courses are an example of a service, as they are not a physical product.



DID YOU KNOW?

An operations manager can select strategies from four areas to achieve optimal operations: use of technology, materials management, management of quality and waste minimisation.

5.2 Activities

TEST your understanding

1. Define what you understand by the term 'operations management'.
2. 'Operations management is the part of the business that actually gets the job done.' Demonstrate this concept on a smaller scale by describing the materials you would need and the process you would undertake to make a pizza (your finished product).
3. Outline some of the tasks that Harry Souris carries out as National Operations Manager.
4. In your own words, describe the relationship between operations management and business objectives.
5. Explain the main differences between goods and services.
6. Outline the differences between the characteristics of operations management within a manufacturing business and a service business.
7. Why do modern businesses combine goods and services?

APPLY your understanding

8. One strategy to produce goods more quickly is to use better technology. For example, using a manual grater to grate cheese might not be as efficient as using an electric grater. Fill in the table below and list some strategies that an operations manager might use to achieve the listed business objectives. The first entry has been completed for you.

Business objective	Operations strategy
Increase the quality of service provided	Introduce Total Quality Management
Increase the quality of the product	
Reduce production costs	
Minimise impact on the environment	
Increase profit	

9. Pick a business such as BHP or Woolworths Group Limited, and list at least three of their business objectives. This information can be found on the company's website, in its annual report or in speeches made by the company CEO. For each objective, state what strategies the operations manager might employ to help achieve the objective at the operational level.
10. Use the internet to find a job advertisement for an operations manager (sometimes called a production manager or a factory manager). The advertisement will probably outline responsibilities involved in the position. List the skills required to fulfill these responsibilities.

EXAM practice

11. Explain the importance of the relationship between operations management and business objectives. **(2 marks)**
12. Leading Pharma Group Ltd is a manufacturer of pharmaceutical products. Describe two differences between the operations management of a manufacturing business, such as Leading Pharma, and a service business. **(4 marks)**
13. Compare the main characteristics of a manufacturer with those of a service business. **(4 marks)**

5.3 EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations

KEY CONCEPTS

- Efficiency and effectiveness work together to enable a business to achieve objectives.
- All operations strategies are used to improve the efficiency and effectiveness of operations.

It is vital that you understand the concepts of efficiency and effectiveness as you examine operations management. As you consider each operations management strategy, make sure that you can relate it back to how it affects efficiency and effectiveness.

A business must monitor and evaluate its operations systems. A business should be constantly asking whether or not the operations strategies that have been implemented or are about to be implemented improve the effectiveness of the production process (achieving stated objectives). Likewise, a business should also be asking whether or not operations strategies are improving the efficiency of the production process (how well the business has used resources in achieving its objectives).

EFFECTIVENESS — ‘DOING THE RIGHT THINGS’

Effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. In other words, the business is ‘doing the right things’. For example, it might be asked, ‘did the business make a profit, or did the business not make a profit?’ If a business’s objective was to make profit, and it did so, then we would say it has been effective in achieving its objectives.

Operations strategies should support the business in achieving objectives such as to make a profit. For example, one materials strategy is ‘Just In Time’. By ensuring that the right amount of materials arrive just as they are needed for storage costs are reduced and the risk of waste occurring is reduced (also minimising costs).

Reduced costs impact positively on profit (profit is defined as what remains after business expenses have been deducted from revenue). Further, the right materials arriving in the right places, in the right quantities and at the right times mean that a business’s production process will operate as planned. Effective operations will contribute to the attainment of business objectives such as profit.

Another example of an operations strategy being used to improve effectiveness relates to technological developments. New technologies, such as automated production lines and website development, can be incorporated into the production process of a business. Technology can be used to increase production and improve the quality of the product, as well as to reduce errors and waste — thereby reducing costs. In this way, technological developments are able to support the business in achieving its objectives, such as making a profit, increasing sales and increasing market share.

Effectiveness refers to doing things right; that is, achieving the objectives or goals of the business.

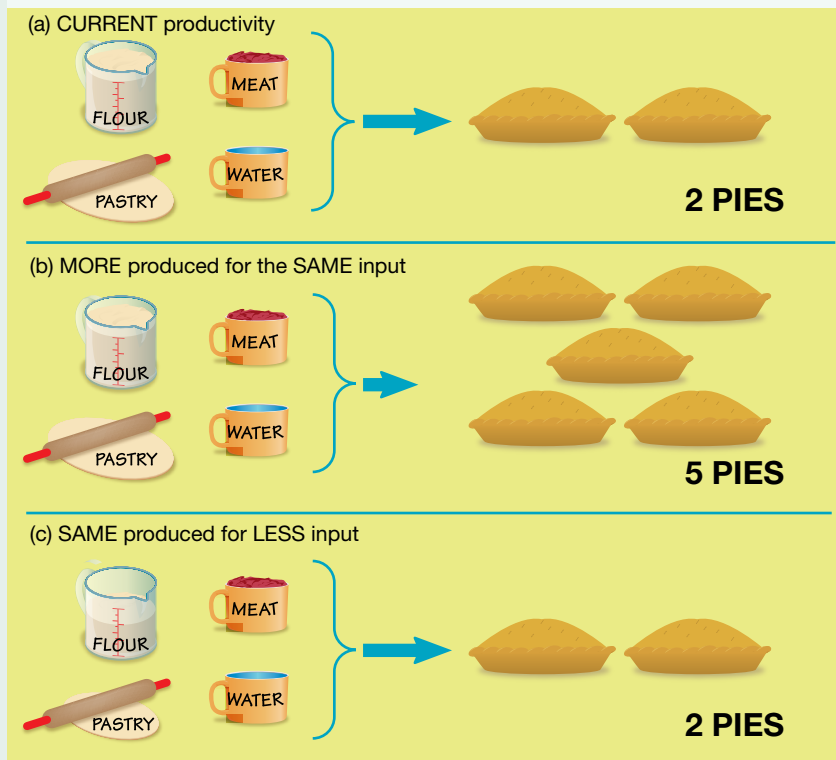


EFFICIENCY – ‘DOING THINGS RIGHT’

Efficiency refers to how well a business uses resources to achieve objectives. In other words, the business is ‘doing things right’. The most efficient use of resources generally occurs when the benefits arising from the use of resources are greater than the costs of the resources utilised. Essentially, this is referring to productivity — how many inputs (resources) it takes to produce output (goods or services). If a business reduces the amount of waste produced while achieving its objectives, then this is also considered to be efficient.

Let’s take a closer look at productivity. Using our definition — the amount of output compared to the amount of inputs that go into production — there are two ways in which productivity can increase. Productivity can be improved by reducing the amount of input that is required to obtain the same level of output (or even increased output). Alternatively, productivity may rise if input remains the same but output increases. Both situations occur because a business has been able to get more out of the input. The two ways of improving productivity are illustrated in the diagram below.

Current productivity (situation a) may be improved by producing more output from the same input (situation b) or by reducing the level of input for the the same output (situation c).



It is worth noting that productivity is more straightforward to measure in a manufacturing business than it is for a service business. A manufacturer may measure productivity by simply comparing the amount of goods it produces to its inputs; for example, machinery used, equipment, staff hours. A car manufacturer may improve productivity by producing more cars with the same amount of input, or the same number of cars using a smaller amount of input. Measuring the productivity of a service business is slightly more complex. It is not always possible to increase output because so much of the input will be staff hours. An increase in the number of customers might correspond with a decline in customer service as employees rush to complete as many tasks as possible. For this reason, one of the ways that a service business measures productivity is by gauging customer service and satisfaction.

There are a number of strategies that businesses can use to produce more output from the same input or reduce the level of input for the same output. Improved communication between management and employees can boost production. Management styles (see subtopic 2.5) that involve the employee in the decision-making process can increase worker productivity, as can human resources strategies such as career advancement and training programs aimed at improving worker motivation (see chapters 3 and 4). Automating production lines to

reduce the labour required to perform a task and increase output is also a strategy used in many businesses. The use of robots in car manufacturing plants is now commonplace.

Returning to our discussion on efficiency, operations strategies should support the business in using resources efficiently in achieving objectives. Just In Time can be used by a business to improve efficiency. By ensuring that the right amount of materials arrives just as they are needed for production, the business does not need to maintain inventory. This reduces the risk of inputs becoming damaged, lost or perishing, or never used, thereby minimising waste. Because the business does not need an oversupply of materials, the actual amount of inputs used can be reduced, improving productivity. Just In Time ensures that the operations process only produces what is needed, when it is needed, and in the quantity required at the right time.

Technological developments, such as automated production lines and website development, can be incorporated into the production process of a business to improve efficiency. Technology allows the operations process to occur faster, increasing the rate at which output is produced. Furthermore, costs are reduced as technology reduces errors. In addition, the use of technology reduces waste.

It is important to note that efficiency and effectiveness work together to enable a business to achieve objectives. It is difficult for a business to be effective if it is not being efficient and, likewise, it is difficult for a business to be efficient if it is not being effective. For example, a business that improves productivity (efficiency) is also likely to find that profit improves (effectiveness) as the reduced costs associated with productivity improvements reduce expenses.

However, for any given time period, it is possible for a business to have been effective (that is, it has achieved its objectives, such as profit) yet inefficient (for example, productivity may have declined over the same period). Nevertheless, efficiency and effectiveness will usually move in the same direction.

Businesses that can improve effectiveness and efficiency are likely to be more competitive, because they are able to produce more outputs at lower cost, provide higher quality products to customers and deliver them without delay.

The relationship between efficiency and effectiveness

		Use of resources—efficiency	
		Inefficient	Efficient
Pursuit of objectives—effectiveness	Efficient	- Effective but inefficient (costs are high) - Doing the right things in the wrong way	- Effective and efficient - Doing the right things and doing them right
	Inefficient	- Ineffective and inefficient (not producing enough at high cost) - Doing the wrong things in the wrong way	- Efficient but ineffective (not producing enough but at low cost) - Doing things right but doing the wrong things

5.3 Activities

TEST your understanding

1. Identify three ways in which a manufacturing business could improve productivity.
2. Identify three ways in which a service business could improve productivity.
3. Explain the difference between the efficiency and effectiveness of operations.
4. Outline how a business can use one operations strategy to improve effectiveness.
5. Describe one operations strategy that a business can use to improve efficiency.

EXTEND your understanding

6. Productivity can be calculated by using the formula $\text{Productivity} = \frac{\text{Output}}{\text{Input}}$.
- (a) Calculate the labour productivity (output per employee) of bakeries A–D in the following table.
- (b) Working in groups of three or four, suggest why:
- bakery D's labour productivity is so high
 - bakery C's labour productivity is so low.

Bakery	Input (employees)	Daily output (loaves of bread)	Labour productivity (loaves per day/employee)
A	50	2000	
B	80	4000	
C	20	600	
D	10	700	

7. Research and explain why it can be easier to increase productivity in a manufacturing business than in a service business.
8. In your own words, explain how a business can be both:
- effective and efficient
 - effective but not efficient
 - efficient but not effective.
9. Use the internet to research a business that has improved productivity. You could search for either a private limited company or a public listed company. Prepare a report that covers:
- how the business improved productivity
 - whether or not you believe that the business is effective
 - whether or not you believe that the business is efficient.

5.4 Key elements of an operations system

KEY CONCEPTS

- The elements of an operations system are inputs, transformation processes and outputs.
- The operations system used in a manufacturing business will be different to the operations system used in a service business.

The key elements of an operations system are inputs, processes and outputs. These elements differ between manufacturing and service businesses. The management of the operations system is important because it will determine how efficiently and effectively the business produces goods or services to meet the needs of customers.



5.4.1 Inputs

Inputs are the resources used in the process of production. Some resources are owned by the business, while others are from suppliers. There are five categories of inputs:

1. *Materials* includes raw materials, components and parts consumed or converted by the transformation process.
2. *Capital equipment* includes the plant, machinery, equipment and property necessary to conduct operations.
3. *Labour* refers to people involved in the operations function.
4. *Information from a variety of sources* contributes to the transformation process. Businesses do not always account for the value of this resource, because it cannot be easily quantified as an asset.
5. *Time* and its efficient use are critical to all businesses. Coordinating resources within appropriate time frames limits costs and wastage. Operational planning may involve achieving production tasks ranging in duration from one year to merely hours.

Differences between the inputs of manufacturing and service businesses

Inputs differ between manufacturing businesses and service businesses. Manufacturers tend to make more use of capital equipment and materials and use less labour and information. A hospital is an example of a business that provides medical services. The inputs to provide these services involve medical equipment and products such as tape, injections, sheets, towels and hand-wash solutions. Labour, in the form of medical supervision by nurses and doctors, is also required. For a service provider such as a hospital, information is a very important input. For example, information about medical practices and patients are combined with the other inputs in the transformation process to improve patient health.

In a hospital the inputs include labour, such as the doctors and nurses who work there, the equipment and materials they use to care for patients, as well as the hospital facilities themselves.



5.4.2 Processes/transformation

The main concept of operations management is **transformation** — conversion of inputs (resources) into outputs (goods or services). Sony, for example, takes plastic, metal, glass and electronic parts, and transforms them through design, manufacturing and assembly into numerous electronic products.

The term ‘transformation’ implies physical changes, but, today, it also includes the conversion of resources into services. Your school takes its main inputs — students, the syllabus, staff and buildings — and produces educated, employable graduates.

The production of yoghurt goes through a transformation process, where inputs such as labour, raw materials and machinery are combined and converted into output.



Differences between the processes of manufacturing and service businesses

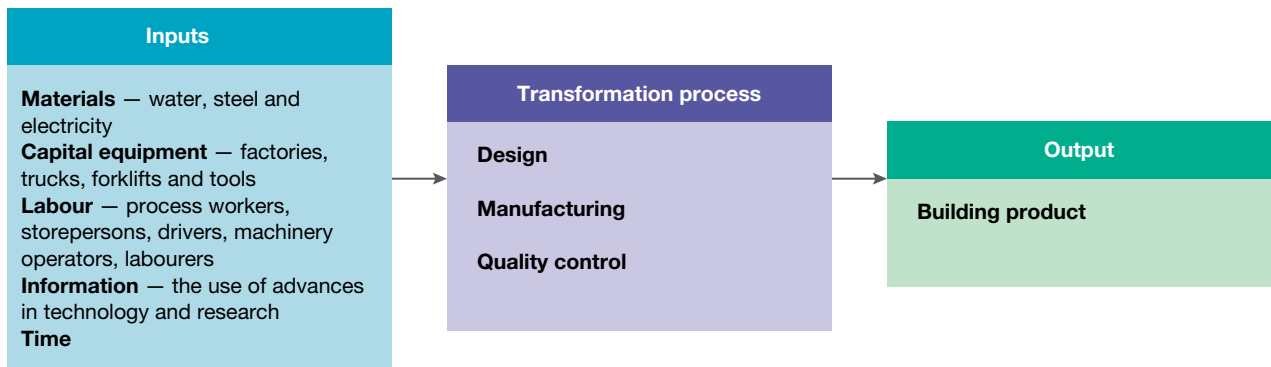
It is important to understand that the transformation process differs between manufacturing businesses and service providers. A manufacturer transforms inputs into tangible products (goods that can be touched). A service business transforms inputs into intangible products (services that cannot be touched). The operations system of a manufacturer tends to be highly automated or mechanised. Manufacturers use machinery, robots and computers to transform inputs into outputs. Service providers rely heavily on interaction with the customer and their processes tend to be more labour intensive; that is, staff are crucial to the operations.

The transformation process involves using resources to produce the final goods or services. Many businesses continually work to improve the way they transform resources into finished products.

5.4.3 Outputs

Essentially, **outputs** are the result of a business’s efforts — the final good or service that is delivered or provided to the consumer. Manufacturing businesses transform inputs into tangible products, or goods. Goods tend to be homogenous, which means that they are basically all the same or similar. Service businesses transform inputs into services. Services tend to be differentiated, that is, they are provided to individual customers and are modified to suit each customer.

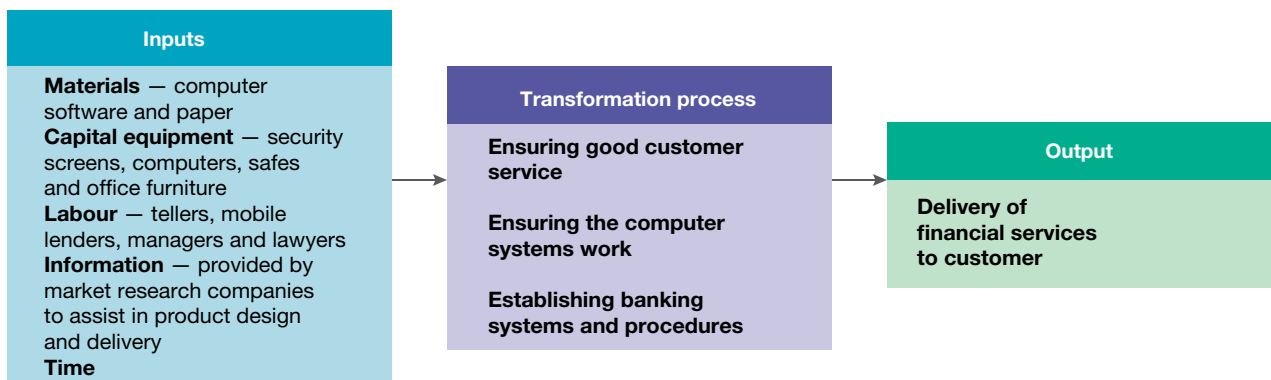
An operations system for a manufacturing company producing building products



A car is an output that requires many individual processes. There may be several thousand inputs, such as nuts and bolts, supplied by hundreds of businesses.



An operations system for a bank or financial institution, delivering financial services



5.4.4 The operations systems of manufacturing and service businesses

So far, we have drawn a distinction between service and manufacturing operations, but, in many cases, businesses carry out both types of operation. Toyota, for example, separates its vehicle manufacturing operation from its customer service operation, although both elements are critical to the business's overall success. All businesses carry out many activities that can be isolated from direct involvement with the customer. Insurance companies employ mathematicians called actuaries who use formulas to determine risk and probability in setting the level of insurance premiums. Actuaries never deal directly with the public, but are instrumental in forming parameters or boundaries in which operations will occur.

The operations manager must be able to link transformation processes to the activities performed by other areas of the business. Output must always be responsive to customer demands. Issues of quality, efficiency and flexibility must be balanced against the resources and strategic plan of the business.

Operations management is a delicate balancing act.

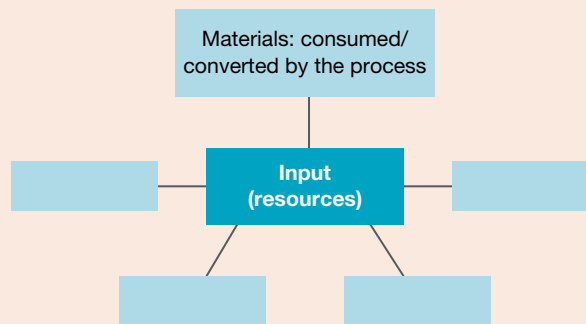


5.4 Activities

TEST your understanding

1. Identify the three key elements of an operations system.
2. Distinguish between 'input', 'process' and 'output'.
3. Using the process of completing homework as an example, draw a diagram that describes the operations component (that is, the transformation from no homework done to *all* homework completed).
4. Identify the inputs, processes and outputs of the following businesses.
 - (a) Coles supermarkets
 - (b) Four'n'Twenty pies
 - (c) RACV

5. Miriam's Interior Decorating Service is a business specialising in home redecorating. Outline the range of operations activities offered in such a business.
6. Construct a mind map to illustrate the five categories of inputs. The mind map below has been started for you.



APPLY your understanding

7. The Rio Tinto Group is an international mining company. Rio Tinto finds, mines and processes mineral resources, which are then converted to products such as coal, copper, gold and silver. Use the **Rio Tinto** weblink in the Resources tab to identify the inputs, transformation processes and outputs that Rio Tinto would use to produce its products.
8. Monash Health provides health services through major hospitals and community health facilities across south-eastern Melbourne. Use the **Monash Health** weblink in the Resources tab to identify the inputs, transformation processes and outputs that Monash Health would use to provide its services.

EXAM practice

9. Explain the difference between inputs and outputs. **(2 marks)**
10. Describe the key elements of an operations system. Illustrate your answer using a service business. **(4 marks)**
11. T&A Windows and Doors Pty Ltd is a manufacturer of timber and aluminium windows and doors. Identify and explain the key elements of T&A Windows and Doors' operations system. In your answer provide one example of each key element. **(6 marks)**



Resources



Weblink: Rio Tinto



Weblink: Monash Health

5.5 Technological developments

KEY CONCEPTS

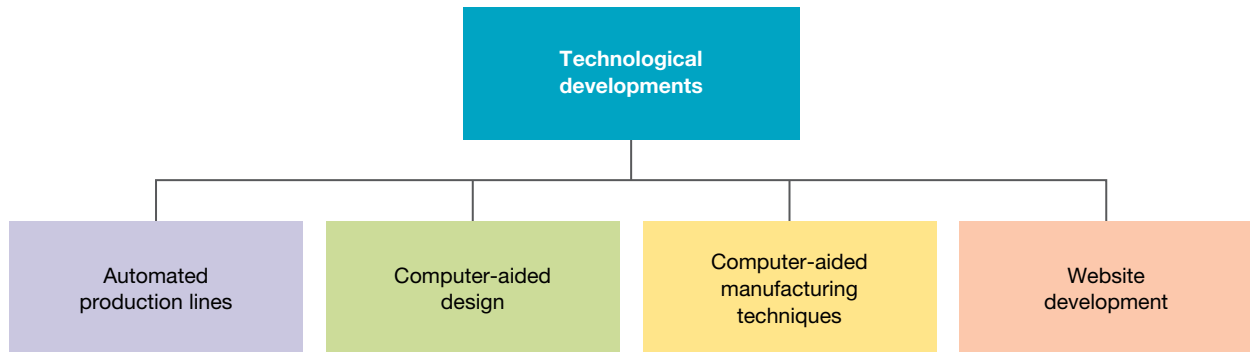
- The use of technological developments is one strategy that operations managers use to improve the efficiency and effectiveness of operations.
- Four strategies related to technological developments are the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development.

Imagine if Toyota tried to produce all of its cars with absolutely no technology, or if Telstra attempted to maintain customer records without the assistance of computers. It just could not be done. Businesses need to utilise up-to-date technology in order to compete with other businesses. In both the service and manufacturing

sectors, technological developments can be used to speed up (or shorten) processes and maximise the use of materials. The use of technology means that goods and services can be produced using less labour. These factors reduce costs and maximise efficiency. The use of technological developments can also improve quality; as sales increase and as costs are reduced, a business should increase its profitability (or effectiveness).

There are a huge range of technologies available to a business. For VCE Business Management, four strategies that you must be aware of related to technological developments are the use of automated production lines, computer-aided design, computer-aided manufacturing techniques and website development.

Four strategies related to technological developments



EXAM TIPS

- The **Unit 3, Area of Study 3** outcome states that you need to ‘evaluate strategies to improve the efficiency and effectiveness of business operations’. This suggests that you should know the advantages/strengths and disadvantages/limitations of each strategy related to technological developments, as well as each strategy’s impact on improving the efficiency and effectiveness of operations.
- The **Unit 3, Area of Study 3** outcome states that you need to ‘propose strategies to improve the efficiency and effectiveness of business operations’. This suggests that you should put forward a technology strategy for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the technological development as well as explain a little about it.

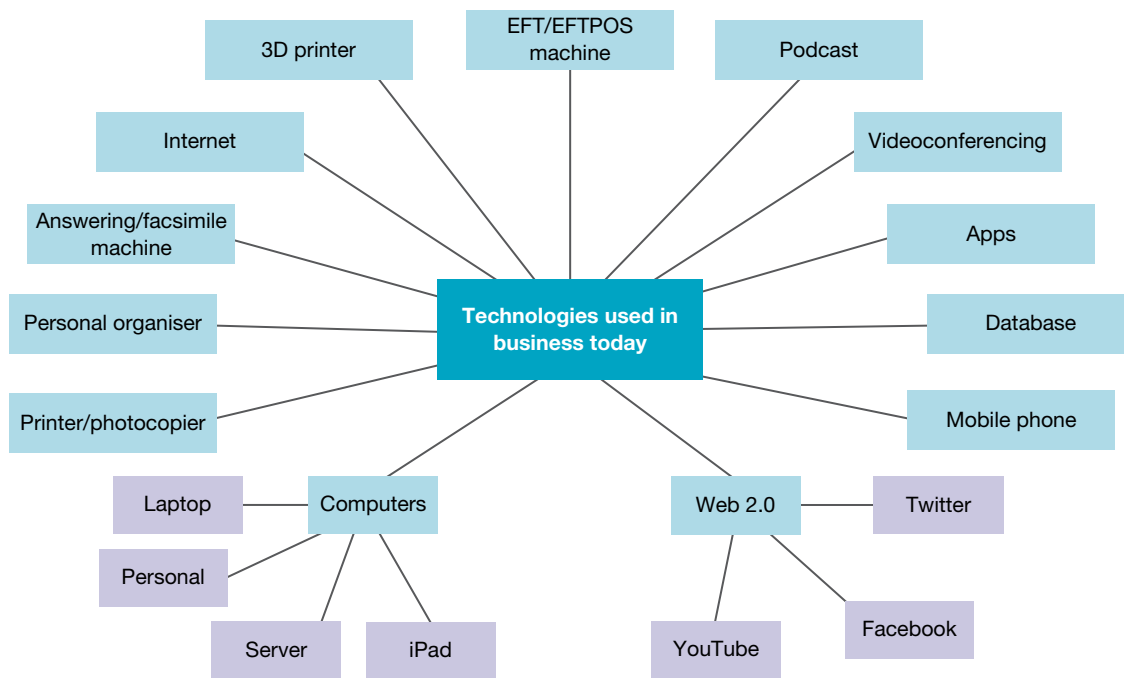
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Unit 3 > AOS 3 > Topic 2 > Concept 3

Technological developments Summary screen and practice questions

5.5.1 Office technology

Both service and manufacturing operations use office technology, but businesses providing a service are likely to make greater use of it. Office and communication technologies have enabled whole markets to open up as businesses can reach more customers around the world. Developments in business technologies have created the opportunity for people to do more work in less time, which means a greater range of tasks can be completed in work time. These technologies have also enabled office workers to work from locations outside the office. Some technologies used in business are shown in the following diagram.



5.5.2 Website development

Most modern businesses require a website. A website can be used for marketing but it can also be developed for operations purposes. The operations department may work with technology support to develop ways to make it easier for customers to purchase goods or services online or to share information. Online sales functions may be added to the website or upgraded. For example, an upgrade might involve improving a shopping cart or a checkout process. A website can be developed to allow customers to make bookings or appointments. A business will need to ensure that a website that will handle private and sensitive personal information provided by customers can effectively protect this information. Additionally, a business may make use of **website development** to increase the amount of information it gets from its customers and analyse this information.

A business may also develop its website to provide information to employees, customers and suppliers. A section for policies, such as a privacy policy or a returns policy, and an FAQ section for addressing the most frequently asked questions of a support team could be included on a website for customers.

A website can provide detailed information to suppliers. For example, it can make **procurement** activities available to potential suppliers. Furthermore, a portal for suppliers might be established to identify and obtain qualified suppliers.

A website can be used by a business to enable customers to purchase products online or communicate with the business. It can also be used to improve communication with employees and suppliers.



As well as delivering consistent messages to customers and suppliers and being used to gain customer feedback, a website means that a business is accessible 24 hours a day, 7 days a week. A website also reduces the costs of labour and of leasing or purchasing physical space. However, designing, registering and publishing a website may initially be expensive and time consuming. Websites do crash, so the loss of access to the business when there is a malfunction may prevent customers or other stakeholders dealing with the business. Operating a website may require employees to be trained in website design and maintenance, and a lack of this skill set may lead to employees losing their jobs.

5.5.3 Automated production lines

An **automated production line** is comprised of machinery and equipment arranged in a sequence with components added to the good as it proceeds through each step. The good usually moves along the line on a conveyer belt. An automated production line does not need employees directly involved in its operation as all or part of the process is controlled by automation; that is, it is self-operating or controlling. Computers manage the process and humans are likely to be given the task of monitoring the operations system.

Robotics used in the car manufacturing industry



A typical key feature of an automated production line is the use of **robotics** — a form of technology that is capable of complex tasks (as shown in the figure above). Robots are used in engineering and specialised areas of research, as well as on automated production lines, where a programmable machine capable of doing several different tasks is required. Robotics allows for a degree of precision and accuracy generally unmatched by human labour. In addition, robots work without complaint or demands for wage rises, in conditions that would be repetitive, difficult or even dangerous for employees. Robotics is a high-cost form of technology that can be unaffordable for many small and medium-scale manufacturers.

5.5.4 CAD/CAM/CIM

Computer-aided design (CAD) software generates three-dimensional diagrams from a set of given input data (parameters). Once the design has been created, it can be viewed from multiple angles, assisting both the designer and the end user to visualise what will be produced. It is used in a range of businesses.

From the design, material use can be calculated, as can time for the task to be completed. This enables costings of the project to be quantified. If the cost is too high, or if the design is too limited, the input parameters can be altered to reflect these requirements. CAD software can customise a series of options that meets the client's or customer's needs. Normal drafting processes would cost much more, take longer and be less accurate. CAD software can also design the sequence of steps that would need to be taken to create the desired product in the shortest possible lead time using the least material.

Computer-aided manufacturing (CAM) involves using software to direct and control the manufacturing process. CAD software can be linked to CAM software to manufacture designs that are accepted by clients. CAM can also be used more broadly to calculate how much of each input would be required.

Computer-integrated manufacturing (CIM) uses a computerised system to combine CAD and CAM to manage the entire production process. Product design, analysis, planning, purchasing, costing, inventory control and distribution can be controlled by computer.

Like other forms of technological developments, CAD and CAM (as well as CIM) offer advantages such as faster production at reduced cost.

However, computer software can crash, resulting in the possible loss of work or production ceasing, and software and systems can be expensive. The cost and time involved in training staff can also deter many businesses from the use of CAD and CAM (as well as CIM). As with other types of technology, the use of these strategies can lead to the loss of jobs as less employees are likely to be required to complete tasks.

Computer-aided design allows more scope to design complex structures such as giant waterslides.



DID YOU KNOW?

Australian Waterslides and Leisure Pty Ltd uses the latest computer-aided design programs to provide quality and safety in its waterslide projects. The information can be collated quickly for a very accurate presentation of ideas and information.

study on

Unit 3 > AOS 3 > Topic 2 > Concept 1

Automated production lines and computer-aided design Summary screen and practice questions

Unit 3 > AOS 3 > Topic 2 > Concept 2

Computer-aided manufacturing techniques and website development Summary screen and practice questions

5.5 Activities

TEST your understanding

1. How can technology improve operations?
2. Explain the impact of technology on service businesses.
3. In what ways can the development of a website be beneficial to the operations area?
4. What is an automated production line?
5. Explain the impact of technology on manufacturing businesses.
6. State two benefits and two costs of technology.
7. Match each of the following terms with its definition.

Term	Definition
Website development	(a) A computerised design tool that allows a business to create product possibilities from a series of input parameters
Automated production line	(b) The creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products
Computer-aided design (CAD)	(c) Machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step, with the process controlled by computers
Computer-aided manufacturing (CAM)	(d) A method of manufacturing in which the entire production process is controlled by a computer

APPLY your understanding

8. Explain how technology can be used to improve the efficiency and effectiveness of operations in a business. Include the terms 'website development', 'computer-aided design', 'computer-aided manufacturing', and 'automated production lines' in your answer.
9. Use both the **Telstra** and **Toyota** weblinks in the Resources tab to list the types of technology these companies use and then make a comparison. Explain how the technologies used differ.

EXAM practice

10. Define the term 'website development'. **(1 mark)**
11. Distinguish between automated production lines and computer-aided design. **(2 marks)**
12. Discuss the likely consequences of a business introducing technological developments to improve its operations. **(6 marks)**

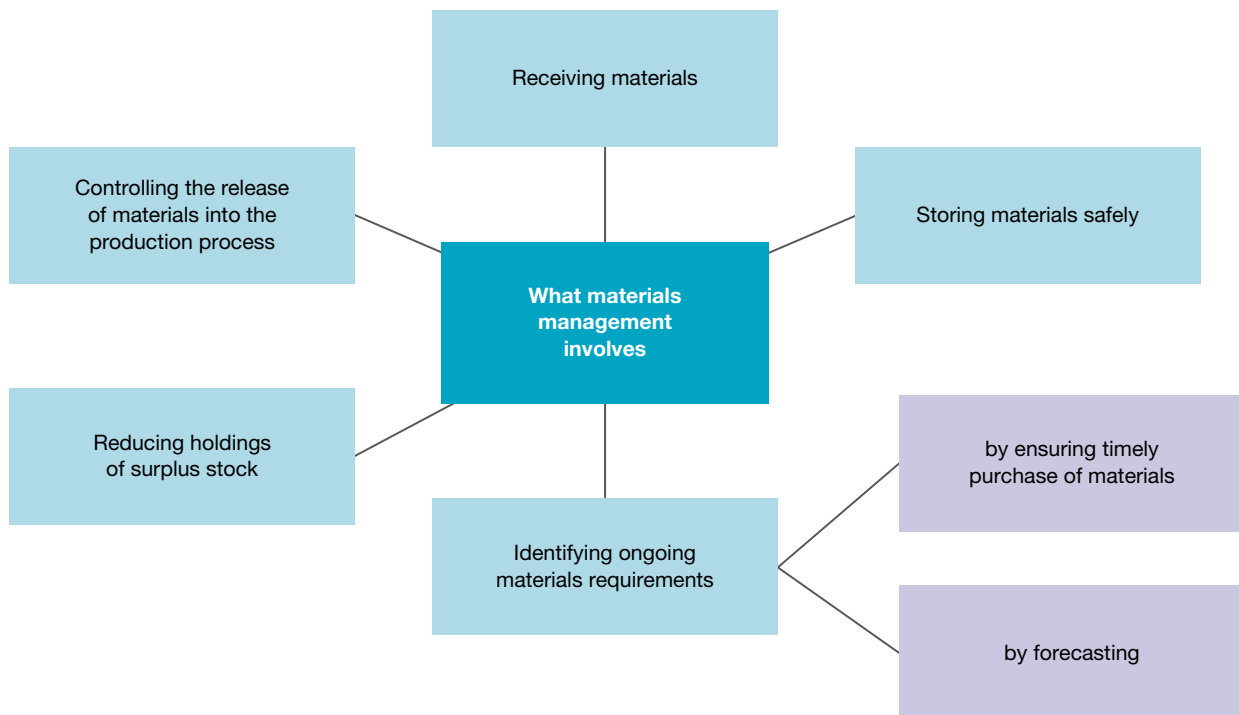
5.6 Materials management

KEY CONCEPT Materials management is used by operations managers to improve the efficiency and effectiveness of operations. It involves managing the use, storage and delivery of materials to ensure the right amount of inputs are available when required. Four strategies related to materials are forecasting, master production schedule, materials requirement planning and Just In Time.

5.6.1 Materials management

Vehicle manufacturer Hyundai Motor uses **Just In Time** production — a strategy where assembly plants keep small supplies of parts on hand, and materials are delivered from nearby facilities when needed. A delay in delivery can shut down the entire manufacturing process. In August 2017, Hyundai was forced to suspend production at four of its factories in China after a supplier refused to provide parts due to delays in payment. **Materials management** is an important area of operations management that ensures that materials are received and stored in the right quantities and at the right time, so that they are available in the operations system as required.

Materials management is an intricate strategy. It involves several critical activities.



Many businesses will have large amounts of materials on hand to complete production. This is referred to as stock or **inventory**. A large inventory may be held by the business to ensure that materials do not run out; however, this represents a cost to the business. Stock taking up storage space for lengthy periods can mean that the business misses the opportunity to invest money in other places. Materials can also have a 'use-by date', which means that they could become unusable after a period.

Some businesses, such as Hyundai, reduce costs by having fewer materials held as inventory. Its efficient handling of materials keeps costs down, but when materials don't arrive on time (as in the case of the supplier refusing to provide parts) the consequences can be devastating.

One important aspect of materials management is **materials handling**. It refers to the handling of goods in warehouses and at distribution points. Adequate materials handling procedures and techniques can result in a more efficient production process and cost savings. Proper handling can also reduce accidents, breakage and spoilage.

Huge warehouses holding a large inventory represent a cost to a large business.

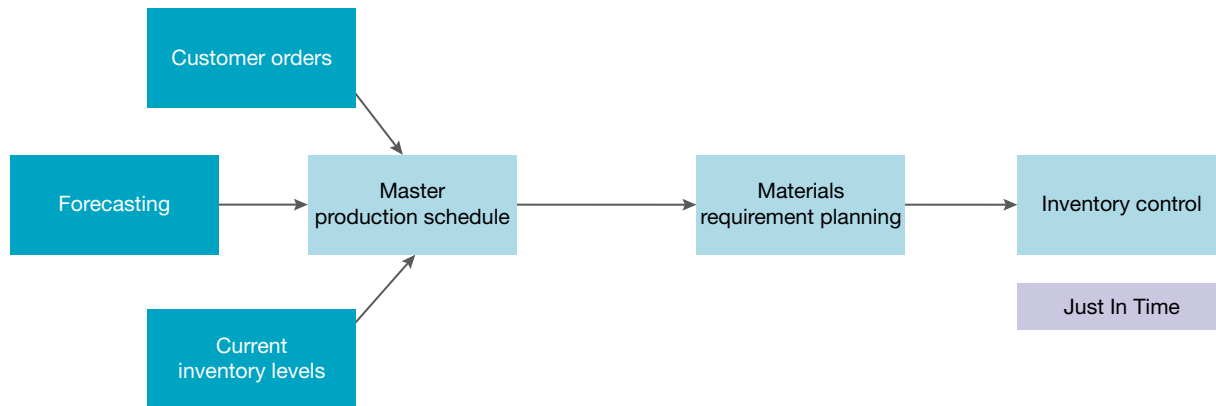


It is important that materials such as these huge steel rolls are handled efficiently to keep costs down.



It is also important that the operations area carries out forecasting and materials planning (including a master production schedule and materials requirement planning), as well as inventory control (such as Just In Time). These strategies are illustrated in the diagram on the next page and covered in the sections that follow.

The process for managing materials



DID YOU KNOW?

Boeing had over 900 orders for its new plane, the 787 Dreamliner and was expecting to deliver the new plane to its customers before the end of 2008. This did not happen. Delays were caused by production problems, strikes and a shortage of fasteners. The shortage of fasteners occurred because the fastener industry was not able to keep up with Boeing, and Boeing's competitors, boosting plane production rates to record levels. Boeing actually made the first delivery in 2011, but the delays cost the company billions of dollars.

5.6.2 Forecasting

One of the initial stages of the management of materials involves **forecasting**. The operations area will use forecasting to develop a production plan and reduce the uncertainty of future events. A business needs to forecast the quantity and timing of demand for its good or service and then match supply with demand. This will allow the business to decide what goods or services to produce, how to produce them and in what quantity. In this way, it can estimate or predict what materials are needed, and in what quantities. A business may also forecast the costs of materials and transportation.

A business will use forecasting to ensure that it maintains an appropriate level of materials for the operations system without overproducing. This would result in the business carrying too much inventory and stock would remain in storage, representing a cost to the business. At the same time, a business does not want to find itself in the situation where it does not have enough inventory for the operations to function. This could lead to underproduction.

Forecasts can be for the short term, for example for the next hour, day, a week, month or year; or for the longer term, for example for the next three to five years or for the life of a product.

Forecasting methods fall into two broad categories: qualitative and quantitative. Qualitative forecasting is subjective, that is, it gathers information that is usually based on the opinions of people, such as through market research and open-ended questions on questionnaires. Quantitative forecasting makes use of data in numerical form. For example, a business might develop a forecasting model where it would try to predict future demand for its good based on an analysis of numerical facts or historical patterns in statistics from the previous five years.

While forecasting will allow a business to predict its materials needs, making use of historical data does not necessarily guarantee that past events will continue into the future. It is always possible that unforeseen or unexpected events will occur. Forecasting, to some degree, will always be inaccurate. This strategy provides a 'guesstimate' — a mixture of a 'guess' and an 'estimate'.

DID YOU KNOW?

Forecasting future conditions is vital for the success of business and materials planning. By the end of World War II, Curtiss-Wright was the largest aircraft manufacturer in the United States. Unfortunately, the management of the company failed to accurately forecast the market for jet aircraft and instead invested in improved piston engines. This eventually led to the closure of its entire aeroplane division.

5.6.3 Materials planning

The **production plan** provides the basic information necessary for detailed materials management planning. Modern businesses typically complete materials planning by using software. Such planning includes a master production schedule (MPS) and materials requirements planning (MRP).

Master production schedule

A **master production schedule** (MPS) is a plan that describes what is to be produced, in what quantities, how and when. The plan is linked to specific delivery dates or contracts for delivery in the future. Inability to meet this schedule may have serious business implications. It is important, therefore, that the productive capacity of the business has been correctly assessed. A business cannot increase its rate of production without increasing the amount of necessary inputs, as Boeing found (see the ‘Did you know?’ feature at the end of section 5.6.1). Decisions such as upgrading plant and equipment or employing additional staff may be related to ongoing problems in meeting this schedule.

DID YOU KNOW?

Although the Just In Time approach was first used by the Ford Motor Company, it was adopted and publicised by Toyota as part of its production system. In the 1950s, Toyota did not have enough money to buy huge amounts of materials, and had little physical space for inventory. It reacted by reducing the amount of its inventory, holding a small amount of materials that would sustain production for a short period of time, and then reordering new materials.

Materials requirement planning

Materials requirement planning (MRP) is completed after the business has a clear understanding of the quantities to be produced and the time frame involved. It involves producing an itemised list of all materials involved in production to meet the specified orders. Such planning must consider:

- lead times required by suppliers; that is, whether items need to be ordered weeks or months in advance
- the exact number of inputs to complete the task
- the amount of stock (inventory) on hand
- purchasing procedures; for example, whether the business wishes to take advantage of bulk purchasing discounts offered by suppliers.

Hyundai Motor uses a master production schedule to ensure that shortages and excesses of inventory in its operations system are minimised.



Like forecasting, both MPS and MRP allow a business to avoid overproducing (which is likely to result in an excess of inventory) or underproducing (which is likely to result in shortages). Too much inventory can represent a cost to a business, whereas not enough inventory can prevent a business from continuing production. By completing a master production schedule, an operations manager will be able to predict the future needs of the business and determine the materials required. Both MPS and MRP can be used by a business to make adjustments to production in response to fluctuations in demand. Furthermore, both strategies allow a business to schedule changes when new products are introduced. These benefits provide a business with flexibility. MRP improves efficiency in the location of production resources, providing accurate estimates of materials requirements and delivery dates, allowing the business to control costs.

However, there are a number of limitations related to MPS and MRP. Both strategies rely on accurate information — if incorrect information is used, it is likely that errors will occur in the materials planning process. The cost of implementing both strategies can be inhibitive for many businesses. Software and other resources may need to be purchased to facilitate each strategy, and training may also be required. While MPS and MRP can both provide a business with flexibility, the use of each strategy may potentially have the opposite effect. Using MPS and/or MRP may result in a business not being able to adapt quickly enough to any changes or problems because all materials needs are tied in to a production schedule. Once materials are ordered and employees are scheduled to work it can be difficult to interrupt the process and make changes.

EXAM TIPS

- The **Unit 3, Area of Study 3** outcome states that you need to ‘evaluate strategies to improve the efficiency and effectiveness of business operations’. This suggests that you should know the advantages/strengths and disadvantages/limitations of each strategy related to materials, as well as each strategy’s impact on improving the efficiency and effectiveness of operations.
- The **Unit 3, Area of Study 3** outcome states that you need to ‘propose strategies to improve the efficiency and effectiveness of business operations’. This suggests that you should put forward a materials strategy for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the materials strategy as well as explain a little about it.

5.6.4 Inventory control

Inventory control is a system used to ensure that costs associated with maintaining an inventory of materials are kept to a minimum. Costs can be minimised by not allowing materials to remain idle and by making sure that inputs are available for the operations system when needed. An operations system that runs out of materials will not perform at optimal level.

Modern businesses use bar coding and computerised stock records to control inventory. Computerisation can help to minimise loss or theft of stock and it provides precise, up-to-date information about stock levels. Signals can alert management when it is time to order new materials, and how much to order. Businesses also conduct stocktakes, physically counting stock and then comparing the count against what was expected to be available. Any differences would indicate problems with stock control.

Just In Time

The Just In Time (JIT) system of inventory control is a common strategy used by many businesses in Australia. This approach makes sure that the right amount of materials arrive just as they are needed for production. It can reduce storage costs and reduce the risk of any waste occurring in storage, thus increasing competitiveness. However, supplier deliveries must be reliable, and materials must be received at the appropriate time. As discussed, car manufacturers such as Hyundai Motor only have a limited amount of materials available in inventory at any given point in time. One Hyundai car is comprised of more than 20 000 parts; in 2017,

the failure to receive just a single part on time at Hyundai's factories in China brought the production line to a halt.

Inventory control software provides managers with precise knowledge of quantities and locations of stock.



study on

Unit 3 > AOS 3 > Topic 3 > Concept 1

Forecasting and master production schedule Summary screen and practice questions

Unit 3 > AOS 3 > Topic 3 > Concept 2

Materials requirement planning and Just In Time Summary screen and practice questions

5.6 Activities

TEST your understanding

1. Explain, in your own words, what 'materials management' is about.
2. List the benefits of efficient materials handling.
3. Explain the purpose of forecasting.
4. List the benefits and any possible limitations of using forecasting.
5. Briefly outline the two key steps or strategies involved in materials planning.
6. (a) Identify the benefits of MPS and MRP.
(b) Suggest any possible limitations for a business using MPS and MRP.
7. What is inventory?
8. What is the main benefit of inventory control?
9. Explain how the Just In Time approach can improve productivity and reduce costs.
10. List potential problems that you can see with the Just In Time approach.

11. Match each of the following terms with its definition.

Term	Definition
Forecasting	(a) An inventory control approach that ensures that the exact amount of material inputs will arrive only as they are needed
Materials requirements planning (MRP)	(b) A materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events
Master production schedule (MPS)	(c) Details what is to be produced and when
Just In Time	(d) Developing an itemised list of all materials involved in production to meet the specified orders

APPLY your understanding

12. Chan is the Operations Manager of a small clothing manufacturer. Recently, the business has been experiencing financial troubles as retail customers begin to recognise it as being a very poor supplier. The clothes are rarely delivered on time, and are always delivered in the wrong quantities. The main problem is that materials for the popular clothing lines keep running out, while the storage areas are filled with materials for the unpopular clothing lines.
- (a) What are the costs of having too many materials in storage?
 - (b) What problems can occur when there are not enough materials on hand?
 - (c) Explain how Chan could use MPS and MRP to improve materials management.
 - (d) Suggest any other materials strategies you think would help Chan to improve the efficiency and effectiveness of his operations. Explain your answer.
13. Explain how materials management can be used to optimise operations.
14. To find out how a business might deal with forecasting, use the **Role of forecasting** weblink in the Resources tab. Why do businesses need to forecast? How can a business create a forecast and what should be done with it?

EXAM practice

15. Define the term 'master production schedule'. **(1 mark)**
16. Explain the difference between materials requirement planning and Just In Time. **(2 marks)**
17. Describe a strategy that a business could use to improve the efficiency and effectiveness of its operations in relation to materials. **(3 marks)**



Resources



Weblink: Role of forecasting

5.7 The management of quality

KEY CONCEPT Businesses use quality management to make sure that their products meet customer expectations. Quality strategies are used to improve the efficiency and effectiveness of operations. Three quality strategies are quality control, quality assurance and Total Quality Management (including employee empowerment, continuous improvement and improved customer focus).

Quality basically means that the customer gets what they wanted. A quality product has a high degree of excellence and achieves the purpose for which it was designed. A quality product should be reliable, easy to use, durable, well designed, and delivered on time. It should include after-sales services and have an agreeable appearance. Quality is very important to Tatura Milk Industries, a wholly owned subsidiary of Bega Cheese Limited. The business manufactures quality dairy products from milk supplied by dairy farms in regional northern Victoria. In the following sections, we will examine how Tatura Milk manages quality.

When managing quality, a business will:

- minimise waste and defects
- strictly conform to standards
- reduce variance in final output.

Operations managers use a variety of strategies to maintain or improve quality. Tatura Milk makes use of quality control and quality assurance. Many businesses use an approach called Total Quality Management.

To improve the efficiency and effectiveness of its operations, Tatura Milk Industries makes use of quality control and quality assurance.



EXAM TIPS

- The **Unit 3, Area of Study 3** outcome states that you need to 'evaluate strategies to improve the efficiency and effectiveness of business operations'. This suggests that you should know the advantages/strengths and disadvantages/limitations of each strategy related to quality, as well as each strategy's impact on improving the efficiency and effectiveness of operations.
- The **Unit 3, Area of Study 3** outcome states that you need to 'propose strategies to improve the efficiency and effectiveness of business operations'. This suggests that you should put forward a quality strategy for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the quality strategy as well as explain a little about it.

studyon

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Topic 4

Concept 1

Quality management Summary screen and practice questions

5.7.1 Quality control

Tatura Milk uses **quality control** to maximise efficiency and effectiveness in its operations process. Quality control reduces problems and defects in the product, using inspections at various points in the production process. Many businesses such as Tatura Milk minimise errors and waste by ensuring that standards are met. Specifications or benchmarks are set before the physical checks are completed. Actual performance is then compared to the established criteria. If the established standards are met, it is likely that the business will be meeting customer expectations. Efficiency, and therefore competitiveness, increases as the costs associated with waste and faulty products are reduced. Effectiveness should increase as sales increase and as costs are reduced — improvements in quality should lead to an increase in profit.

Quality control is a traditional approach to quality management and is product orientated. The strategy is generally said to be a reactive one because it detects defects in goods and services that have already been produced. It is important to note that not every business will use quality control to inspect absolutely every product — quality control typically involves the selection of samples.

At Tatura Milk, every load of milk is individually tested as it is delivered to the factory. Data can be provided back to the farmer through a secure website. The plant has an onsite laboratory where teams of scientists and technicians conduct routine quality testing at all stages of the production process. A service business such as a bank might use teller accuracy, speed and courtesy as quality-control measures.

While quality control is able to reduce problems and defects in a business's product, using this quality strategy does represent a cost. Rejected products will end up as waste, unless they can be reworked, and more time needs to be added to the production process to inspect products.

Qualified professionals, such as chemists or engineers, may be employed by the business to carry out testing or inspections. Furthermore, because quality control often involves the selection of random samples that are subjected to inspections, it is possible that poor-quality products will still be provided to customers (as a sample may not be representative of an entire batch of products).

Businesses such as Tatura Milk conduct testing or inspections throughout the operations process — this strategy is known as quality control.



DID YOU KNOW?

Northrop, a US company involved in the production of B-2 aircraft, required each employee to sign a giant scroll that was then hung over the plant assembly line. The inscription on the scroll read: 'Total quality control on the B-2 begins with me'.

study on

Unit 3

AOS 3

Topic 4

Concept 2

Quality control Summary screen and practice questions

-  **eLesson:** Quality control — Capilano (eles-1050)
-  **eLesson:** Comparing operations strategies (eles-2930)

5.7.2 Quality assurance

Quality assurance is an integral part of Tatura Milk’s operations. Quality assurance involves the use of a system that will assure customers that the products of a business are fit for purpose. It does this by achieving set standards throughout the production process, thereby preventing quality issues before they occur. For this reason, quality control is said to be a proactive strategy and is process oriented. All employees in a business that has implemented quality assurance will be responsible for quality, not just those directly involved in production. There are a number of examples of quality systems, including process checklists, audits and the development of standards. Many businesses make use of external organisations that audit the operations of the business against national and international standards.

Tatura Milk has a quality system in place to ensure that set standards are achieved. Its quality assurance system is based on the ISO 9001 series. This is a widely used international standard that sets out the criteria for a quality management system. ‘ISO’ stands for International Organization for Standardization. Meeting these international standards is voluntary, but many businesses comply with ISO requirements to remain competitive locally and internationally. The ISO provides guidelines on how businesses should establish quality assurance systems by adopting specific procedures, controls, and recording and documentation measures. Tatura Milk’s quality system provides reassurance to customers that it is able to provide a safe, quality product. Its system includes the factory and staff, the calibration and maintenance of equipment, as well as hygiene and workplace health and safety.

Like quality control, quality assurance should lead to efficiency, and therefore competitiveness, as the costs associated with waste and faulty products are reduced. As customers are likely to feel assured that they are purchasing a quality product, sales would be expected to increase, and as costs are reduced, improvements in quality should lead to an increase in profit. Therefore, quality assurance should also lead to effectiveness. While quality assurance is able to improve business competitiveness and customer satisfaction, introducing a quality assurance system can be expensive, particularly for smaller businesses. There may also be heavy emphasis on documentation, making the process time-consuming. Large contributions could possibly be required from those employees involved in introducing and maintaining the standards.

Many businesses make use of the ISO 9001 series of standards. ISO 9001:2015 specifies requirements for a quality management system that is based on a number of quality management principles including a strong customer focus, the motivation and implication of top management, the process approach and continual improvement.



studyon

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Quality assurance (QA) Summary screen and practice questions

5.7.3 Total Quality Management

Total Quality Management (TQM) is a commitment to excellence that emphasises continuous improvement in all aspects of a business's operation by sharing responsibility among all the members of the business. Quality becomes both a commitment and the responsibility of every employee in the business. The aim of TQM is to create a defect-free production process, and maintain a customer focus in operations. The adoption of TQM can reduce costs throughout the business and, because it leads to a reduction in defects, should result in improved efficiency. Improved cost competitiveness and improved product quality, along with increased customer satisfaction, should allow the business to attain a competitive advantage and become more effective. However, introducing Total Quality Management can be expensive and time consuming. This strategy relies on the full participation of all employees, but it is possible that its introduction may be resisted as employees are required to change their way of thinking and attitude. Staff will need to be trained in customer service and problem solving, and it will take time for improvements to be seen across the business.

DEMING'S QUALITY PHILOSOPHY

W Edwards Deming is known as the 'founder of the quality movement'. His Total Quality Management concept focuses on managing the total business to deliver quality to customers. He argued that if employees tried to build a product in the right way in the first place, then businesses would avoid the expense of inspection and the waste of rejected products. Improving quality, said Deming, can also help businesses increase their market share (as a result of better quality and lower priced products), ensure their future and provide more jobs.

To achieve TQM objectives, a number of approaches may be used. These approaches include the empowerment of employees, continuous improvement and improved customer focus.

Employee empowerment

Deming believed that quality problems would be best solved with an emphasis on employee involvement. Many businesses use **quality circles** as a means of achieving employee empowerment. Under this approach, teams of up to 10 workers meet regularly to solve problems related to process, design or quality. The groups often make presentations to management with their ideas, in order to improve the performance of the business. Such programs have resulted in substantial cost savings for businesses. For example, at the Northrop Aircraft division that produces Boeing 747s, 55 individual quality circles halved the cost of parts within two years. At Chrysler, a quality circle discovered that heating rubber seals before installation could prevent car door leaks.

Quality circles improve the quality of production.



DID YOU KNOW?

Australian Arrow Pty Ltd, a designer and manufacturer of automotive products, uses quality circles as a method of problem solving. Issues such as product quality, employee performance and costs are discussed by team members who meet regularly under a 'Circle facilitator'.

Continuous improvement

Continuous improvement is a process that involves a constant evaluation of, and improvement in, the way things are done in a business. Higher and higher standards are set in the continual pursuit of improvement. *Kaizen* (Japanese for 'improvement') emphasises continuous improvement in all facets of a business, from the way the CEO manages to the way assembly line workers perform their jobs. Although perfection is practically impossible to achieve, it is the 'striving' that is important to a business's corporate culture.

Brambles Limited is a logistics company committed to continuous improvement.



DID YOU KNOW?

Brambles Limited is a leading supply-chain logistics company with global headquarters in Sydney. One of its businesses, CHEP, moves 300 million pallets and containers for manufacturers, distributors and retailers in 45 countries. Brambles is committed to continuous improvement and this has led to increases in its cash flow. Continuous improvement is achieved by monitoring best practice, minimising its environmental impact and supporting local communities.

Customer focus

Deming believed that quality should be the responsibility of every employee. The TQM approach considers one of the most important questions a business should ask: 'What does the customer require?' All teams need to realise that they are serving a customer. This is as true for the employees that deal directly with external customers as for those that simply pass work on to other employees within the business.

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Total Quality Management (TQM) Summary screen and practice questions

5.7 Activities

TEST your understanding

1. Outline the main features of 'quality management'.
2. Explain why quality control is important to businesses.
3. Briefly outline the benefits and limitations of quality control.
4. In what ways can businesses offer quality assurance to customers?
5. List the benefits and limitations for a business using quality assurance.
6. Explain what is meant by 'Total Quality Management'.
7. Outline the three approaches that make up Total Quality Management.
8. Suggest possible benefits and limitations for a business making use of Total Quality Management.
9. Read the following definitions. If a definition is false, write out the correct definition.
 - (a) Quality control involves the use of inspections at various points in the production process.
 - (b) Quality assurance involves the use of a system where a business achieves set standards in production.
 - (c) Total Quality Management is a commitment to quality that is applied to the business's operations department.
 - (d) Continuous improvement involves an ongoing commitment to the use of inspections.

APPLY your understanding

10. Kevin is the Production Manager for IBX technology, a manufacturer of internet security software. Recently, the level of product defects has increased, although the production process has not changed.
 - (a) Advise Kevin on strategies that he should use to determine the cause(s) of the defects.
 - (b) Explain to Kevin the value of introducing a TQM approach.
11. The name of the Reject Shop suggests that it could not possibly sell quality products. Is this true? Use internet sources to find the Reject Shop website. Search its website and see how many references to quality you can find. How does the Reject Shop ensure that it receives quality products from suppliers?

EXAM practice

12. Distinguish between 'quality control' and 'quality assurance'. **(2 marks)**
13. Describe a strategy that a business could use to improve the efficiency and effectiveness of its operations in relation to quality. **(3 marks)**
14. MRC Accountants' objective is to provide quality, independent advice. However, it has recently been suffering quality issues and the director of the business has decided to implement Total Quality Management in response. Explain and justify the use of Total Quality Management at MRC Accountants. **(4 marks)**

5.8 Waste minimisation

KEY CONCEPT Operations managers make use of waste minimisation in the production process to improve the efficiency and effectiveness of operations. One waste minimisation strategy is lean management.

Waste minimisation is a process that involves reducing the amount of unwanted or unusable resources created by the business's production process in an attempt to improve the efficiency and effectiveness of operations.

Waste minimisation strategies include:

- redesigning products and packaging
- procurement of materials made from recycled materials
- reusing scrap material
- improving quality control
- exchanging waste with other businesses
- introducing all systems approaches, such as lean production.

Minimising waste reduces the costs of production of the business, such as the costs of waste removal, and also improves productivity across the operations area. Furthermore, minimising waste demonstrates concern for the natural environment; this can contribute to improving the reputation of the business.

Minimising waste is a win-win situation — it reduces costs and cares for the environment. Woolworths launched its Trolley Tracker tracking system to help find the approximately 15 000 trolleys that 'go feral' each year, disappearing from Woolworths and Big W stores around the nation. Abandoned trolleys cost the company \$50 million each year; it costs more than \$150 to replace a broken or lost trolley.

Dumped shopping trolleys also damage the environment; they end up in creeks and backyards. Residents who see abandoned trolleys can use the Trolley Tracker App or website, or call a national toll-free number to report the location and enter a draw to win a \$1000 monthly reward.



5.8.1 Lean management

The concept of **lean management** derived from the Toyota production system. Lean production, or lean manufacturing as it is also known, was originally developed in post-war Japan for Toyota and the manufacturing of automobiles. Lean management management is an approach to operations management that attempts to improve efficiency and effectiveness by eliminating waste and improving quality — ‘lean’ in this case means no excess, just as lean meat has as little fat as possible. A business using this approach would carefully analyse each stage of the operations system and remove any inefficiencies that do not add value to the product. According to the principles of lean management, waste is anything that reduces the speed of production or stops production occurring at the lowest possible cost. As waste is reduced, production times and costs are cut. Today, the approach is used widely in the automobile industry as well as many other industries, both in manufacturing and in the production of services.

Jaguar, the high-quality British car brand, has also incorporated lean manufacturing into the way it produces its motor vehicles.



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Waste minimisation Summary screen and practice questions

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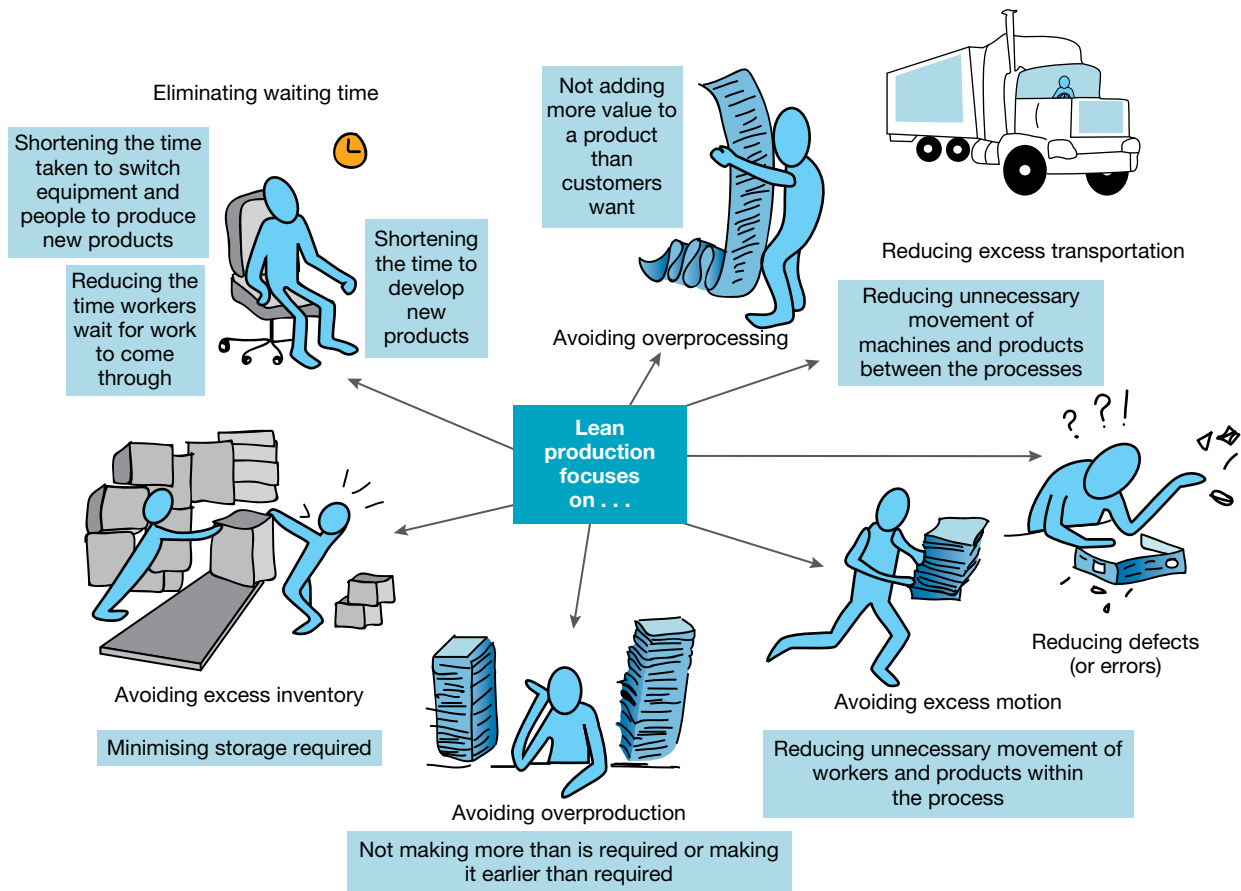
Topic 5

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Lean management Summary screen and practice questions

There are a number of different areas of waste that a business can focus on, as seen in the following diagram. A business may choose to eliminate, reduce or avoid any one or more of the following wastes: excess transport, defects (or errors), excess motion, overproduction, excess inventory, waiting time and overprocessing. For example, a manufacturing business could attempt to minimise waste through the avoidance of excess motion by reducing unnecessary movement of workers and materials between production processes. A service business might also endeavour to avoid excess motion by reducing unnecessary movement. For example, rather than making customers queue several times in order to receive a service, a service business could provide a one-stop service. Reducing the time that employees wait for work to come through in a manufacturing business could eliminate the waste that may occur during waiting time. This could be achieved by ensuring that production flows continuously. Similarly, a service business might reduce or eliminate waiting time by cutting the time that customers have to wait for service by removing queues completely from the operations process. This may be achieved, for example, by using technology so that customers sign in to a digital kiosk instead of waiting in line, and receive an SMS when it is their turn. Alternatively, a business may make use of self-service checkouts.

Lean management identifies seven wastes that a business should work towards eliminating: excess transport, defects (or errors), excess motion, overproduction, waiting and overprocessing.



EXAM TIP

There are a large number of wastes to learn for lean management, but the acronym **TIMWOOD** may help: **T** is Transportation, **I** is Inventory, **M** is Motion, **W** is Waiting time, the **O**s are Overprocessing and Overproduction and **D** is Defects.

A LEAN HISTORY

A good understanding of lean management can be gained by understanding its history. Given that lean manufacturing has its origins in the automobile industry, it is necessary to consider the development of the car, which was invented in 1880.

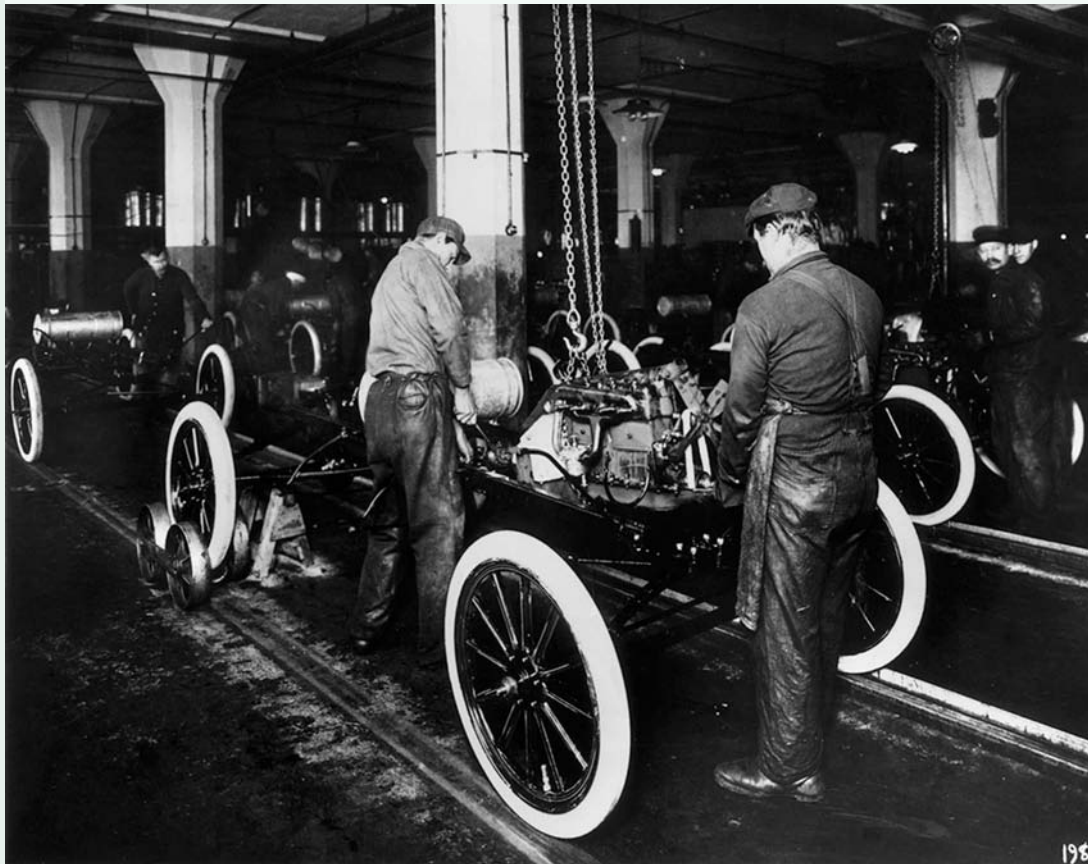
Early in the twentieth century, mass production became an important focus for businesses. In 1910, Henry Ford developed an assembly line approach to automobile manufacturing that involved employees, components, machines and tools arranged along a production line called a conveyor belt system. This approach reduced the hours spent on the assembly of a car from 728 to just 1.5.

The assembly line approach to manufacturing emphasised efficiency. For the following 50 years it was assisted by developments in technology such as automation and computers. The United States became the largest producer of goods and services in the world, but after World War II, Japan began to compete with the Americans by developing a new manufacturing approach. This new approach arose out of necessity.

The development of lean manufacturing was based on the needs of Japan's economy. Demand was low and there was little point in focusing on economies of scale (mass production at the lowest cost per item). Toyota

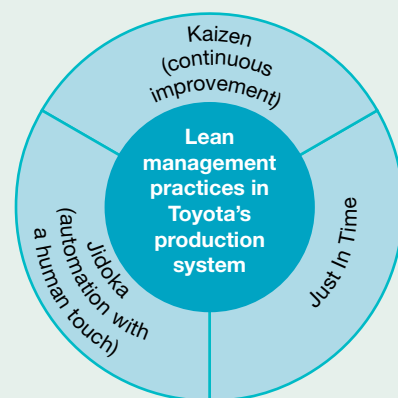
realised that production should be driven by actual sales of vehicles and that overproduction should be avoided. The company could not afford to have resources locked up in excess equipment or materials in production. Originally named Just In Time production (JIT), the Toyota production system was developed with the aim of minimising waste and fully utilising the capabilities of employees so that only minimal inventory was needed. Part of Toyota's philosophy of waste minimisation was the use of cellular manufacturing — efficiencies were gained through grouping machines and people into separate 'cells' that produce similar items or require a similar process of production.

Workers constructing a Model-T car on an assembly line in a Ford Motor Company factory, circa 1914.



There are three main lean management practices involved in Toyota's production system:

1. Kaizen — a practice focused on making positive changes on a regular basis, often referred to as continuous improvement.
2. Just In Time (JIT) — the right amounts of materials are delivered to the operations system just as they are needed for production, in the exact amount needed and where they are needed.
3. Jidoka — a Japanese word that means automation. However, Toyota interprets the word as meaning 'automation with a human touch'. This basically means that quality is embedded in the company's operations system. If, for example, a Toyota employee sees an abnormality such as a defect, they are able to intervene and bring production to a halt. This allows the defect to be corrected before more problems can occur, and can prevent further damage or even injury.



Cochlear, a medical device manufacturer, employs the 'lean' philosophy in its manufacturing process. Systematically eliminating waste enables Cochlear to reduce overproduction, reprocessing and defects, and increase recycling and paperless operation documentation. Redesigned packaging and flexible printing have also reduced packaging waste. Cochlear adopts continuous improvement programs, which incorporate lean manufacturing principles and ongoing investment in new manufacturing technologies.

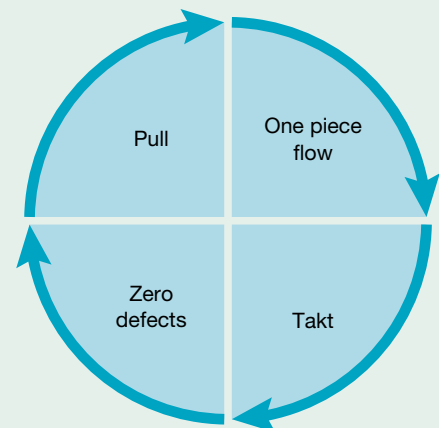


FOUR PRINCIPLES' APPLICATION OF LEAN MANAGEMENT

Four Principles is a business that was created in 2010 to make the philosophy of *kaizen* (continuous improvement) more accessible and simpler to implement. The founders of the business took the lean principles of the Toyota Production System and distilled them into four core principles. The result is a more memorable structure that can easily be adopted by businesses in any industry — whether in manufacturing, retail, banking, health care, government, electronics or transportation.

The business uses its lean methodology to help other businesses to establish lean programs and eliminate waste, reduce costs and increase profitability. Four Principles' application of lean management involves four complementary, interconnected principles:

- **Pull** — this relates to avoiding overproduction and stockpiling. By enabling customer demand to dictate the rate at which products are delivered, a business is more likely to minimise waste as it will only be producing the outputs that will be sold. The costs of inventory will be reduced, as will the likelihood of stock becoming lost, damaged or perishing. In this way, customers 'pull' value through the production process, leading to efficiency and effectiveness.
- **One piece flow** — this largely relates to eliminating waiting time or idle time. One piece flow involves a piece of production moving through the operations process one at a time. All steps in the operations process must be focused and aligned to adding value, one piece at a time, removing all wasteful and unnecessary activities. By producing in a smooth, uninterrupted manner, idle time is minimised. This improves efficiency, as costs are reduced and waste minimised. Quality is improved, enabling the business to be more effective.



- **Takt** — this refers to the rate of production needed to meet customer demand. Takt time is the average time that passes between production starting on one unit of a product and the start of production of the next unit, in order to meet demand. If a business, for example, has a takt time of ten minutes, this means every ten minutes a finished product is completed because, on average, a customer buys a product every ten minutes. This is important for a business that is making use of lean principles, as it must know the minimum level of resources that are necessary in order to produce enough to meet customer demand. Takt helps the business to establish a consistent workflow following a smooth pattern that is flexible and easy to regulate as demand rises or falls.
- **Zero defects** — this is all about the business striving for perfection. Errors or defects need to be identified as closely as possible to where they occur. By doing so, and by not accepting or passing on defects, issues will be resolved quickly and levels of waste will be reduced. This improves efficiency, as resources are utilised with minimum waste, and avoids quality issues, leading to increasing profitability.

Lean management can be used to improve the effectiveness of a business's operations. By eliminating waste, it reduces costs that may lead to an improvement in profit. Furthermore, lean management can lead to increased customer satisfaction, which can result in increased sales and, subsequently, an improvement in profit. Lean management can also be used to improve the efficiency of a business's operations. Through the use of lean management, as a business reduces the amount of waste produced while working towards achieving objectives, productivity increases and resources should be used more efficiently. The use of lean management has other strengths, as outlined in the diagram below. However, the use of lean management does have a number of weaknesses or limitations, also outlined in the diagram below.

The strengths and weaknesses of lean management



EXAM TIPS

- The **Unit 3, Area of Study 3** outcome states that you need to 'evaluate strategies to improve the efficiency and effectiveness of business operations'. This suggests that you should know the advantages/strengths and disadvantages/limitations of waste minimisation strategies including lean management, as well as the strategy's impact on improving the efficiency and effectiveness of operations.

- The **Unit 3, Area of Study 3** outcome states that you need to 'propose strategies to improve the efficiency and effectiveness of business operations'. This suggests that you should put forward a waste minimisation strategy (such as lean management) for consideration or action when asked. This involves writing a little more than simply just identifying or suggesting the strategy. You should be able to define the waste minimisation strategy as well as explain a little about it.

HALLMARK GOES LEAN

Hallmark Cards adopted lean management with great results. In the 1980s, the company took two years to produce a greeting card. Card designs were shifted from building to building in its Kansas complex in the United States. Hallmark's president was asked to dismiss 20 per cent of the staff to reduce costs. Instead, he reorganised production and maintained faith with his employees.

Managers came together from all sections of the business to solve the problem. The company's 'shoe box' card line was chosen for a new cellular manufacturing approach, and artists and writers were grouped on one floor into work cells, with production directly below them. Production time of a new card was reduced from two years to about three months!

Hallmark produces several billion cards globally per year. Hallmark Australasia, which has approximately 700 employees, has in recent years transferred its manufacturing operations to China in order to increase efficiency.



5.8 Activities

TEST your understanding

1. What is waste minimisation and how can it be practised by a business?
2. Define the term 'lean management'.
3. List the seven wastes according to the principles of lean management.
4. Briefly outline where the idea of lean management originated.
5. Outline the three main lean management practices involved in Toyota's production system.
6. Briefly describe Four Principles' lean management methodology.
7. What are the benefits or strengths of lean manufacturing and what are its limitations or weaknesses?
8. Read the 'Hallmark goes lean' case study.
 - (a) Explain how Hallmark was able to reduce the time it took to make a greeting card just by changing the design and layout of its facilities.
 - (b) How did Hallmark develop this solution?

APPLY your understanding

9. The work cell approach relies on workers being able to do a variety of tasks, not just one task. Outline one advantage and one disadvantage associated with workers becoming multiskilled.
10. Why do you think work cells would rely more heavily on teamwork than individual achievement?
11. Imagine that you are the president of Hallmark in the early 1980s, and you have just been asked to make redundant almost one-quarter of your staff. Evaluate the issues involved in making this decision. What would be your solution?
12. Use the **Lean manufacturing** weblink in the Resources tab to describe how creating brilliant processes for producing goods or delivering services is just as important as finding brilliant workers.

EXAM practice

13. Explain the principles of lean management. **(2 marks)**
14. Describe one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process. **(4 marks)**
15. Precision Tools Pty Ltd has experienced increasing levels of wastage and recently decided to implement lean management. Justify the use of the principles of lean management in reducing the level of wastage at Precision Tools. **(4 marks)**



Resources



Weblink: Lean manufacturing

5.9 APPLY YOUR SKILLS Managing technological developments, materials, quality and waste minimisation

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of management applicable to managing production in a business
- Interpret, discuss and evaluate business information and ideas
- Apply operations management knowledge to practical and/or simulated business situations
- Compare and evaluate strategies used in operations management
- Propose and justify strategies for improving the efficiency and effectiveness of operations

5.9.1 Six Sigma

SIX SIGMA AT BORAL

Six Sigma is a measurement-based approach and methodology designed to strive for near perfection in the operations process through the elimination of defects. It was originally developed by former US telecommunications company Motorola Inc. in the mid 1980s. Six Sigma is used to identify and remove the causes of problems in the operations process, so that a business produces only 3.4 defective parts per million opportunities. This translates to a perfection rate of 99.9997 per cent. It uses typical quality management methods, including statistical tools to measure variations in the operations process, empowerment of staff and training, a commitment to improving quality through the whole business and continuous improvement.

A special team of people within the business is established. This is composed of staff who have been given Six Sigma training, and are able to coordinate others in adopting methods to improve quality. A five-step process to problem solving applies to Six Sigma, commonly referred to as DMAIC. This is shown in the figure on the next page.

The fur seals and sea lions at the Great Southern Oceans exhibit at Taronga Zoo put on a spectacular show for up to 950 people in their new home. Boral supplied substantial quantities of concrete to the project. Boral is a company that has successfully implemented Six Sigma.



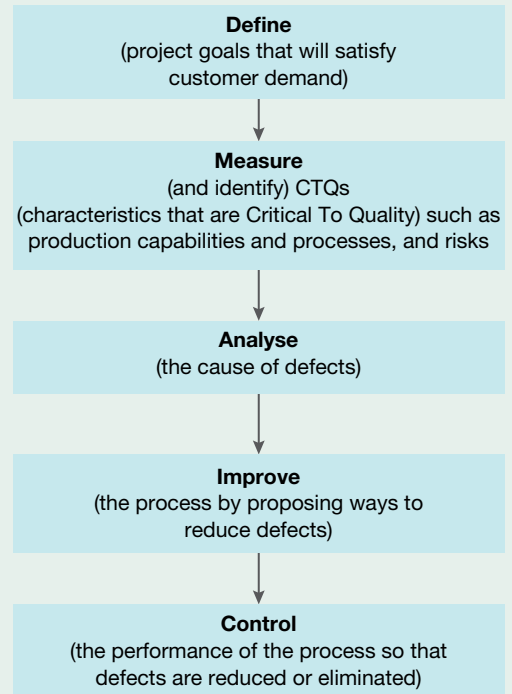
Boral Limited produces and distributes construction materials and building products. With almost \$5 billion worth of sales, Boral has more than 14 000 employees working across 700 operating sites. In 2007, Boral introduced Six Sigma throughout its construction materials division in Victoria, New South Wales, the ACT and Tasmania.

Regional General Manager of Boral Australian Construction Materials (ACM) NSW/ACT, Tony Charnock, claimed that in its first year, Six Sigma helped the New South Wales business achieve a profit of \$5 million. In 2009, Boral announced that the implementation of Six Sigma led to the construction materials division identifying \$45 million of cost reduction initiatives and predicted that these would deliver three years of benefits. Boral continues to make use of Six Sigma, as well as lean management and continuous improvement.

Boral has a strong focus on continuous improvement, and Six Sigma gave it a structured way to make cost savings and improvements. Tony Charnock regarded Boral's improvement program as a never-ending process. 'Once you start making improvements, new ones keep presenting themselves. That is the experience of major companies elsewhere with Six Sigma.'

At Boral, Six Sigma training is available to staff. Staff trained as Six Sigma project leaders are known as 'black belts' and 'green belts'. Yellow-belt training provides workplace team leaders with basic problem-solving skills. For projects to succeed, staff with belts must have the support of managers ('project champions').

The Six Sigma DMAIC problem-solving process



Boral's 'black belts' started to investigate the company's processes, looking for problems with or variations to the usual processes. This followed several months of compiling and validating data from the business. Then they came up with solutions to the problems.

One problem concerned unplanned stoppages because of products becoming trapped on conveyor systems and causing blockages. The team installed equipment, giving early warning of blockages. Maintenance and operational employees were trained in how to deal with the problem. The solution substantially cut the amount of down time caused by the unplanned stoppages.

On another project, Six Sigma's statistical analysis was applied to a problem that involved concrete being poured from trucks. By analysing variations in strengths of concrete after it was poured, changes were made to the process used in order to achieve more consistency.

John Worden, Boral ACM's Six Sigma champion in New South Wales, said, 'That is how Six Sigma works. We look for sources of variation and identify ways to eliminate them or, if that is not possible, bring them under control.'

In Six Sigma, people trained as project leaders are known as black belts and green belts. Some businesses use other belt colours as well, such as yellow belts for employees that have basic training in Six Sigma.



5.9.1 Activities

TEST your skills

1. Explain what is involved in the Six Sigma approach.
2. Some people believe that Six Sigma is a quality management approach. Outline the aspects of Six Sigma that make it a quality management approach.
3. Some people believe that Six Sigma is a lean management approach. Describe the aspects of Six Sigma that make it a lean management approach.
4. Outline how Boral used Six Sigma to improve its operations and achieve its business objectives.

APPLY your skills

5. Does Six Sigma seem like an original approach to you? Is it just another form of TQM? Is there anything about Six Sigma that makes it different to other quality approaches?
6. Critics of Six Sigma claim that it has had mostly negative effects on the businesses that have used it. In 2006, *Fortune* magazine stated that most of the 58 large-scale US companies that announced Six Sigma programs had experienced a deterioration in business performance. Can you think of any reason why?
7. Use the **Six Sigma** weblink in the Resources tab and the case study provided, or find another example of a business that has adopted Six Sigma, to answer the following.
 - (a) Why did the business decide to adopt the Six Sigma approach?
 - (b) Describe how the business used the Six Sigma approach.
 - (c) Explain the benefits to the business as a result of using Six Sigma.
8. The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Compare Total Quality Management and lean management.

Resources

 Weblink: Six Sigma

5.9.2 High-quality paper envelopes business

Ask your teacher if you can complete this activity during class. The aim of this activity is to put your theoretical understanding of business management into practical use, as you solve problems and make operations management decisions.

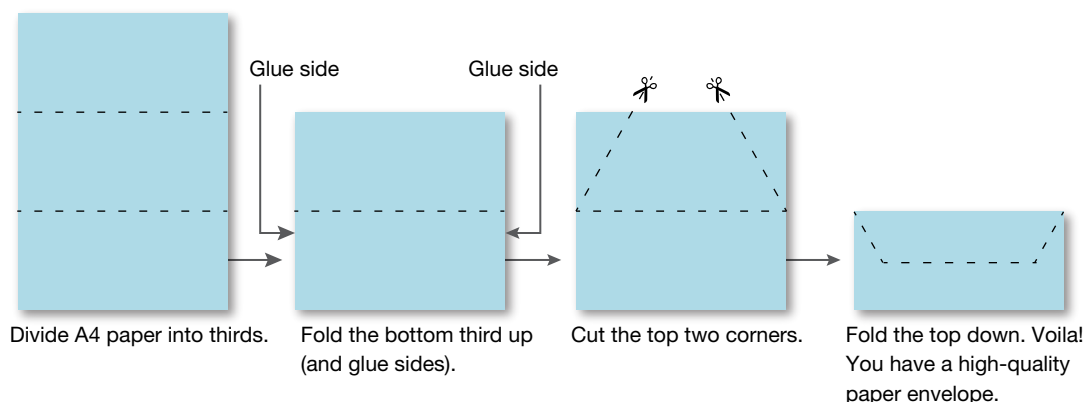
Materials required

- Recycled A4 paper
- Scissors
- Glue

Instructions

1. Arrange your class into groups of three or four. Each of these teams will become a business.
2. Your business has 15 minutes to produce as many 'high-quality paper envelopes' as possible. The following diagram shows you how to construct a simple envelope from A4 paper. You are welcome to develop your own design, add colour or individual flair, but remember . . . time is critical.
3. Before you begin, allocate responsibilities to the members in your team/business. It would be good if someone becomes the CEO. You might also need a quality manager and a materials manager. Make sure each team member's role is clear.
4. Start producing the envelopes. Hurry, you have only 15 minutes!
5. At the end of the 15 minutes, compare outputs across groups to determine a winner. This might be the business with the most envelopes. Alternatively, the winner could be the team with the highest quality envelopes.
6. Complete the 5.9.2 Activities to apply your skills to an analysis of this task.

How to make high-quality paper envelopes



5.9.2 Activities

TEST your skills

1. List the elements of your operations system.
2. Was your business offering a service or manufacturing a product?
3. Describe the responsibility of each team member in your group.
4. How did your group manage the materials required?
5. How did your group make sure that quality was maintained in each envelope produced?
6. (a) What were the objectives for your business?
(b) Did you achieve those objectives? How can you tell?

APPLY your skills

7. Your business probably produced a lot of waste. Identify some waste minimisation strategies that you could implement in order to reduce production costs and operate in a sustainable manner.
8. To improve the efficiency and effectiveness of your operations, one strategy you could introduce would be the use of technology. What types of technology could you use in your business?
9. Can you think of any other ways to improve the operations of your business? How could you make improvements to productivity?
10. The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Compare forecasting and Just In Time.
11. The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why. Evaluate the use of website development for your paper envelopes business.
12. The task word (sometimes referred to as command word or instructional word) 'propose' generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word 'justify' requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.
 - (a) Propose one quality strategy that could be used to improve the efficiency and effectiveness of operations at your paper envelopes business and justify the use of this strategy.
 - (b) Propose and justify a strategy that your paper envelopes business could use to improve the efficiency and effectiveness of its operations in relation to waste minimisation in the production process.

5.10 Corporate social responsibility considerations in an operations system

KEY CONCEPT Operations managers must be aware of socially responsible management when pursuing business objectives. Corporate social responsibility considerations in an operations system include the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs.

You might not think that a bank would need to be concerned about its impact on the environment, or about the socially responsible practices of its suppliers, when it comes to operations management. National Australia Bank (NAB) does just that, however, as shown in its commitment to sustainable business practices. NAB's corporate responsibility policies outline how it will lower costs by improving efficiency and minimising waste, and how it will work with suppliers in an environmentally friendly manner.

Corporate social responsibility refers to management's awareness of the social and environmental consequences of its actions. It can be expensive and time consuming to manage an operations system in a socially responsible way. However, it does bring benefits. Behaving in a socially acceptable manner can improve the reputation of a business, improve efficiency and reduce costs in the long term. The aspects of corporate social responsibility that would concern an operations manager include:

- managing inputs appropriately
- managing suppliers appropriately
- managing staff appropriately
- managing the customer relationship appropriately.

In particular, operations managers must consider the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs.

DID YOU KNOW?

Toyota Australia's Five-Year Environment Action Plan sets objectives to reduce energy usage and carbon emissions in all areas of its operations.

5.10.1 The environmental sustainability of inputs

Environmental sustainability refers to a business making decisions that will allow it, and the rest of society, to interact with the environment both now and into the future. An operations manager should ensure that the inputs used in the production process do not have a serious or negative impact on the environment (as well as community health and social conditions). Food manufacturer, Mars, is a business that considers the environmental sustainability of inputs. It recently announced that it would invest approximately \$1 billion to combat climate change. The company will introduce renewable energy initiatives, source sustainable ingredients and support farmers who use sustainable methods of production. For example, Mars plans to have wind-powered operations in eleven countries across the world, including Australia.

DID YOU KNOW?

Downer Group is an Australian company that provides infrastructure management and engineering services to the transport, energy, infrastructure, communications and resources sectors. Its Supplier Requirements outline how it expects suppliers to be socially responsible corporate citizens. Downer will deal only with suppliers who have high standards of ethical business behaviour, including having regard for the protection of the environment.

5.10.2 The amount of waste generated from processes and production of outputs

The inputs used in a production process create waste. In the desire to keep down the costs of production, businesses should not be tempted to use cheaper, illegal waste disposal methods. By the end of 2015, Mars achieved its goal of sending zero waste to landfill from all of its factories worldwide. The company continues to strive towards maintaining this objective.

Businesses also need to consider how outputs are produced, packaged and marketed. For example, Mars has Packaging Sustainability Guidelines to reduce the amount of material and energy used in its packaging process, as well as to ensure it uses recycled materials and reduces waste.

Mars will introduce renewable energy initiatives, source sustainable ingredients, and support farmers who use sustainable methods of production to ensure the environmental sustainability of inputs. The company has Packaging Sustainability Guidelines to reduce the amount of material and energy used in its packaging process, as well as to ensure it uses recycled materials and reduces waste. This relates to the amount of waste generated from its processes and production of outputs.



The following table summarises the corporate social responsibility considerations in an operations system.

Inputs	Processes	Outputs
Ensuring that suppliers provide materials that come from socially responsible sources (such as environmentally sustainable supplies and workplaces that are free of exploitation)	Facilities and technology should contribute to the health and welfare of staff (above and beyond what is required by legislation).	Focus on creating high-quality products that provide real value – products that are fit for their intended purpose
A business could purchase inputs from local suppliers (rather than from overseas) to reduce emissions as a result of transportation – this can also demonstrate support for the local community by providing employment for members of the community.	A business could conduct production locally (in doing so, it can show its concern for local communities).	A business could make use of environmentally friendly packaging (for example, packaging could be minimised to reduce the amount of material and energy used as well as to reduce waste, and recyclable or biodegradable packaging could be used).
	Part of the transformation process can involve recycling and remanufacturing of materials or waste.	
Inputs should be environmentally sustainable (for example, recyclable materials could be used, a business might use green energy to reduce carbon emissions, and energy-efficient equipment could be used to reduce energy use).	All employees should have ongoing access to training, as well as fair pay and work conditions (above and beyond what is required by legislation).	A business must ensure that its product is safe and reliable – dangerously defective or harmful products can result in the injury or death of consumers.

DID YOU KNOW?

James Hardie Industries manufactured and sold asbestos-related products for a large part of the twentieth century. It established a trust in 2001 to provide financial compensation for victims of asbestos-related diseases caused by its products, but the company has been criticised for not providing sufficient funds to settle claims.

CSR CONSIDERATIONS IN NAB'S OPERATIONS SYSTEM

In an attempt to respond to corporate social responsibility considerations in its operations system, NAB manages the environmental sustainability of its inputs and the amount of waste generated from its processes and production of outputs. The company is focused on the key environmental issues of climate change, resource scarcity and natural value. According to its 2017 Sustainability Report, NAB has committed to increasing its current environmental financing commitment from \$18 billion by 2022, to \$55 billion by 2025 to assist its transition to a low-carbon economy. The business has substantially reduced its greenhouse emissions from its buildings, air travel and vehicle fleets. Improving the design and operation of its buildings was one strategy. Replacing six-cylinder cars with four-cylinder cars and adding hybrid cars was another.

To minimise its dependency on grid-supplied electricity and its carbon emissions, NAB has installed solar panels on many of its branches and Business Banking Centres. It has also installed more than 2000 solar panels on its Knox data centre. Improving its recycling rates is also a priority for NAB, from the recycling of e-waste, to the recycling of organic waste by employees.

National Australia Bank manages its operations system in a socially responsible manner. It manages customer relationships appropriately, as seen in its provision of audio-enabled ATMs with multilingual options. It also manages inputs, suppliers and staff appropriately.



According to its 2017 Sustainability Report, when compared to the previous year:

- net energy use decreased by 13 per cent
- greenhouse gas emissions decreased by 15 per cent
- waste generation (combined waste to landfill and recycled materials) decreased by 18 per cent
- paper use decreased by 26 per cent
- potable water use decreased by 19 per cent.

NAB works actively with its suppliers to go beyond contract requirements and deliver the best outcomes for NAB, the supplier and the communities in which the business operates. The company introduced Supplier Sustainability Principles to new contracts with key suppliers, stating its corporate responsibility requirements, which include environmental management, human rights, workforce policies and workplace health and safety. According to NAB's 2017 Sustainability Report, 90 per cent of material suppliers are compliant with its Supplier Sustainability Principles.

DID YOU KNOW?

Commonwealth Bank was accused of not managing the customer relationship appropriately when its insurance division was accused of unethical behaviour in 2016. ABC's *Four Corners* and Fairfax Media uncovered several cases where claims assessors rejected payouts to terminally ill customers. It was also alleged that the insurance division, Commlnsure, removed medical files and forced doctors to change their diagnoses so that claims could be refused. The bank's then-Chief Executive Officer, Ian Narev, was forced to apologise and said that ethics are a core value of the Commonwealth Bank.



Resources



eLesson: CSR considerations in operations (eles-2931)



eLesson: Applying operations strategies to efficiency and effectiveness (eles-2932)

5.10 Activities

TEST your understanding

1. Outline the main reasons why operations managers must take socially responsible decisions very seriously.
2. What are the benefits and costs of managing an operations system in a socially responsible manner?
3. Using examples, explain the considerations a business might need to make in the area of:
 - (a) environmental sustainability of inputs
 - (b) the amount of waste generated from its processes and production of outputs.
4. Outline how NAB covers the considerations of corporate social responsibility as it applies to operations management.

APPLY your understanding

5. If you were the manager of a waste management company, what factors would you consider in selecting a new facility site?
6. Discuss whether or not it is socially responsible to do business with suppliers who employ child labour in overseas countries.
7. Business for Social Responsibility (BSR) provides information about the social responsibilities of businesses. Use the **BSR** weblink in the Resources tab to select a report that interests you. Read the article and outline the social responsibility issues involved.

EXAM practice

8. Explain how a business can ensure environmental sustainability of inputs in its operations system. **(2 marks)**
9. Identify and describe one operations management strategy. Outline the benefits to a business of adopting corporate social responsibility considerations in this area. **(4 marks)**
10. Explain how corporate social responsibility considerations can influence the decisions made by management in relation to an operations system. **(4 marks)**

5.11 EXTEND YOUR KNOWLEDGE Socially responsible operations management

KEY CONCEPT An operations system should be managed with corporate social responsibility in mind.

SUSTAINABLE OPERATIONS AT CADBURY

Cadbury's Claremont factory is located on the bank of the Derwent River, north of Hobart. The materials that go into making Cadbury chocolate include cocoa, sugar and milk, and are combined with other inputs, such as the staff working there, the machinery and the factory itself, through the manufacturing process. The output is high-quality, satisfying and delicious chocolate.

The factory, however, also produces greenhouse gas emissions. The main source of Australia's greenhouse gas emissions is from the burning of fossil fuels for energy, including for electricity and transport. When fossil fuels, such as gas, coal and petroleum are burned, the carbon stored inside the fuel bonds with oxygen to form carbon dioxide (CO₂), which is then released into the atmosphere. CO₂ is a greenhouse gas. It is a natural part of the atmosphere but too much CO₂ causes the overall temperature of the planet to increase. This results in global warming.

The Cadbury factory generates a relatively low level of greenhouse gas emissions by Australian standards. This is because almost 90 per cent of Tasmania's electricity is sourced from wind power and hydroelectric power stations. Hydroelectricity is the production of electrical power through the use of flowing water.

Most of the emissions are generated through transport. Cadbury's inputs must be brought to the factory and some of these inputs make long journeys. The sugar comes from Mackay in Queensland and the cocoa comes from Ghana in western Africa. Other materials, including cardboard and plastic, also need to be transported. All of the trucks and ships carrying these inputs produce carbon emissions.

However, Cadbury is aware of its impact on the environment. Teams work to make continuous improvements to the efficiency and sustainability of the factory. For example, an eco-efficiency team arranged for steam from an early stage in production to be captured and then reused in later stages. This saves coal and water and produces fewer greenhouse gas emissions and waste. A project that collects gas from the factory's wastewater treatment plant and uses it as an energy source for a steam boiler reduced the amount of natural gas used by 3900 gigajoules, reducing CO₂ emissions by 200 tonnes. Cadbury now also uses biodegradable plastic material in its product packaging. The material is made from corn starch and, unlike other plastics, breaks down completely.

Cadbury's chocolate operations in Tasmania does produce greenhouse emissions, but is taking steps to reduce those emissions.



CADBURY AND FAIR TRADE CHOCOLATE

When you see the Fairtrade logo on the shelves in Woolworths, Coles and Aldi, you know that consumers are voting with their dollar. Research reveals that more than two-thirds of Australia's consumers think it is important to choose products that support fair trade. While this is true, it is important to note that less than 15 per cent of shoppers routinely seek out fair trade goods.

What exactly does fair trade mean? Fair trade refers to a social movement that aims to help producers in developing countries create fairer trading conditions for themselves. Fair trade is about better, more reasonable payment to producers, decent working conditions for workers, and sustainable farming practices. Fair trading is governed by the standards set by the international certification body Fairtrade International. Products that display the Fairtrade label must meet international Fairtrade standards.

You might see the label on items such as coffee, cocoa, sugar, tea, cotton, wine and chocolate. Cadbury is a familiar brand that received Fairtrade certification in 2009. Cadbury's Dairy Milk chocolate bar is Australia's biggest selling chocolate bar, and it now sports the green and blue Fairtrade logo. Cadbury is not the first chocolate maker to support fair trade though, with brands such as Alter Eco, Chocolatier, Cocolo and Green & Black's Maya Gold also supporting the fair trade movement.

Cadbury's move towards fair trade was significant for the movement. Fairtrade Australia & New Zealand continues to grow rapidly, with sales of Fairtrade Certified products increasing from \$50 million in 2008–09 to more than \$370 million in 2016–17. Chocolate and coffee represent a significant proportion of these sales.

While obtaining Fairtrade certification may bring many benefits, it also places responsibilities on member businesses, particularly in the area of operations management. The criteria that businesses must comply with involve adherence to International Labour Organization (ILO) agreements, such as prohibiting child and slave labour, ensuring workers have a right to join unions, and conservation and protection of the environment.

There is a responsibility to ensure that what is being sold as a Fairtrade product really upholds the principles of fair trade. In the case of chocolate, if the claim is that chocolate is made entirely from Fairtrade-certified cocoa beans, it is important that uncertified cocoa beans do not make their way into the supply chain.

In late 2016, the makers of Cadbury, Mondelez International, and Fairtrade announced a new partnership to help more cocoa farmers, families and their communities. The new partnership involves Fairtrade becoming a partner for Cadbury's Cocoa Life program. This is a sustainable cocoa-sourcing program involving a US\$400 million investment over 10 years into cocoa communities. Cadbury Dairy Milk chocolate will remain Fairtrade certified throughout 2017 in Australia. From 2018, the Cocoa Life logo was located on the front of Cadbury Dairy Milk wrappers.

Kjetil Undhjem, Director Marketing Chocolate Australia and New Zealand at Mondelez International, suggested that Cocoa Life would build on Cadbury's proud heritage of sourcing cocoa sustainably and has been working with farmers in Ghana for over 100 years. He said, 'In more recent years, Cadbury's cocoa sustainability program has progressed with the Cadbury Cocoa Partnership launched in 2008 and evolving in 2009 when we partnered with Fairtrade. Since the launch of Cocoa Life in 2012, we've touched more than 795 cocoa farming communities around the world. We're proud to share independent verification which shows that Ghanaian farmers' incomes have increased by 49 per cent more than farmers outside of the program. Through Cocoa Life, we want to build on the program's success by becoming an accountable partner for our cocoa farmers, not just a buyer.'

The Fairtrade logo on Cadbury chocolate assured customers that the business was using Fairtrade-certified cocoa beans. It has been replaced on Cadbury Dairy Milk wrappers with Cadbury's Cocoa Life logo.



Fairtrade Australia & New Zealand CEO Molly Harriss Olson said that Cadbury's determination to embed fair trade principles in its supply chain made it an industry leader, and the partnership between Fairtrade and Cocoa Life will have many more opportunities to increase positive impacts for cocoa farmers. She said, 'The evolution of our partnership with Cadbury and Cocoa Life is an exciting development, embedding impact, values, principles and unique relationships with farmer networks into the Cocoa Life program. In doing so, together we can increase the scale and impact of Cocoa Life, towards a common goal in which cocoa farmers, their organisations and communities are empowered, can invest in their own future, and go from just surviving, to thriving.'

The program faced a backlash following the announcement by Mondelez International and Fairtrade. However, Mondelez said that Fairtrade would still verify the cocoa supply chain. There was concern that the move to the Cocoa Life logo could undermine the Fairtrade movement by confusing consumers with multiple standards and logos.

5.11 Activities

TEST your understanding

1. Read the 'Sustainable operations at Cadbury' case study. Explain how Cadbury's operations produces greenhouse gas emissions.
2. List the ways in which Cadbury has made an effort to reduce its greenhouse gas emissions.
3. Read the article 'Cadbury and fair trade chocolate'. Explain what fair trade is and why Cadbury opted to use the Fairtrade logo.
4. Explain the responsibilities that may impact on operations management when a business gains Fairtrade certification.
5. Why did Mondelez International decide to switch from the Fairtrade logo on Cadbury chocolate products to the Cocoa Life logo?
6. Outline the criticism of the change to Cocoa Life and Mondelez's response.

EXTEND your understanding

7. Use the **Chocolate: the bitter truth** weblink in the Resources tab to read about the 2010 British Broadcasting Corporation (BBC) broadcast that investigates the chocolate supply chain. Follow the links to various media reports and a response to the program from Fairtrade. After reading all of the information, how socially responsible do you think Cadbury's operations are?
8. Using internet sources, research more arguments for and against the decision for Cadbury wrappers to carry the Cocoa Life logo instead of the Fairtrade logo. List each argument.
9. Explain how optimising the operations of a business can contribute to the objectives of that business, in terms of bottom line and social responsibility.
10. Use the **EY Climate Change and Sustainability Services** weblink in the Resources tab to find any articles related to operations management. What do they tell you about issues that relate to operations, such as efficiency, supply chain and workplace safety?

Resources

-  **Weblink:** Chocolate: the bitter truth
-  **Weblink:** EY Climate Change and Sustainability Services

5.12 Global considerations in operations management

KEY CONCEPT Businesses may need to contend with global issues in operations management including global sourcing of inputs, overseas manufacture, outsourcing and supply chain management.

5.12.1 Global sourcing of inputs

Just as you might purchase products from overseas, businesses can also buy inputs from markets in other countries. This is referred to as **global sourcing**. Many businesses today do this to exploit efficiencies that can be gained from the global delivery of products, including low-cost skilled labour, low-cost raw materials and other economic factors such as lower taxes and low trade tariffs due to free trade agreements.

Global sourcing initiatives form an integral part of the materials planning strategy of many businesses. SunRice, one of Australia's largest exporters of processed rice, and rice-based and other snack foods, adds to its locally produced inventory of rice by purchasing rice from global sources in order to meet the demand for its rice products. Businesses such as ANZ, Telstra and EnergyAustralia make use of call centres staffed with low-wage English-speaking workers in countries including India and the Philippines. Australian clothing and footwear businesses such as Rip Curl, Triangl and Holster purchase products manufactured in China using low-cost labour.

Many businesses source inputs from low-cost manufacturers in China.



The strengths and weaknesses of global sourcing

Strengths

- Reduces costs
- The opportunity to learn how to do business in a potential market
- Accessing skills or resources that are unavailable domestically
- Developing alternative suppliers/sources of inputs
- Increasing capacity of total supply



- Hidden costs associated with different cultures and time zones
- Exposure to potential high risk, both financial and political
- Long lead times (for manufactured goods)
- The risk of ports shutting down and interrupting supply
- Difficult to monitor the quality of inputs

Weaknesses

DID YOU KNOW?

In 2016, surf wear company Rip Curl was 'caught out' sourcing products from North Korea with 'Made in China' labels. Employees at a factory near Pyongyang, North Korea's capital city, were photographed by Fairfax Media making some of Rip Curl's winter range of clothing. Workers in North Korea often endure harsh conditions. Rip Curl blamed a supplier who diverted production orders to an unauthorised subcontractor for the practice. Rip Curl said that when it found out it immediately took steps to investigate and resolve the issue.

studyon

Unit 3 > AOS 3 > Topic 7 > Concept 1

Global sourcing of inputs Summary screen and practice questions

Overseas manufacture

Overseas manufacture is also referred to as off-shoring, meaning a good is produced in a country that is different to the location of the business's headquarters. Determining how and where to complete manufacturing is an important problem for the operations area. Many businesses successfully manufacture their goods locally, but manufacturing in countries outside Australia can enable a business to get its product to the market more quickly, reduce the cost of production and reduce delivery costs.

A business may choose to manufacture overseas to reduce labour, overhead and component costs, while keeping research and development, design and short-run manufacturing in Australia. This allows the business to focus on what they do best.

Some businesses will gradually increase their commitment to overseas manufacturing and may initially move into this strategy by outsourcing their manufacturing (see the following section). In this case, it is important that the business finds a way to contract the work or go into a partnership with an overseas manufacturer without losing control of the product. As a business expands, it may move from outsourcing its manufacturing through to ownership of overseas factories.

The weaknesses of overseas manufacture are very similar to those of global sourcing of inputs. There may be hidden costs associated with operating in different cultures and time zones. By producing in other countries, the business exposes itself to risks, both financial and political. Speed of delivery can increase, but if manufactured items need to be brought back to the business's country of origin, then lead times may increase. The extra transport required may also negatively impact on the environment. Furthermore, this strategy can lead to local job losses. It may also be difficult for the head office of a business to monitor the quality of production in another country.

Dexion is a storage solutions manufacturer that moved its manufacturing to Malaysia in 2014 to reduce costs and make the business more competitive. Dexion did this to increase profit through the development of new products and new markets. Dexion's sales, design and installation, and customer support teams remain in Australia.



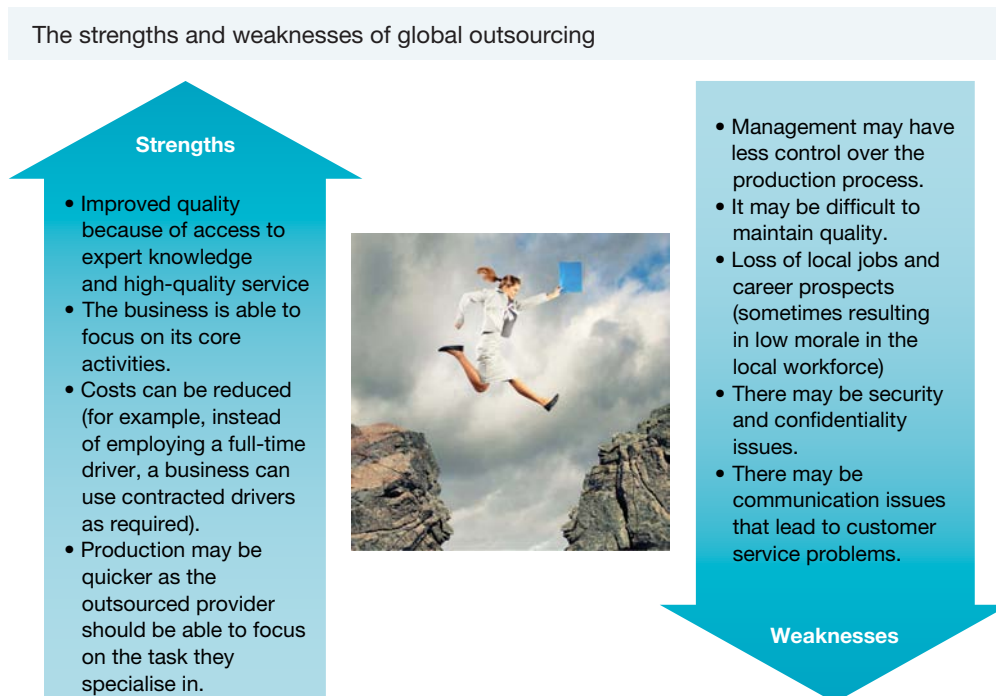
studyon

Unit 3 > AOS 3 > Topic 7 > Concept 2

Overseas manufacture Summary screen and practice questions

Global outsourcing

The term **outsourcing** is a common one these days. Outsourcing means that some part of a business's operations is transferred to an external person or business. For some time, tasks that are not part of a business's core activities, such as accounting or customer service, have been contracted to another business. For example, Qantas contracts its information technology, including customer management, to several external businesses, both in Australia and overseas. More recently, many businesses have decided to even outsource the production and delivery of goods and services that are considered to be their core business. For a business, this outsourcing is carried out because it can bring positive benefits such as cost savings, improvements to quality and access to operational expertise (an external person or business may have expertise in managing a task that the business does not have).



Global outsourcing means that business operations can be contracted out to countries all around the world. Many people disapprove of the practice of sending tasks to overseas countries, because of its impact on local jobs and local suppliers. Rossi Boots, an Adelaide-based footwear company, was rejected in 2014 for a Department of Defence contract to supply non-combat boots. Instead, another Australian company manufactured the boots in Indonesia, at a lower cost.

study on

Unit 3 > AOS 3 > Topic 7 > Concept 3 > **Global outsourcing** Summary screen and practice questions

Supply chain management

A typical **supply chain** starts with the sourcing of natural resources, followed by manufacturing activities such as component construction and assembly. The supply chain moves on to storage facilities before reaching the consumer. It is from this range of suppliers that the business purchases materials and resources. The supply chain needs to be well managed because an operations system depends on the inputs. Supply chain management is critical for the following reasons:

- If materials are not on hand, nothing can be produced.
- If materials are of inferior quality, it is difficult or costly to produce quality products.
- If the right quantity of materials is not available, the business cannot meet demand.

Supply chain management involves not only assessing the location in terms of distance to suppliers, but also considering the efficiency of delivery, the stock-use rate, the uniformity of quality, and pricing and comparisons with other suppliers of similar product, to identify whether they can better meet the business's needs. In recent years, many businesses have had to come to terms with developing more sustainable supply chains or 'greener supply chains'. For example, Australian road freight company Linfox uses aerodynamic trucks and trailers to maximise efficiency, has reduced power consumption at its offices and warehouses, and uses smarter vehicle routes to reduce its greenhouse gas emissions.

However, at times, the management of the supply chain can be very expensive to implement. Successful supply chain management requires preparation and training of staff. Furthermore, a supply chain can be complex and specific parts of the chain may be difficult to manage. Some aspects of the supply chain may be in another part of the country or overseas. If one part of the chain breaks down, the ability of the business to deliver products to customers may be negatively impacted. For example, if the business cannot get materials, if a website crashes, if inventory cannot be located in a warehouse or if a delivery vehicle breaks down, a business's operations system may come to a standstill.

DID YOU KNOW?

Many businesses today realise that their supply chain contributes to their social and environmental performance. McDonald's uses Socially Responsible Supply Guidelines for its suppliers.

study on

Unit 3 > AOS 3 > Topic 7 > Concept 4

An overview of supply chain management Summary screen and practice questions

5.12 Activities

TEST your understanding

1. Suggest why businesses obtain inputs from global sources.
2. Define the term 'overseas manufacture'.
3. Briefly outline the benefits and costs of outsourcing.
4. Why is it vital that the supply chain be well coordinated?
5. Complete the following sentences by filling in the blanks.
 - (a) Global sourcing is the practice of seeking the most _____ efficient materials and other inputs, including from countries _____.
 - (b) Overseas manufacture refers to the production of a good in a _____ that is different to the location of the business's _____.
 - (c) Outsourcing is the practice of a specific business operation being contracted to an _____ person or business.
 - (d) A supply chain is the range of _____ from which the business purchases _____ and _____.

APPLY your understanding

6. Bridie is planning a new business that will sell swimwear online. She believes that manufacturing in Australia is too expensive and therefore will need to organise the manufacture of her products with an overseas business. Evaluate the use of overseas manufacture and global outsourcing as strategies that Bridie could use for the manufacturing of her swimwear. Suggest which strategy would be most useful in her situation.

7. To find out how a large business deals with supply chain management, use the **ANZ supply chain** weblink in the Resources tab. How many suppliers does the ANZ have? How does the company develop supply chain relationships with these suppliers? Does ANZ expect its suppliers to meet certain standards and, if so, what are the standards?

EXAM practice

8. Define the term 'supply chain management'. **(1 mark)**
9. Distinguish between overseas manufacture and global outsourcing. **(2 marks)**
10. Discuss the likely consequences of a business making use of global sourcing of inputs in its operations. **(6 marks)**



Resources



Weblink: ANZ supply chain

5.13 APPLY YOUR SKILLS Comparing, evaluating, proposing and justifying operations management strategies

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of management applicable to managing production in a business
- Interpret, discuss and evaluate business information and ideas
- Apply operations management knowledge to practical and/or simulated business situations
- Compare and evaluate strategies used in operations management
- Propose and justify strategies for improving the efficiency and effectiveness of operations

5.13.1 Quality control and quality assurance

ISO'S DEFINITION OF QUALITY CONTROL AND QUALITY ASSURANCE

ISO (the International Organization for Standardization) is a worldwide federation of national standards organisations. Through its members, it develops voluntary and market relevant international standards. International standards ensure that products are safe, reliable and of good quality for consumers across the world. They are also influential in enabling international trade. For businesses, international standards assist with the reduction of costs by minimising waste and errors and increasing productivity. They also help businesses to access new markets. The ISO 9000 family of standards provides the fundamental concepts, principles and vocabulary for quality management systems and provides the foundation for other quality management systems standards.

In the ISO 9000:2015 standard, clause 3.3.6 defines quality assurance as 'part of quality management focused on providing confidence that quality requirements will be fulfilled'.

Clause 3.3.7 defines quality control as 'part of quality management focused on fulfilling quality requirements'.

5.13.1 Activities

TEST your skills

1. Define the term 'quality'.
2. Describe the purpose of international standards.
3. Distinguish between quality control and quality assurance.

APPLY your skills

4. (a) Working in a small group, copy the table below. Use the first column to outline similarities between quality control and quality assurance. In the second column, outline the differences between the two strategies. One row has already been completed for you

Quality control and quality assurance	
Similarities	Differences
Both quality control and quality assurance involve the use of a set of quality management standards.	Quality control involves the business inspecting its goods or services at various points in the production process to check that they adhere to a set of standards, whereas quality assurance involves the use of a system that will assure customers that the products of a business are fit for purpose — it does this by achieving set standards throughout the production process.

- (b) The task word (sometimes referred to as command word or instructional word) 'compare' generally requires you to comment on the similarities and differences between two things. Using the information you have recorded in the table above, compare quality control and quality assurance.
5. (a) Using tables similar to the one used in question 4, outline the similarities and differences of the following strategies:
 - i. automated production lines and computer-aided design
 - ii. forecasting and master production schedule
 - iii. Total Quality Management and lean management
 - iv. global sourcing of inputs and overseas manufacture.
- (b) Using the information you have recorded in your tables for part (a), compare the following strategies:
 - i. automated production lines and computer-aided design
 - ii. forecasting and master production schedule
 - iii. Total Quality Management and lean management
 - iv. global sourcing of inputs and overseas manufacture.

5.13.2 Technological developments and lean management

HOW LEAN IS SECURING THE FUTURE OF THIS DIGITAL ADVERTISER

How do you keep up with a market changing at the speed of light? The Chief Inventor of an Australian digital company explains how they are using lean to safeguard their future.

REA Group is a digital advertising company specialising in property and the lifestyles that go with it, headquartered in Melbourne, Australia (we are also present in six other countries). We help people buy and rent houses, and find commercial properties for business through our websites and apps, but also get finance and learn about renovation and the market. How we got to become a \$9 billion company doing that is quite interesting, and that's the story I'd like to tell in this article.



We have spent the past two decades building a global business, but the truth is that in real estate the only thing that matters is whether you are a great business in your neighbourhood. The challenge for us is to essentially act as if we had 2500 realestate.com.au websites and apps uniquely tailored to each suburb in Australia, and more again for our Asian customers. Sometimes those apps are not for people fortunate enough to be choosing a new home for their family to live in — we also work with homeless people and contributed to the development of an app called Ask Izzy to connect Australia's homeless to resources for them.

Our 20-person Consumer Research Lab — which constantly works on perfecting our offerings based on the key customer expectations of time, transparency and trust — hosts or visits five people every day. That's up to 1000 people a year, which generates a lot of data that we can then use to segment the ecosystem, and understand how to cater to each of its parts (whether it's landlords, renters, investors, renovators or estate agents). We pay these folks to come in, relying on an external agency that recruits individuals from a specific demographic or geographical area, like Perth's Central Business District or a suburb of Adelaide. We interview them, but most importantly observe them as they use our technology.

For example, we might ask them to wear a pair of Tobii glasses that record how they interact with our website or our app (it is fascinating to see how quickly they can scroll through the results and pick up a newly-listed property they haven't seen yet) or we might decide to track their movements and behaviours as they go on a virtual reality walk through an apartment.

We never stop experimenting with technology and we strive to invent something new every day.

A market in transition

Our commitment to research and experimentation is made in response to the dramatic changes our sector is undergoing. The internet has completely transformed the search for real estate, and we are moving closer and closer to a point where rather than search we will be required to facilitate matching properties and information to prospective buyers or renters. For this reason, there is a lot of fear that the role of traditional intermediaries (estate agents) could soon be a thing of the past, and that technology will take their place.

We believe that there is still an important role for people as intermediaries (at least, for good ones), but it is obvious that things have changed a lot in the past few years. A combination of an agent plus technology is becoming the norm to be competitive, and in the future, that tech will also involve more AI. We need to become better channels for people interested in property. Our tools and data sets need to be improved, and some of our value streams will necessarily change.

As ever, the internet has provided both great challenges and great opportunity, and REA Group has largely been able to ride that wave through continuous innovation. In many ways, we have revolutionised the market, but we are now being disrupted by global competitors that were not traditionally property-focused — Google, Facebook, Airbnb, Amazon and WeChat. We are facing the typical innovator's dilemma: can we get our mind around this disruption and create a new, more valuable offering? That's what we are focused on as a company.

Artificial Intelligence will make it possible to complete the transition to matching properties to people: prospective buyers or renters will find the right property in their inbox or home screen notifications when they wake up in the morning, perhaps together with an article on renovating kitchens — perhaps their most pressing need — and the name and number of a person they can talk to about a mortgage extension for the renovation. Technology in general has really brought a lot of change to our industry: imagine how much time you could save by using virtual reality to view an apartment!

Our journey of transformation

Four years ago, we decided to change the structure of the organisation to become much more customer focused in everything we do, starting from an Agile 'factory' — an ideas factory rather than a manufacturing one, delivering apps and software, not cars. The biggest consequence of the reorganisation was a switch to multidisciplinary teams: most internet companies (including the big ones) operate a bit like a cult led by designers, engineers or product people, whereas at the REA Group we ensure these three roles work together on a daily basis to serve customers and consumers.

We believe that collaborative learning can achieve incredible things. That's why we pair up programmers (a bigger investment up front that will save you tonnes later on in coding changes, as software will need custodianship for up to five years) and, like at Spotify, we assign our people to small, multifunctional teams — large tribes of 150 people are focused on a customer segment like residential real estate; squads of 10 build products, and guilds that allow a 'craft' or 'trade' such as security engineering to stay in touch and share knowledge across the business silos.

The first lean experiment outside our software development teams was for the team most curious about agile methods, with the toughest waste problem — the lawyers from our Legal team. At the time, with strong demand

for their services, we had a huge bottleneck when the process reached them: not only did every deal have to go through them, but our product structure was so complex that each contract was customised. As a team, they regularly worked 70-hour weeks.

After participating in many product stand-up meetings, they decided to try and visualise their own work. They got confirmation that it was a pretty horrific value stream, with what felt like a million steps, and lots of wait time, but for the first time they were able to see the problems. We came to the realisation that the value stream is not complete until the first dollar is paid into a contract, and decided to come up with a system of prioritisation of jobs. A miracle occurred: duplication was reduced, and the bottlenecks started to disappear.

In that instance, we also learned how detrimental interruptions can be (we measured it takes 20 minutes to get back to your regular pace of working after a distraction) and introduced a system by which teams now have a flag that signals the one ‘interruptable’ person in the group.

After all this, the lawyers became great ambassadors for a new way of working. As we flipped the company structure to being multidisciplinary, they were deployed as internal consultants supporting every line of business, attending many stand-ups and seeing more and more people asking for their help. They also began to automate legal processes and create self-service tools — humans and technology working in harmony.

People are naturally curious at REA Group, and before too long, our People and Culture team picked it up (they sat next to Legal). Then Finance learned about it, just as they were trying to figure out how to get a new finance system off the ground and needed a quick way to summarise it on a board for their stakeholders and team.

Change reached different parts of the organisation fuelled by curiosity, which is a trait we actively look for in the people we recruit — together with resilience and the ability to think critically. The habits that define us as a company are something you can’t avoid learning if you work here: we don’t have a manual of the ‘REA Way’ (much like Toyota didn’t have a TPS manual) but encourage sharing at all levels and that’s how we create a common culture and set of behaviours. Culture and behaviours are led from the top by our CEO Tracey Fellows, along with creating a sense of challenge and a clear ‘why’ for our people to engage with. We are changing the way people experience property around the world.

Source: Nigel Dalton, Planet Lean.

REA Group is public listed company that operates Australia’s leading residential, commercial and share property websites including realestate.com.au. The business has digital real estate sites and investments in Australia, Asia and North America.



5.13.2 Activities

TEST your skills

1. Define the term ‘website development’.
2. Read the ‘How lean is securing the future of this digital advertiser’ case study. Explain how REA Group attempts to understand how its customers think and behave.
3. Outline how the author of the article sees artificial intelligence transforming the real estate industry.
4. Describe the process by which lean management was introduced to REA Group.

APPLY your skills

5. The task word (sometimes referred to as command word or instructional word) ‘propose’ generally requires you to put forward an idea, argument or suggestion for consideration or action. This involves writing a little more than simply just identifying or suggesting something. The task word ‘justify’ requires you to show how the statement or statements that you have made are correct or to provide evidence to support your argument.

- (a) Propose one quality strategy that could be used to improve the efficiency and effectiveness of operations at REA Group and justify the use of this strategy.
- (b) Propose and justify a strategy that REA Group could use to improve the efficiency and effectiveness of its operations in relation to materials.
6. (a) Working in a small group, copy the table below. Use the first column to outline the strengths of lean management. In the second column, outline the weaknesses of lean management. One row has already been completed for you.

Lean management	
Strengths	Weaknesses
Lean management reduces costs and this may lead to an improvement in profit. If a business's objective was to make profit, then improving profit would improve a business's effectiveness.	The use of lean management can involve high implementation costs, which may have a negative effect on profit.

- (b) The task word (sometimes referred to as command word or instructional word) 'evaluate' generally requires you to consider both sides of something, and then provide an overall conclusion or judgement related to which argument is the more persuasive and why.
- Using the information you have recorded in your table in part (a), evaluate the use of lean management as a strategy for improving the efficiency and effectiveness of REA Group's operations.
7. (a) Using tables similar to the one used in question 6, outline the strengths and weaknesses of the following strategies.
- Computer-aided manufacturing
 - Materials requirement planning
- (b) Using the information you have recorded in your tables for part (a), evaluate the use of the following strategies in improving the efficiency and effectiveness of a business's operations.
- Computer-aided manufacturing
 - Materials requirement planning

5.14 Review

5.14.1 Summary

The relationship between operations management and business objectives

- Operations management is the area of management that is concerned with the activities used to produce goods and services.
- Operations management is responsible for transforming inputs into outputs.
- Two key areas that the operations area of management responsibility must focus on are effectiveness and efficiency. Effectiveness refers to the degree to which a business has accomplished its stated objectives. Efficiency refers to how well a business uses resources in achieving these objectives.

Characteristics of operations management within manufacturing and service businesses

- The characteristics of operations management differ according to whether the business is a manufacturer of goods or a provider of a service. Manufacturers produce tangible products whereas service businesses produce services, which are intangible.
- Most modern businesses produce a combination of both manufactured goods and services.

Key elements of an operations system

- The elements of an operations system are inputs (materials, capital equipment, labour, information and time), the transformation process, and outputs (the finished good or service).

Technological developments

- Technology can improve operations. Businesses need to acquire up-to-date technology in order to compete effectively.
- Technology is used in the manufacturing sector to speed up processes and enable better utilisation of raw materials. This improves productivity and makes the operations process more cost effective. Office and communications technology has enabled new markets to open up, costs to be cut and productivity to be improved.
- A website can be developed for operations purposes. A website can make it easier for customers to purchase products or to find information online. A business may develop its website to increase the amount of information it gets from its customers and analyse the information. A business may also develop its website to provide information to employees and to communicate with suppliers.
- An automated production line is comprised of machinery and equipment arranged in a sequence with components added to the product as it proceeds through each step. The product usually moves along the line on a conveyer belt and computers control the process.
- Computer-aided design (CAD) is a computerised design tool that allows a business to create products and modify them. Computer-aided manufacturing (CAM) is software that designs and controls the process of producing a product.

Materials management

- Materials management is the strategy involved with managing the use, storage and delivery of materials, to ensure the right amount of inputs is available when required in the operations system.
- Materials planning is completed using forecasting, a master production schedule (MPS) and materials requirements planning (MRP).
- Forecasting is a tool that relies on data from the past and present and analysis of trends to attempt to determine future events. A master production schedule (MPS) is a plan that details what the business will produce, in what quantities, how and when. Materials requirements planning (MRP) refers to producing an itemised list of all materials involved in production to meet specified orders.
- Inventory control ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required. A common approach used by many businesses in Australia is the Just In Time (JIT) system of inventory control.

The management of quality

- Quality management is the strategy that a business uses to make sure that its product meets customer expectations. Three quality approaches are quality control, quality assurance and Total Quality Management.
- Quality control involves the use of inspections at various points in the production process to check for problems and defects. It is a reactive strategy that measures performance in relation to set standards or benchmarks. If the established standards are met, it is then likely that the business will meet customer expectations and will compete effectively with competitors.
- Quality assurance involves the use of a system where a business achieves set standards in production. It is considered to be a proactive strategy. A widely used international standard is the ISO 9000 series of quality certifications.
- Total Quality Management (TQM) is an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation. Total Quality Management can improve product quality, making the business more competitive. A number of approaches may be used, such as employee empowerment, continuous improvement and improved customer focus.

Waste minimisation

- Waste minimisation is a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations.
- One strategy for minimising waste is lean management. This approach improves the efficiency and effectiveness of operations by eliminating waste and improving quality.

Corporate social responsibility considerations in an operations system

- Operations managers must be aware of corporate social responsibility when pursuing business objectives. Businesses that do so will benefit from improved performance.
- An operations manager needs to consider the use of environmentally sustainable inputs and the amount of waste that is generated by the business's operations.

Global considerations in operations management

- Global sourcing of inputs refers to the practice of businesses seeking the most cost efficient materials and other inputs, including from countries overseas.
- Overseas manufacture refers to the production of goods in a country that is different to the location of the business's headquarters.
- Global outsourcing is the contracting of a specific business operation to an external person or business, in an overseas country.
- A supply chain is the range of suppliers from which the business purchases materials and resources. A well-managed supply chain guarantees the supply of quality inputs. Businesses will work with suppliers to make sure that materials are delivered efficiently and in the right quantities.

5.14.2 Key terms

automated production line comprises machinery and equipment arranged in a sequence with components added to a good as it proceeds through each step, with the process controlled by computers

business competitiveness the ability of a business to sell products in a market

computer-aided design a computerised design tool that allows a business to create product possibilities from a series of input parameters

computer-aided manufacturing the use of software to design and control manufacturing processes

computer-integrated manufacturing a method of manufacturing in which the entire production process is controlled by a computer

continuous improvement an ongoing commitment to achieving perfection

environmental sustainability a business making decisions that will allow it, and the rest of society, to continue to interact with the environment

forecasting a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events

global sourcing the practice of seeking the most cost-efficient materials and other inputs, including from countries overseas

inputs resources used in the process of production

intangibles services that cannot be touched

inventory goods and materials held as stock by a business

inventory control ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required

Just In Time a materials management strategy that ensures that the right amount of material inputs will arrive only as they are needed in the operations process

lean management an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality

master production schedule a plan that details what is to be produced and when

materials handling the physical handling of goods in warehouses and at distribution points

materials management the strategy that manages the use, storage and delivery of materials to ensure the right amount of inputs is available when required in the operations system

materials requirement planning involves developing an itemised list of all materials involved in production to meet the specified orders

operations management all the activities in which managers engage to produce goods or services

overseas manufacture the production of a good in a country that is different to the location of the business's headquarters

outputs the end result of a business's efforts — the service or product that is delivered or provided to the consumer

outsourcing the contracting of a specific business operation to an external person or business

procurement the process of researching and selecting suppliers, establishing payment terms, negotiating contracts, and the actual purchasing of resources that are vital to the operations of the business

production plan an outline of the activities undertaken to combine resources (inputs) to create goods or services (outputs)

quality the degree of excellence of goods or services and their fitness for a stated purpose

quality assurance the use of a system so that a business achieves set standards in production

quality circles groups of workers who meet to solve problems relating to quality

quality control the use of inspections at various points in the production process to check for problems and defects

robotics highly specialised form of technology capable of complex tasks

supply chain the range of suppliers from which the business purchases materials and resources

tangibles goods that can be touched

Total Quality Management an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation

transformation the conversion of inputs (resources) into outputs (goods or services)

waste minimisation a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations

website development the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products

Resources



Digital doc: Key terms glossary (doc-29448)

5.14.3 Review questions

TEST your understanding

1. Explain how the operations management area supports the business in achieving its objectives.
2. Distinguish between efficiency and effectiveness.
3. Compare the operations of a manufacturer and a service business.
4. Explain the three elements of an operations system, using examples.
5. Outline how technology can be used to improve operations.
6. Suggest the benefits for operations of a business developing a website.
7. Explain what is meant by the term 'automated production line'.
8. Differentiate between computer-aided design (CAD) and computer-aided manufacturing (CAM).
9. Why is materials management such an important strategy for optimising operations?
10. Why do businesses use forecasting in the area of materials management?
11. Differentiate between the master production schedule (MPS) and materials requirements planning (MRP).
12. Outline the importance of inventory control, using examples.
13. Identify the benefits and costs of using Just In Time as an inventory system.
14. How can quality management make a business more competitive?

15. Describe the main differences between quality control and quality assurance.
16. Explain what is meant by Total Quality Management (TQM).
17. Identify five waste-minimisation strategies.
18. Outline the main principles of lean management.
19. What are the benefits and costs of operations managers acting in a socially responsible manner?
20. Give three examples of issues related to corporate social responsibility that may arise in operations management.
21. Explain what the term 'global sourcing of inputs' means.
22. Distinguish between overseas manufacture and global outsourcing.
23. What is supply chain management?

APPLY your understanding

24. Choose a real-life example of a manufacturer and a service business. For each example, outline the inputs, processes and outputs of their operations.
25. One strategy used to improve operations is the use of technology. For example, if a business used labour-intensive operations (making extensive use of people to do the work) to manufacture cars, it may not be as efficient as another business using automated equipment. Fill in the following table by listing (and explaining where necessary) strategies that an operations manager could use to achieve the stated business objectives. The first answer has been completed for you.

Business objective	Operations strategy
Increase the quality of customer service	Technology — introduce customer relationship management system
Increase the quality of the product	
Reduce production costs	
Improve domestic and international competitiveness	
Reduce waste	
Improve productivity	
Reduce the number of accidents	
Improve workflow	

26. Pick a large-scale business such as Australia Post or Coca-Cola Amatil Limited and list three of its business objectives. You could find this information on its website, in its annual report or in speeches made by one of its executive managers. For each objective, state what strategy the operations manager could use to help achieve the goal.

EXAM practice

27. Analyse the relationship between business objectives and operations management. **(4 marks)**
28. Outline three differences between the operations of a service business and the operations of a manufacturing business. Illustrate your answer with examples from a business you have studied this year. **(6 marks)**
29. Explain the elements of an operations management system. In your response, use examples that you have studied this year. **(6 marks)**
30. Compare the use of automated production lines to computer-aided design. **(4 marks)**
31. Evaluate the use of Just In Time in relation to improving the efficiency and effectiveness of operations. **(6 marks)**

32. Sandra's marketing consultancy business has received complaints from customers that the quality of its service is poor. Propose and justify a strategy related to quality that Sandra's business could use to improve the efficiency and effectiveness of its operations. **(4 marks)**
33. Propose and evaluate one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process. **(8 marks)**
34. Describe two corporate social responsibility considerations in an operations system. **(4 marks)**
35. Discuss the use of supply chain management as a global consideration in operations management. **(4 marks)**

on Resources

-  **Digital doc:** Missing word glossary quiz (doc-29449)
-  **Digital doc:** Crossword (doc-29450)

studyon

Sit past VCAA exam

5.14.4 School-assessed coursework

OUTCOME 3

Analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations.

ASSESSMENT task — case study

Time allowed: 65 minutes
Marks allocated: 40 marks (The marks for each question are indicated at the end of each question.)
Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Yakult

Yakult Australia Pty Ltd commenced production in 1994. In Australia, it manufactures and sells Yakult Original and Yakult LIGHT, which are fermented milk drinks. Yakult contains probiotic bacteria known as the *Lactobacillus casei* Shirota strain, which can help the digestive system to remain healthy. Yakult's objective is reflected in its global corporate philosophy, which is to 'contribute to the health and happiness of people around the world through pursuit of excellence in life sciences in general and our research and experience in microorganisms in particular'.

Yakult's purpose-built factory and office complex in Dandenong was constructed in 1993. It cost \$30 million. The factory now produces more than 300 000 bottles daily, supplying Yakult to Australian and New Zealand markets.

Inside the automated factory, raw ingredients (skim milk powder, sugar and dextrose) are mixed together with filtered water and undergo sterilisation. Live *Lactobacillus casei* Shirota strain is added to the milk to begin the

Yakult's small bottles appeal to children, while the consistent quality of the product appeals to their parents.



fermentation process. Citrus flavour is added to the mixture. During fermentation, the bacteria rapidly multiply. The mixture is homogenised, so that it has a smooth consistency and then it is diluted with filtered water to produce the final product.

Yakult's unique plastic bottles (they are very small — 65 mL) are created on-site and manufacturing staff monitor the quality of the product to ensure it meets the highest standards. A filling machine that has the capacity to fill 36 000 bottles per hour fills the bottles with Yakult. They are then capped with a foil lid, printed with a use-by date, sealed and transferred along the conveyor belt to the packaging facility. Yakult needs to be stored and distributed at temperatures below 4 °C.

Quality at Yakult

Yakult's quality management system (QMS) complies with the International Organization for Standardisation's relevant Standard (ISO 9001:2015). This means that Yakult meets the highest international food manufacturing standards. All company procedures are documented and are regularly audited. In terms of quality control, individual bottles are randomly inspected for incorrect printing and lid sealing. Product samples are collected and assessed for quality, composition and taste in Yakult's onsite quality control area.

Waste management

Yakult Australia is very much aware of the need to minimise its environmental impact. Its waste management strategies, such as recycling of paper products and plastic waste, have resulted in more than 99 per cent of raw ingredients being used. Cleaning waste goes into a holding tank in the onsite water treatment facility.

Read the case study above, then answer the following questions.

1. Define the following terms using examples from the Yakult case study.
 - (a) Automated production line **(2 marks)**
 - (b) Waste minimisation **(2 marks)**
2. Outline the inputs used by Yakult. **(2 marks)**
3. Describe the output of Yakult. **(2 marks)**
4. Outline the relationship between Yakult's business objectives and operations management. **(4 marks)**
5. Distinguish between the operations of a manufacturer and a service provider. Under which category does Yakult fit? **(5 marks)**
6. Explain what materials management is. In your response refer to the terms 'forecasting', 'master production schedule' and 'materials requirement planning'. **(4 marks)**
7. Compare the use of quality control and quality assurance at Yakult. **(6 marks)**
8. Discuss the use of Total Quality Management and suggest whether or not you believe it would be suitable for Yakult's operations. **(5 marks)**
9. Identify and describe two ways in which Yakult has incorporated corporate social responsibility considerations into its operations system. **(4 marks)**
10. Explain two reasons why Yakult would need to manage its supply chain. **(4 marks)**

Resources



Digital doc: School-assessed coursework (doc-29451)

UNIT 4

TRANSFORMING A BUSINESS

Forced to change

Holden is an iconic Australian business, but it has been struggling for some time and will undergo changes in coming years. In December 2013 General Motors (the parent company of Holden) announced that Holden would cease manufacturing motor vehicles in Australia in 2017. This change resulted in 3900 people across Victoria and South Australia losing their jobs. While manufacturing jobs were lost, industry officials and Holden itself were confident that the brand and the company would survive as the focus of the business turns to importing vehicles and providing services such as vehicle sales and vehicle servicing.



The close of the manufacturing plants in 2017 was not the end of the transformation of Holden in Australia. In October 2015 General Motors Holden announced the company and its 223-strong dealer network would invest \$200 million to update its showrooms around the country, as the company transitions into its new role as a full-line importer from the last quarter of 2017. This change was announced as Holden launched its new Commodore VF Series II range, the final model of the iconic Commodore to be produced in Australia before the shutdown of the manufacturing plants announced in 2013. Holden executive director of sales Peter Keley announced the initiative, identifying that Holden needed to maintain a very fresh and contemporary look in the market place. ‘The current program has served us exceptionally well but it’s time to move on.’

AREA OF STUDY	OUTCOME	CHAPTER
1 Reviewing performance – the need for change	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.	6 Reviewing performance – the need for change
2 Implementing change	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.	7 Implementing change

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CHAPTER 6

Reviewing performance — the need for change

6.1 Overview

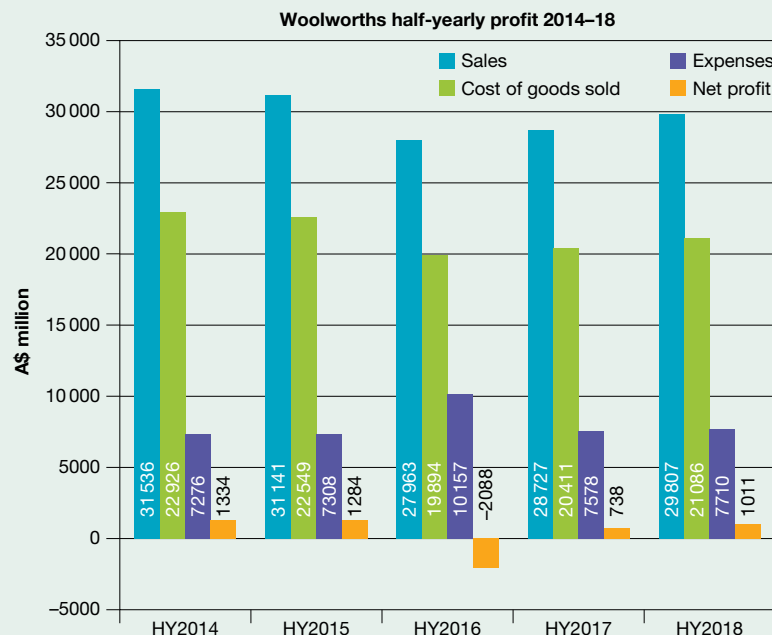
6.1.1 Why it is important

Businesses are established for a variety of reasons. Once established it is important for those businesses to maintain a suitable level of performance to ensure they continue to operate. Businesses need to consider sales, profits, cash flow and market share as factors that assess performance. If the performance isn't acceptable the business needs to change so that the level of performance improves and returns to an acceptable level.

WOOLWORTHS — SELF-SERVICE TO STEM COSTS

Self-service checkouts are a contentious issue for both shoppers and supermarkets. Since the introduction of self-service checkouts, supermarket theft has increased — verified in a 2017 survey by consumer research company Canstar, who found that one in six customers aged in their thirties said they had deliberately not paid for an item at a self-service checkout. Almost one in 10 shoppers of all ages admitted they had cheated in the self-service section, with men more likely to steal than women.

As one of the biggest retailers, Woolworths has continued to embrace the new technology. The drive to do so stemmed from rising costs, poorer financial performance and increased competition (see graph below).



While the profit figures for most of the period were positive, there was concern about the declining profit figures, which extended to a loss in 2016. There was further cause for concern with German supermarket chain Aldi steadily gnawing away at Woolworths' dominant supermarket position, building its total market share to about 10 per cent as it expands around the country.

Further bad news for Woolworths has been the findings of another survey showing that the retailer ranked lowest against its supermarket competitors on customer service, and low in terms of value for money, food freshness, store layout, specials and the quality of its private label products.

This Canstar Blue survey of 2925 Australian shoppers found that Woolworths customers are not as satisfied as they are with Coles, Aldi, Foodland and IGA.

However, that is not slowing Woolworths' venture into the self-service checkout arena. As Coles, their main rival, moves to restrict their investment in this area, Woolworths is replacing nearly all of its traditional check-outs with self-service at some inner-city stores as part of its multimillion-dollar renewal program to win back customers.

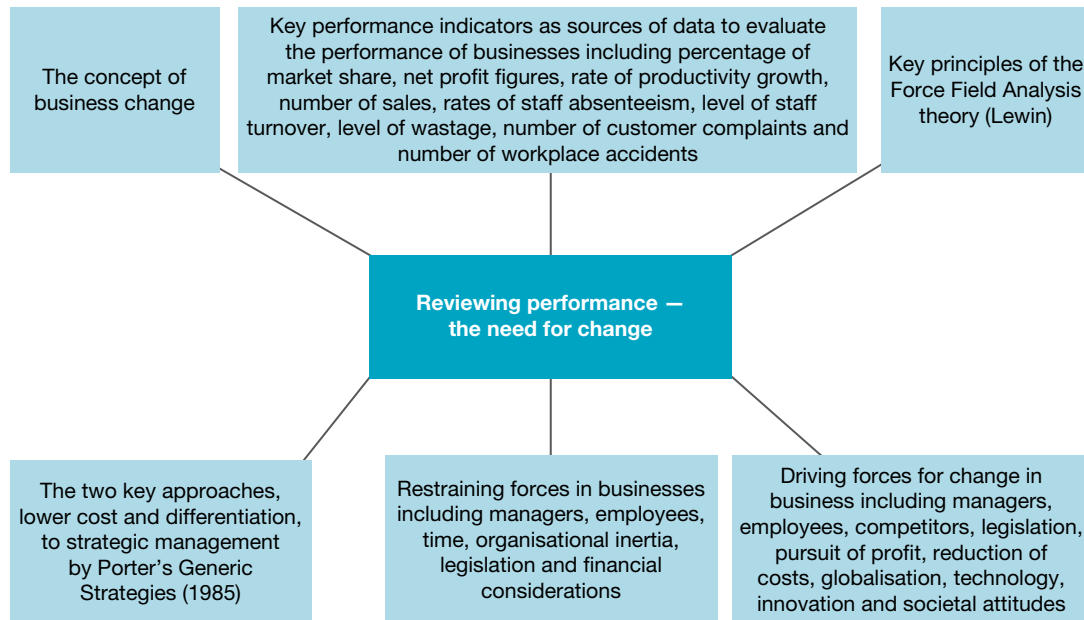
The retailer is making a pointed move to embrace self-service despite industry sources estimating Coles' annual grocery theft bill at about \$1.1 billion and Woolworths to be suffering a similar result.

That doesn't seem to bother Woolworths, which, as part of its planned overhaul of more than 80 stores in 2017, is vastly increasing the number of self-service checkouts at its metro and smaller-format locations.

6.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.



Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Interpret key performance indicators to analyse and evaluate business performance
- Apply business management knowledge to practical and/or simulated business situations
- Compare and evaluate relevant management strategies

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on Resources

 Digital doc: Key terms glossary (doc-29452)

6.2 The concept of business change

KEY CONCEPT Businesses must constantly change in order to survive in today's volatile business environment.

6.2.1 What is business change?

There is every indication that the pace of change confronting Australian businesses will intensify during the next decade. **Change** is any alteration in internal or external environments; for example, change in consumer tastes or change in employee expectations. It could also be a change to the way things are perceived, or a new way of dealing with problems. In response to these changes, many businesses have undergone **business change**: the adoption of a new idea or behaviour resulting in a difference in the form or operation of a business over time. The business may have modified its corporate culture, implemented new management structures, recruited employees with new skills or developed different work practices.

DID YOU KNOW?

People always ask, 'Is the change over? Can we stop now?' You've got to tell them, 'No, it's just begun.'

— Jack Welch, former CEO of General Electric Company

Managing change

All businesses face change. Some changes are forced on a business, while others are carefully planned. The ability to manage and, in many cases, embrace and adapt to change will increasingly determine a business's competitive advantage and survival. Successful managers are those who anticipate and adjust to changing circumstances rather than those who get swept along passively or, worse, get caught unprepared. Such people are **proactive** rather than **reactive**.

To be constructive, changes must occur at a pace that allows businesses to absorb and integrate them into their operations. Also, all changes should be evaluated thoroughly to assess their overall impact. Poorly managed changes normally result in employee resistance, tension, anxiety, lost productivity and ultimately, unmet objectives.

Change entails risk and requires sound leadership skills and responsive management structures. The long-term survival of any business depends on the ability of its managers to scan the environment, predict future trends and exploit change. While change may be the most daunting challenge confronting management, the rewards are great for those who are prepared to accept the challenge.

EXAM TIP

The **Unit 4, Area of Study 1** outcome states that you need to 'use key performance indicators to analyse the performance of a business'. You should understand that this KPI data, and the analysis of that data, will be used to lead businesses to change and so you should be considering what areas of the business relate to each KPI and how those KPIs can lead to change.

studyon

Unit 4 > AOS 1 > Topic 1 > Concept 1

The concept of business change Summary screen and practice questions

Skills in managing change

To ensure that the change will be effective, managers will need to apply their management skills. Management skills were discussed in chapter 2.

Communication skills

Managers must be able to communicate with stakeholders regarding the need for change and the progress of the change. Without clear communication regarding the change there may be resistance to it, causing delays and problems for management and other stakeholders. Effective managers understand the importance of communication.

Delegating skills

Managers can't oversee all aspects of the change. Passing authority for specific tasks or appointing a change agent will allow managers to focus on other tasks while the change is managed effectively.

Planning skills

All changes need to be planned. Change can be long-term or short-term, so management must develop a 'plan of action' for dealing with change.

Leading skills

Leading is the ability to influence others to achieve objectives. Managers need to influence staff to accept any change and work towards the successful implementation of the change. Their influence determines how effectively the change is implemented and how quickly and successfully any resistance is overcome.

Decision-making skills

During the change process decisions will need to be made. The ability to select the best course of action from a range of options will allow the process to be completed effectively. Some of these decisions will be difficult as change often leads to job losses.

Interpersonal skills

Change can have a negative impact on employees. Managers need to relate to and empathise with employees and any other stakeholder impacted by the change.

Effective managers proactively deal with change.



"What if we don't change at all ...
and something magical just happens?"

AUSTRALIA POST TRANSITIONING

Following a fall in letter deliveries and higher costs leading to its mail division losing a record \$328.4 million in 2013–14, Australia Post introduced a two-speed letter service in early 2016. This means that customers can now choose between a regular or priority letters service, as well as the already existing express service. Several thousand employees at Australia Post were made redundant or were transitioned into different roles at the government business enterprise as it focused more on its parcel delivery business. In August 2017, Australia Post announced a full-year profit after tax of \$95 million.



AVON CALLING

Not all companies are able to turn around their falling fortunes like Australia Post — sometimes the issues are too severe, and the business will cease operations.

This was the case for Avon — an iconic US-based company introduced into Australia in the early 1960s. At the time, Avon gathered an army of women who went from door to door, selling their cosmetics to other women who were working as traditional housewives. Their advertising campaign also became iconic, with the phrase ‘Ding Dong, Avon calling’ becoming synonymous with the brand and the product.

However, the growth in online shopping and increased competition from other businesses in recent years meant Avon could no longer compete, and it announced that it would close its Australian operation at the end of 2018, after 55 years of selling cosmetics, skincare, fragrance and fashion products.

While the news is naturally upsetting for the industry, the employees and the economy, the company distressed people further by making the announcement to its 21 400 employees through Facebook.



6.2 Activities

TEST your understanding

1. What does the term ‘business change’ mean?
2. Explain the meaning of the phrase, ‘There is only one constant in life and that is change’.
3. Explain the difference between proactive and reactive management.
4. Explain why communication skills are important during a period of change.
5. Outline the importance of leading during a period of change.
6. Explain how using interpersonal skills can assist managers implement change.

APPLY your understanding

7. Read the Woolworths case study in section 6.1.1. In your opinion, did Woolworths respond in a proactive or reactive manner to pressures for change? Justify your answer.
8. Search the web to find information regarding a business that has been in the media in recent times. Prepare a brief report summarising:
 - the type of business
 - its recent financial performance
 - other issues impacting the business.

EXAM practice

9. Describe the concept of business change. **(1 mark)**
10. Describe two skills a manager may use during a period of change at a business. **(4 marks)**

6.3 Analysis of business performance

KEY CONCEPT Businesses measure performance through the use of key performance indicators. Poor results in one or more of these indicators can be a source of information leading to the need for change.

6.3.1 Efficiency and effectiveness

Toyota Australia's mission is to 'deliver outstanding automotive products and services to customers, and enrich the community, partners and environment'. After determining the business's objectives and strategies, management at Toyota will ask, 'How well did we do?' They evaluate performance by determining whether the objectives have been achieved. Evaluation is carried out by constantly asking:

- How is the business performing?
- Is the business performing as planned?
- Has its performance improved over time?
- How does its performance compare to that of similar businesses?

Once measurements have been collected, businesses such as Toyota can identify and investigate any discrepancies in comparison with original planned objectives. The business needs to ask whether the desired results were achieved and, if not, where and why they failed. If strategies were successful, the business should examine what made them a success and reuse these strategies. By evaluating successful operations, the business may also identify weak spots that can be improved. By constantly evaluating its performance a business such as Toyota can determine the efficiency and effectiveness of its performance.

Effectiveness indicates to what degree a business has accomplished the objectives it set out to achieve. In other words, the business is 'doing the right things'. If a business's goal was to make profit, then improving profit from one year to the next would be seen as effective. A large business such as Toyota evaluates its performance by assessing whether it has been effective as well as efficient. **Efficiency** refers to how well a business uses the resources needed to achieve a goal. The most efficient use of resources occurs when benefits are greater than the costs of resources employed. If a business reduced the amount of waste it produced while achieving its objective of profit, for example, then this may be considered to be efficient.

6.3.2 Key performance indicators

Businesses use **key performance indicators** (KPIs) to evaluate performance. KPIs are criteria used as a measure of the success, or the efficiency and effectiveness, of a particular area of the business's performance. They can also provide data that drive change for a business.

Businesses evaluate their objectives using KPIs.



KPIs draw on information taken from a variety of sources, such as accounting reports, marketing statistics, data gathered from customer or employee feedback, or from observation. Let us have a look at some typical KPIs.

6.3.3 Key performance indicators as sources of data

Percentage of market share

Percentage of market share refers to the business's share of the total industry sales for a particular good or service, expressed as a percentage. It is calculated by dividing a business's sales (from that market) by the total sales of all businesses in that market and expressing this as a percentage. An increase in market share suggests that the business is performing successfully. Toyota sold 216 566 vehicles in the 2017 calendar year. It had a market share of 18.2 per cent in 2017, an increase of 3.3 per cent compared with its market share in 2016. As at 30 April 2018, Toyota Australia remained the top-selling car company in Australia with a market share of 18 per cent, selling 69 112 vehicles out of a total of 374 468 vehicles sold in Australia up to that point.

EXAM TIP

Unit 4, Area of Study 1 identifies nine KPIs and, while there are other possible indicators, you should focus on these nine KPIs. You should be able to define them, understand what a change in them means and what areas of business performance are being assessed by each KPI. Linking KPIs to the right area of business performance will result in better answers.

Net profit figures

Profit is what remains when expenses related to operating the business are deducted from the revenue earned. Net profit is often referred to as 'the bottom line'. This is a reference to the line at the bottom of the income statement that shows the profit of the business. Investors will look at **net profit figures** very closely because for the owners, or shareholders, of a business, it is the source of their return on their investment. A business that makes a profit is considered to have performed successfully. Conversely, a low profit or a negative profit, referred to as a loss, suggests that a business could be experiencing several problems, including reduced sales, poor customer service or inadequate management of expenses.

study on

Unit 4

AOS 1

Topic 1

Concept 2

KPIs: Percentage of market share and net profit figures Summary screen and practice questions

Rate of productivity growth

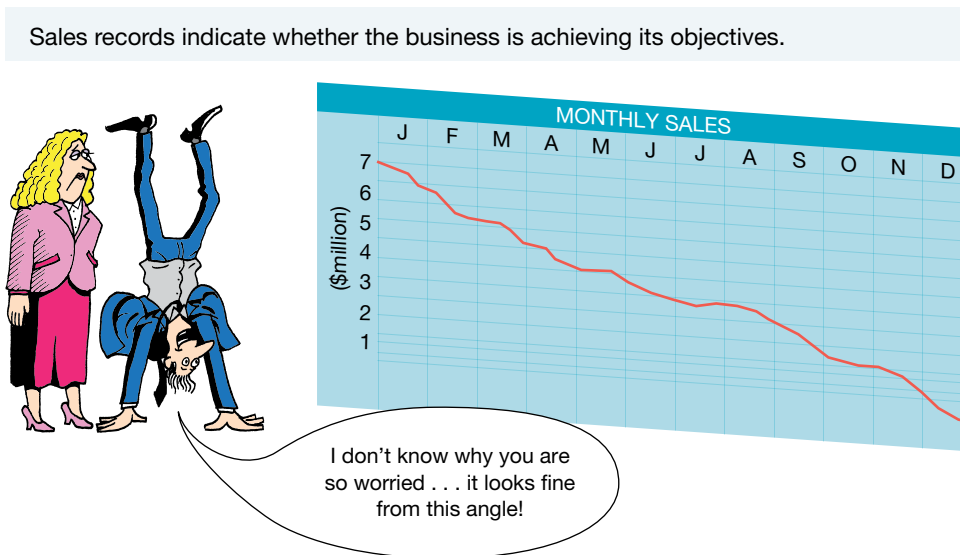
Productivity is a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services). Productivity is a measure of efficiency that is used by the operations and human resources area of management. An indicator of productivity is the **rate of productivity growth**. This is the change in productivity in one year compared to that of the previous year. Growth in the rate of productivity indicates that the business is using resources more efficiently. Productivity will improve if a business uses fewer inputs to obtain the same level of output, or if more output is produced from the same input.

While external factors (including removal of tariffs and rising exchange rates) led Toyota Australia to close local manufacturing sites in October 2017, Toyota, globally, has improved productivity using what it calls the Toyota Production System, which reduces waste and costs. As well as reducing costs, Toyota works with its suppliers to ensure that it improves productivity. Businesses such as Toyota would expect that by reducing input costs, or by producing more output at the same cost, an improvement in productivity would result in increasing profits.

Number of sales

The **number of sales** of a product is a measure of the amount of goods or services (products) sold by the business in a given period of time. Measuring the number of sales helps a business evaluate its performance, especially its marketing strategies.

Usually, a business will be satisfied with its performance when the number of sales increases over a period of time, even if it means lower profits in the short term due to higher marketing costs. The assumption is that such a strategy will lead to higher profits in the long term.



In April 2018 Toyota (with sales of 16 647 vehicles in Australia) outsold the combined efforts of Mazda (second with 7723) and Hyundai (third, 7132), while Mitsubishi (5508) was fourth. The ability to develop new products, such as concept cars, can assist a business such as Toyota increase its sales figures.



DID YOU KNOW?

The use of computerised sales has made the collection, storage, retrieval and analysis of sales data much easier.

studyon

Unit 4

AOS 1

Topic 1

Concept 3

KPIs: Rate of productivity growth and number of sales Summary screen and practice questions

Rate of staff absenteeism

It is not uncommon for staff to have days off work — they get sick, they have family commitments, and other circumstances may occasionally lead to them not attending work. This is sometimes a sign of a positive relationship between the employer and the employee — support and trust exist. However, sometimes employees may be absent from work because they are dissatisfied. The **rate of staff absenteeism** measures the number of workers who neglect to turn up for work when they are scheduled to do so. This can suggest that employees are at interviews at other businesses, taking a ‘sickie’, or using up their allotted days off rather than being at work. A rising rate of absenteeism may indicate problems at work between the employer and the employees.

Level of staff turnover

The level of **staff turnover** can also be used as an indicator of the degree of staff satisfaction. It measures the number of staff who are leaving the business, for whatever reason, and need to be replaced. This is an important indicator for the human resources area of management. A decrease in staff turnover suggests that fewer employees are leaving, because they are more satisfied with their work conditions. Staff turnover means that staff will need to be replaced, resulting in recruiting and training costs and the loss of productivity and knowledge. Some level of staff turnover is considered healthy in business, as new ideas are brought in and often stimulate innovation in work practices. However, a major change or significant increase in turnover is a major warning sign.

studyon

Unit 4

AOS 1

Topic 1

Concept 4

KPIs: Rate of staff absenteeism and level of staff turnover Summary screen and practice questions

Level of wastage

All businesses have a production process that generates a certain amount of waste. This can be measured by the **level of wastage**. This performance indicator is typically used by the operations area of management. A business manages resources more efficiently by reducing waste, which can cut production costs.

Unilever’s Surf and Omo brands launched their ‘Small & Mighty’ detergent products in 2008. These concentrated laundry liquids, packaged in smaller containers, reduce waste and cut costs through the reduction in plastic used and the savings in transport.

Waste is a cost to the economy as well as to businesses and society in general.



Number of customer complaints

The number of complaints that customers make can also indicate whether they are satisfied with the way the business performs. A successful business, aiming to maximise customer satisfaction, would receive a small **number of customer complaints**. Some businesses understand that one customer complaint represents the ‘tip of the iceberg’, because for every customer who complains to the business, there are several customers who don’t.

Number of workplace accidents

An unsafe workplace impacts on the productivity of the business for several reasons. Staff members who feel unsafe may not be motivated to work efficiently while accidents can actually stop production. If the **number of workplace accidents** falls, then the workplace is probably safer for employees. This is a performance indicator that is important to both the human resources and the operations areas of management.

Certain industries have higher levels of workplace accidents than others. Farms are an area of concern for governments and Worksafe Victoria as they have a higher proportion of workplace deaths than other industries.

According to WorkSafe Victoria, the state’s work safety ‘watchdog’, almost 30 per cent of all workplace deaths occurred on farms, despite less than 3 per cent of Victorians being employed in agriculture.

Customer complaints can lead to a loss of customers (sales) and profits and can impact business performance.



study on

Unit 4

AOS 1

Topic 1

Concept 5

KPIs: Level of wastage, number of customer complaints and number of workplace accidents

Summary screen and practice questions

6.3.4 Benchmarking

Many businesses adopt the practice of **benchmarking**. This is not a performance indicator; it is a process (methodology) that can be used to assess performance between internal sections of a business or between businesses known for their excellence. This is then used as a basis for improvements. A business might compare its performance with another business in the same industry or with a business in another industry with similar objectives.

6.3 Activities

TEST your understanding

1. Why should businesses evaluate their performance?
2. Outline the differences between effectiveness and efficiency.
3. What are key performance indicators and what are they used for?
4. List four key performance indicators.
5. Outline how market share is calculated.
6. Explain why net profit is an important performance indicator.
7. Why is productivity an important key performance indicator?
8. Explain why staff turnover rates are significant indicators of the effectiveness of workplace practices.
9. Outline how reducing waste can cut costs.
10. Briefly explain the problems that might arise from an unsafe workplace.
11. Explain why benchmarking is a useful tool for managers.

APPLY your understanding

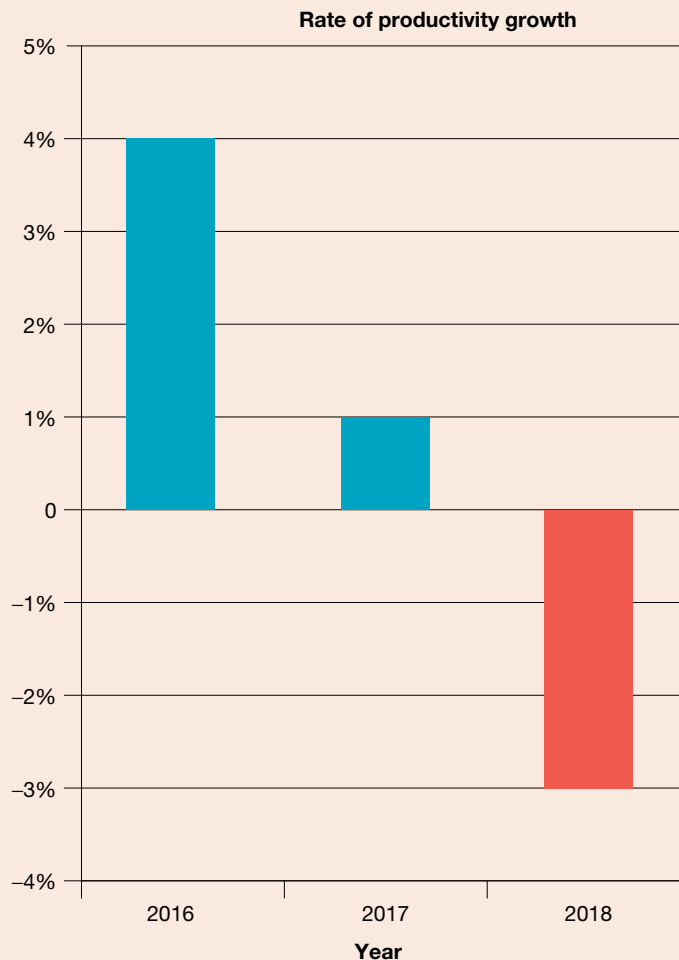
12. In groups of three or four, brainstorm what is likely to happen when a business's performance:
 - (a) does not meet customer expectations
 - (b) meets customer expectations
 - (c) exceeds customer expectations.
 Choose a spokesperson to share your group's comments with the rest of the class.
13. In groups of three or four, recall a situation in which you evaluated your performance. An example could be an assessment task, part-time job or sports event.
 - (a) What was your objective for this activity?
 - (b) Did you achieve your objective? Give a reason for your answer.
 - (c) What corrective action, if any, were you required to take following your evaluation?
14. Key performance indicators are used to measure whether or not an objective has been achieved. Using the table below outline how the indicators you have learned about can be used to evaluate performance. The first entry has been completed for you.

Business objective	Key performance indicator	How the KPI can be used to evaluate performance
Maximise profit	Net profit	An improvement in net profit means that the business has improved its productivity, either by earning more revenue or by reducing expenses and costs.
Increase sales		
Improve productivity		
Increase market share		
Meet safety standards		
Improve retention of employees		
Reduce workplace waste		

EXAM practice

15. Define 'key performance indicator'. **(1 mark)**

16. Refer to the graph below. Analyse the impact the trend in this KPI may have on net profit. **(4 marks)**



6.4 Key principles of the Force Field Analysis theory (Lewin)

KEY CONCEPT Psychologist Kurt Lewin developed a theory that allows businesses to determine the forces that drive and restrain change.

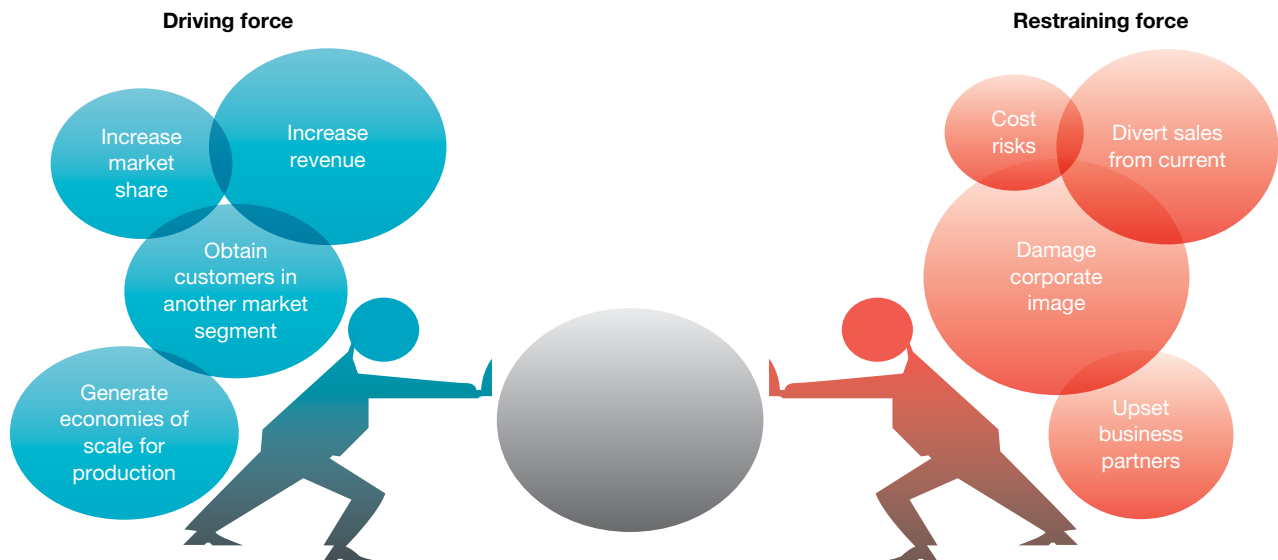
6.4.1 Force Field Analysis

Psychologist Kurt Lewin developed a useful model for understanding the factors, or forces, that will influence a given situation (originally his work related to social situations). Known as **Force Field Analysis**, the model describes how you can determine which forces drive and which resist a proposed change.

Driving forces are those forces that initiate, encourage and support the change — they work to assist the business in achieving its goal. The main driving forces for business change are outlined in subtopic 6.5. **Restraining forces** are those that work against the change, creating resistance — in other words, they hinder the achievement of the goal. The main restraining forces impacting business change are outlined in subtopic 6.6.

The current conditions, or status quo, result from these two forces ‘pulling’ in opposite directions. Managers who are trying to implement a change must conduct a ‘force field analysis’ to identify these forces and ensure that the driving forces exceed the restraining forces.

Driving and restraining forces work against each other, making it difficult for a business to change.



DID YOU KNOW?

Lewin was born in Germany but fled to the United States when Hitler rose to power in Germany in the 1930s.

study on

Unit 4

AOS 1

Topic 4

Concept 1

The Force Field Analysis theory (Lewin) Summary screen and practice questions

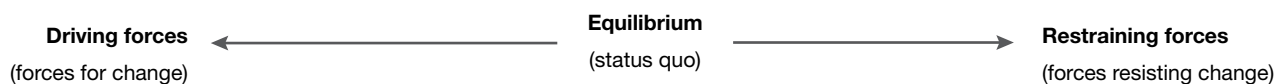
6.4.2 Key principles of Force Field Analysis

According to Force Field Analysis, any business looking at implementing change must consider the forces that are exerting pressure at the time. The first area to consider is the factors that may drive the change. These may include people of influence or the decision makers within the business, such as managers. Other forces that will push or drive the business to change include competitors, technology and legislation. The next step is to consider the factors that are restraining the project. Some stakeholders of the business will want the status quo to be maintained; that is, they will not want the business to undertake any change. These forces, which

may include stakeholders such as managers and employees, act to restrain change and are unlikely to consider any improvements or benefits that might result from the change.

When driving forces and restraining forces are in balance, they are said to be in equilibrium. In this situation, it is unlikely that change will occur, or if change does occur, it may be implemented in a manner resulting in a less than effective situation for the business. Change will also not occur when restraining forces exceed driving forces. The management of a business must be aware that, in order for change to occur, driving forces need to exceed restraining forces. By strengthening driving forces and seeking to reduce or eliminate restraining forces, managers can ensure that a change will occur successfully.

Force Field Analysis involves considering the opposing forces that exist in a business environment. These operate a little like a tug of war, with driving forces and restraining forces pulling in different directions. However, there are some subtle differences. Effective change will only occur when driving forces overwhelm restraining forces. If the forces remain in equilibrium or if restraining forces are greater than driving forces, change is unlikely to occur. To change the business to the desired condition, it is necessary to increase the driving forces, decrease the restraining forces, or both.



on Resources

 eLesson: Key principles of the Force Field Analysis theory (eles-2933)

6.4.3 Force Field Analysis diagram — an action plan

An important aspect of Lewin's Force Field Analysis is an action plan. Using a template similar to the one on the next page, driving forces can be listed on the left side of a 'T' diagram and restraining forces can be listed on the right. Once the forces are listed they can be allocated a numerical score (for example, from 1 to 5). This score is a means of ranking the forces. Those forces that are important are given a score of 4 or 5, with less important or less influential forces given a lower score. This allows the forces to be prioritised, so it can be decided which restraining forces to deal with first and which driving forces to promote and encourage.

Template for a Force Field Analysis diagram

Driving forces		Restraining forces	

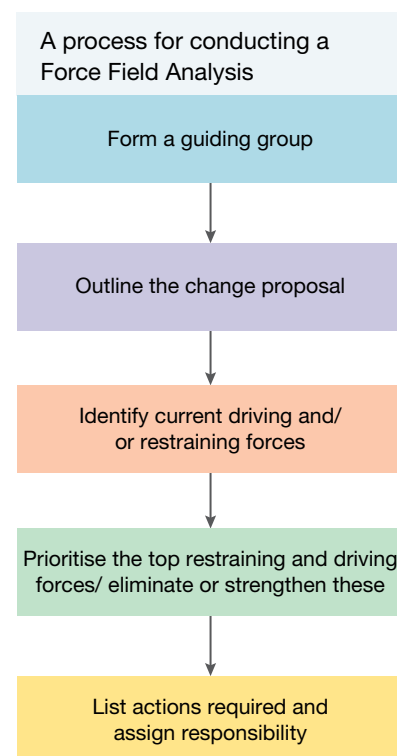
Action		By whom	By when
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

	Successful	Unsuccessful	No change
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

6.4.4 How to do a Force Field Analysis

Assume your school is considering changing its uniform for next year. How would a Force Field Analysis assist in this change? At right is a simple process for completing a Force Field Analysis.

1. Form a guiding group of people driving or enabling the change.
2. Using a Force Field Analysis diagram, outline the change proposal.
3. As a group, identify the forces that are currently driving or restraining the change. For each force, assign a score relative to the perceived strength of the force. A low score (1) suggests the force is weak while a high score (5) suggests a strong force.
4. Prioritise the top 3 to 5 most restraining forces and driving forces. These are the forces the business and the guiding group need to either eliminate or strengthen to allow the change to occur.
5. Using the action plan template, list the actions that are required to be completed to meet the proposed change and assign responsibility for each action.



6.4.5 Benefits of a Force Field Analysis

Any process or model for implementing change must result in benefits to the business and lead to a successful change. Benefits of the Force Field Analysis include:

- Businesses are able to weigh up the 'for's and against' and whether the change is worth undertaking.
- It allows a business to identify and strengthen the driving forces supporting the change and to take action to reduce or eliminate the restraining forces.
- Force Field Analysis allows stakeholders to identify the change as a positive or negative change from their perspective.
- It allows a timeline to be developed and additional resource requirements to be identified
- Force Field Analysis can identify if skills are restraining change and therefore what training may be required.
- It can identify inadequate systems so a re-design of systems can be undertaken.
- The Force Field Analysis diagram is a visual aid that can support communication and reduce communication barriers.
- It allows the business to identify those people within the business who are supportive of the change and those restraining the change.

6.4 Activities

TEST your understanding

1. Explain what is meant by Force Field Analysis.
2. Define 'driving forces' and 'restraining forces'.
3. List three driving forces for change.
4. List three restraining forces for change.
5. Explain the key principles of the Force Field Analysis theory.
6. Outline the purpose of an action plan template.
7. Briefly outline the steps involved in developing a Force Field Analysis.
8. What are the benefits of developing a Force Field Analysis action plan?

APPLY your understanding

9. Using the action plan template, complete a Force Field Analysis on yourself and your VCE studies this year.
10. Evaluate the importance of adopting a theory to assist a business undertake change.
11. Discuss how a Force Field Analysis could be used by a small shop owner considering opening a second store.

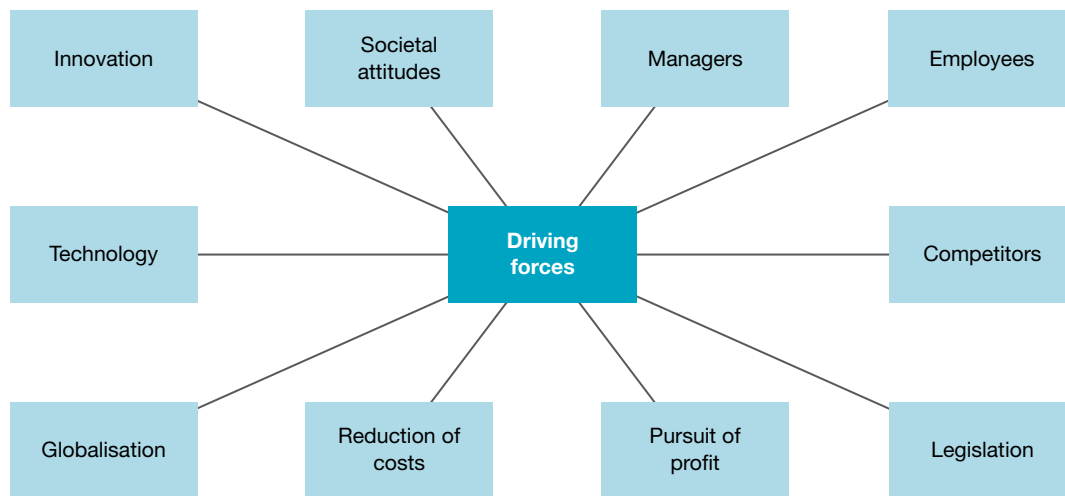
EXAM practice

12. The growth of online shopping and devices that can download books has led to a decline in sales for bookstores. Describe how Lewin's Force Field Analysis could be used by the business in this situation. **(6 marks)**
13. Describe how Lewin's Force Field Analysis could be used during the change process and outline one benefit of performing a Force Field Analysis. **(5 marks)**

6.5 Driving forces for change in business

KEY CONCEPT As change is an ongoing, dynamic concept, there will always be forces driving a business to undergo change.

Driving forces work to encourage, foster and initiate change. As seen in the following diagram, there are a number of factors that will push for a change in a business.



EXAM TIP

The **Unit 4, Area of Study 1** outcome states that you need to ‘discuss the driving and restraining forces for change’. You should understand that driving forces encourage change — they are not sources of change. You should also understand that some forces are both driving and restraining forces. When asked to explain or describe a driving and restraining force, it is advisable to select two different forces as using the one force for both concepts may lead to confusion. It is also unlikely that a force would both drive and restrain at the same time for the same circumstance.

DID YOU KNOW?

- The sources of driving forces (and restraining forces) are varied. Some are found in the internal environment (inside the business) and some are found in the external environment (outside the business).
- Some driving forces, such as managers, employees and legislation, can also be restraining forces in other situations.

6.5.1 Managers

Managers have the responsibility of operating a profitable or successful business. The poor financial performance of a business would result in management reviewing processes, staff and systems. For example, when Wesfarmers Limited took over the poorly performing Coles in 2007, management implemented a five-year recovery process. It updated the image of Coles supermarkets, rebuilt the supply chain and improved the freshness of its produce. Keeping costs under control is essential in turning around financial performance. To do this, Coles introduced self-service checkouts in its supermarkets.

Businesses sometimes face a crisis. For example, a product sold by the business may be found to be unsafe or dangerous. Responding to such unplanned changes requires responsive decision-making from management to reduce the disruption to the business.

The role managers play in the operations of a business mean they are key driving forces for change. In a small business, the manager may also be the owner and so the livelihood of the owner is tied very much to the ability of the business to change and maintain sales, profit, market share and its customer base. In a large-scale business, shareholders are seeking a return on their investment. Managers must ensure dividends are paid to shareholders and so a healthy profit is needed. Managers will push for changes that will lead to a better outcome and more efficient achievement of business objectives.

6.5.2 Employees

Employees working for a business expect to be paid fairly, trained properly and treated ethically in return for their vital contribution to production. Employees working in an innovative environment, where ideas are shared and acted on, are likely to recommend changes to policies, production processes or products. Companies such as Panasonic, Samsung, Sony and Toshiba have benefited from employee creativity, enabling them to develop innovative technologies. The development of innovative products within a business can create a need for change in everything from operations to marketing.

study on

Unit 4 > AOS 1 > Topic 2 > Concept 1

Internal driving forces for change Summary screen and practice questions

6.5.3 Competitors

Businesses need to monitor the activities of their competition and determine what effect they may be having in the marketplace. Knowledge of such changes enables a business to make modifications to its existing business activities and to plan new ones.

Competitors can drive a business to change through a number of different actions:

- The opening of a new business that will compete with an existing business may cause the existing business to undergo change to stay current and relevant to their customers.
- Pricing policies by a competitor may lead a business to adopt a similar strategy. In recent years both Coles and Woolworths have sold bread, milk and other staple items at greatly reduced costs in an effort to increase customer numbers. Once one business lowered prices the other business quickly followed suit.
- The adoption of new technologies, both in production and products, can drive a competitor to change their products or processes. Toyota was the first vehicle manufacturer to introduce a hybrid model car. All major car manufacturers have now released their own version.
- Advertising campaigns, sales and the development of an online presence are other examples of how competitors can drive change within a business.

There is intense competition within the supermarket industry. While Coles and Woolworths are the 'big two' they must contend with increased competition from Aldi and other businesses.



study on

Unit 4 > AOS 1 > Topic 2 > Concept 2

Competitors driving change Summary screen and practice questions

6.5.4 Legislation

Whenever new laws are passed, businesses must comply with the new legislative requirements. For example, businesses had to alter their unfair dismissal practices in response to the new industrial relations laws implemented by the Rudd Government in 2009. Businesses in Victoria also had to change their practices in the workplace due to changes to the law regarding smoking. In August 2015, the Victorian Government announced that smoking would be banned in outdoor dining areas from 1 August 2017. The ban covers all outdoor dining areas at restaurants, cafés, takeaway shops and licenced premises.

Between 2012 and 2014 Australia was subject to a carbon tax. The tax was introduced in November 2011 and established a price on the carbon emissions of businesses in Australia. The pricing mechanism, known generally as the 'carbon tax', was intended as a measure to combat climate change and came into operation on 1 July 2012, but after much opposition, legislation to abolish this tax was passed in July 2014. Businesses had to make changes to respond to the legislation relating to the introduction and removal of this tax in both 2012 and 2014.

Laws and regulations can be created at both federal and state levels, and cover every aspect of business and social life in Australia. In addition, local councils create and enforce by-laws (for example in relation to issues such as zoning, parking, use of footpaths for seating and food service); and other statutory bodies, such as WorkSafe Victoria and Vic Roads, can make rules and regulations in addition to administering state and/or federal laws applicable to their various areas of responsibility.

Any law, by-law or regulation passed by these and other bodies may require a business to change some aspect of the operation of the business and so drive business change.

The carbon tax became a political issue between 2012 and 2014. Businesses regularly have to adapt to legislative changes.



6.5.5 Pursuit of profit

All businesses, regardless of size, need to earn a profit, of which they return a portion to owners/shareholders.

If the profit levels of a business are not as high as the management team have identified as their goal it is likely they would need to make changes to either generate more revenue or decrease their costs to earn the profit that allows them to achieve their goals.

As noted above, the pursuit of profit is a driving force for change. If profit is not sufficient to satisfy objectives then the business may undertake a change to assist it in meeting those objectives.

6.5.6 Reduction of costs

A business will incur a range of costs. Supplies, materials, utility costs, government charges and taxes, interest and other finance costs and wages are all costs associated with operating a business. If costs are rising then profit will be negatively impacted and as such may drive the business to change. In these circumstances businesses will seek to implement strategies to reduce costs. There are a range of cost-reducing strategies available for businesses to implement:

- Source materials and supplies from a cheaper supplier, either locally or from overseas.
- Source a local supplier to avoid paying import duties.
- Reduce wages through downsizing or replacing labour with technology, such as robotics or an assembly line.

- Source a new supplier of utilities (gas, water, electricity and telecommunications). Privatisation has led to more options in these areas and so businesses can ‘shop around’ for better deals.

Profit may be increased in two ways — an increase in revenue, brought about by increasing sales or raising prices, or through a reduction in the costs associated with operating the business.

6.5.7 Globalisation

Globalisation is the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers. Combined with the development of hi-tech communications, lower transport costs and unrestricted trade and financial flows, the whole world can now operate as a single market, producing a more integrated global economic system. Australian businesses therefore operate on the world market, competing not only with businesses in their local area, but also nationally and internationally.

This process of operating nationally and internationally has been strengthened by globalisation and so businesses that don’t recognise they are competing in a world market may find themselves left behind. Globalisation will drive all businesses to change so they remain viable and competitive.

6.5.8 Technology

A business that wants to be locally, nationally or globally competitive must adopt the appropriate technology. If it is slow to exploit technology, a business is likely to fail, because its competitors will strive to capture greater market share and develop a sustainable competitive advantage.

Technology allows a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity. As such technology, and any advances in technology, should be considered as a driving force for change.

All businesses, regardless of size, are able to take advantage of technology and so all businesses are driven to change by technology. Local milk bars introducing EFTPOS, couriers using electronic signatures, clothing stores using scanners and electronic security tags, and supermarkets introducing online shopping and self-service checkouts are all examples of technological advances that have driven change.

The assembly line was a great technological advancement when it was invented in the early 1900s. Subsequent advances in technology have improved it further to the point where fewer and fewer human resources are needed. The development of self-serve checkouts has decreased the need for shop assistants.



6.5.9 Innovation

Innovation is a process that occurs when something already established is improved upon. Innovation can be driven by technological advances and by globalisation. Innovation can result from research and development undertaken by businesses or through individuals identifying areas for improvement. Innovation can also result from the identification of a **niche market**. A niche market is a narrowly selected market segment within a larger market. For example, the market for golf clubs is a large market; however, with only a small percentage of golfers being left-handed, a business that sells only to left-handers is working in a small, select market.

Today's generation has already lived through significant innovations in communication — mobile phones and wireless internet, Facebook and Twitter, all of which have also impacted businesses. The creation of Facebook and Twitter (among other apps) have driven businesses to develop their own Facebook pages or Twitter accounts to better keep in touch with customers.

Other examples of innovation that have driven changes in business are the ability to remotely check-in for airline flights, contactless payment in stores, and ATMs located in areas other than banks, such as shopping centres.

6.5.10 Societal attitudes

Businesses are constantly confronted by changes in society's attitudes and values. Society's attitudes about what is right and wrong are constantly changing and this affects the ways in which businesses operate. Increased access to rapid communications has made the world's population more acutely aware of what businesses are doing. Pressure from society has forced businesses to implement procedures to preserve and protect the natural environment. One recent example of this is the tough new conditions imposed on suppliers by the biggest general retailer in the United States, Walmart. As part of its sustainability efforts, Walmart insists that suppliers document and reduce their carbon emissions throughout the supply chain.

Society requires that large businesses sell acceptable products and treat staff with respect. Businesses today are also expected to contribute to society by returning something positive to the communities in which they operate. As part of their 'Energy for Life' community program, AGL Energy helps to pay the winter energy bills of shelters for homeless people in New South Wales, Victoria and South Australia. This enables the emergency accommodation services to put funds back into the important work of supporting Australia's homeless.

The introduction of contactless payment by debit and credit cards (Paywave) has led to a significant increase in the total spent using these cards.



There is growing pressure for businesses to implement procedures to preserve and protect the natural environment.



DID YOU KNOW?

BHP came under fire for its practices that led to a mine disaster in Brazil in 2015. The collapsing dam wall linked to the mine killed two people and washed away numerous homes. BHP took responsibility and sought to repair the dam, restore the village and pay compensation to victims.

study on

Unit 4

AOS 1

Topic 2

Concept 3

External driving forces for change Summary screen and practice questions

6.5 Activities

TEST your understanding

1. Explain what is meant by a driving force.
2. List three driving forces for change.
3. Distinguish between the internal and external environments of a business.
4. Explain how the pursuit of profit and cost reduction are both driving forces and how they could be seen as linked.
5. Copy and complete the following table.

Example of force	How it may impact a business
New laws passed to protect young workers	
Computerisation of sales data	
Employees	
New export market identified	
Protection of the natural environment	
Globalisation	

6. Why is technology so crucial in terms of business success and failure?
7. What has been the impact of globalisation on businesses?
8. Provide a list of innovations that have led to business change.
9. Explain what is meant by a niche market and how identifying a niche market is an example of innovation.

APPLY your understanding

10. Discuss the advantages and disadvantages of accelerating technology on a business's operations.
11. 'A business must always be aware of the changing nature of competitors.' What does this mean?
12. Evaluate the benefits to businesses of globalisation.
13. 'Technology is expensive and updating technology constantly is of no benefit to businesses.' Discuss this statement.

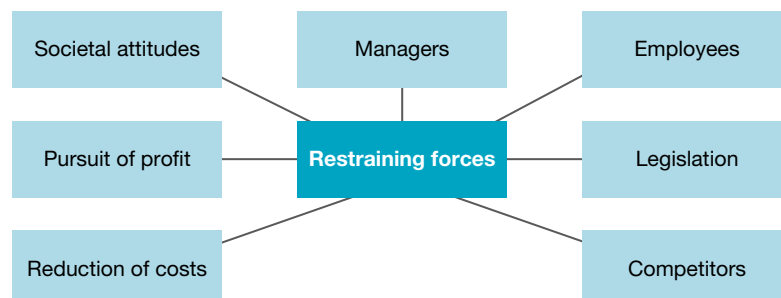
EXAM practice

14. One of the objectives of Benzoid Ltd is to become a truly global brand. Describe one driving force that could have an impact on the success of this objective. **(2 marks)**
15. Describe **two** driving forces for change that may impact a social enterprise. **(4 marks)**

6.6 Restraining forces in business

KEY CONCEPT At the same time as managers are undertaking change for the best of reasons, there will be restraining forces working against the change, creating resistance.

Restraining forces are those that work against change, creating resistance. A range of different forces hinder or restrain change. These forces are seen in the diagram below.



DID YOU KNOW?

Ironically, some people enthusiastically support the changes in public, but then ignore the changes in private. Management consultant Michael Hammer calls this deadly form of resistance the 'Kiss of Yes'.

6.6.1 Managers

Some managers may make hasty decisions that are poorly timed and unclear. Other managers may be indecisive and put off making a decision, creating uncertainty. Either of these situations may eventually cause employees to lose confidence in the decision-making abilities of management.

Changes that threaten to eliminate jobs usually face strong resistance. For example, most business restructuring involves the elimination of some middle management positions. Consequently, middle managers may resist restructuring. For example, the packaging company Amcor was forced to cut some management positions when it combined the business's Australasia office with their global headquarters in the Melbourne suburb of Hawthorn.

6.6.2 Employees

Any change to a business and its operating procedures will eventually impact on the level and type of staffing. The introduction of a major change, such as a merger or acquisition, may result in a complete breakdown of the existing corporate culture. This can create a feeling of mistrust and suspicion among the employees.

Many human resource management consultants argue that staffing considerations are one of the most entrenched reasons for employees to resist change. Employees may also resist change because they are worried that they cannot adapt to the new procedures, which threaten established work routines. This is made worse if training is not provided. No matter how technically or administratively perfect a proposed change may be, staffing issues may make or break it.

on Resources

 **eLesson:** Overcoming employee resistance (eles-2934)

study on

Unit 4 > AOS 1 > Topic 3 > Concept 1

Managers and employees Summary screen and practice questions

6.6.3 Time

Change is ongoing and as such there is always pressure for change. Some of these pressures occur quickly and so businesses do not have the time to plan the change as efficiently and effectively as they would like.

In some circumstances, not enough time is allowed for people to think about the change, accept it, and implement it. In other situations, the timing is poor. A business may invest years and millions of dollars in a change, only to find the external environment has changed so much that the plan devised for success is no longer applicable.

Poor timing, or lack of time, will result in undue resistance to change.



6.6.4 Organisational inertia

Organisational inertia refers to a business's inactivity or lack of response when faced with proposed changes. Some managers resist change because it requires moving outside and away from their 'comfort zones'. Many employees and managers of the typical business desire a safe and predictable status quo. Such an attitude is summed up in the phrase, 'But we don't do things that way here'.

studyon

Unit 4

AOS 1

Topic 3

Concept 2

Time and organisational inertia Summary screen and practice questions

6.6.5 Legislation

The past 20 years have seen significant changes in the legal framework within which Australian businesses must work. Legislation must be complied with, and it can act as a restraining force. This occurs when the legislation places restrictions on certain operational practices and procedures. For example, a mining company wanting to exploit a new mineral resource will have to do so within the limitations of current environmental protection legislation.

Other examples of legislation acting as a restraining force include government bodies such as the Australian Competition and Consumer Commission (ACCC), which has the power to prevent a merger from occurring between two businesses. Laws such as occupational health and safety laws can prevent a business from undertaking changes that could potentially cause injury to workers.

6.6.6 Financial considerations

Financial considerations include cost and revenue issues for a business. The financial cost of its implementation can restrain a change. Even given sufficient finances, a business contemplating change must weigh up the costs and benefits of the change. Well-informed, calculated decisions to proceed will minimise the risk and enhance the long-term viability of the change.

The main financial costs of change include:

- *purchasing new equipment.* The purchase cost of new technology, buildings or equipment can be considerable. David Jones, for example, recently upgraded its network of stores and spent \$275 million to increase its floor space by over 20 per cent.
- *redundancy payments.* Employees who lose their jobs as a result of the changes are entitled to financial compensation in the form of a redundancy payment.
- *retraining the workforce.* As new technology is introduced, employees must be retrained. MicroForte Technologies, for example, allocates 7 per cent of its yearly budget to staff retraining.
- *reorganising plant layout.* When new equipment is installed, the layout of the plant may require reorganisation to improve efficiency and productivity.

Revenue issues can also affect change. The high costs of change will often affect the profit margin of a business. To maintain profit the business may consider raising prices. This can act as a restraining force as competitors may not be facing the same pressures and businesses don't want to price themselves out of the market in which they operate.

Businesses will often complete a cost–benefit analysis to determine if the costs of the change outweigh the benefit to the business.

studyon

Unit 4

AOS 1

Topic 3

Concept 3

Legislation and financial considerations Summary screen and practice questions

6.6 Activities

TEST your understanding

1. Distinguish between 'driving' and 'restraining' forces.
2. Explain the link between restraining forces and Lewin's Force Field Analysis.
3. Complete the paragraph below by choosing the correct term from the options provided.

cost	turbulent	resistance	strategies
common	effectively	analysing	security
fear	routines	managers	inertia

When change is too rapid, or when managers and employees feel they have no control over it, then _____ to the change is to be expected. Resistance to change is _____ among employees and businesses. The resistance needs to be managed _____. Managers can fail to achieve change by not _____ the situation properly. Employees may resist change because of _____ of the unknown; possible threat to job status or _____; or disruption to established work _____. Organisational _____ and financial _____ are two main restraining forces. Rapid, complex and _____ change is now commonplace in most Australian businesses. _____ for overcoming resistance need to be developed by _____.

4. Prepare a brief report outlining the main financial costs responsible for some businesses resisting change.
5. What types of resistance to change have you observed recently? How could they have been overcome?
6. Briefly explain how the following can be a restraining force.
 - (a) Lack of time
 - (b) Poor timing
7. Provide an example of 'organisational inertia'.
8. When the new chief executive officer for Bradley Southport Limited attempted to make some major changes, she encountered resistance among some senior level managers. Explain why these managers might have resisted the changes.

APPLY your understanding

9. Assume you are the human resource manager for a large financial business. You have been asked by the board of directors to prepare a report on the three main reasons why staff may resist the proposed change. Present your findings as either a written or an oral report.
10. Analyse the restraining forces that may impact a proposal at your school to change the start of your school day from 9 am to 7 am.
11. Based on the information in this subtopic, explain why there was so much resistance among bank tellers when they were first required to use computers to process customer transactions.
12. Describe how you would feel if your classroom was radically changed overnight without your knowledge.
13. Evaluate the accuracy of the following quotes concerning change.
 - (a) 'Change for change's sake is not progress.'
 - (b) 'Change is life. Life is change.'
 - (c) 'Change what you can change. Accept what you cannot change.'
14. Select a major change in your life, such as moving house, changing schools or starting a new casual job, and complete the following.
 - (a) Reflect on the reasons you liked or disliked the change. Share your thoughts with other class members.
 - (b) List the reasons that were common among the group.
 - (c) What does this tell you about the best strategy that a manager could use to help overcome resistance to change?
15. Which restraining force for change do you think is:
 - (a) the most common
 - (b) the most difficult for management to deal with?Give reasons for your answers.

EXAM practice

16. One of the objectives of Benzoid Ltd is to become a truly global brand. Explain one restraining force that could have an impact on the success of this objective. **(2 marks)**
17. Describe employees as a restraining force. **(2 marks)**

6.7 APPLY YOUR SKILLS Forces affecting change

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Apply business management knowledge to practical and/or simulated business situations

6.7.1 Newspaper portfolio

Select three driving forces for change that can influence a business's environment. Collect 8–10 articles on each driving force from the internet, newspapers and journals over an 8- to 10-week period.

Paste the articles into a scrapbook under three headings describing the driving forces. Ensure that you date and acknowledge the source of each article.

Change is the only constant in the world of business.



Company profits at all time high

Society expects businesses to fulfil their social obligations

New anti-pollution laws passed

Breakthrough in trade talks

Fall in consumer spending

6.7.1 Activities

TEST your skills

1. Write a report of approximately 500 words on one of the driving forces you chose. Use a business report style with subheadings, graphs and diagrams to support your text. In your answer, you could:
 - describe how the driving force has exerted pressure for change
 - discuss the impact of this driving force on the business
 - identify possible sources of resistance
 - outline tactics used to overcome resistance.

A major focus within your report should be an analysis of the impact of the driving force on the individual business.

Your responses should combine the information obtained from your teacher and textbooks with the information on current business conditions and factors from your internet, newspaper and journal articles.

2. (a) Identify some of the changes you have noticed within your school in the past year.
(b) In each case, explain the extent to which the forces were internal or external.

APPLY your skills

3. Arrange to interview someone who has experienced a major change in their workplace. Research and report on the impact of this change on the interviewee, their colleagues and the business's culture. Make particular reference to:
 - how the change was managed
 - the driving forces
 - the role of leadership in the change process.
4. Think about a situation in which you would like to make a change but face some resistance. The situation might involve improving your business management results, changing the arrangement of your timetable or having greater use of the family car.
 - (a) Write a brief outline of the status quo.
 - (b) Write a brief description of the situation as you would like it to be if you could change it.
 - (c) List the main driving forces.

6.7.2 Change and keeping staff on board

NINE2THREE EMPLOYMENT SOLUTIONS

Nine2Three Employment Solutions is a boutique recruitment and employment company specialising in flexible workplace practices and the placement of women returning to the workforce, predominantly into accounting and office administration roles. We pride ourselves on being highly professional.

The global financial crisis (GFC) meant we needed to implement strong change to our business model. We needed to ensure that we could navigate the economic climate and keep our staff employed. We needed to reduce our costs and requested staff to reduce hours of work. This was a significant change to the business, and the management and staff had to adapt.

Asking staff to reduce hours in a difficult economy is not an easy thing. We used clear communication to employees, both individually and as a team, to ensure they were not left in the dark as to what was going on, and to see the reasons behind the hard decisions. Getting our team members on board, committed and connected to our business was, and remains, our number one priority.

New technology can be frightening for team members if they are not on board with the total concept from the beginning. It was very important for us to communicate to them the reasons we wished to change our processes and the positives that would come from change.

Offering training in any new technology or work duty helped us to minimise any negativity surrounding the changes.

We keep our staff motivated in times of change by communicating effectively with each and every employee. We make our team members feel that their input and ideas are valued and that they are an integral part of Nine2Three. Addressing any concerns raised and giving our employees a forum to speak about any concerns was also really important. Communication is the key to great workplaces and managing change.

Source: Extracts from 2010, 'Real life stories: Change and keeping staff on board', *NETT*, p. 42–3.

Kathryn MacMillan, Managing Director of Nine2Three Employment Solutions



6.7.2 Activities

TEST your skills

1. Identify the driving forces for change in Nine2Three Employment Solutions.
2. Summarise the tactics used by Nine2Three Employment Solutions to manage changes.

APPLY your skills

3. Suggest appropriate forms of communication that could be used to keep the employees informed of changes.

6.8 APPLY YOUR SKILLS Driving and restraining forces

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Interpret key performance indicators to analyse business performance
- Apply business management knowledge to practical and/or simulated business situations

NAB REBOUNDS WITH \$5.3 BILLION PROFIT, ANNOUNCES 6000 JOB LOSSES

February 2018 was a busy month for the National Australia Bank. After a very poor financial performance in 2016, NAB Chief Executive Officer (CEO) Andrew Thorburn announced a net profit of \$5.3 billion and the creation of 2000 new jobs in the digital area of the businesses operations. At the same time Mr Thorburn has flagged the loss of 6000 jobs over the next three years — with 1000 to be lost this year.

The changes announced are set to cost up to \$800 million in redundancies. This led, despite the improved profit, to a drop in the share price of NAB.

The focus of the announcement was a warning to customers from the bank that the industry was changing, and that the entire banking industry was under pressure to reshape its workforce.

This is the impact of new technology and digital transactions that have wreaked havoc with traditional banking jobs.

In announcing the cuts in a media briefing, Mr Thorburn said, 'As transactions move to digital channels — and this is driven by our customers — we will need fewer people.'

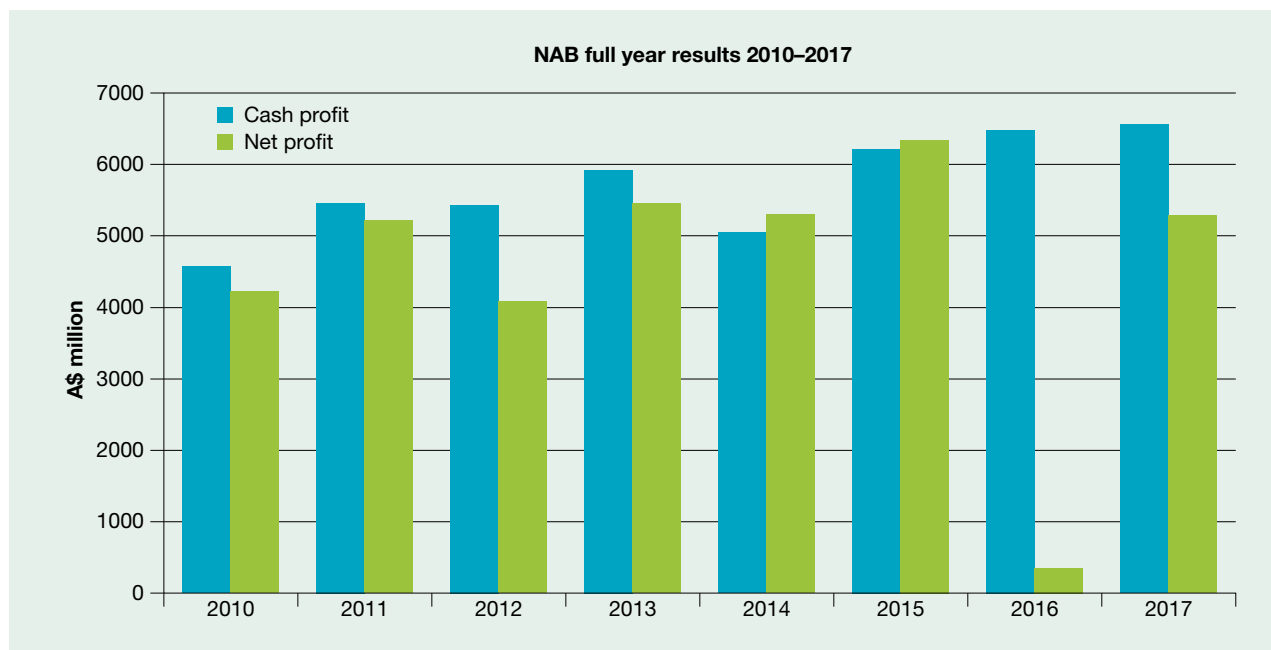
In recognition of the changing landscape of the industry, Mr Thorburn said the net job loss would be closer to 4000 as 2000 new digitally focused positions will be created.

In addition to the job losses, there would be some branch closures but also some new branches opening in growth areas, particularly in Sydney. These cost-cutting measures are budgeted to deliver annual savings of \$1 billion by 2020.

NAB also said it planned to increase its investment in 'simplifying' the bank by \$1.5 billion over the next three years, on top of an existing \$3 billion internal investment program.

The bank plans to halve the number of products it sells and drive 60 per cent of its business through digital channels.





6.8 Activities

TEST your skills

1. Describe the two key driving forces that have led to NAB's decision to cut jobs and branches.
2. Explain the key performance indicator that is referred to in the case study.
3. Using NAB's key performance indicators, analyse the business's performance.
4. Businesses have a number of objectives. Explain two key objectives that NAB is attempting to meet by their decision to cut jobs and branches.

APPLY your skills

5. In making the announcement, NAB CEO Andrew Thorburn stated that the entire banking industry needed to reshape its workforce. Explain how competitors can act as a driving force for change. Refer to NAB in your response.
6. Change is often resisted by employees. With reference to NAB, explain why employees can act as a restraining force to change.

6.9 Strategic management by Porter's Generic Strategies (1985)

KEY CONCEPT Change can be managed through the use of Porter's Generic Strategies approaches. A business will need to choose one of the two key approaches — lower cost or differentiation to achieve a competitive advantage.

Michael E. Porter is a US-born professor at the prestigious Harvard School of Business. In the 1980s he developed a theory that attempted to explain how businesses may seek future growth by pursuing a **competitive advantage** over other businesses. A competitive advantage may occur when a business has a lower cost price

structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market. The objective of gaining a competitive advantage is to improve performance in those areas identified as key performance indicators (see subtopic 6.3). According to Porter, a business chooses to pursue one of two types of competitive advantage, either a lower cost strategy or a differentiation strategy.

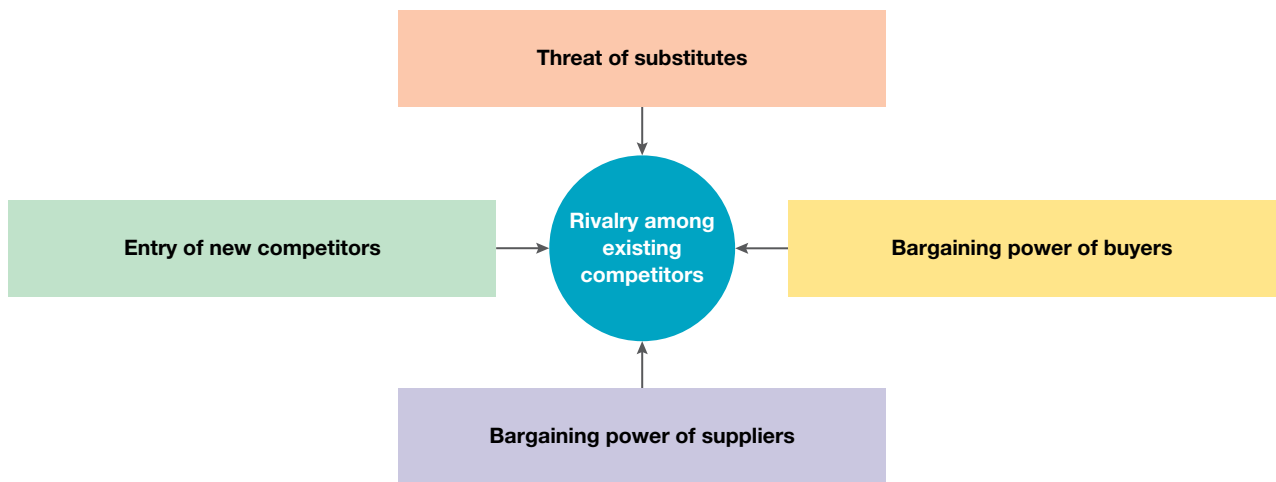
Porter theorised that to gain a competitive advantage businesses need to evaluate their strengths and act upon those strengths (a form of SWOT analysis outlined in chapter 2). Porter identified five competitive forces exerting influence on a business. The business needed to react to these competitive forces if they wished to achieve above-average performance in the long term and gain a competitive advantage.

Michael E. Porter is an American-born economist, researcher, author, adviser, speaker and teacher known for his theories on competition and competitive advantage.



6.9.1 Porter's five force analysis

The five forces identified by Porter that exert pressure on a business



The entry of new competitors

Markets that are profitable will always attract new businesses. These new businesses see an opportunity to make sales, earn a profit and expand their own areas of operation. The businesses that currently operate in these markets must be able to survive. Some of the existing businesses are able to survive because they have barriers that make it difficult for new businesses to break down. These barriers include patents, economies of scale and supportive government policies, or the business operates in a market where the financial cost of commencing operations is prohibitive. If the barriers are not durable then new businesses will enter the market and cause profits to fall. Businesses must always be prepared to deal with new competitors entering the market.

The threat of substitutes

Some businesses operate in a market where close substitute products exist. Coke and Pepsi are often considered close substitutes, as are banks with regard to interest rates on home loans. In markets such as these, customers may switch to alternatives in response to price increases or changes to the quality of the good or service offered by the business. This reduces both the power of suppliers and the attractiveness of the market, because if new competitors can easily enter the market, businesses may find it difficult to build a solid customer base that will support longevity in the market. This will also frighten suppliers who thrive on guaranteed contracts to supply established businesses.

The bargaining power of buyers

Businesses need to consider how powerful their buyers or customers may be. They need to conduct an assessment of how easy it is for buyers to drive prices down. This is influenced by the number of buyers in the market and the importance of each individual buyer to the business. The business also considers the cost to the buyer of changing their supplier. Businesses with a few, large buyers often find that the buyers are able to dictate the terms of their buying. Coles and Woolworths are good examples. In recent years both businesses have made efforts to gain customers from each other and their competitors. One of these major supermarkets lowered their prices on essential food items in an attempt to draw buyers away from competitors. The willingness of buyers to switch supermarkets caused the other supermarket to respond with identical price changes.

The bargaining power of suppliers

The bargaining power of suppliers refers to how easy it is for suppliers to drive up the price of the item they supply to a business. This is influenced by the number of suppliers of each essential input, the uniqueness of their good or service, the relative size and strength of the supplier, and cost of switching from one supplier to another which can be affected by existing contracts and the time taken to undertake this change.

The rivalry among existing competitors

The main driver of competition is the number and capability of competitors in the market. This can be seen in the diagram at the beginning of this section. If a business is operating in a market with many competitors, most of whom are offering undifferentiated goods and services, then a business may find they have a reduced market attractiveness.

Resources

 eLesson: Porter's Generic Strategies (1985) (eles-2935)

6.9.2 The Generic Strategies approach

Recognising the competitive forces operating upon businesses, businesses that wish to gain a competitive advantage must concentrate on their strengths — in other words, what competitive advantage(s) does the business have? Porter identified two categories of competitive advantage:

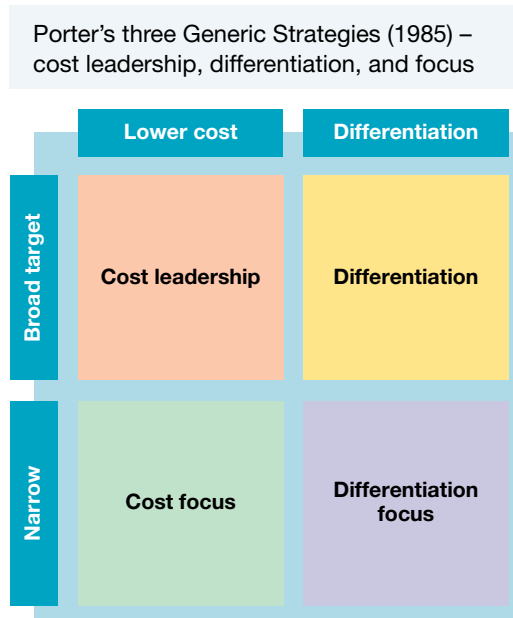
1. *cost advantage*. A competitive advantage is gained through reducing or altering the costs of the business.
2. *differentiation advantage*. Businesses gain a competitive advantage through differentiating their good or service from others in the market.

These result from the business's ability to respond to the five forces better than competitors.

In his bestseller *Competitive Advantage*, Porter suggested that a business must choose between competing on cost or differentiation, and then choose between one of two types of competitive scope. Competitive scope refers to the range over which the business intends to compete. This range may include the number of countries, markets, industries or customers that the business services. Competitive scope, therefore, may be broad (a large number of countries, markets or customers) or narrow (a small number of countries, markets or customers).

Porter's theory then states that there are three generic strategies that can be implemented to achieve a competitive advantage — cost leadership, differentiation and focus (consisting of a cost focus and a differentiation focus). The generic strategies can be seen in the diagram at right. Porter's generic strategies are the actual ways of gaining competitive advantage — in other words, developing the 'edge' that gets the business the customer and takes them away its competitors. For the purposes of VCE Business Management, we will consider the two key approaches, lower cost and differentiation. We will therefore examine:

- strategies that relate to lower cost (cost leadership and cost focus)
- strategies that relate to differentiation (differentiation and differentiation focus).



EXAM TIP

The **Unit 4, Area of Study 1** outcome states that you need to 'evaluate management strategies to position a business for the future'. This suggests that you should know advantages/ strengths and disadvantages/ limitations of strategies related to Porter's two key approaches (lower cost and differentiation).

DID YOU KNOW?

In *Competitive Advantage*, Porter stated that a business that chooses to use each generic strategy, but does not achieve any of them, will be 'stuck in the middle' and will have no competitive advantage. A business that finds itself in such a position will achieve below-average performance. However, he did acknowledge that some businesses are able to pursue more than one generic strategy.

6.9.3 Lower cost strategies

Cost leadership involves a business seeking to become the business with the lowest costs in its industry. According to Porter, a cost leader will only be an above-average performer in its industry if the price for its products is at or near the industry average. This will allow the business to become more profitable as it can increase its margin — the difference between its costs and its selling price. A business pursuing a cost focus strategy will seek a competitive advantage in a segment of an industry (a niche market).

Some strategies that a business could use to achieve lower cost include:

- reducing direct and indirect costs — by reducing wages (minimising wage costs), reducing the cost of interest (perhaps by refinancing), or reducing the cost of supplies/stock (perhaps by sourcing supplies from cheaper suppliers, by sourcing cheaper utility suppliers or by offering minimal packaging).
- improving efficiency — by minimising idle stock on shelves (for example, not stocking products that do not sell), using assets more efficiently (for example, a restaurant might turn over tables quickly — have customers sit, order, eat and leave, then have another group of customers take that table) or by operating at economies of scale.
- controlling areas of management responsibility — a business might check and review areas of the business such as finance, operations, human resources, sales and marketing and information technology. For example, a business might try to control its supply chain by seeking contracts with suppliers and delivery

businesses that guarantee prices. At the same time it might implement materials management strategies such as Just In Time to reduce costs, make use of bulk purchasing or squeeze suppliers on price. By making use of a lower cost approach, a business may become more profitable and may be able to prevent competitors from increasing their market share if it can operate at a lower cost than its competitors. However, in pursuing this approach, a business may find that its sales fall if customers perceive its product as being poor quality. A business may also put itself at risk of losing market share as other businesses copy its low-cost strategies and undercut its prices. Furthermore, the need to cut costs may mean that the business is not able to make changes where necessary in the future. For example, a low-cost business may reduce expenses by cutting spending on research and development or market research, meaning that it may be late to detect new trends. Porter noted that a cost leader must not overlook differentiation. To be an above-average performer, a business relying on lower cost for its competitive advantage will need to ensure that it can match or come close to matching the differentiation of its competitors.

Aldi's mission is to provide customers with high quality products at very low prices. Its cost leadership strategy focuses on selling no-frills goods and services. Aldi keeps its costs lower than competitors while selling products with features that are acceptable to customers (it maintains differentiation to a competitive level). Aldi keeps its costs low by stocking a limited number of brands (most of which are its own), its products are usually purchased in bulk and stacked in store on pallets and cartons, delivery routes are kept short, store sizes are small, in store staff numbers are minimised (usually 4-5 per store), opening hours are limited (reducing staffing and utility costs), and the number of checkouts is minimised with customers packing their own bags away from the till (improving efficiency and reducing costs).



DID YOU KNOW?

While squeezing suppliers on cost may be a viable strategy, there is a fine line businesses should not cross. In 2014, Woolworths was accused of bullying suppliers into providing low-priced goods as part of their 'Cheap Cheap' campaign. The accusation was made soon after Coles settled a similar claim made against them by the Australian Competition and Consumer Commission.

EXAM TIP

The **Unit 4, Area of Study 1** key skills state that you should be able to 'compare . . . relevant management strategies'. This suggests that you should know the similarities and differences between a differentiation strategy and a lower cost strategy.

6.9.4 Differentiation strategies

Product differentiation refers to the use of brand names, a delivery method, advertising or a number of other factors to establish differences between substitutable products. In a differentiation strategy a business will make their product different, unique or superior in some way to gain a competitive edge and allow the business to market itself as a leader or innovator in that industry. A business that is able to create a product with any of these distinctive attributes will be able to charge a premium price for their product because it will usually be able to pass costs on to its customers. Porter suggested that, unlike cost leadership, more than one business could achieve differentiation in an industry if there are a number of unique attributes valued by customers. A business pursuing a differentiation focus strategy will seek a competitive advantage in a segment of an industry (a niche market).

Some strategies that a business could use to differentiate its product include:

- high-quality products – by ensuring that quality is better than that of competitors, for example, making the product more durable or more reliable, providing better support for customers, or offering extended warranties.
- multiple branding – by providing different brands or more brands in the same market. This would involve providing similar products with very subtle differences that would appeal to different customers.
- innovation/ research and development – developing a product with unique features that no other business currently produces. This will involve identifying a market that is not yet filled and providing the product before competitors do.

Starbucks, Hudson's and Gloria Jeans all became successful as they promoted a brand that was different to other businesses that in reality only sold coffee. Another example is Unilever, a multinational company producing a range of cleaning products. Two well-known brands, Surf and Omo, are both produced by Unilever. Both products have a market share, their own advertising and compete with each other, but the business has an overall higher market share and profit because it is marketing two products in the one market.

By making use of a differentiation approach, a business will be able to improve the way it connects with customers and develop customer loyalty. If a business is able to charge a premium price for its differentiated products, then it may be able to make revenue gains. If the business can maintain or improve customer loyalty, then it may be able to gain market share from competitors. However, in pursuing a differentiation approach, a business may find that rival businesses copy its strategies and steal its customers. In addition, implementing a differentiation approach can be costly. It may take time for a business to achieve a unique attribute that sets its brand or product apart from its competitors. During that time, consumer tastes or preferences may change. A business may not have sufficient customer demand to offset higher costs, and this may lead to a decline in profit.

Porter noted that a differentiator must not overlook cost. To be an above-average performer, a business relying on differentiation for its competitive advantage will need to ensure that it can match or come close to matching the costs of its competitors.

At Amazon, differentiation is based on the broad range of products that can be purchased via its marketplace, ease of use, lower pricing, speed of delivery and customer service. However, Amazon has also achieved cost leadership when compared with bricks and mortar retailers. The company enjoys economies of scale because of its massive warehousing facilities and order processing capabilities. Amazon is then able to translate this scale into even lower prices and faster, cheaper shipping. Australians have been able to test Amazon's differentiation strategy first-hand since they commenced operations in Australia in 2017.



study on

Unit 4 > AOS 1 > Topic 4 > Concept 3

Generic Strategies Approach: Differentiation advantage Summary screen and practice questions

6.9 Activities

TEST your understanding

1. Explain the five competitive forces identified by Porter.
2. Select two of the five competitive forces and describe how they may be represented by a key performance indicator.
3. Define 'supply chain'.
4. Explain why it is important for a business to manage stock levels efficiently to reduce costs.
5. List the costs associated with buying and selling stock.
6. Explain what is meant by product differentiation.
7. Distinguish between a cost strategy and a differentiation strategy.
8. Explain what is meant by a niche market and outline how a focus strategy is more likely to be used by a business operating in a niche market.



APPLY your understanding

9. Divide your page into two columns. Draw up a list of businesses or products that you believe have attempted to gain a competitive advantage by adopting:
 - a cost leadership strategy or
 - a differentiation strategy.Explain your reasons for the selections you made.
10. Visit a local supermarket and complete the table below, identifying the number of brands in each product area, the names of the brands and the manufacturers of these brands.

Product	Number of brands and brand names	Producer/manufacturer name
Shampoo		
Dishwashing detergent		
Laundry powder		
Toothpaste		

EXAM practice

11. Porter developed two key approaches to strategic management that a business could adopt in the situation where a business is suffering from a fall in sales and profit. Evaluate those two key approaches. **(8 marks)**
12. Aiden Limited is looking to enter the Asian market and is concerned about how to break into a competitive market. Identify one of the key approaches to strategic management from Porter's Generic Strategies and analyse how this approach could be applied in relation to Aiden Limited. **(4 marks)**

6.10 APPLY YOUR SKILLS Lower cost and differentiation

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to evaluating key performance indicators and sourcing business opportunities in a business
- Apply business management knowledge to practical and/or simulated business situations
- Compare and evaluate relevant management strategies

JETSTAR – AN AUSTRALIAN LOW-COST AIRLINE

Launched in 2004, Jetstar is a wholly owned subsidiary of Qantas. The Jetstar Group owns parts of other Jetstar-branded airlines in the Asia-Pacific region, and offers approximately 5000 flights a week to more than 85 destinations in 18 countries and territories. The company operates a fleet of more than 130 aircraft. Jetstar's management operates independently of Qantas and it also has a different focus to that of the parent company. Jetstar's mission relates to offering 'low fares to enable more people to fly to more places, more often'.

Jetstar incorporates cost cutting in all aspects of its business. Its business model requires it to know its customers well and understand that they are driven by the

Jetstar has achieved a competitive advantage through its low-cost model.



price of an airline ticket. Generally, Jetstar will provide customers with an aircraft seat and additional services such as seat selection, checked baggage and in-flight products to be purchased. Customers can choose between two types of fares — Economy or Business. Conditions for staff, including pilots, airline staff and ground staff, are minimised, as is the amount of time the plane is on the ground. Jetstar outsources parts of its technology support and maintenance to reduce costs. New technologies, such as straight to gate mobile check-in, are also used to lower costs.

An airline and airport survey released in 2017 by Australian consumer advocacy group CHOICE ranked Jetstar as one of the worst airlines in the world. According to the survey, passengers rated Jetstar lowest or equal lowest in six of nine categories including meals, punctuality and cleanliness. In a statement, Jetstar said, 'CHOICE seem to enjoy criticising airlines without understanding the safety standards we operate to or recognising the role of low cost carriers in making travel more affordable for millions of Australians.' However, poor survey results do not appear to have hampered the company's financial performance. The Jetstar Group delivered a profit before tax of \$417 million in 2016–17.

DIFFERENTIATION AT APPLE

US-based Apple Inc. has achieved a competitive advantage through the creation of a unique product and charges a premium price. The company designs, manufactures, and markets consumer electronics such as smartphones, tablet devices, personal computers and portable digital music players, as well as a variety of related software and online services.

Steve Jobs, co-founder of Apple, had a strong vision for what he wanted Apple to do and be. At a Q&A session in 1997, he said, 'We've tried to come up with a strategy and vision for Apple—it started with: "What incredible benefits can we give the customer?"' This differentiation approach has driven the company to become what it is today. The Apple brand is now ranked first in the world with an estimated value of US \$178.1 billion, according to Interbrand's annual Best Global Brands 2016 rankings.

Apple's differentiation strategy is also clearly outlined in its 2016 Annual Report, which states that the business is committed to providing a high-quality user experience through its innovative products. Apple's Annual Report also says that the company's strategy relates to gaining a competitive advantage from 'its unique ability to design and develop its own operating systems, hardware, application software and services to provide its customers products and solutions with innovative design, superior ease-of-use and seamless integration.'

Apple has a well-organised system of research and development. The company spent approximately US\$10 billion on research and development in 2016, allowing it to bring more innovation to its products and ensure that the business remains competitive. In 2017, for example, Apple launched iPhone X, which makes use of innovative features such as OLED display technology, Face ID (which uses a 3-D scan of the user's face to unlock the screen) and wireless charging. Apple's focus on customers who are willing to pay more is reflected in the iPhone X, which has a premium price of A\$1579 for a version with 64 gigabytes of memory.

Apple has achieved a competitive advantage through the creation of its unique product and charges a premium price.



6.10 Activities

TEST your skills

1. Using examples, explain the competitive advantage that Jetstar has created.
2. Using examples, explain how Apple has developed its competitive advantage.
3. Outline the similarities between a lower cost approach and a differentiation approach.
4. Outline the differences between a lower cost approach and a differentiation approach.



APPLY your skills

5. Use the **Jetstar** weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Jetstar uses a lower cost approach.
6. Use the **Apple** weblink in the Resources tab, and other online resources, to create a collection of evidence that suggests that Apple uses a differentiation approach.
7. Evaluate how well a lower cost approach would work for Apple.
8. Evaluate how well a differentiation approach would work for Jetstar.

on Resources

-  Weblink: Jetstar
-  Weblink: Apple

6.11 EXTEND YOUR KNOWLEDGE Data-driven change

KEY CONCEPTS

- Businesses must constantly change in order to survive.
- A business's performance, as identified through key performance indicators, is a source of change.
- There are driving and restraining forces for change in businesses.

FABULOUS FASHIONS

The business objectives of Fabulous Fashions (FF) include 'increasing market share in the low-cost fashion sector' and the business is currently attaining this goal. Sales and profits reached record levels last year. FF now operates 90 stores across Australia.

The management team of the business have a number of decisions and issues affecting them at this time. At their forthcoming board meeting, senior management will be required to make a number of key decisions, or make recommendations to deal with certain important issues. These issues and decisions are as follows.

Staff turnover

The Human Resource Manager (HRM) is worried about employee performance within the business. She has summarised FF employee data and compared it to the Australian average. These comparisons are shown in the following table.

Employee performance and other human resources data

All data 2015	FF shop workers	Australian fashion retail workers (average)
Annual staff turnover	22%	16%
Median hourly wage	\$11.35	\$12.83
Staff on part-time contracts	73%	56%
Staff aged 16–24 years old	45%	33%
Customer complaints per 100 transactions	4.6	Data not available
Staff with no formal qualifications	16%	11%

Many of the staff leaving the business are part time. The HRM wants FF to introduce a comprehensive set of objectives and targets at each level of the business: 'I believe that this would give regional managers, shop managers and shop staff a clear focus and the incentive they need to stay with the business and work hard to develop their careers with us. A clear set of quantifiable targets for each region and shop within our business will definitely improve employee performance within FF.'

Location of a new shop

This week the directors are to decide between two locations for a new shop. The Operations Manager has produced the data in the following table and this is to be considered by directors at this week's board meeting.

Financial data for the two locations		
	Location X	Location Y
Site	Town centre	Out of town
Capital cost of 5-year lease	\$2.0 m	\$1.0 m
Forecasted annual net cash flows		
Year 1	\$0.3 m	\$0.2 m
Year 2	\$0.35 m	\$0.26 m
Year 3	\$0.42 m	\$0.32 m
Year 3	\$0.42 m	\$0.32 m
Year 4	\$0.58 m	\$0.4 m
Year 5	\$0.85 m	\$0.65 m
Payback period	3 years, 2 months	2 years, 2 months
Forecasted annual average profit (first 5 years)	\$0.08 m	\$0.03 m
Annual average rate of return	24%	38%

New clothing range

The success of the business is based on 'fast fashion' — creating new designs and distributing them to shops quickly — and low prices. 'Quality is relative — no one expects our clothes to last for years' is a quote from the Managing Director that most FF managers recall well. Progress in the first six months of 2019 has slowed; sales are still growing but margins have fallen. Profits are being affected by increasing costs of materials.

The directors have developed a plan to start selling a range of clothes, to be called Top Look, aimed at high-income consumers. 'Demand from consumers with high incomes tends to be less price elastic than the demand of our existing shoppers. If the products are fashionable and well designed they buy them at prices that will give us much higher margins', said



the Managing Director at the most recent board meeting. The Marketing Manager suggested that the Top Look range of clothes should be in a separate part of every shop and that promotion could be limited to in-store displays and special offers.

Legal and corporate social responsibility issues

Business leaders in Australia are increasingly concerned about the impact of the growing number and significance of legal controls on their operations, as well as a growing awareness of operating in a socially responsible manner. Managers of retail businesses are particularly concerned about the following legal changes and corporate social responsibility issues:

- the use of labour in other countries to manufacture most of the clothing range
- minimum wage increases
- improvements in consumer rights to reject or return goods.
- tougher health and safety regulations in shops.

‘With continued slow economic growth, the last thing we need is higher costs forced on us by more legal controls’, said FF’s Managing Director at last year’s annual general meeting.

6.11 Activities

EXTEND your understanding

1. Write a report for the Managing Director to be reviewed at the upcoming board meeting. The report is to comprise four sections, one for each of the areas identified above that require decisions or action by the board.

Each section of the report should provide:

- an identification and explanation of the driving forces for the change in that area
- an identification and description of the relevant key performance indicators (KPIs) that have led to the issue in each area
- a description of possible strategies the business could implement to overcome the issue(s) identified in each area.

The report should be a minimum of 200 words for each section.

6.12 EXTEND YOUR KNOWLEDGE The concept of business change

KEY CONCEPTS

- Change is continuous and businesses must always look for areas in which they can gain an advantage.
- Sometimes change is out of the control of a business and there are forces impacting upon change — driving and restraining forces and key performance indicators that are a source of change.
- Lewin and Porter are theorists who have provided strategies to help businesses deal with change.

BUNNINGS TO REASSESS CHANGE

It has been an interesting 12 months for Wesfarmers and Bunnings. As the parent company, Wesfarmers has made some decisions in relation to Bunnings that haven't worked out as well as they may have liked.

Certainly, early profit figures suggest the company is suffering. Despite a rise in sales, profits for the half-year in 2018 have shown a significant decline.

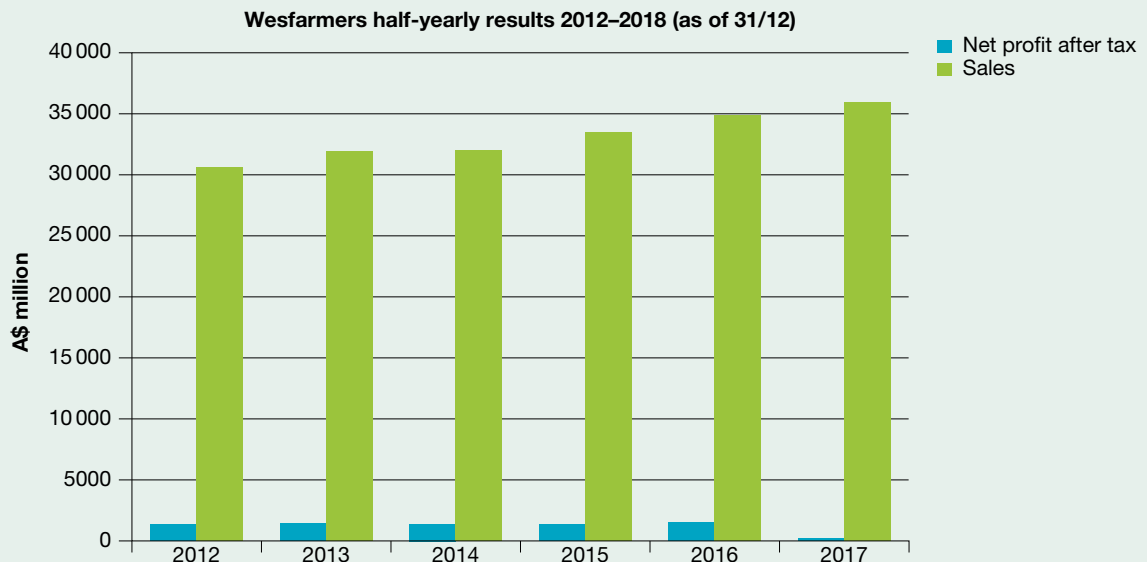
In making the announcement of the decline in profit, the following key points were highlighted:

- Bunnings UK purchased two years ago for \$700 million was written down by \$900 million.
- The Bunnings UK impairment coupled with a \$306 impairment in Target dragged Wesfarmers net profit down by almost 90 per cent.
- Earnings in Coles supermarkets fell 14 per cent for the half.
- Bottom-line profit was \$212 million in the six months to December 2017 — a fall from its previous first-half profit of \$1.58 billion.
- Dividends to shareholders will remain unchanged with a payment to shareholders of \$1.03 per share, fully franked.

On top of this, Coles supermarket chain also reported a 14 per cent slide in earnings to \$790 million for the half. Coles attributed the result to a range of accounting measures, lower fuel and financial services earnings as well as a one-off gain from a property sale last year washing through.

Other aspects of the Wesfarmers stable also had mixed results — stronger sales at Kmart were dragged down by a weaker result from Target. Target copped a \$306 million impairment charge. The company said the write-down reflected tougher competition and moderating retail conditions. However, combined, department store sales rose 7 per cent to \$4.15 million, the highest level of earnings in eight years.

However, the real story behind the result was the failure of one key venture and a less than enthusiastic response to another venture. Bunnings, Wesfarmers' flagship hardware chain, made a venture into the United Kingdom market two years ago and this has not been as successful as it was hoped to be.



In 2016, Bunnings ventured into the United Kingdom market through its purchase of Homebase, which was Britain's number two hardware chain. The plan was to turn it into Bunnings and replicate the success that has made Bunnings, by far, the biggest hardware player in Australia.

However, consumers in the United Kingdom did not see the appeal. A \$1 billion write-down and a half-year loss of \$165 million for a chain that was making money before Wesfarmers bought it in 2016 resulted in a calamity that rivals Woolworths' ill-fated creation of Masters in Australia. What caused these issues for Bunnings?

Steve Delo, a former senior executive at Britain's leading hardware chain, B&Q, is now a managing director at London-based consulting house Pragma.

'When Bunnings sought to set out its stall in the United Kingdom, by moving itself very close to the number one in the United Kingdom it effectively lost a lot of its points of differentiation,' Mr Delo told ABC TV's *The Business*. That is because the United Kingdom already has a successful Bunnings-style store, B&Q.

According to IBISWorld research, B&Q and its online stablemate Screwfix hold 41 per cent of the United Kingdom market. Homebase had 13 per cent before the Wesfarmers takeover, and was a very different store, focusing on home furnishings rather than DIY.

Another concern seems to be that Bunnings misunderstood the market in the United Kingdom.

'The United Kingdom market has evolved over the last 10 to 15 years, away from people that understand DIY themselves, and they've moved more away from DIY to "do it for me",' Mr Delo said.

'The need and the requirement to have home improvement done in their homes has changed — people no longer want to do it themselves but rather want it to be done by professionals.'

Much of that is arranged online, with the internet having a much bigger presence in the British hardware market — another issue Wesfarmers apparently misread.

Not that Wesfarmers and Bunnings haven't tried a venture into the online market.

In 2017, Bunnings in Australia announced the opening of its online store. Since 2018, DIY devotees have been able to purchase items from Bunnings' Special Orders range online.

There are currently more than 20 000 items in the Special Orders range, including products such as playgrounds and taps. These products aren't available in-store, they can be ordered online to be delivered to you or your local branch. True online shopping is not yet here though, with products from the store's regular range not included in the online offering.

This development by Bunnings is seen as a counter to moves by other competitors. JB Hi-Fi has announced it will offer same-day delivery, which retail experts believe is part of a wider e-commerce trend.

In addition, the arrival of Amazon has made Australian retailers rethink their approach to sales and shopping.



6.12 Activities

TEST your understanding

1. Identify and describe three key performance indicators referred to in the case study.
2. Identify the trend in each of those key performance indicators.

3. Given the performance of Bunnings in the United Kingdom, it would appear that Bunnings did not do their homework in terms of what the United Kingdom market was like and what it needed. Explain how Lewin's Force Field Analysis could have been used in this situation.
4. Outline two driving forces for change that may have led Bunnings to commence operations in the United Kingdom.

EXTEND your understanding

5. The case study refers to the differentiation strategy of Bunnings not being successful. Explain the differentiation strategy proposed by Porter.
6. Explain the other strategy suggested by Porter.
7. Suggest one restraining force that Bunnings has had to overcome.

6.13 Review

6.13.1 Summary

The concept of business change

- All businesses need to undergo change to remain competitive.
- Managers and management can be proactive in managing change or reactive.
- All management skills need to be utilised to effectively manage change.

Analysis of business performance

- All businesses measure their performance.
- Businesses seek to improve their efficiency and effectiveness.
- Key performance indicators are specific criteria used to measure the efficiency and effectiveness of the business's performance.
- The performance of a business can be analysed using the following key performance indicators as sources of data:
 - ♦ 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
 - ♦ number of workplace accidents.
- A business may benchmark its performance against the performance of a business recognised as a market leader.

Key principles of the Force Field Analysis theory (Lewin)

- Kurt Lewin developed a theory of change management based on a Force Field Analysis.
- A Force Field Analysis examines the driving and restraining forces for change.
- A Force Field Analysis requires an action plan.

Driving forces for change in business

- Driving forces are those forces that initiate, encourage and support the change.
- The main driving forces for change include:
 - ♦ managers (want the business to remain profitable and competitive)
 - ♦ employees (working in a supportive and innovative environment are free to suggest ideas)

- ◆ competitors (fear of loss to a rival if the changes are unsuccessful)
- ◆ legislation (changes to the law that impact operational practices)
- ◆ pursuit of profit (the greater the profit the greater rewards for business owners)
- ◆ reduction of costs (financial cost of operating a business can affect profit)
- ◆ globalisation (the need to compete with overseas businesses)
- ◆ technology (stay up to date or risk falling behind)
- ◆ innovation (the drive and desire to be a market leader)
- ◆ societal attitudes (the need to reflect what society values).

Restraining forces in business

- Restraining forces work against the change.
- The main reasons for resistance to change include:
 - ◆ managers (due to either poor decision-making or fear of loss of control or power)
 - ◆ employees (fearful of changes that threaten job security or require new work routines)
 - ◆ time (either poor timing, or lack of time)
 - ◆ organisational inertia (prefer to stay with the safe and predictable status quo)
 - ◆ legislation (restrictions placed on certain operational practices)
 - ◆ financial considerations (financial cost of implementing major changes can be substantial).

Strategic management by Porter's Generic Strategies (1985)

- Michael Porter developed a Generic Strategies approach to strategic management.
- Porter identified five competitive forces:
 - ◆ the entry of new competitors
 - ◆ the threat of substitutes
 - ◆ the bargaining power of buyers
 - ◆ the bargaining power of suppliers
 - ◆ the rivalry among existing competitors.
- Change can be managed utilising lower cost or differentiation approaches from the three generic strategies:
 - ◆ cost leadership
 - ◆ differentiation
 - ◆ focus.

6.13.2 Key terms

benchmarking occurs when a business measures its performance against that of other leading businesses known for their excellence

business change the adoption of a new idea or behaviour by a business

change any alteration in the internal or external environments

competitive advantage occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.

driving forces those forces that support the change

efficiency how well a business uses resources to achieve objectives

effectiveness the degree to which a business has achieved its stated objectives

Force Field Analysis outlines the process of determining which forces drive and which resist a proposed change

globalisation the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers

innovation a process that occurs when something already established is improved upon

key performance indicators specific criteria used to measure the efficiency and effectiveness of the business's performance

level of wastage the amount of unwanted or unusable material created by the production process of a business

net profit figures the numbers found in an income statement that show net profit — what remains when expenses are deducted from the revenue earned

niche market a narrowly selected market segment within a larger market

number of customer complaints the amount of customers expressing their dissatisfaction with the business, either spoken or in written form

number of sales a measure of the amount of goods or services (products) sold

number of workplace accidents indicates how safe the workplace is for employees

organisational inertia an unenthusiastic response from a business to proposed change

percentage of market share the business's share of the total industry sales for a particular good or service, expressed as a percentage

proactive to initiate change rather than simply to react to events

product differentiation the use of factors such as brand names, delivery methods and advertising to establish differences between substitutable products

productivity a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services)

rate of productivity growth the change in productivity in one year compared to the previous year

rate of staff absenteeism the number of workers who neglect to turn up for work when they are scheduled to do so

reactive to wait for a change to occur and then respond to it

restraining forces those forces that work against the change

staff turnover the number, or the rate, of employees who are leaving the business over a specific period of time, and need to be replaced by new employees

Resources

 Digital doc: Key terms glossary (doc-29452)

6.13.3 Review questions

TEST your understanding

1. What is meant by the term 'transforming a business'?
2. Distinguish between a proactive and a reactive manager when dealing with change.
3. Outline two skills a manager should utilise when managing change.
4. Define the term 'key performance indicators'.
5. List and briefly outline three of each of the following:
 - (a) driving forces for change
 - (b) restraining forces for change.
6. Distinguish, using an example, the difference between driving and restraining forces.
7. Outline why resistance to change in management and employees is common.
8. Distinguish between efficiency and effectiveness.
9. List the key performance indicators that may lead to change.
10. Explain why setting achievable goals can help managers implement change more successfully.
11. Explain what is meant by a Force Field Analysis.
12. Outline the benefits of preparing an action plan as part of a Force Field Analysis.
13. List the five steps in a Force Field Analysis.
14. Outline three of Porter's five competitive forces.

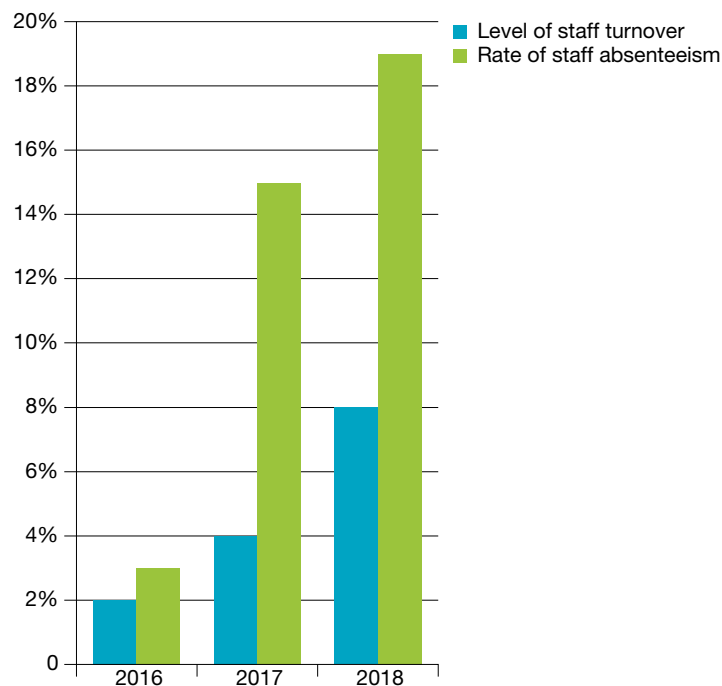
15. Using examples, explain the difference between low cost strategies and differentiation strategies.
16. Explain a niche market and how a focus strategy will assist a business achieve a competitive advantage.

APPLY your understanding

17. 'Successful businesses are those that empower their employees to adapt readily to changes within the business environment, whereas those businesses that attempt to resist change and disempower their staff will ultimately fail.'
 - (a) Identify the main reasons for employee resistance to change.
 - (b) Demonstrate why it is important for managers to communicate effectively when introducing changes in the workplace.
18. 'In response to data collected through key performance indicators, businesses are constantly changing.'
 - (a) Describe the key performance indicators that cause businesses to change.
 - (b) Using a current example, describe and explain the responses of that business's management to these KPIs.

EXAM practice

19. Andrew Farris has been working for a hardware business for over 15 years but has decided to leave and commence operating his own small business in this area. Describe a key performance indicator that Andrew could use to assess whether the commencement of his new business has been successful. **(2 marks)**
20. Evaluate Porter's Generic Strategies as an approach to managing change. **(4 marks)**
21. Evaluate Lewin's Force Field Analysis theory. **(6 marks)**
22. Describe the concept of business change. **(2 marks)**
23. Identify two restraining forces for change. **(2 marks)**
24. The following information was provided for a business in the health care industry.



- (a) Define 'level of staff turnover'. **(1 mark)**
- (b) Using the key performance indicators provided, evaluate the ability of the business to meet shareholder expectations. **(4 marks)**

on Resources

-  Digital doc: Missing word glossary quiz (doc-29453)
-  Digital doc: Crossword (doc-29454)

study on

Sit past VCAA exam

6.13.4 School-assessed coursework

OUTCOME 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.

ASSESSMENT task — structured questions

Time allowed: 80 minutes

Marks allocated: 50 marks (The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

The cost of flying

Operating an airline like Qantas is an expensive business. The cost of planes, fuel, staff and landing fees are high and vary from country to country. Once scheduled it is almost impossible to cancel a flight and a half-empty plane is a source of lost revenue.

Factors such as terrorism, rising fuel costs, increased competition from low-cost competitors and general concern regarding international travel can all have an impact on the success of an airline.

The cost of a plane alone can be substantial, let alone the other associated costs.



Review the financial data below from Qantas's 2017 Annual Report.

Operational statistics				
Group Underlying Income Statement Summary	June 2017 \$M	June 2016 \$M	Change \$M	Change %
Net passenger revenue	13 857	13 961	(104)	(1)
Net freight revenue	808	850	(42)	(5)
Other revenue	1392	1389	3	-
Revenue and other income	16 057	16 200	(143)	(1)
Operating expenses (excluding fuel)	(9683)	(9529)	(154)	(2)
Fuel	(3039)	(3235)	196	6
Depreciation and amortisation	(1382)	(1224)	(158)	(13)
Non-cancellable aircraft operating lease rentals	(356)	(461)	105	23
Share of net loss of investments accounted for under the equity method	(7)	-	(7)	(>100)
Total Expenditure	(14 467)	(14 449)	(18)	-
Underlying EBIT*	1590	1751	(161)	(9)
Net finance costs	(189)	(219)	30	14
Underlying PBT*	1401	1532	(131)	(9)
Operating Statistics	June 2017	June 2016	Change	Change %
Available Seat Kilometres (M)	150 323	148 691	1632	1
Revenue Passenger Kilometres (M)	121 178	119 054	2124	2
Passengers carried ('000)	53 659	52 681	978	2

*Underlying EBIT refers to earnings before interest and tax. Underlying PBT refers to profit before tax.

Read the case study above, then answer the following questions.

- Define the following terms and provide an example for each.
 - Driving forces (2 marks)
 - Restraining forces (2 marks)
 - Key performance indicators (2 marks)
 - Competitive forces (2 marks)
 - Generic strategies (2 marks)
- Identify and describe the key features of Lewin's Force Field Analysis. (4 marks)
- Explain two key performance indicators provided in the case study. (4 marks)
- Describe three other key performance indicators that could be useful for the business to evaluate to assess success of the business. (6 marks)
- Describe how a Force Field Analysis could have been used to prepare the business for making the necessary changes to improve performance. (4 marks)
- Outline the process involved in completing a Force Field Analysis. (5 marks)
- Describe two benefits of completing a Force Field Analysis when considering change. (4 marks)
- To improve profit the business could implement a low-cost strategy or a differentiation strategy. Identify and analyse the most appropriate strategy in this situation. (5 marks)
- Evaluate two driving forces and two restraining forces that may affect an airline in the current climate. (8 marks)

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CHAPTER 7

Implementing change

7.1 Overview

7.1.1 Why it is important

‘Nothing is permanent except change.’ Although these words were written around 2500 years ago by the Ancient Greek philosopher Heraclitus, they are as true today as they were then, especially in the world of business. For, example, in a few years’ time you may well have goods delivered to your home by a drone like the one shown. Already some pizza businesses are exploring drones as a method of home delivery. Recognising that they need to change is only the first stage in the process. It is now up to businesses to determine how best to implement the change they’ve identified as important for the continued success of the business.



QANTAS IMPLEMENTS CHANGE

Change is inevitable. As a consequence, businesses must transform if they want to survive in today’s dynamic business environment. One example of an Australian business that has had to constantly implement change is Qantas Airways Limited. Following fluctuating profits over the 15 years prior to 2012, and a loss of \$244 million in the 2011–12 financial year, in 2013 Qantas announced a transformation program.

Some of the features of Qantas’s transformation program to be implemented from 2013 to 2016 included cost cutting (5000 job cuts across all areas of the business were announced, as well as pay cuts and pay freezes for executives and staff), the redeployment of resources (the company wrote down the value of assets such as aircraft, unprofitable routes were closed, maintenance operations and catering facilities were restructured), and increased investment in new technology and new aircraft. By implementing these strategies, the company hoped to become a more lean business.

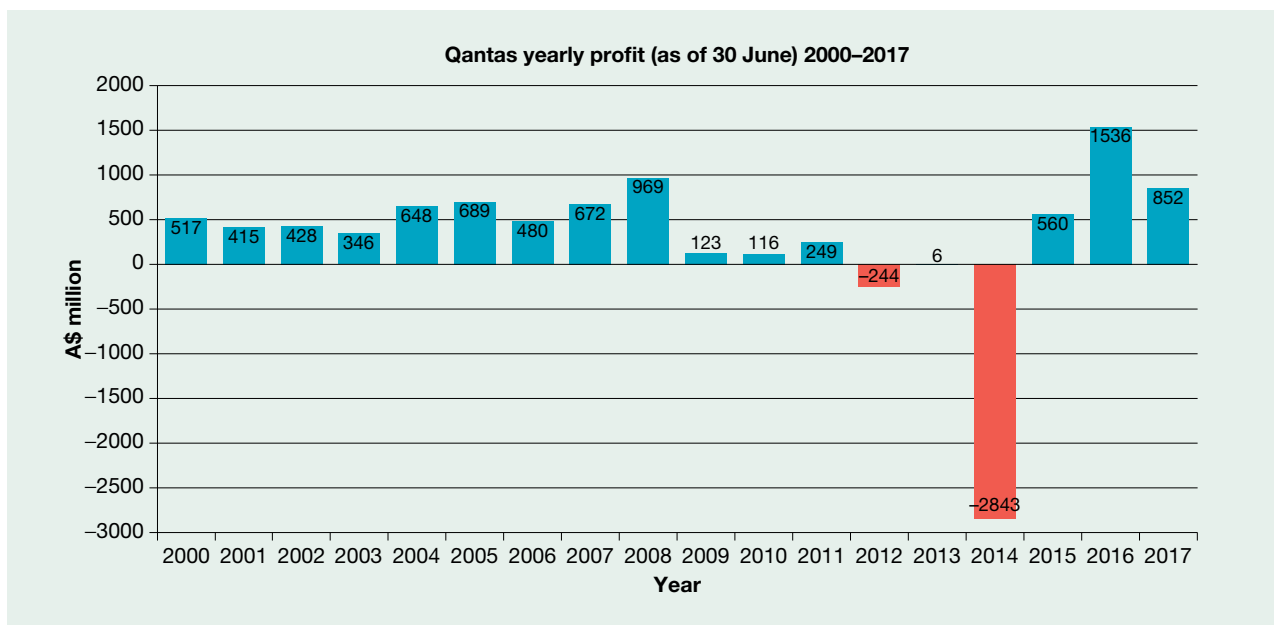
CEO Alan Joyce showed leadership when he communicated the need for these changes to stakeholders, including employees, shareholders and the media. Some criticised Alan Joyce’s leadership believing that he had lost the support of many staff. Others suggested that while he was very good at sharing information, he was not good at liaising with other people.

However, Qantas’s transformation program does appear to have been successful — the business has since improved its financial performance with an overall profit of \$560 million announced at the end of the 2015 financial year.

Qantas has completed its transformation and the business has announced they would be likely to pay company tax for the first time since 2009. The tax would begin being paid in 2019 after reporting a record first-half-year result in 2018 despite soaring fuel costs.

Qantas’s ability to manage and, in many cases, adapt to and embrace change will increasingly determine its competitive position.

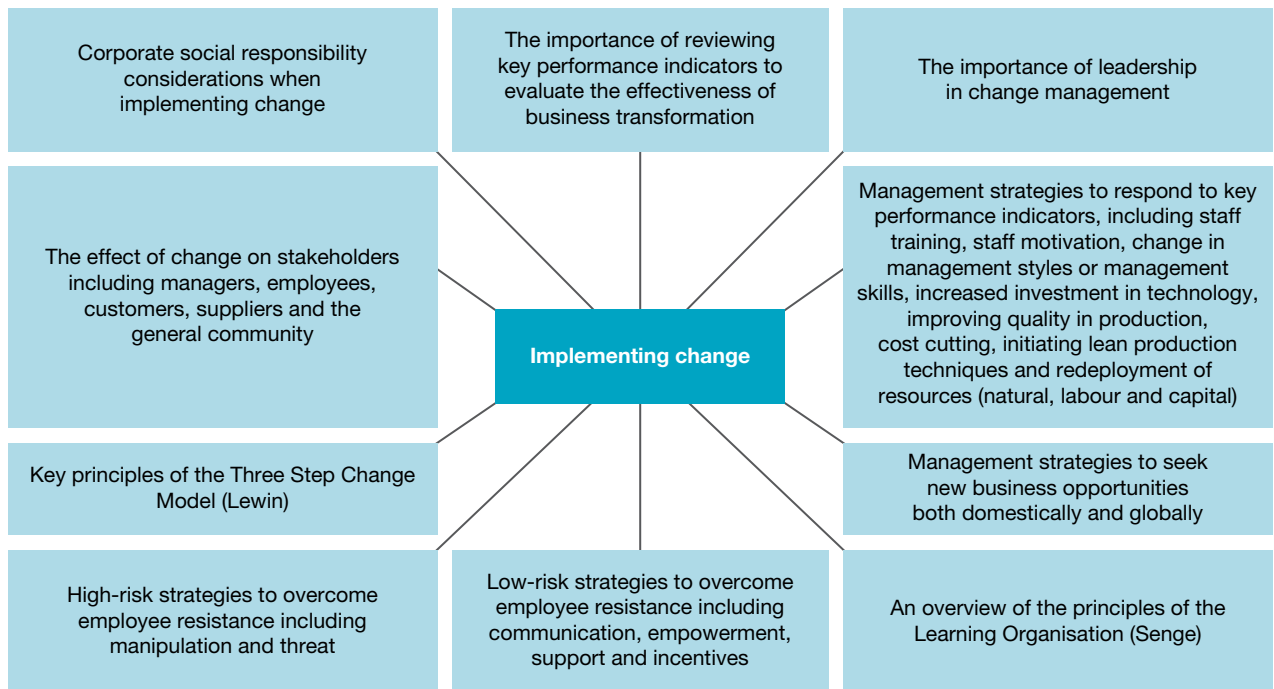




7.1.2 What you will learn

Key knowledge

Use each of the points below from the VCE Business Management Study Design as a heading in your summary notes.



Key skills

These are the skills you need to demonstrate. Can you demonstrate these skills?

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to managing change in a business within the last four years
- Interpret business information and ideas
- Apply business management knowledge to practical and/or simulated business situations

- Evaluate the advantages and disadvantages of various strategies in implementing change in a business
- Propose and justify strategies in response to key performance indicators and to assist in implementing change in a business

Source: VCE Business Management Study Design (2017–2021) extracts © VCAA; reproduced by permission.

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7.2 The importance of leadership in change management

KEY CONCEPT If a manager can display effective leadership skills, then resistance to change will be lessened.

7.2.1 Leadership in change management

To successfully implement a change process a manager needs to exercise leading; that is, to show **leadership**. By leading change, the manager acts as a bridge to support the employees as they cross from existing work practices into new and unfamiliar territory.

To act as a leader, a manager should display empathy and possess good listening skills. These personal characteristics will assist him or her to discover and appreciate any points of resistance to change. How a manager treats his or her employees will largely determine their acceptance of or resistance to change. A manager who acts as a leader and has high expectations of employees' abilities to initiate and implement a change process will generally be rewarded with people who are willing to embrace the change. There may still be some points of resistance, but this resistance can be productively dealt with, because the employees believe they have the support and trust of their manager.

Employees are generally more prepared to accept the risks involved with change if they feel their manager is concerned about their welfare. Managers who concentrate on the needs of their employees are the most effective, building high-performance teams that attain their objectives. Less effective managers tend to focus on tasks and are more concerned with meeting deadlines; that is, they display the natural characteristics of a manager, not a leader.

Added to these qualities, a successful leader will need to:

- market and promote the change in a manner that will achieve cooperation and acceptance
- resolve conflicts, which often arise when change is implemented
- keep an open mind, seek out new ideas and freely share information
- cultivate a sense of stability, while at the same time push on with even more change
- show confidence in people, share credit and recognition
- build and communicate a clear vision.

A leader who can 'sell' the need for change automatically overcomes one of the main resistance points — that of 'why do we need to change?'



Being an effective leader is not an easy task. There may be temporary setbacks, particularly during periods of negotiation. In the end, leadership may still fail. According to the management researcher Craig Hickman, leadership by itself is not enough. He believes that businesses need the skills of both managers and leaders to competently manage change: ‘When it comes to lasting superior performance, managers don’t have all the answers; neither do leaders. Businesses need the practical, orderly mind of a manager, and the experimental, visionary, creative soul of a leader.’

MIND OF A MANAGER, SOUL OF A LEADER

Change, both external and internal, also has become a way of corporate life. While the manager naturally desires stability, the leader recognises that crisis can stimulate improvement. Managers try to duplicate the successful efforts of others, but leaders would rather break new ground. Managers fasten, fix, and put things in place as permanent fixtures of the business. Leaders continually move about the business, unfastening, unfixing, and removing things to make sure that the business does not stagnate. When it comes to decision-making, managers hammer out compromises, while leaders don’t mind polarising people around extremes to clarify the differences between them. If changes that occur in the external environment often cause a manager’s mind to focus on how to react and respond, they stimulate a leader’s soul to become proactive, anticipating and even creating change. ‘Plan for change,’ argues the manager, ‘Experiment with it,’ insists the leader. In this age of rampant reorganisation and restructuring, the manager’s mind seems to deal with it all very easily. The leader, however, wants to rethink the fundamentals and not be fooled by a reorganisation that may not correct real problems. Managers refine existing structures; leaders promote complete revolution.

Source: Extracts from Craig R. Hickman 1992, *Mind of a manager, soul of a leader*, John Wiley & Sons Inc., p.11.

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Unit 4

AOS 2

Topic 1

Concept 1

Leadership in change management Summary screen and practice questions

7.2 Activities

TEST your understanding

1. Support or refute the following statement: ‘Motivating, inspiring and empowering employees to embrace change is the mark of a good leader’.
2. Think of someone you regard as a leader. What characteristics do they display to give them this leader status?
3. What do you think of the leader who says, ‘Do what I say, not what I do’?
4. Read the ‘Mind of a manager, soul of a leader’ case study and answer the following questions.
 - (a) List the main features of (i) a manager and (ii) a leader.
 - (b) Do you agree or disagree with Craig Hickman’s belief that businesses need both managers and leaders? Justify your answer.

APPLY your understanding

5. In small groups, brainstorm the strategies a leader can take to implement and support people through change. Compare your list with the lists of other groups. As a class, agree on 10 key things a leader should do when introducing change.
6. Set up a class debate to consider the following topic: ‘Leaders are born, not developed’. Share roles so that those not debating are involved either in assisting with research, or in running the debate and keeping notes on the arguments on both sides.

EXAM practice

7. Describe the importance of leadership in change management. **(2 marks)**
8. During the implementation of any change strategies it would be important for management to demonstrate leadership. Explain why this is important. **(3 marks)**

7.3 Management strategies to respond to key performance indicators

KEY CONCEPT Key performance indicators provide data that drive businesses to change. Managers can respond to these indicators with a number of different strategies.

7.3.1 Key performance indicators

In chapter 6 we identified nine key performance indicators that provide managers with data regarding business performance and therefore encourage momentum for businesses to undergo change. In response to the information provided by these key performance indicators, managers are obliged to implement strategies to respond to the presented data. The strategies implemented can be measured in terms of their successful application by reviewing the key performance indicators.

7.3.2 Management strategies

These are the strategies that management can use to take action in response to the data sourced from key performance indicators.

Staff training

Training refers to the process of teaching staff how to do their job efficiently, boosting their knowledge and skills. It can be completed on the job or off the job.

Management might decide to introduce training in response to key performance indicators that relate to managing employees, such as the level of staff turnover, the number of workplace accidents, the number of staff complaints, and the number of industrial disputes. These key performance indicators measure how satisfied employees are in the business. The data could be combined with information from other key performance indicators such as rate of productivity growth. Staff training can be used to improve low job satisfaction and/or low productivity. Employees who feel that they have access to training are more likely to be motivated and satisfied at work. Improving the skills of employees can lead to improvements in productivity as staff become more efficient at their jobs and make fewer errors, thereby reducing waste. Staff training can also be used to improve the quality of a product or to improve the service that customers receive. This may have an impact on number of sales.

Staff training can be used to improve customer service, thereby affecting customer satisfaction and sales.



Staff motivation

Motivation is what drives employees to apply effort over a sustained period of time. Management might decide to introduce a strategy or strategies to motivate staff in response to key performance indicators, such as the rate of productivity growth, rates of staff absenteeism and level of staff turnover. These are key performance indicators that are typically used to measure the motivation of employees. To improve staff motivation, a business could offer employees recognition and rewards, performance related pay or career advancement. Jobs could be redesigned to make work more interesting, or policies could be introduced to support employee motivation.

Change in management styles or management skills

The management style that a manager uses refers to their behaviour and attitude when making decisions, directing and motivating staff and when implementing plans to achieve business objectives. Typical management styles include autocratic, persuasive, consultative, participative and laissez-faire. Management skills are the abilities or competencies that a manager will use to achieve business objectives. To complete a given task, a manager will make use of skills including communicating, delegating, planning, leading, decision-making and interpersonal.

In response to trends in the data sourced from key performance indicators, managers may change their management style or use a range of different management skills. For example, if key performance indicators suggest that urgent action needs to be taken to respond to net profit figures, number of sales or percentage of market share, then managers might use an autocratic or persuasive style in an attempt to quickly rectify the situation. The skills used by the manager in such a situation may include increased communication (with a range of stakeholders and areas of management responsibility) and quick decision-making so that the business can ensure that sales and profits increase. Alternatively, key performance indicators suggesting that staff morale and motivation are low may lead to a greater use of styles that provide employees with more freedom and autonomy, such as a consultative or participative style. In such cases, open communication, delegation and interpersonal skills may be used.

Increased investment in technology

Technology refers to applications of knowledge that change people's lives and change the way in which a business operates. All businesses will make use of technologies such as automated production lines, computer-aided design, computers, software and mobile technology. Directing finances into new technology will allow a business to operate its processes and practices more efficiently and effectively, cutting costs and improving productivity. Therefore, when a business invests in new technology, its use will impact on key performance indicators such as the rate of productivity growth, level of wastage, number of workplace accidents and, ultimately, number of sales and net profit figures.

By investing in technology, for example, a business can use strategies such as automated production lines and computer-aided manufacturing techniques to reduce waste, improve employee safety and improve productivity. In doing so, technology can also reduce costs and improve sales. Furthermore, technology strategies such as website development can have a direct impact on sales, thereby affecting percentage of market share and net profit figures.

Improved productivity means that businesses are able to lower their unit cost, and may be achieved by increasing investment in technology, minimising wastage, investing in staff training, improving staff motivation or by redeploying resources.



Improving quality in production

Quality refers to the degree of excellence of goods or services and their fitness for a stated purpose. The quality of a business's products can be measured using key performance indicators such as the number of customer complaints, number of sales and level of wastage. The quality of a business's good or service is vital to the success and viability of a business. To improve quality, a business might implement quality control, quality assurance or Total Quality Management. For example, in response to increasing complaints from customers, a business may introduce quality control. Here the product is checked at various points through the production process to determine if it is meeting pre-determined standards. Any products that do not meet these standards are discarded and the problem with production is identified and rectified, reducing future quality issues. If the customer complaints related to poor quality, then improving the standard of the product should alleviate these complaints.

DID YOU KNOW?

Many businesses ask customers for email addresses so they can contact customers after the sale to gain feedback on the standard of service they received.

Cost cutting

Every area in a business creates costs. A business will need to examine all of its activities and decide where costs in the production of its good or provision of its service can be cut. Balancing cost savings and quality can be difficult, so managers must determine which area or areas, and which activities to focus on. Many businesses will aim to reduce costs and pass these savings onto customers without significantly impacting on the overall value of the product to customers.

Cutting costs can be a quick way to respond to key performance indicators such as net profit figures, rate of productivity growth and level of wastage. If cost savings are passed on to customers, then number of sales may also be impacted. A business may cut costs by reducing direct and indirect costs (or operating at lower cost), using assets more efficiently or controlling the supply chain. For example, a business might make some employees redundant, outsource some parts of the process to other businesses in Australia or overseas, or reduce energy costs by utilising sustainable energy sources.

Initiating lean production techniques

Lean production is a business-wide approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality. By using its resources efficiently, a business should also be able to reduce cost. A business may reduce waste and inefficiencies by reducing excess transportation, reducing defects (or errors), avoiding excess motion, avoiding overproduction, avoiding excess inventory, eliminating waiting time and avoiding overprocessing.

Many businesses will aim to reduce costs and pass these savings on to customers. This management strategy can be used in response to key performance indicators such as number of sales and net profit figures.



Lean production techniques such as Just In Time and continuous improvement can be used to respond to key performance indicators such as percentage of market share, number of sales, net profit figures and rate of productivity growth. These key performance indicators provide a business with data that may suggest that it will need to increase efficiencies, reduce waste and other costs, and remain competitive and responsive to the needs of customers. In response, a business may, for example, design its production processes so that flow is continuous and there is minimal, or no, waiting time between steps in production.

Redeployment of resources (natural, labour and capital)

Redeployment refers to moving resources from one area in a business to another area of the business. A business will typically move resources to a different area in the business to improve efficiency. In any given situation, a business might need to redeploy the following resources:

- natural — the resources occurring in nature. These include land, water, minerals, forests, fruit and vegetables.
- labour — the resources involving mental and physical effort in the production process. This is provided by humans and includes all of the staff employed by a business.
- capital — the resources that have been manufactured through the combination of natural and labour resources. These include the plant or factory, the equipment, the machinery and the new technologies used by a business to assist with producing other goods and services.

The redeployment of resources can be used to respond to key performance indicators such as level of wastage, rate of productivity growth and level of staff turnover. The data sourced from these key performance indicators may suggest that a business needs to change or expand through the redeployment of resources. Reallocating natural resources, labour and capital can make a difference to the way outputs are produced. For example, employees may be redeployed to perform a different job or sent to work in a different place or area of management within a business. This has a number of benefits for both the business and employees, including the reduction of costs associated with redundancy packages and maintenance of staff morale. Alternatively, a business may decide to relocate a particular store or a factory, or redeploy some activities to other countries to reduce costs and to improve productivity.

EXAM TIP

The **Unit 4, Area of Study 2** outcome states that you need to 'evaluate the effectiveness of a variety of strategies used by managers to implement change'. This suggests that you should know advantages/strengths and disadvantages/limitations of each management strategy to respond to key performance indicators.

study on

Unit 4 > AOS 2 > Topic 2 > Concept 1

KPIs: staff training, staff motivation Summary screen and practice questions

Unit 4 > AOS 2 > Topic 2 > Concept 2

KPIs: change in management styles or skills Summary screen and practice questions

Unit 4 > AOS 2 > Topic 2 > Concept 3

KPIs: increased investment in technology and improving quality in production
Summary screen and practice questions

Unit 4 > AOS 2 > Topic 2 > Concept 4

KPIs: cost cutting and initiation of lean production techniques Summary screen and practice questions

Unit 4 > AOS 2 > Topic 2 > Concept 5

KPIs: redeployment of resources (natural, labour and capital) Summary screen and practice questions

7.3.3 Key performance indicators and relevant management strategies

Appropriate management strategies for responding to each key performance indicator are summarised in the following table.

Key performance indicator	Relevant management strategies
Percentage of market share	A business can seek to increase its share of the market through innovation and investment in new technology. Developing new lines of stock, new products or new processes to allow cheaper production can also lead to an increase in sales and therefore, possibly the market share held by a business. Many other management strategies can be used to improve a business's market share including improving quality in production, cost cutting and lean production techniques.
Net profit figures	Net profit is what remains when expenses related to the operation of the business are deducted from the revenue earned. To improve the net profit of a business, a manager can increase revenue or decrease the expenses of the business. An obvious strategy for a business to adopt to increase profit is to reduce costs. Cost savings can be found through changing suppliers, reducing wage costs (often through downsizing or replacing labour with technology) and reducing utility costs (electricity, phone and gas companies all seek to increase their sales by offering lower prices to customers and a business can take advantage of these offers).
Rate of productivity growth	Productivity refers to the level of output produced from a given level of inputs. Businesses seek to improve productivity, as it will mean they are able to lower their unit cost. A business may improve its productivity by: • improving production methods — increasing the speed of production will allow greater output to be produced per hour/day. This can be achieved through the use of new and/or improved technology. It can also be achieved through reducing waste as a result of improved production methods. • minimising wastage — improving the quality of inputs so less waste occurs during production reduces costs as well as increasing the output of a business. • staff training — for some businesses one method of improving productivity is through staff training. Improving the skills of employees can lead to improvements in productivity as they become more efficient at their jobs and make fewer errors, further reducing waste. • improving staff motivation — employees are more likely to work harder when motivated • redeploying resources to improve efficiency.
Number of sales	Sales can be increased through a range of measures. Businesses often compete on price, quality and service. Increasing sales therefore often stems from improving competitiveness in terms of: • price — sales can be improved through lowering the price of the good or service. Changing suppliers, purchasing locally to reduce transport costs and reducing labour costs are examples of strategies a business can adopt to reduce the costs of production or service provision so the price paid by the consumer can be lowered. • quality — which can be improved by improving the quality of inputs. While they may be more expensive, consumers often seek quality products as they represent value for money. • customer service — which can often be improved through staff training. Better product knowledge, better customer service and improved warranties and guarantees can increase sales.
Rates of staff absenteeism	Determining why staff take days off can help managers to improve staff morale and motivation and therefore allow the business to improve. Staff may be unhappy with the workplace environment or the culture of the business. These issues could be addressed through the provision of training and support. Changing the prevailing style of management

(Continued)

Key performance indicator	Relevant management strategies
	used could lead to staff becoming more creative or responsible, so that employees become less disillusioned with the work place. In such situations, management skills such as open communication, delegation and interpersonal skills may be used to improve morale and motivation. Management could make use of other motivation strategies, such as providing teamwork, introducing a workplace uniform, developing a new vision statement or holding social events for staff. All of these strategies can improve morale and reduce absenteeism over time.
Level of staff turnover	Staff who are dissatisfied in the workplace may choose to take time off and, if the situation becomes too difficult, may choose to leave the business. Staff turnover can negatively impact on profit and culture, as the costs of employing new staff will add to the costs of the business and staff who leave may be well liked or a crucial part of a team. The level of staff turnover can be reduced through staff training (by improving motivation); introducing other motivation strategies such as performance-related pay, teamwork, responsibility or recognition; changing the prevailing management style and management skills used; or by redeploying labour to another part of the business to provide staff with more interesting or challenging work.
Level of wastage	To respond to this key performance indicator a business could: • introduce a quality management system such as quality control — by determining if a product is meeting pre-determined standards, problems in production that are resulting in defects can be identified and rectified, reducing future wastage issues. • implement lean production — a business-wide integrated series of systems that is designed to eliminate waste and inefficiencies in all aspects of production. • increase investment in technology — new technology can improve efficiencies and reduce waste. • redeploy resources to improve efficiency.
Number of customer complaints	If customers are dissatisfied, they will stop using the services of the business and may even convince others to stop purchasing its products by explaining their negative experience of the business. In responding to increasing customer complaints a manager may: • enrol staff in training programs to better equip them for their role and/or improve their skills in dealing with customers. • improve the quality of the products produced or provided. Concerns may then focus only on price or service. Quality can be achieved through the introduction of a quality management system, be it quality control, quality assurance or Total Quality Management. • reduce the price of the product by reducing costs in the production of a good or service provision and passing these savings onto customers.
Number of workplace accidents	Workplace accidents can occur for many reasons, including employee distraction, unmotivated employees, poor training in the use of equipment and lack of compliance with occupational health and safety requirements. To reduce workplace accidents a business should ensure it is complying with all workplace laws, consulting staff about improvements to facilities and scheduling regular maintenance of equipment and audits of the workplace. In addition to compliance with the legal requirements of workplace safety, businesses can provide regular training opportunities for staff to maintain or improve their skills in relevant areas.

7.3 Activities

TEST your understanding

1. Explain what is meant by a 'strategy'.
2. Explain what is meant by a 'key performance indicator' and outline how they can influence managers to change the business.
3. Explain how introducing a quality management system is a strategy that can address a range of key performance indicators.

4. 'Training is a key strategy in improving key performance indicators relating to staff morale.' Analyse this statement, stating whether or not you agree or disagree.
5. Select two key performance indicators, outline what information they provide to a manager and/or business owner and describe a strategy to improve each key performance indicator.

APPLY your understanding

6. Working in pairs, outline two strategies a manager could implement to reduce the levels of waste created by the business.
7. Using your experience working on a part-time basis (students can work in groups to ensure each group includes a student with a part-time job), explain how training might be used to improve customer service and increase sales. Share your responses with the rest of the class.

EXAM practice

8. Analyse how the management of a business could use staff motivation, redeployment of resources (staff) and quality strategies to effectively respond to the rise in customer complaints. **(6 marks)**
9. A management strategy to improve performance may be to change management style. Evaluate an appropriate management style to adopt during a time of change. **(5 marks)**

7.4 Seeking new business opportunities domestically and globally

KEY CONCEPT Key performance indicators are only one source of change for a business – new business opportunities are also a source of change. The management of a business can implement strategies to seek these new opportunities, both domestically and globally.

7.4.1 Domestic opportunities

New business opportunities can arise from within the existing domestic market in which a business operates. It is the role of the manager to seek new business opportunities to increase market share. To that end managers need to identify opportunities and devise strategies that will allow the business to take advantage of domestic market movements.

Multiple branding

Multiple branding is a strategy where one business sells multiple brands in the same market. While customers feel as though they have a wide variety of choice in product, their money is generally being directed towards a few major businesses because most brands are owned by one or two businesses. An example can be observed within the shampoo market — there are numerous brands, but only a few businesses actually manufacture the product.

A multiple branding strategy has advantages because it means one business holds more shelf space, leaving less space for competitors' products; fills all price and quality gaps by providing cheaper options; saturates a market; and caters to brand-switchers who like to experiment with different brands. However, multiple branding can affect the image of the brand. The public may believe that the business has become profit oriented, rather than focused on the customer. Customers may also become confused by the multiple branding and switch to a competitor's brand.

Product differentiation

Product differentiation is a strategy where a business will use brand names and advertising to establish some key differences between their product and substitutable products. In markets where there is considerable competition, it can be difficult for a particular product to stand out, make a name for itself or gain a foothold in the market if it is a new product.

Product differentiation can allow businesses to make their product stand out as the product is designed or marketed in a manner that involves a brand name that makes it appear different to the existing products on the market. However, in pursuing product differentiation, a business may find that competitors copy its strategies and take away its market share. In addition, implementing product differentiation will be costly. It may also take time before a business can achieve a brand image that sets it apart from its competitors.

Franchising

Another alternative a manager/owner could investigate is to franchise their business. Under a franchise agreement a person buys the rights to use the name and distribute the products of an existing business. A **franchisor** is the individual or business that grants, under certain conditions, the right to use a business name and the right to produce or distribute the franchisor's product. The **franchisee** is the person or business that purchases the franchise, usually by paying a fee to the franchisor. The franchisor supplies a known and advertised business name, the required training and staff development, a method of doing business, management skills and materials. The franchisee supplies the start-up money and labour, operates the franchise business and agrees to abide by the terms and conditions of the franchise agreement.

Establishing a franchise allows a business to expand its operations and market share without the need to borrow large amounts of capital, manage new stores, hire new staff or be involved in the day-to-day operations of the business. Baker's Delight is an example of a small bakery that expanded through the franchising of its name and products. However, franchising a business may result in a loss of control. For example, the franchisor may not be able to make changes without running into disagreements with the franchisees. Franchisees may not deliver the product consistently, meaning that the brand name of the franchisor may suffer.

Government services

When wanting to expand it is often difficult for a business owner to know where to start. Questions such as 'How is it best to grow the business?' and 'How can the business take advantage of new opportunities?' arise in the course of conducting the operations of a business. Government provides assistance to businesses that are seeking opportunities. For example, Small Business Victoria offers advice and assistance programs for businesses as well as grants to help businesses to grow.

Domino's is an American pizza chain that has expanded throughout Australia using franchising. The 500th Domino's store in Australia opened in 2013.



SMALL BUSINESS VICTORIA

Advice can be sought from Small Business Victoria, which can aid a company in seeking a direction for the future. Small Business Victoria is a government agency that provides assistance to businesses across Victoria and is currently providing specific programs and funding through measures such as:

- running the Business Victoria website, which showcases programs such as the New Energy Jobs Fund
- providing access to grants to support business across Victoria
- running Small Business Victoria workshops designed to assist businesses that are ready to grow
- managing the Small Business Bus which tours Victoria, bringing expert advice and business assistance to regional businesses.



EXAM TIP

The **Unit 4, Area of Study 2** outcome states that you need to 'evaluate the effectiveness of a variety of strategies used by managers to implement change'. This suggests that you should know advantages/strengths and disadvantages/limitations of each management strategy to seek new business opportunities.

7.4.2 Global opportunities

Expanding a business's market share domestically is attractive because it is likely to be seen as easier and cheaper, with fewer international laws and customs to deal with, and no language barriers or long travel times. However, Australia is a relatively small market and the ability to operate on a global scale provides numerous opportunities for a business to become more successful and increase its market share.

What opportunities are available for a business to take advantage of on a global scale? What strategies could a business use to take advantage of opportunities in a global market?

Exporting

A business exports when it sends goods or services to another country for sale. Once the business has considered laws in the other country, as well as cultural and demographic factors, exporting can allow the business to access larger markets. This strategy also provides a business with the opportunity to increase sales and profit and can assist with spreading the risk of a business.

However, there are risks associated with exporting. It is important to understand the different cultures, languages, norms and ways of doing business in other countries. There will always be hidden costs involved in meeting regulations. The Australian Trade and Investment Commission (Austrade) provides help to businesses that wish to seek opportunities in overseas markets.

AUSTRADE

The Australian Trade and Investment Commission — Austrade — contributes to Australia's economic prosperity by helping Australian businesses, education institutions, tourism operators, governments and citizens as they:

- develop international markets
- win productive foreign direct investment
- promote international education
- strengthen Australia's tourism industry
- seek consular and passport services.

Source: www.austrade.gov.au



Australian Government
Australian Trade and Investment Commission

Online shopping

Another means of expanding globally is through the creation of an online shop and platform. Many businesses offer customers the ability to browse available goods and services via the internet, order items and services, purchase, pay online and organise the shipment of goods. This allows the whole world to be a potential market for the business, encouraging the expansion of the customer base, sales and potentially increasing their market share. However, online shopping does have certain risks. It can be both time consuming and expensive to create an online platform. The technology itself will impose a financial cost on a business and staff will need to be trained to use the platform. An online platform will also need to be explained to customers. Furthermore, a business should recognise that an online shopping platform can diminish the personal contact that it has with customers, meaning that they may not feel as connected to the business as they once did.

study on

Unit 4 > AOS 2 > Topic 1 > Concept 5

Management strategies to seek new business opportunities Summary screen and practice questions

7.4 Activities

TEST your understanding

1. Explain why it is important for businesses to seek new opportunities.
2. Explain the difference between multiple branding and product differentiation.
3. What are the benefits and costs of expanding domestically?
4. What are the benefits and costs of expanding globally?
5. Explain how the internet has allowed businesses to expand both domestically and globally.

APPLY your understanding

6. Use the **Small Business Victoria** weblink in the Resources tab and write a report outlining how this entity can assist businesses take advantage of new markets.
7. Use the **Austrade** weblink in the Resources tab and write a report outlining how this government department can assist a business wishing to begin exporting overseas.

8. Select a product from the following list, then visit your local supermarket. Identify the number of brands sold in that product market. Read the labels and identify the manufacturers of those products.

- Dog food
- Breakfast cereals
- Shampoos
- Laundry powders
- Dishwashing/dishwasher detergents
- Toothpaste

EXAM practice

9. The owner of a small gardening and home maintenance business is considering a number of options in relation to new business opportunities. Describe **two** new domestic business opportunities the owner could seek to implement, and identify **two** key performance indicators the business could use to assess the success of these new business opportunities. **(8 marks)**
10. Explain **one** strategy a business could implement to seek new business opportunities on a global scale. **(2 marks)**

on Resources

-  Weblink: Small Business Victoria
-  Weblink: Austrade

7.5 APPLY YOUR SKILLS Sources of change

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management terms
- Research and analyse case studies and contemporary examples of business management applicable to managing change in a business within the last four years
- Interpret business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the advantages and disadvantages of various strategies in implementing change in a business
- Propose and justify strategies to respond to key performance indicators and assist in implementing change in a business

7.5.1 Data report

Considering key performance indicators as sources of change, access the **ASX** weblink in the Resources tab.

Select the 'Prices and research' heading, then select 'Company information'. In the search box provided, type in a company name (e.g. Woolworths) or a company code (e.g. ABC). This will direct you to information regarding the share price of a business and details regarding the share trading activity of the business.

Select 'Details' to be taken to a link to the company website.

Navigate around both the ASX website for your chosen company and the company website and find information regarding the financial performance of the business. Print out any relevant data relating to the key performance indicators (or other indicators) and paste the data into a Word document or PowerPoint presentation.

on Resources

-  Weblink: ASX

7.5 Activities

TEST your skills

- (a) Write a report of approximately 500 words outlining the key performance indicators identified in the data collected. In your report, provide definitions of the key performance indicators and describe any trends you have been able to identify.
Use a business report style with subheadings, graphs and diagrams to support your text.
- (b) Write a review for the business selected in (a). In this review, outline possible causes of the trend(s) identified in the KPIs used in (a). Conclude your review by evaluating at least two strategies the business could implement to improve their performance in the KPIs identified.

APPLY your skills

- Your study of Year 12 Business Management is almost over. Could you have done better in assessment tasks? Will you get the results you want or deserve? If you had the time again is there anything you would do differently?

Prepare a report for Year 12 Business Management students for next year. Provide hypothetical data on SAC results and explain what possible study score those hypothetical SAC results may result in. Propose and justify a list of strategies you believe students could implement to improve those hypothetical results.

To assist you in preparing data on hypothetical SAC results, use the data provided by the VCAA each year on SAC and examination performance. This data is available on the VCAA website (access the website via the **VCAA** weblink in the Resources tab).

- Go to Educators → Senior Secondary (Years 11–12) → Statistics (VCE, VCAL, VET).
- Scroll down to Senior Secondary Research: VCE, VCAL and VET → Senior Secondary certificate statistical information. Click on the most recent year listed.
- Scroll down and click on Section 3: Grade Distributions for Graded Assessments VCE.
- Go to 'B' and click on Business Management (this can be done for any subject). The file can be saved as a PDF.
- By selecting earlier years, a trend analysis may be prepared as a guide to performance for students.

Resources

 Weblink: VCAA

7.6 APPLY YOUR SKILLS Seeking new business opportunities

PRACTISE YOUR SKILLS

- Define, describe and apply relevant business management concepts and terms
- Research and analyse case studies and contemporary examples of business management applicable to managing change in a business
- Interpret business information and ideas
- Apply business management knowledge to practical and/or simulated business situations
- Evaluate the advantages and disadvantages of various strategies in implementing change in a business
- Propose and justify strategies in response to key performance indicators and to assist in implementing change in a business

EXPANSION INTO NEW MARKETS

Ego Pharmaceuticals is an Australian, family-owned business that manufactures dermatological skincare products, including well-known brands such as QV Skincare, SunSense, Aqium hand sanitiser and Pinetarsol. Established in 1953, it now produces 120 products, all of which are manufactured in Melbourne.

A key to the success of the company has been its expansion into overseas markets. Currently, Ego Pharmaceuticals exports to 27 countries in the Asia-Pacific region, Europe and the Middle East. One of the biggest growth areas for Ego Pharmaceuticals has been Taiwan.

The decision as to which countries to expand into isn't a decision made lightly — a lot of research goes into the planning of such expansion. Upendara Navaratne is the Asia Development Manager at Ego Pharmaceuticals and he identified that the size and growth of a market's middle-class consumers is a key factor when deciding which markets to expand into for Ego Pharmaceuticals. 'If you look at some economic indicators, Taiwan's per capita GDP and purchasing power is much higher than many other Asia-Pacific countries', says Upendara. 'Taiwan also has quite a good business environment for setting up a business. Also, they have a well-educated workforce.'

The company started selling products in Taiwan in 2003 and the business remains confident of growth opportunities in the market, establishing Ego Pharmaceuticals Taiwan Pty Ltd in FY16/17 as a subsidiary to increase control of marketing and sales work, which has led to increased sales in Taiwan.

Expanding overseas is, however, only one part of their success. In February 2018, the Hon. Greg Hunt MP, then Federal Minister for Health, officially opened Ego Pharmaceuticals' new \$35 million global headquarters in Dandenong South.

The investment comes off the back of huge growth in Ego Pharmaceuticals' international exports, which is now approaching 50 per cent of the company's sales, selling into areas including the United Kingdom, the Middle East and Asia.

As a family-owned Australian brand, Ego Pharmaceuticals' reputation has been built on 65 years of dedication to providing its loyal customers with specialist, quality skincare. Although expanding with large exports internationally, the brand remains true to its Australian heritage and continues to manufacture all of its products in Victoria. The business also runs on a pharmacy-only distribution model which supports pharmacies all over the country.



7.6 Activities

TEST your skills

1. Explain why you believe Ego Pharmaceuticals began expanding overseas.
2. Explain why Ego Pharmaceuticals expanded into Taiwan.
3. Ego Pharmaceuticals' expansion into Taiwan is more than just selling products there. Outline Ego's new presence in Taiwan.
4. Ego Pharmaceuticals is always looking for new opportunities. Explain why it is important for a business to do this.

APPLY your skills

5. Evaluate the local opportunity Ego Pharmaceuticals continues to maintain.
6. Propose and justify one new global business opportunity Ego Pharmaceuticals could consider.

7.7 The principles of the Learning Organisation (Senge)

KEY CONCEPT Peter Senge believed that only learning organisations — organisations that are continually expanding their capabilities to create new ideas together — would excel during times of change. Senge's Learning Organisation is based on a number of principles including the five disciplines (systems thinking, personal mastery, mental models, building shared vision and team learning).

7.7.1 The learning organisation

Peter Senge is an American scientist who developed the concept in the 1990s that businesses should aim to become 'learning organisations' to excel in the future. He suggested that businesses must be dynamic entities, as they constantly have to adapt and improve, in an effort to develop into the business they aspire to be, as outlined in their mission and vision statements. Senge theorised that learning organisations are those businesses where managers and staff continually seek to expand their capacity to achieve the results they desire. He believed these learning organisations encourage new patterns of thinking and operating, resulting in the aspiration of the business becoming more open-ended.

In identifying 'learning organisations', Senge described five principles or disciplines that he believes are necessary to generate a learning organisation. These principles are:

- systems thinking
- personal mastery
- mental models
- building shared vision
- team learning.

Systems thinking

According to Senge, systems thinking is 'the cornerstone of the learning organisation.'

Systems thinking is the ability to see the big picture, to look beyond what is occurring just within a business. Senge stated that

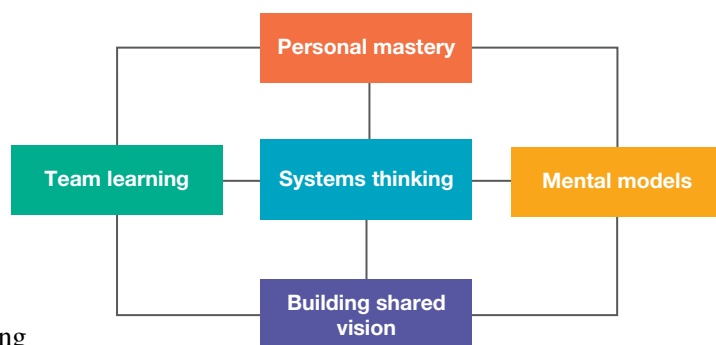
businesses did not operate in isolation, nor do individuals within a business operate in isolation either. Businesses and managers must undergo a paradigm shift from being unconnected to interconnected to the whole. They must see change as arising from patterns that are occurring or have occurred and not as an isolated event.

External forces and factors of change can also lead the business to the realisation that current methods of operation and action are exacerbating pre-existing issues within the company. This in itself can further encourage and necessitate change. Systems thinking allows a business to implement solutions that are more oriented towards the long-term view. This will ensure that the business is successful during a period of change.

It is with this concept that Senge believes the other four disciplines come into play, as systems thinking needs the other four disciplines to enable a learning organisation to be realised.



The five disciplines (or principles) of a learning organisation



Personal mastery

‘Organizations learn only through individuals who learn. Individual learning does not guarantee organizational learning. But without it no organizational learning occurs.’ (Senge, Peter 1990, *The Fifth Discipline Fieldbook: Strategies and Tools for Building a Learning Organization*, Doubleday, p. 139)

Mastering one’s personal and professional life includes:

- developing competence and skills
- developing the ability to focus energy
- looking objectively at oneself, one’s abilities and weaknesses.

Personal mastery involves the people within a business developing proficiency; that is, the ability to undertake continual learning or development to continually show improvement and movement towards achieving the goal or vision the person has set for themselves. This can be achieved through training and development, performance management and appraisal, as well as career progression.

If the individuals within a business are able to continually improve then the business will also improve. As people in the business learn, they will be less resistant to change and may in fact drive change as they feel the change will allow them to get closer to the vision they hold for themselves. This will assist the business to change if the vision of the individuals align with the vision of the business.

Mental models

Mental models are ‘deeply ingrained assumptions, generalizations, or even pictures and images that influence how we understand the world and how we take action’ (Senge, 1990, p. 8).

To allow the business and individuals to change, the discipline of mental models requires businesses (and individuals) to look inside themselves. Businesses need to be able to scrutinise what they do, their systems and processes and then act upon what they learn. For this to occur it will be necessary for people to learn new skills and develop new orientations, and for there to be institutional changes that foster such change.

The aim is to move the business in the right direction, which will entail working to go beyond the sorts of internal politics and game playing that dominate traditional businesses, through openness and honesty and the sharing of responsibility. A business with a more open culture will encourage and promote inquiry and trust, which is likely to support the successful implementation of change.

Building shared vision

Peter Senge starts from the position that ‘it’s the capacity to hold a shared picture of the future we seek to create’ (Senge, 1990, p. 9). Having a shared vision will motivate all members of the business. It will encourage risk taking, and experimentation, and foster innovation. People who work within the business, who adopt this shared vision, will see the long-term picture of the business and so a commitment to the business and to learning will further develop.

This shared vision is different to the vision statement of a business. The shared vision, if genuine, will see people excel and learn, not because they are told to, but because they want to. Leaders who seek to build a shared vision require a set of guiding principles and practices that will move their vision from a personal vision to a shared vision.

According to Senge, a business that has a vision that is truly shared will have people who excel and learn because they want to (not because they are told they need to). A shared vision means that employees in the business are much more likely to support a change.



Senge also states that where a shared vision will foster genuine commitment and enrolment rather than compliance, leaders must recognise that attempting to dictate the vision may be counter-productive. People must come to this shared vision themselves, through learning, through a desire to extend themselves and through being innovative. The opportunity to talk, share and communicate in a clear and honest manner will reinforce the vision among believers and spread the vision further.

Team learning

Team learning is described as ‘the process of aligning and developing the capacities of a team to create the results its members truly desire’ (Senge, 1990, p. 236). This concept builds on the disciplines of personal mastery and shared vision — but these are not enough. To be a learning organisation, the business needs to go further. People need to be able to act together. When teams learn together, then the business will achieve improved results, but importantly, members will grow more rapidly than could have occurred otherwise.

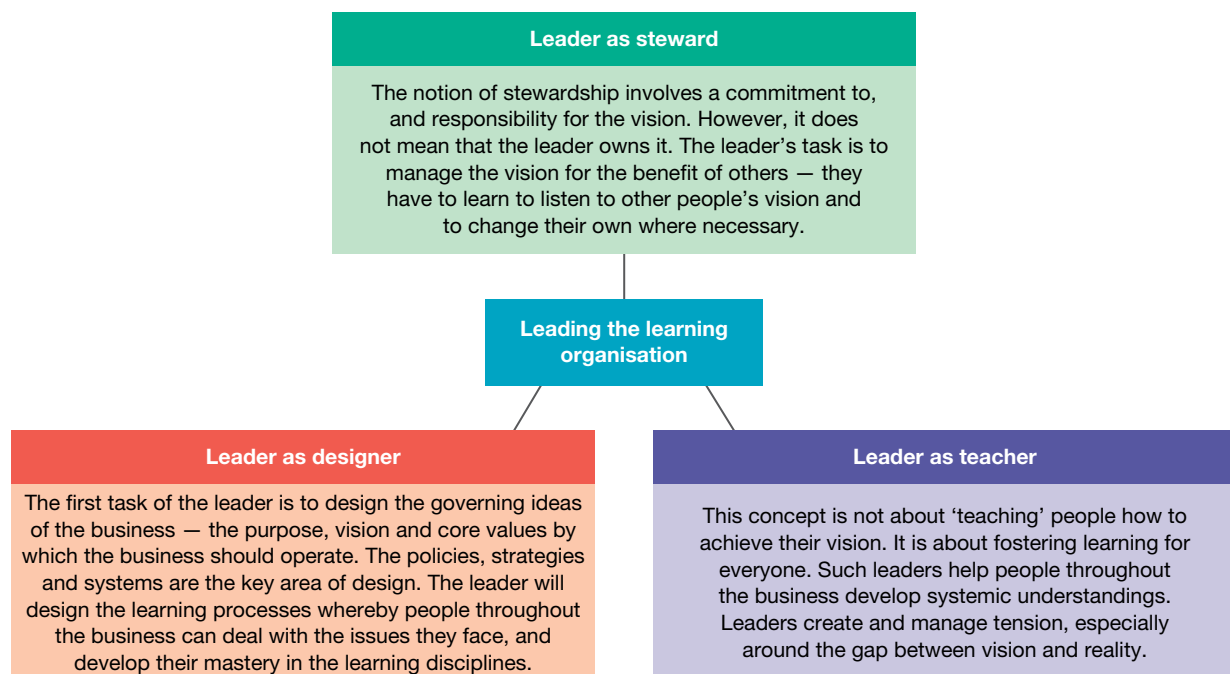
The discipline of team learning starts with what Senge referred to as ‘dialogue’. Dialogue is the concept of communicating openly, through the capacity of members of a team to suspend assumptions and enter into a genuine ‘thinking together’.

If teams or groups within a business are able to have a dialogue together, free from bias and pre-conceptions, then greater learning will occur and the business will achieve better results. It will further enhance learning and assist the business in becoming a learning organisation. Open communication, shared meaning and shared understanding are also much more likely to lead to support for change.

7.7.2 Leading the learning organisation

Peter Senge argues that learning organisations require a new view of leadership. Traditional leadership where leaders are those who set the direction of the business, make key decisions and energise staff is, according to Senge, an individualistic and non-systemic model of leadership. People who work for these traditional-style leaders are seen by Senge to have a sense of powerlessness, and lack personal vision and an inability to master the forces of change.

In a learning organisation, leaders are designers, stewards and teachers. They are responsible for building businesses where people continually expand their capabilities to understand complexity, clarify vision and improve shared mental models. These concepts are summarised in the diagram below.



study on

Unit 4 > AOS 2 > Topic 3 > Concept 1

The principles of the Learning Organisation (Senge) Summary screen and practice questions

7.7 Activities

TEST your understanding

1. Define 'learning organisation'.
2. List the five disciplines of Senge's learning organisation.
3. Why do you believe it is important to build a shared vision for a business?
4. What is meant by 'team learning'? Provide examples from your experience where team learning exists.
5. Explain the role of a leader in a learning organisation.

APPLY your understanding

6. Explain the link between the five disciplines as explained by Peter Senge. In your response, describe why systems thinking is considered the cornerstone of the five disciplines.
7. Explain the three roles of leadership in a learning organisation and distinguish them from the traditional role of a leader.

EXAM practice

8. Senge's theory on the learning organisation has systems thinking as the overarching principle. Explain this concept. **(2 marks)**
9. To assist businesses better manage change, Senge developed the concept that all businesses should become 'learning organisations'. Explain what Senge meant by the term learning organisation and describe three principles of this theory. **(8 marks)**

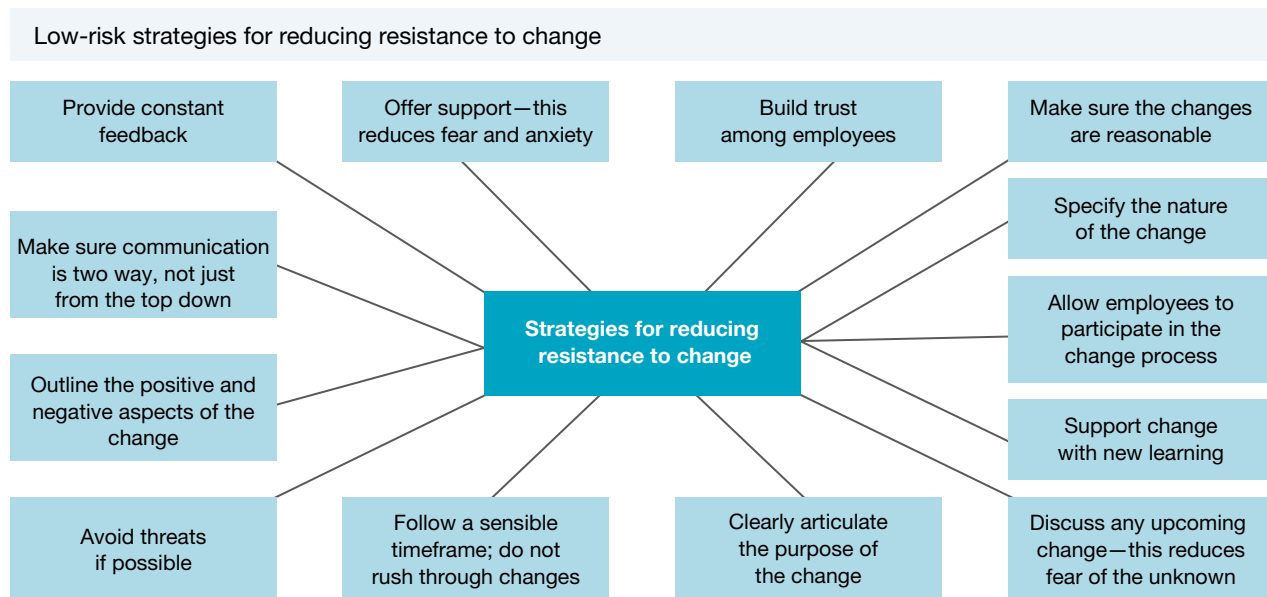
7.8 Low-risk strategies to overcome employee resistance

KEY CONCEPT Low-risk strategies, such as communication, empowerment, support and incentives, can be used to successfully overcome employee resistance, both in the short term and in the longer term.

7.8.1 Managing employee resistance — low-risk strategies

Businesses often fail to manage change well. Their record tends to be poor because, in the upheaval of a restructuring process, employees — the most crucial group of all — are often neglected. As well, existing communication channels often break down in the highly emotional climate that surrounds a change program.

A great deal of research has been conducted on the most appropriate methods to reduce resistance to change. The majority of this research indicates that the environment created by the manager or supervisor can greatly affect employee acceptance, regardless of where or how a change originates. The figure below outlines several strategies for creating a positive, low-risk environment for change.



Low-risk strategies, such as communication, empowerment, support and incentives, are the best way to effectively manage change. They are considered low-risk because their use is likely to generate positive outcomes, both in the short term and also in the longer term. For example, the use of communication and empowerment is more likely to result in employees agreeing with the change, or supporting the change. Employees will feel valued as their ideas and feelings are taken into account, making successful change more likely.

EXAM TIP

The **Unit 4, Area of Study 2** outcome states that you need to ‘evaluate the effectiveness of a variety of strategies used by managers to implement change’. This suggests that you should know advantages/ strengths and disadvantages/ limitations of each low-risk strategy to overcome employee resistance, as well as each high-risk strategy.

Communication

The greater the sharing of information during the change process, the greater the level of trust between management and employees. Maintaining open lines of communication assists in the sharing of information at all levels of the business. As communication is a two-way process, leaders and managers also need to ensure that they provide all employees with the means to communicate their feedback, both positive and negative, to those leading the change.

DID YOU KNOW?

‘Employees who are not informed about why changes are necessary will ultimately resist such changes’, says Hannah Russell, a change management consultant. ‘When they do not get the information they need, they turn to the rumour mill with all its inaccuracies.’

Empowerment

It is important that employees feel they have the opportunity for input into those decisions that have a direct effect on what they do or how they operate within the business. Top-down direction can lead to mistrust and lack of confidence in this process. Encouraging negotiation processes can empower employees and enhance the support they show and give for the direction of the change.

Giving all employees the opportunity to participate in teams, working together on clearly specified tasks, allows everyone to 'buy in' to the process. The business should also identify individuals who can act as supportive **change agents**. Such people fulfil a crucial role in helping to establish a positive and supportive culture.

Empowering employees by giving them the opportunity to take part in negotiations can help them to buy in to the change process.



Support

Business change may result in some positions being terminated, so those likely to have their employment terminated need to be given appropriate support. This could involve the provision of assistance to find new employment. This sort of support is not only essential for the employee leaving the business, but is also important for maintaining the morale of other staff. If employees see their colleagues being treated poorly, they will be less supportive of the change process.

Employees who remain at the business following any job losses will also feel supported if they feel the business has confidence in them going forward. This can often be demonstrated through the provision of training for these employees. Training in the new processes or practices will see morale and confidence grow and resistance will be lowered.

Incentives

Employee resistance can be overcome by providing incentives. This strategy could involve:

- providing bonuses
- offering promotions
- offering training and career advancement
- providing the opportunities of additional responsibility
- encouraging greater autonomy for employees.

Businesses often provide incentives to customers such as, ‘introductory offers’ and ‘buy one get one free’ offers to incentivise customers. Similar strategies can be employed with staff, provided management is able to present the incentives as something other than a bribe. This type of strategy can reduce resistance as employees will feel that the business has faith in their abilities and is willing to move forward with these employees ‘on board’.

study on

Unit 4

AOS 2

Topic 1

Concept 2

Low-risk strategies to overcome resistance: Communication and empowerment

Summary screen and practice questions

Unit 4

AOS 2

Topic 1

Concept 3

Low-risk strategies to overcome resistance: Support and incentives Summary screen and practice questions

WHAT IS A TEAM?

In 1972, a group of rugby players, their friends and families left on a flight for Chile from Uruguay. The plane crashed into the snow-covered mountainside, killing 13 of the 45 passengers on board the aircraft. The outside world thought that all 45 people on board had disappeared.

Without any provisions, some of those left alive resorted to devouring the dead. Those who refused to eat the human flesh died of starvation. After 70 days in the mountains, 16 survivors were rescued and taken home. In the most gruesome manner, a group of people banded together as a team with a singular goal of survival.

What makes a team when there is no sense of threat? Teams will form around a common goal that provides them, individually and collectively, with a challenge that they take responsibility for and that can give them increased self-esteem. For example, assume your goal is to increase repeat business from 10 per cent of turnover to 15 per cent of turnover in six months, as you know the selling cost to repeat customers is one-tenth the selling cost to new customers, and the margin on repeat customers is 25 per cent higher, because they require fewer discounts. To have a higher probability of success, this clear simple goal needs to connect with all staff so that they are motivated to achieve it.

The goals should tell a story of the increased customer satisfaction that drives increased repeat sales, the easier selling process with repeat customers, the reduced need to deal with customer complaints, the increased security of employment, the increased ability for the business to grow and employ more people, the increased opportunities for promotion and more responsibility in a growing business, and the increased ability of the business to contribute to the local community and indirectly help the families who have people working in the company.

Explained this way, each single contribution to delivering the goal is seen as doing much more than reaching a corporate goal. Contributing as a team has a multiplier effect. The whole becomes clearly more than the sum of the parts.

Source: Extracts from ‘What is a team’, www.changefactory.com.au.

Teamwork encourages a supportive environment which lowers resistance to change.



7.8 Activities

TEST your understanding

1. Explain what is meant by a 'low-risk strategy' for implementing change.
2. Select three strategies shown in the figure in section 7.8.1 and explain why they are classified as low risk.
3. Outline two reasons why it is important to provide support for a person whose employment is to be terminated as a result of change in a business.
4. Explain the role of a change agent.
5. Explain how incentives differ from bribes and why they can be an appropriate strategy for managers to adopt.

APPLY your understanding

6. What types of tactics to reduce resistance to change have you observed recently? Were they successful in achieving their outcome?
7. Read the 'What is a team?' case study.
 - (a) According to the author, what causes teams to form?
 - (b) In the author's view, why is it important to clearly communicate to employees the goals of a change?
 - (c) 'The whole becomes clearly more than the sum of the parts.' What does this mean?

EXAM practice

8. The decision of a company to acquire the shares in another company as part of a takeover may create concern among staff, leading to resistance to the change. Justify why employees of the company being acquired may resist this change. **(2 marks)**
9. Evaluate **two** low-risk strategies the managers of a business could use to overcome employee resistance in the circumstances described in question 8. **(6 marks)**

7.9 High-risk strategies to overcome employee resistance

KEY CONCEPT High-risk strategies such as manipulation and threat can be used to overcome employee resistance relatively successfully in the short term. However, their use can lead to negative outcomes in the longer term, particularly if a change fails.

7.9.1 Managing employee resistance — high-risk strategies

The range of tactics examined so far relies on communication, involvement, support and negotiation — low-risk strategies. At the other end of the spectrum are some high-risk strategies. They are considered high risk because their failure may generate negative outcomes. While these strategies may work effectively in the short term, they run the risk, for example, of generating ill feeling between employees and employers over the longer term, which can permanently damage working relationships. Ultimately, any gains made may be outweighed by the instability within the business.

Manipulation

If a business wishes to introduce new technology, it may inform its staff of the exciting new training and promotional opportunities that the change will provide. However, it may withhold the fact that the new technology will result in a number of forced redundancies. This is an example of **manipulation**. Manipulation involves exerting undue influence over an employee that may be deceptive in order to get them to behave a certain way. While some people regard manipulation as skilful or artful, others argue that it is deceptive and devious and therefore an unethical practice.

MANIPULATE AT YOUR OWN PERIL!

At some point we have all used manipulation to get our own way. However, 'getting what we want' using this method is loaded with dangers. This is because manipulated people often feel tricked, and that eventually results in them displaying greater resistance to any change.

A mistake some managers make is thinking they are motivating people when in reality they are manipulating them. Motivation is based on being truthful with people. Manipulation is often untruthful, and involves saying whatever needs to be said to get the result that is required, regardless of future consequences. This is a serious error. According to author and motivational speaker Zig Ziglar, 'Manipulation self-destructs the individual doing the manipulating. Word gets out on manipulators and people grow less and less likely to respond in a positive manner to their manipulation.'

Many managers who use manipulative techniques do so because they lack the skills to deal with disagreement. Manipulating employees also raises many ethical questions, not least of which is the abuse of power and authority.

The danger with manipulation — pulling the strings — is that this practice can backfire if the person recognises what is being done and feels used. Manipulating employees also raises many ethical questions, not least of which is the abuse of power and authority.



Threat

A manager who will not or cannot invest the time and effort required for the other tactics may resort to the use of power to force change resistors to conform. This tactic usually involves some type of direct or indirect threat. Threats may involve loss of promotion, transfer, overtime or ultimately, termination. A business that faces competition from imported products, for example, may advise its staff of the need to change work practices and accept a reduction in entitlements in order to lower the costs of production — or alternatively, four staff positions will have to be terminated. For example, in 2006, Qantas flight engineers were given an ultimatum by senior management that job losses would occur if current work practices and manning levels were not changed. This threat ultimately resulted in prolonged industrial action, causing disruption to the business through numerous flight delays.

The danger with this tactic is that people may appear to be compliant on the surface but are resentful underneath. This can lead to an increase in resistance, possibly culminating in industrial sabotage, grievance complaints, compensation claims for stress and harassment, and industrial disputes. While the threat tactic may be used in some situations that require a speedy response, constantly relying on it as a 'quick fix' may obstruct future changes.

Threats may cause the recipients to submit, but become more resentful, which escalates the resistance.



7.9 Activities

TEST your understanding

1. Explain what is meant by a 'high-risk strategy' for implementing change.
2. In what ways are manipulation and threat high-risk tactics for the achievement of effective change management?
3. Do you regard (i) manipulation and (ii) threats as unethical business practices? Why? Share your answer with the rest of the class.
4. Identify some possible negative consequences of high-risk tactics in order to reduce resistance to change.
5. Identify other high-risk strategies a manager might use to overcome resistance to change.

APPLY your understanding

6. Would an autocratic manager tend to use low- or high-risk tactics to reduce resistance to change? Give reasons for your answer.
7. Read the 'Manipulate at your own peril!' case study. In small groups, discuss the ethical dilemmas encountered when using manipulation as a tactic to reduce resistance to change. Select a spokesperson, then share your answer with the rest of the class.

EXAM practice

8. Employee resistance can be overcome by the use of high-risk and low-risk strategies. Distinguish between these different types of strategies. **(3 marks)**
9. A business is acquiring the shares of another company and the employees are displaying some resistance. Analyse the use of threats as a strategy that management could use in this situation. **(4 marks)**
10. A business has been operating for a number of years and in recent times several KPIs (including the number of customer complaints) have shown a marked deterioration. Management has decided to implement training programs to better equip employees in their role. Employees are resistant to many of the suggested changes. Analyse **two** high-risk strategies that could be used to overcome this resistance. **(6 marks)**

7.10 Key principles of the Three Step Change Model (Lewin)

KEY CONCEPT Kurt Lewin, in addition to developing his Force Field Analysis theory, also developed the Three Step Change Model.

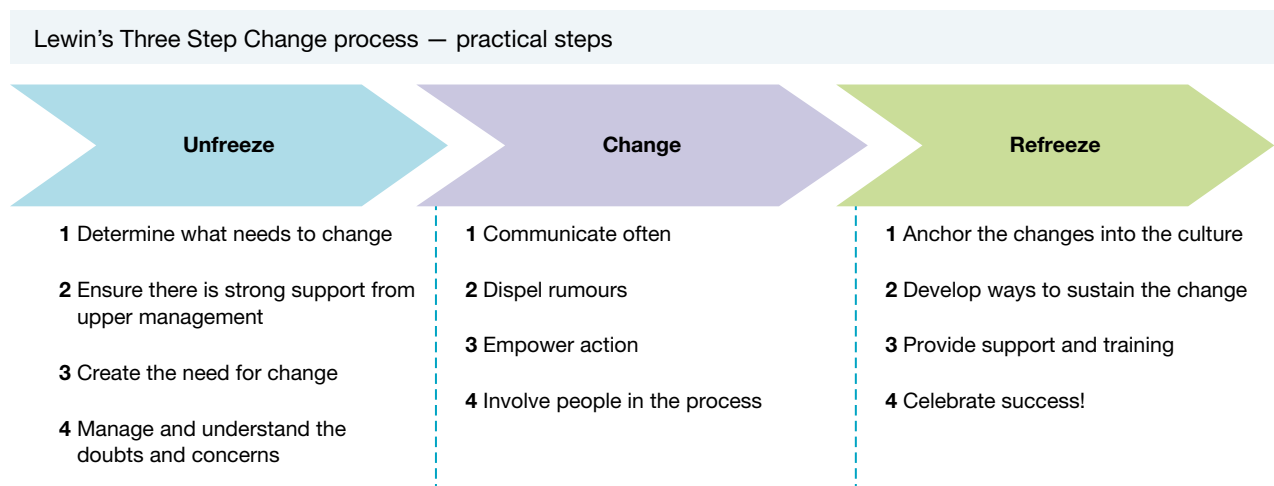
7.10.1 Lewin's Three Step Model

Kurt Lewin was a German-American psychologist who is known as one of the founders of social psychology. He developed a seminal theory on the best approach for a business to manage change. Lewin believed that change occurs at many levels within a business, be it a large-scale or a small business. He suggested that change can occur at the individual level; that is, that each individual within the business is capable of undergoing change.

Lewin suggested that change could occur at a structural or systemic level. The business could undertake change that resulted in a new management structure or new systems that allow the business to operate more efficiently. He also suggested change could occur from inside the business through the culture of the business and the style of management in place within the business.

Lewin identified these three levels of change and incorporated them into a change management theory. He described his theory as the Three Step Change Model.

Kurt Lewin was one of the founders of social psychology.



7.10.2 Step 1 — Unfreeze

Businesses often become too comfortable in their current position, so change, or the pressure to change, can be difficult to accept. Lewin argued that to change effectively, a business needed to 'unfreeze'. To unfreeze means to identify what needs to change, all relevant aspects of the business need to be 'put on the table' and the need for change needs to be created. Current conditions need to be identified and changed. Employees also need to know that support is available from management to assist in the change process.

Unfreezing the business changes the status quo — the conditions in which the business is currently operating.

7.10.3 Step 2 — Change

With the business in this unfrozen state, with all processes, policies, practices able to be changed and the necessary support in place, management is now able to move the business to the new position; that is, to change what is occurring. Support is still provided and in addition, the lines of communication are opened so employees are able to seek guidance and feedback on what is taking place. All communication should be transparent so any rumours can be quickly dispelled.

The necessary, key staff are empowered to implement the required change and all relevant people are involved in the process. This reduces resistance and makes it easier for the change to be implemented effectively.

7.10.4 Step 3 — Refreeze

The fear with undertaking change is that if it is not implemented correctly then the impetus for change will fade and staff will revert to how the business was before — adopting the previous behaviours, following old policies and procedures, and falling back into outdated and outmoded practices.

It is important that the business consolidate the changes into the culture of the business. This can be done by rewriting policies, celebrating achievements, and maintaining support and encouragement for all staff, some of whom may still be uncertain or resistant to the changes.

Originally, Lewin called the third and final stage in his model for change ‘freezing’. Most people now refer to the final stage as ‘refreezing’. The stage refers to establishing the new fixed and stable state, which is different to the original state.



LEWIN'S THEORY: A COIN IN A CUP OF ICE

Suppose someone gave you a plastic cup filled with clear, solid ice. At the bottom of the cup is a twenty-cent piece lying heads up. Now, suppose you want the twenty-cent piece to be frozen in a tails-up position. What can you do to bring about this desired change? There is only one practical solution. You let the ice in the cup thaw (unfreeze), reach in and turn the coin over (change) and then freeze (refreeze) the cup of water. This is how Lewin recommended that change be handled in businesses.

on Resources

 eLesson: Key principles of the Three Step Change Model (eles-2937)

studyon

Unit 4 > AOS 2 > Topic 3 > Concept 2

The principles of the Three Step Change Model (Lewin) Summary screen and practice questions

7.10 Activities

TEST your understanding

1. Explain why it is important for change to be implemented effectively.
2. Explain why adopting a model for implementing change can make the implementation more effective.
3. What are the three levels of change identified by Kurt Lewin?
4. Describe Lewin's theory of change management.
5. Explain why it is important for a business to 'refreeze' once change has been implemented.

APPLY your understanding

6. Using your school as an example, outline a recent change in policy. In your response outline why the change was introduced and how stakeholders were informed. Was the change successful?

EXAM practice

7. Describe one of the key principles in Lewin's Three Step Change Model. **(2 marks)**
8. When implementing change, it is often useful for management to adopt a change management theory. Explain Lewin's Three Step Change model. **(6 marks)**
9. Crisp Chips currently operates in the snack-food market selling a range of potato chips, cheese snacks and other similar products. Management has seen an opportunity for the business to diversify into the dairy snack-food market within the next three years. Apply Lewin's Three Step Change Model to assist Crisp Chips with this future goal. **(4 marks)**

7.11 The effect of change on stakeholders

KEY CONCEPT When a business undergoes change there will always be effects on stakeholders, including managers, employees, customers, suppliers and the general community. The impact of a change can be either positive or negative, depending upon the change that has occurred.

7.11.1 The effect on stakeholders

Stakeholders have an interest in the activities of a business. If the activities of a business change then the interest of those stakeholders will also change. The impact can be either positive or negative, depending upon the change that has occurred.

Effect on managers

When a change is undertaken there are numerous possible effects on the manager of a business. Some of these effects are summarised in the following table.

Many businesses are starting to realise that a team approach can be a catalyst for superior performance.



Effects	Explanation
Change of management style	A change may require managers to change their management style. If redundancies result from the change, managers may need to be more consultative in dealing with employees who are facing redundancy.
Change of processes	Change may stem from new technology being introduced into the industry/business. This may require managers to alter their recruitment and selection processes to reflect the need for individuals who possess the knowledge and skills required to handle the changing circumstances.
Change of structure	A change in the way the business operates may necessitate a change in the management structure of the business. New divisions or departments may open up opportunities for a new manager and new teams.
Change of employment	Some changes may result in the downsizing of the business or outsourcing of a non-core activity. This can result in managers being made redundant as well as employees.

Effect on employees

Employees are often the ones most affected by any change. We often think of change as leading to job losses through downsizing or outsourcing. However, these are only some of the possible effects of change to employees. Some other effects are shown in the following table.

Change	Effects
Introduction of new technology	Employees will need to undergo retraining or redeployment into other areas of the business.
Business is taken over by or merges with another business	- The culture of the business may change. A new uniform, new vision statement, new values, new employees/team members may all come into play as the new entity develops its own identity. - The structure of the business may change — new divisions or departments may arise, some may be merged. This may result in new teams and new managers within these new divisions.
New competitors	The business may want to face this new competition by doing things differently. Longer working hours, greater responsibility for existing employees and new processes may be implemented.

Customers

When a business undergoes change the customers of that business may be affected. Some customers may not like the change, hoping the business will revert back to what it was. Some customers will embrace the change and may even promote the business to others. An example of this could be seen in the advertising campaign adopted by Aldi in 2015–16. During their campaign, Aldi used regular customers as spokespeople for the business who encouraged friends to try the business. The result was that new customers were gained and pre-conceived ideas were put to rest.

Other businesses have introduced changes over time and been met with a backlash initially before acceptance was won and customers returned. Sometimes it takes time for customers to accept the change and recognise there is no going back. Examples where this has occurred can be seen with the introduction of ATMs at banks, self-serve checkouts, the transition of Safeway stores in Victoria to Woolworths stores and the introduction of the Myki ticketing system for Victoria's public transport system. These changes were met with resistance from customers, but now they are generally accepted.

Considering that employees are a business's most valuable asset, it is important to manage transformational changes sensitively and professionally.



Suppliers

Change can bring new methods of production, new training programs for employees and hence new suppliers for a business. For some suppliers this creates opportunities as they gain additional customers for their product/service.

On the other hand, these new methods of production may lead to outsourcing, where businesses rearrange their workforces to employ a minimum full-time staff and use as many people from outside the business as possible on a contract, casual or part-time basis. In some cases these employees are based overseas and so, while the original business is able to keep labour costs to the lowest possible level, local suppliers lose income and staff.

The general community

When change occurs there can be a negative impact on the general community or a local community. In 2017, both Ford and Holden ceased manufacturing motor vehicles in Australia. There was a slow decrease in the workforce of these businesses as they slowly downsized. As this occurred, the local communities suffered as

the employees were losing income, reducing their spending and causing local businesses to lose sales. The closures have a 'spin-off' effect on other businesses.

This effect is often more evident in smaller towns where there is only one major employer. Communities suffer when there is reduced employment in that community and less money being spent.

Car industry plant closures may have a negative impact on local and general communities.



EXAM TIP

The **Unit 4, Area of Study 2** outcome states that you need to 'discuss the effect of change on the stakeholders of a business'. This suggests that you should know the positive effects of change on stakeholders, as well as the negative effects.

study on

Unit 4 > AOS 2 > Topic 4 > Concept 1

Effects of change on managers, employees and customers Summary screen and practice questions

Unit 4 > AOS 2 > Topic 4 > Concept 2

Effects of change on suppliers and general community Summary screen and practice questions

7.11 Activities

TEST your understanding

1. Explain how change may impact managers both positively and negatively.
2. Explain how the culture of a business can be negatively impacted by change.
3. Change can improve the skills of the workforce. Discuss how this may occur.
4. What are the benefits to customers of change?

5. Why are alterations to the management of human resources necessary in response to change?
6. In 2013, Telstra employees protested at the company's annual general meeting against call centre jobs being outsourced to other countries.
 - (a) Explain how outsourcing may affect suppliers.
 - (b) List reasons why Telstra employees protested against the possible outsourcing of jobs.
 - (c) What are the possible benefits to customers that outsourcing may bring?

APPLY your understanding

7. Use the internet to investigate an example of a small rural area that has suffered a decline in business numbers and/or population due to the closure of a significant business. Write a report describing the impact on the local community and suppliers.
8. Discuss how a change in a business may have a differing effect on the managers and employees of that business.

EXAM practice

9. Crisp Chips has seen a rise in the number of customer complaints recently and management has determined that strategies such as improving quality, redeployment of staff and the use of staff motivation may be needed to turn around this KPI. Analyse the possible effect of these strategies on customers and employees. **(4 marks)**
10. Uber Eats and Menulog have changed the fast-food and delivery markets in a way not envisaged by traditional food outlets. Discuss the effect of online food deliveries from restaurants and fast-food outlets on two stakeholders. **(4 marks)**

7.12 Corporate social responsibility considerations when implementing change

KEY CONCEPT Whenever a business undergoes change there are effects on numerous areas of the business. One such area is the corporate social responsibility position of a business.

7.12.1 Corporate social responsibility as a driving force

During the past 20 years there has been growing pressure on businesses to improve their **corporate social responsibility**. Corporate social responsibility is a corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing. The term generally applies to efforts that go beyond what may be required by regulators or environmental protection groups.

The heart of corporate social responsibility is adopting a **triple bottom line** approach and monitoring changes against this standard. The triple bottom line is a phrase describing the separate financial, social and environmental 'bottom lines' of companies. A triple bottom line measures the company's:

- economic value
- 'people account', which measures the company's degree of social responsibility
- 'planet account', which measures the company's environmental responsibility.

The desire to be seen as a socially responsible business will often drive businesses to undertake change to improve their profit, but at the same time to do so without further damaging the environment, mistreating employees, suppliers or customers, as well as giving back to the community in which they operate.

7.12.2 Ecological sustainability as a driving force

Ecological sustainability is an area of significant corporate social responsibility that businesses must consider. The Earth is a fragile system that we need to take care of, so it can maintain itself. The health of the natural environment has a direct impact on society's quality of life. Consequently, a business needs to balance economic and environmental concerns. In other words, businesses are being driven to undertake sustainable development. Businesses are being asked to take increasing responsibility for the protection of the environment, recognising that the pursuit of profit should not be at the expense of the environment and that the business has an obligation to leave the environment as they found it.

Victorian Surfacing Manager George Hatzimanolis and Production Coordinator Simon Jordan at the launch of TonePave, a road-surfacing material made from recycled printer toner cartridges.



7.12.3 Business ethics as a driving force

Business ethics is not concerned with legal obligations, but with what is morally right or wrong — and all the shades of grey in between. Businesses want to be seen as responsible corporate citizens, conscious of the high ethical standards expected of them by their customers and society at large. As such, businesses will make changes to policies, processes and practices to ensure they are seen as ethical.

Business ethics are concerned with what is morally right or wrong.



7.12.4 Change management strategies

There are a number of change management strategies businesses can implement to meet corporate social responsibility expectations. Some examples of these strategies include the following.

- The social conscience of responsible managers has led them to adopt policies of conservation, recycling and restoration. For example, surfwear manufacturer Billabong has developed its own environmental policy. Billabong will conduct business only with partners who share its commitment to the environment.
- Businesses evaluate the full environmental effects of their operations. This can be done by preparing a **sustainability report** that details how the business's practices and operations affect society and the environment.
- Production processes need to be modified to bring them into line with ecologically sustainable practices.
- Managers should encourage standards of honesty and integrity, and expect ethical behaviour from all employees.
- Stakeholders must be dealt with honestly and fairly.
- The business should avoid using misleading or deceptive product descriptions.
- Employees should be provided with a safe working environment; their confidential personal information kept secret; and discrimination abolished.
- A corporate code of conduct should be implemented as it provides internal stakeholders with ethical standards to uphold.

7.12.5 Corporate social responsibility considerations

Depending upon the change occurring within a business the corporate social responsibility considerations may differ. Some examples are shown in the following table.

Change	Corporate social responsibility consideration
Change of supplier	Source supplies from a local supplier. If supplies are sourced from overseas, ensure workers are not exploited, are paid fairly and have decent working conditions. Ensure suppliers uphold the same social responsibility standards.
Introducing new technology	Ensure technology does not add to pollution or create additional waste. Ensure workers are given the opportunity to retrain to operate new technology.
Downsizing	Employees are kept informed of changes and processes for redundancies (if needed)
Merger or takeover	Existing employees are treated appropriately by the new management team and all legal obligations are honoured.

study on

Unit 4 > AOS 2 > Topic 4 > Concept 3

Corporate social responsibility considerations when implementing change Summary screen and practice questions

7.12 Activities

TEST your understanding

1. Explain what is meant by 'corporate social responsibility'.
2. Why is it important for a business to consider its corporate social responsibility behaviour when undergoing change?

3. Explain what is meant by the 'triple bottom line'.
4. Outline some corporate social responsibility considerations that need to be taken into account in the following change circumstances:
 - merger of two businesses
 - introduction of new technology
 - changing suppliers.
5. Explain how a code of conduct can assist a business in meeting its obligations to corporate social responsibility.

APPLY your understanding

6. Describe strategies that a business could adopt to meet its social responsibility obligations during negotiations with employees over wage rises.
7. Describe strategies that a business could adopt to meet its social responsibility obligations during the introduction of self-serve checkouts at its stores.

EXAM practice

8. Aussie Farmers Direct has suffered falling sales in recent years and registered a loss in 2018 forcing it to suspend operations. Describe two corporate socially responsible considerations a business in this situation must address. **(4 marks)**
9. One strategy businesses may implement to improve sales and profits is to source their materials offshore. Explain the corporate social responsibility issue this may create. **(2 marks)**

7.13 EXTEND YOUR KNOWLEDGE The impact of change on stakeholders and social responsibility

KEY CONCEPT Whenever a business undergoes change, management must consider the impact of that change on stakeholders and the corporate social responsibility considerations of that change.

POOR PERFORMANCE LEADS TO STORE CLOSURES AND JOB LOSSES

Donut King, Gloria Jean's and Michel's Patisserie are all well-known names in Australia. Every major shopping centre boasts at least one of these successful franchises in their food court or elsewhere on the premises. However, from 2018 there are likely to be less of these well-known shops.

A half-yearly loss of \$87.8 million by the owner of these franchises — Retail Food Group (RFG) — has resulted in the announcement of up to 200 store closures between March 2018 and mid-2019. At the very least there will be 160 outlet closures as the company has suspended its dividend payouts to shareholders.

The news is disappointing but shouldn't come as a surprise to investors or franchisees. The company has issued two warnings about reduced profits and poor financial performance

Franchises selling coffee and doughnuts are two of the staple groups under the Retail Food Group banner.



since December 2017 and figures indicating shopping centre rents and the declining performance of some major shopping centres have been well publicised.

Managing Director Andre Nell indicated RFG had to change its business model if it wanted to remain successful. At December 2017, the company held 2450 outlets across all franchises in Australia. The future success of the company depended upon maintaining a healthy and sustainable franchise network and these cuts were part of this renewal of the business. This renewal has been ongoing, with a critical review of performance and the closure already of 66 outlets.

Trading on shares in RFG was suspended in February 2018 but auditors approved the plan and signed off on the accounts of the business and trading recommenced on 5 March 2018.

7.13 Activities

TEST your understanding

1. Identify and describe the key performance indicator linked to the situation faced by RFG in the case study above.
2. One key stakeholder of RFG are the franchisees. Explain how the financial performance of RFG will impact them.
3. A reason given for the fall in profit has been poor performance in shopping centres. Explain what this means.
4. Explain the effect of this performance on employees, suppliers and the community in general.
5. Explain the effect of this performance on the shopping centres where these stores are located.

EXTEND your understanding

6. Explain what is meant by 'corporate social responsibility'.
7. Explain how RFG can deal with their departing employees in a socially responsible manner.

7.14 Reviewing key performance indicators to evaluate transformation

KEY CONCEPT It is important to review key performance indicators so that a business can evaluate the effectiveness of a transformation.

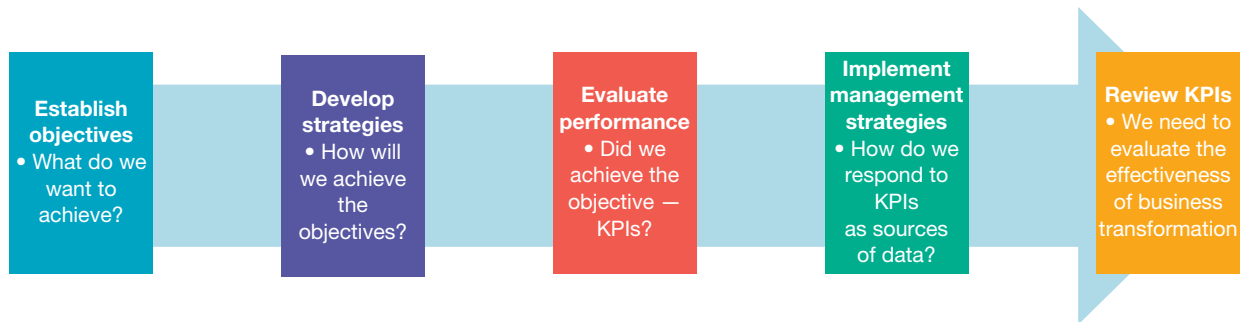
7.14.1 Evaluating transformation

How does a business know if a change has been successful? A business will need to review key performance indicators once a transformation has been implemented as part of its evaluation and review of the changes it has introduced. If this is not done, then it is very unlikely that the business will be able to determine whether a transformation was successful or whether there is a need to make any further changes or modifications.

The objectives of the business should be reflected in the key performance indicators that it uses as sources of data to analyse its performance. It follows then, that when a business reviews key performance indicators to evaluate how effective a transformation was, it should consider how the change or changes impact on its objectives. Ideally, objectives and measurements would have been considered during the planning of change, before any action was undertaken. Key performance indicators should then be checked frequently, in particular at important steps in the change process.

Key performance indicators can be used for the whole business, or for an area of management responsibility within the business. For example, if a business introduced lean production techniques, it could use key

performance indicators such as the rate of productivity growth and level of wastage to evaluate the transformation within the operations area. If the human resources area introduced a change, then key performance indicators such as rates of staff absenteeism and level of staff turnover could be used to evaluate the success of the transformation. Teams or individual managers and employees can also use key performance indicators to evaluate their performance in response to transformation. Of particular importance are measures related to the financial viability of the business, such as net profit figures, and measures that suggest whether or not the business is meeting customers' needs, such as the number of customer complaints.



A business must review key performance indicators to evaluate the effectiveness of business transformation. It will need to determine if a change was worthwhile and whether further corrective action is necessary.



SURFSTITCH WARNS OF LOSSES

Online surf and skatewear retailer SurfStitch announced in May 2017 that it expected to lose between \$10.5 million and \$11.5 million in the 2016–17 financial year. While this was an improvement on the company's loss of \$18.8 million in 2015–16, SurfStitch had been expecting to return to profit in 2018. Following the announcement, shares in SurfStitch plunged almost 30 per cent.

SurfStitch debuted on the Australian share market in 2014. Its share price peaked in late 2015, when it was being touted as a company that had successfully combined online retailing with savvy digital media. However, the company has since experienced a very volatile share price and upheaval in its management, while pursuing an aggressive strategy of growth by acquisition. SurfStitch has made several significant acquisitions across clothing, digital media and surfing hardware. This strategy has led to sales growing, but the company has not been able to turn this into profit.

In a May 2017 media statement, SurfStitch said that it had made substantial progress on plans to reduce costs, streamline operations and transfer its core SurfStitch.com website to its new ecommerce platform. The company also said that it would be winding down and closing its North American operational infrastructure.

SurfStitch's Australasian and British businesses had been close to breaking even for some time. However, its North American business had been losing money, despite major restructuring in 2016. Approximately 40 positions were slashed from the retailer's US operations as part of a review of its operations in North America. SurfStitch decided to close its operations in North America to preserve its cash flow. It now plans to run the North American business from Australia.

The company claimed that while it was working to transform its business model, it was battling a subdued trading environment. Chief Executive Officer Mike Sonand said, 'Although considerable progress has been made in arresting losses in North America, the region will continue to be unprofitable for the foreseeable future and so we have made the difficult decision to close our US-operating infrastructure.'

Unfortunately, SurfStitch Group was placed into voluntary administration in August 2017. Its operating companies, such as SurfStitch.com, continued to run as normal. It was hoped that the company could be restructured and then have its shares relisted on the Australian Securities Exchange.

SurfStitch has subsequently been acquired by private equity firm Alceon Group.

SurfStitch used key performance indicators to evaluate the effectiveness of transformation, then introduced new strategies in response.



7.14 Activities

TEST your understanding

1. Explain why it is important for a business to review or evaluate the effectiveness of a transformation.
2. Using examples, outline how a business could use key performance indicators to evaluate the effectiveness of a transformation.
3. Read the 'SurfStitch warns of losses' case study.
 - (a) What changes did SurfStitch introduce?
 - (b) What key performance indicators was SurfStitch using to evaluate the effectiveness of its changes?
 - (c) What changes did SurfStitch introduce for success in the future?

APPLY your understanding

4. Using online sources, or the **SurfStitch** weblink in the Resources tab, find information that updates SurfStitch's net profit figures and number of sales to determine if the changes introduced at the company have been successful.
5. Two years ago, Yvette Brown decided to seek new opportunities domestically by franchising her small business, Non Sense Designs. Now that Yvette's business has been franchised, explain to her the importance of reviewing key performance indicators to evaluate the effectiveness of the transformation of her business.

EXAM practice

6. Change often occurs as a result of the data provided by KPIs. Once change has been undertaken it is important to review and monitor those same KPIs. To what extent do you agree with this statement? Justify your response. **(4 marks)**
7. A business is concerned with the level of sales and profit and has implemented a strategy of increased advertising to improve these two areas. Explain why it is important to review performance in these areas at a later date. **(2 marks)**

7.15 EXTEND YOUR KNOWLEDGE The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation

KEY CONCEPT Businesses use information drawn from key performance indicators to drive change. Once the change has been implemented it is important to review performance in these areas to evaluate whether the business has successfully changed or whether further change is necessary.

WOOLWORTHS BANS SINGLE-USE PLASTIC BAGS

Woolworths Group Ltd announced in July 2017 a nationwide ban of single-use plastic bags in its supermarkets, Big W and BWS stores. The change at Woolworths came about amid increasing public pressure to tackle the issue of plastic bags use in Australia. The company began phasing out the bags following the announcement, encouraging customers to pick up reusable bags instead, and introduced a total ban in mid 2018. Single-use, non-biodegradable plastic bags were replaced with a range of alternative shopping bag options available for purchase at checkouts, including reusable fabric bags or thicker plastic bags. Alternatively, customers can now bring their own shopping bags.

The ban brought Woolworths' stores in New South Wales, Victoria and Western Australia in line with those in the ACT, Northern Territory, South Australia and Tasmania, where plastic bag bans have been legislated. Queensland's legislation came into effect in 2018.

The change would be expected to cut costs at Woolworths, thereby responding to its net profit figures (it reported a full-year loss of \$1.24 billion in 2015–16). The ban on plastic bags might also be expected to impact positively on sales, which improved over the 2016 financial year for its food business, but declined across the group. Largely, Woolworths' decision was made as a result of customer feedback.

There was increasing public pressure on government and on supermarkets to tackle the issue of plastic bags use in Australia. Social media campaign and petition, '#BanTheBag', was signed by more than 170 000 people nationwide, and called on the premiers of NSW, Victoria and Western Australia to implement state-wide bans of single-use, non-biodegradable plastic bags.

In a statement, Woolworths Group CEO Brad Banducci said that the company was committed to listening to customers and doing the right thing for the environment. 'We currently give out more than 3.2 billion lightweight plastic bags a year and hence can play a significant role in reducing overall plastic bag usage. Today's commitment shows we are committed to taking our environmental and community responsibilities seriously,' Mr Banducci said.

Environmental groups welcomed Woolworths's announcement. Approximately two hours after Woolworths' announcement, its competitor Coles announced that it would also be phasing out plastic bags over the next 12 months. Environmental group Clean Up Australia claims that Australians use about 5 billion plastic bags a year. It estimates that 3.76 billion bags, or 20 700 tonnes of plastic, are disposed of in landfill sites throughout Australia each year. Furthermore, Clean Up Australia suggests that approximately 50 million plastic bags end up in waterways every year.

While it is unlikely that the management of Woolworths would have specifically considered Lewin's Three Step Change Model, there is evidence that the company did unfreeze the status quo. Mr Banducci prepared the business for change when he said, 'Our customers expect responsible retailing and they can be assured that this is just the start of further commitments by Woolworths in this space.'

Woolworths went through the second step as it moved from the current situation to the new situation. Mr Banducci said that Woolworths would work closely with employees to ensure the transition for customers was as simple as possible. He suggested that some customers might be inconvenienced in the short term, but would adjust to the changes. The final step in Lewin's process is to refreeze. Woolworths will put strategies in place to make sure that the new behaviours and change are stabilised and reinforced. Mr Banducci said that, 'Our team continues to work hard to minimise our impact on the environment through the minimisation of food waste, ethical and sustainable sourcing, and reduction in energy use.'

While it is likely that the full impact of the change remains to be seen, in 2017 Woolworths reported a profit for the full financial year of \$1.53 billion. Sales for all of its operations (except for Big W) increased over the same period.

According to Animals Australia, the average plastic shopping bag is used for about five minutes, yet can take 1000 years to break down in the environment. Plastic bags are responsible for the deaths of approximately 100 000 marine animals every year.



7.15 Activities

TEST your understanding

1. Describe the change at Woolworths.
2. Who are the stakeholders at Woolworths?
3. Outline some key performance indicators that have impacted Woolworths.
4. Why do you think the phasing out of single-use plastic bags in Woolworths stores will result in:
 - (a) lower costs?
 - (b) increased sales?
 - (c) increased profit?
5. Explain how Woolworths could have applied Lewin's Three Step Change Model to its change process.
6. Outline the corporate social responsibility consideration related to the change at Woolworths.
7. Construct a mind map summarising the effect of the changes on Woolworths' stakeholders including managers, employees, suppliers, customers and the general community.

EXTEND your understanding

8. How should Woolworths use information regarding key performance indicators to evaluate the change process? In your response explain three specific key performance indicators.
9. Discuss whether high-risk or low-risk strategies for overcoming resistance would be more appropriate in this case.
10. If you were a manager at Woolworths how would you apply low risk strategies to introduce transformation?

7.16 Review

7.16.1 Summary

The importance of leadership in change management

- Change requires someone to lead the business through the change.
- A leader who can ‘sell’ the need for change automatically overcomes one of the main resistance points — that of ‘why do we need to change?’
- A successful leader will need to:
 - ♦ market and promote the change in a manner that will achieve cooperation and acceptance
 - ♦ resolve conflicts, which often arise when change is implemented
 - ♦ keep an open mind, seek out new ideas and freely share information
 - ♦ cultivate a sense of stability, while at the same time driving the business forward with even more change
 - ♦ show confidence in people, and share credit and recognition
 - ♦ build and communicate a clear vision.

Management strategies to respond to key performance indicators

- Staff training, staff motivation, change in management styles or skills, increased investment in technology, improving quality in production, cost cutting, initiation of lean production techniques and redeployment of resources (natural, labour and capital) can all be used to respond to key performance indicators.
- Investment in new technology, improving quality in production, cost cutting and lean production can be used to increase market share and sales.
- Introducing training programs can improve productivity, staff turnover, reduce the number of workplace accidents and improve the level of staff satisfaction.
- Key performance indicators that measure staff motivation can be improved through training and other motivation strategies such as team building, goal setting and reward programs.
- Cutting costs can improve performance indicators such as net profit figures.
- Investing in technology can improve quality, lower costs and improve performance.
- Lean production and redeployment of resources can reduce waste and improve productivity.

Seeking new business opportunities domestically and globally

- New business opportunities can be found domestically and internationally.
- Management strategies to seek domestic opportunities include multiple branding, product differentiation, franchising and government services.
- Management strategies to seek global opportunities include exporting and creating an online store.
- Government assistance can be found through Small Business Victoria and Austrade.

The principles of the Learning Organisation (Senge)

- Peter Senge developed a theory that successful businesses were learning organisations.
- A learning organisation is one that continually seeks to change to improve itself.
- There are five disciplines in the learning organisation:
 - ♦ systems thinking
 - ♦ personal mastery
 - ♦ mental models
 - ♦ building shared vision
 - ♦ team learning.
- Leaders play a key role in the learning organisation.
- A leader needs to be a designer, a steward and a teacher.

Low-risk strategies to overcome employee resistance

- Low-risk strategies seek to build trust and support from employees so less resistance to change occurs.
- Communication is a low-risk strategy where managers keep employees informed as to what is occurring.
- Empowerment allows employees to feel some ownership or responsibility for the change.
- Support allows employees to feel comfortable and not isolated during the change.
- Incentives, which are not bribes, can lower resistance as employees see a benefit to them.

High-risk strategies to overcome employee resistance

- High-risk strategies have a greater chance of not delivering change effectively.
- Manipulating employees is a strategy that relies on deceiving employees into accepting the change.
- A threat is a means of gaining support for a change but may result in a lack of trust or ownership.

Key principles of the Three Step Change Model (Lewin)

- Kurt Lewin developed the Three Step Model for managing change.
 - ♦ Step 1 is to unfreeze the business and identify what needs to change.
 - ♦ Step 2 is to make the change. All policies, processes and practices are now free to be changed as all aspects of the business that need changing have been identified.
 - ♦ Step 3 is to refreeze the business. All changes are consolidated into the business policies, culture and objectives.

The effect of change on stakeholders

- Key stakeholders can be affected by the business undergoing change.
- The effect of change may be positive or negative.
- Managers may need to change their style, restructure the business or change their roles.
- Employees may require retraining or redeployment, or face redundancy.
- Customers may need to adapt to a new environment or new methods of service, or a change in quality or price.
- Suppliers may lose contracts, be required to lower costs to remain competitive, or face increased competition.
- The general community may suffer if businesses close, or may benefit from expansion.

Corporate social responsibility considerations when implementing change

- Businesses need to consider the impact of change on society.
- Change should not mean ignoring the obligations of the business to social responsibility issues.

Reviewing key performance indicators to evaluate transformation

- Key performance indicators can drive change.
- When change has occurred the business must review its key performance indicators to evaluate the effectiveness of the change.

7.16.2 Key terms

business ethics the application of moral standards to business behaviour

change agent a person or group of people who act as catalysts, assuming responsibility for managing the change process

corporate social responsibility the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment

ecological sustainability occurs when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs

franchisee the individual or business that purchases a franchise

franchisor an individual or business that grants the right to use a franchise

leadership the process of positively influencing and encouraging individuals to set and achieve objectives

manipulation the skilful or devious exertion of influence over someone to get them to do what you want

redeployment the assignment of resources, including natural, labour and capital resources, to another area of the business

sustainability report a comprehensive report of what a business has done, and is doing, with regard to social issues that affect it

triple bottom line the economic, social and environmental performance of a business

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 Digital doc: Key terms glossary (doc-29456)

7.16.3 Review questions

TEST your understanding

1. What is meant by the term 'leader'?
2. Explain why leaders are important during a period of change.
3. Briefly outline each of the following.
 - (a) Key performance indicators
 - (b) Management strategies
 - (c) Management styles
 - (d) Lean production
4. Referring to specific key performance indicators, explain how changing management styles may improve performance.
5. Referring to specific key performance indicators, explain how increased investment in technology may improve performance.
6. Referring to specific key performance indicators, explain how improving quality in production may improve performance.
7. Explain how multiple branding can create new opportunities for a business.
8. Outline the role Austrade and Small Business Victoria could play in assisting a business take advantage of new opportunities.
9. Define what is meant by a 'learning organisation'.
10. List and briefly outline the five disciplines of a learning organisation.
11. Explain what is meant by a 'leader as a steward'.
12. Distinguish between a low-risk and a high-risk strategy for overcoming change.
13. Explain why communication is considered a low-risk strategy.
14. Explain why threats are considered a high-risk strategy.
15. Outline Lewin's Three Step Theory of change management.
16. Explain how change can both positively and negatively affect the general community.
17. Describe how change can both positively and negatively affect employees.
18. Outline how change can both positively and negatively affect customers.
19. Explain why businesses should consider their corporate social responsibility obligations when implementing change.
20. Why is it important to review key performance indicators to evaluate business transformation?

APPLY your understanding

21. 'In order to accelerate change, a leader is needed. This leader may be in the form of a "change agent". Someone in the business may undertake this role or they may come from an external position. The change agent focuses on initiating the change, determining what part of the business should lead the

change, the direction of the change and, most importantly, how the change will be sustained. This person often enlists others to be role models of change, sometimes working through a committee or project team.'

- (a) Discuss the role of a change agent in creating a culture of change.
 - (b) Use a current example from a business to support your discussion.
22. 'A business without an online presence is a business preparing to fail.' Discuss this statement.
23. Describe how Austrade can specifically assist businesses take advantage of global business opportunities.
24. Analyse the use of manipulation to overcome resistance to change.
25. Analyse how a change in a business that leads to new production methods may impact suppliers and employees.

EXAM practice

26. Explain why businesses should review performance in KPIs. **(2 marks)**
27. Explain what is meant by a 'learning organisation'. **(2 marks)**
28. Evaluate Lewin's Three Step Change model. **(4 marks)**
29. Evaluate one domestic business opportunity a business could consider as a means of improving performance in their KPIs. **(5 marks)**
30. Explain how a change in management style can lead to a lower rate of staff turnover. **(2 marks)**

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-  Digital doc: Missing word glossary quiz (doc-29457)
-  Digital doc: Crossword (doc-29458)

study on

Sit past VCAA exam

7.16.4 School-assessed coursework

OUTCOME 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.

ASSESSMENT task — structured questions

Time allowed: 80 minutes

Marks allocated: 50 marks (The marks for each question are indicated at the end of each question.)

Conditions: Closed book (No notes or textbooks may be used when completing this task.)

1. Define the following terms and provide an example for each.

- Leadership **(1 mark)**
- Domestic business opportunities **(1 mark)**
- High-risk strategies **(1 mark)**
- Learning organisation **(1 mark)**
- Corporate social responsibility **(1 mark)**

2. (a) Identify and describe the key features of Lewin's Three Step Change Model. **(4 marks)**
(b) Explain how this model would be used by a business wishing to change its production methods from a predominantly labour-intensive system to a capital-intensive system. **(6 marks)**
3. Describe the five disciplines of Senge's Learning Organisation. **(5 marks)**
4. Propose and justify a low-risk strategy that could be used to overcome resistance to change. **(4 marks)**
5. A local business has just decided to increase its use of technology in an effort to reduce cost.
(a) Explain why, in the short term, introducing new technology may not reduce costs. **(3 marks)**
(b) Discuss possible effects on customers, employees and suppliers if the change is implemented. **(6 marks)**
6. (a) Explain why a business should consider social responsibility when undertaking change. **(2 marks)**
(b) Explain how sustainability reports and a code of conduct can be used to support a business in managing its corporate social responsibility obligations during a time of change. **(5 marks)**
7. Evaluate two strategies a business could implement to respond to information provided by key performance indicators that suggest the business is not performing well. In your response, explain why it is important to review these key performance indicators once the change has been implemented. **(10 marks)**

Resources



Digital doc: School-assessed coursework (doc-29459)

GLOSSARY

- arbitration** a process that occurs when a ‘judge’ (such as a commissioner of the Fair Work Commission) hears both arguments in a dispute in a more formal court-like setting and determines the outcome
- assets** items of value owned by a business
- autocratic management style** one where the manager tells staff what decisions have been made
- automated production line** comprises machinery and equipment arranged in a sequence with components added to a good as it proceeds through each step, with the process controlled by computers
- Award** a legally binding agreement that sets out minimum wages and conditions for whole industries or occupations
- benchmarking** occurs when a business measures its performance against that of other leading businesses known for their excellence
- business** any activity conducted by an individual or individuals to produce and sell goods and services that satisfy the needs of society, as well as making profit
- business change** the adoption of a new idea or behaviour by a business
- business competitiveness** the ability of a business to sell products in a market
- business ethics** the application of moral standards to business behaviour
- career advancement** the assignment of more responsibilities/authority to employees or the promotion of employees to positions that bring rewards, such as increased salary, fringe benefits and increased responsibilities
- change** any alteration in the internal or external environments
- change agent** a person or group of people who act as catalysts, assuming responsibility for managing the change process
- collective bargaining** determining the terms and conditions of employment through direct negotiation between unions and employers
- common law individual (employment) contract** covers those employees who are not under any Award or collective/enterprise agreements
- communicating** the ability to transfer information from a sender to a receiver, and to listen to feedback
- competitive advantage** occurs when a firm, industry or economy has a lower cost price structure than its rivals. In this situation, goods and services can be sold more cheaply, undercutting competitors, and expanding domestic and foreign sales. The concept can also be extended to product quality range and flexibility in adapting to new trends in the market.
- competitors** other businesses or individuals who offer rival, or competing, goods or services to the ones offered by the business
- computer-aided design** a computerised design tool that allows a business to create product possibilities from a series of input parameters
- computer-aided manufacturing** the use of software to design and control manufacturing processes
- computer-integrated manufacturing** a method of manufacturing in which the entire production process is controlled by a computer
- conciliation** a process that occurs when a third party participates in the resolution of a dispute and attempts to resolve the differences through discussion
- consultative management style** one where the manager consults employees before making decisions
- contingency management theory** stresses the need for flexibility and the adaptation of management styles to suit the situation
- continuous improvement** an ongoing commitment to achieving perfection
- corporate culture** the values, ideas, expectations and beliefs shared by members of the business

corporate social responsibility the obligations a business has over and above its legal responsibilities to the wellbeing of employees and customers, shareholders and the community as well as the environment

customers the people who purchase goods and services from the business, expecting high quality at competitive prices

decision-making the ability to identify the options available and then choose a specific course of action from the alternatives

delegating the ability to transfer authority and responsibility from a manager to an employee to carry out specific activities

development the process of preparing employees to take on more responsibilities in the future, acquiring better knowledge and skills, gaining more experience

directors (of a company) the people who have overall responsibility for managing the company's business activities

dismissal occurs when the behaviour of an employee is unacceptable and a business terminates their employment

disputes a result of disagreements or dissatisfaction between individuals and/or groups

driving forces those forces that support the change

ecological sustainability occurs when economic growth meets the needs of the present population without endangering the ability of future generations to meet their needs

effectiveness the degree to which a business has achieved its stated objectives

efficiency how well a business uses resources to achieve objectives

employee observation a strategy where a variety of opinions on the performance of employees is sought with the aim of arriving at a more comprehensive picture of past and current performance

employees the people who work for the business and who expect to be paid fairly, trained properly and treated ethically in return for their contribution to production

employer associations organisations that represent and assist employer groups

enterprise agreement an agreement on pay and conditions of work made at the workplace level and negotiated between groups of employees (or represented by their union) and employers

entitlement issues the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis

environmental sustainability a business making decisions that will allow it, and the rest of society, to continue to interact with the environment

Fair Work Commission Australia's national workplace tribunal that has a number of responsibilities under the *Fair Work Act*

Force Field Analysis outlines the process of determining which forces drive and which resist a proposed change

forecasting a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events

franchisee the individual or business that purchases a franchise

franchisor an individual or business that grants the right to use a franchise

globalisation the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers

global sourcing the practice of seeking the most cost-efficient materials and other inputs, including from countries overseas

government the group of people with the authority to govern a community. In Australia, this exists at three levels (federal, state and local).

government business enterprise a type of business that is government owned and operated

grievance procedure provides an orderly system whereby the employee and employer can resolve matters relating to complaints about wages, hours, working conditions or disciplinary action

Hierarchy of Needs Maslow's sequence of human needs in the order of their importance

human resource management the effective management of the formal relationship between the employer and employees

human resource manager coordinates all the activities involved in acquiring, developing, maintaining and terminating employees from a business's human resources

incorporation the process that businesses go through to become a registered company and a separate legal entity from the owner/shareholder

industry the classification of groups of businesses related to the particular good or service they produce

innovation a process that occurs when something already established is improved upon

inputs resources used in the process of production

intangibles services that cannot be touched

interest groups organisations who attempt to directly influence or persuade a business to adopt or change particular activities, processes or policies

interpersonal skills the ability to deal or liaise with people and build positive relationships with staff

inventory goods and materials held as stock by a business

inventory control ensures that costs are minimised and that the operations system has access to the right amounts of inputs when required

investment in training the direction of finances into the teaching of skills to employees

Just In Time a materials management strategy that ensures that the right amount of material inputs will arrive only as they are needed in the operations process

key performance indicators specific criteria used to measure the efficiency and/or effectiveness of the business's performance

laissez-faire management style one where the employees assume total responsibility for, and control of, workplace operations

leadership the process of positively influencing and encouraging individuals to set and achieve objectives

leading the ability to influence or motivate people to work towards the achievement of business objectives

lean management an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality

level of wastage the amount of unwanted or unusable material created by the production process of a business

limited liability the shareholders in a company will not be held personally responsible for the debts of that business

lockout occurs when employers close the workplace for a period of time as a means of applying pressure to employees during a period of industrial conflict

log of claims a list of demands made by workers (often through their union) against their employers. These demands cover specific wages and conditions. Employers may also serve a counter-log of claims on the union.

management the people who have the responsibility for successfully achieving the objectives of the business

management by objectives a process by which management and employees agree on a set of goals for each employee, with these goals all contributing to the objectives of the business as a whole

management skills the abilities or competencies that managers use to achieve business objectives

management style the behaviour and attitude of the manager when making decisions, directing and motivating staff and when implementing plans to achieve business objectives

manipulation the skilful or devious exertion of influence over someone to get them to do what you want

market share the proportion of total sales in a given market or industry that is controlled or held by a business, calculated for a specific period of time

master production schedule a plan that details what is to be produced and when

materials handling the physical handling of goods in warehouses and at distribution points

materials management the strategy that manages the use, storage and delivery of materials to ensure the right amount of inputs is available when required in the operations system

materials requirement planning involves developing an itemised list of all materials involved in production to meet the specified orders

mediation the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party. Many businesses now specify mediation as a first step in their dispute resolution or grievance procedures.

mission statement expresses why the business exists, its purpose and how it will operate

motivation the individual, internal process that directs, energises and sustains a person's behaviour

need a personal requirement

negotiation a method of resolving disputes whereby discussions between the parties result in a compromise and a formal or informal agreement about a dispute

net profit figures the numbers found in an income statement that show net profit — what remains when expenses are deducted from the revenue earned

niche market a narrowly selected market segment within a larger market

number of customer complaints the amount of customers expressing their dissatisfaction with the business, either spoken or in written form

number of sales a measure of the amount of goods or services (products) sold

number of workplace accidents indicates how safe the workplace is for employees

objective a desired outcome or specific result that a business intends to achieve

off-the-job training occurs when employees learn skills in a location away from the workplace. It usually involves sending individuals or groups of employees to a particular specialised training institution (such as a university or TAFE college).

on-the-job training occurs when employees learn a specific set of skills to perform particular tasks within the workplace. This training usually occurs in the working environment, and uses the equipment, machinery and documents that are present in that workplace.

operational planning specific details about the way in which the business will operate in the short term

operations management all the activities in which managers engage to produce goods or services

organisational inertia an unenthusiastic response from a business to proposed change

outputs the end result of a business's efforts — the service or product that is delivered or provided to the consumer

outsourcing the contracting of a specific business operation to an external person or business

overseas manufacture the production of a good in a country that is different to the location of the business's headquarters

participative management style one where the manager unites with staff to make decisions together

partnership a business owned by two or more people

penalty rates additional wages paid to employees who work outside of normal working hours

percentage of market share the business's share of the total industry sales for a particular good or service, expressed as a percentage

performance appraisal the formal assessment of how efficiently and effectively an employee is performing their role in the business

performance management a focus on improving both business and individual performance through relating business performance objectives to individual employee performance objectives

performance-related pay the monetary compensation provided to employees relative to how their performance is assessed according to set standards

persuasive management style one where the manager attempts to 'sell' decisions made

planning the ability to define business objectives and decide on the methods or strategies to achieve them

private limited company an incorporated business that has a minimum of one shareholder and a maximum of 50 non-employee shareholders, and whose shares are offered only to those people whom the business wishes to have as part owners

proactive to initiate change rather than simply to react to events

procurement the process of researching and selecting suppliers, establishing payment terms, negotiating contracts, and the actual purchasing of resources that are vital to the operations of the business

product differentiation the use of factors such as brand names, delivery methods and advertising to establish differences between substitutable products

production plan an outline of the activities undertaken to combine resources (inputs) to create goods or services (outputs)

productivity a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services)

profit what is left after business expenses have been deducted from money earned from sales (revenue)

protected industrial action action taken by either party to a dispute that has been approved by the Fair Work Commission

public listed company an incorporated business with a minimum of five shareholders, and whose shares are openly traded on the Australian Securities Exchange

quality the degree of excellence of goods or services and their fitness for a stated purpose

quality assurance the use of a system so that a business achieves set standards in production

quality circles groups of workers who meet to solve problems relating to quality

quality control the use of inspections at various points in the production process to check for problems and defects

rate of productivity growth the change in productivity in one year compared to the previous year

rate of staff absenteeism the number of workers who neglect to turn up for work when they are scheduled to do so

reactive to wait for a change to occur and then respond to it

redeployment the assignment of resources, including natural, labour and capital resources, to another area of the business

redundancy occurs when a person's job no longer exists, usually due to technological changes, a business restructure or a merger or acquisition

remuneration payments made to the employee for work or a service performed

resignation the voluntary ending of employment by the employee 'quitting' their job

restraining forces those forces that work against the change

retirement occurs when an employee decides to give up full-time or part-time work and no longer be part of the labour force

revenue the income that a business earns from the sale of goods and services to customers

robotics highly specialised form of technology capable of complex tasks

sanction a form of penalty or discipline imposed on an employee for poor performance

self-evaluation a process whereby employees carry out a process of self-assessment, based on a set of agreed criteria

shareholders (or members) the owners of a company

silent or **sleeping partner** contributes financially to the business but takes no part in the running of the business

social enterprise a business with the objective of fulfilling a social need

sole trader a business owned and operated by one person

staff turnover the number, or the rate, of employees who are leaving the business over a specific period of time, and need to be replaced by new employees

stakeholders groups and individuals who interact with the business and have a vested interest in its activities

strategic planning long-term planning, usually over two to five years

strategies the actions that a business takes to achieve specific objectives

strike occurs when employees withdraw their labour for a period of time in pursuit of improvements in their employment conditions

suppliers businesses or individuals who supply materials and other resources to a business so that it can conduct its operations

supply chain the range of suppliers from which the business purchases materials and resources

support the assistance or services (such as counselling and mentoring) provided by the business to help employees cope with difficulties that may impede their work performance

sustainability report a comprehensive report of what a business has done, and is doing, with regard to social issues that affect it

SWOT analysis the identification and analysis of the internal strengths and weaknesses of the business, and the opportunities in, and threats from, the external environment

tactical planning flexible, adaptable, medium-term planning, usually over one to two years, which assists in implementing the strategic plan

tangibles goods that can be touched

termination the ending of the employment of an employee

Total Quality Management an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation

trade unions organisations formed by employees in an industry, trade or occupation to represent them in efforts to improve wages and the working conditions of their members

training the process of teaching staff how to do their job more efficiently and effectively by boosting their knowledge and skills

transformation the conversion of inputs (resources) into outputs (goods or services)

transition issues the process or a period of changing from one job to another or from one set of circumstances to another

triple bottom line the economic, social and environmental performance of a business

unfair dismissal when an employee is dismissed because the employer has discriminated against them in some way, such as firing someone because she is pregnant

unlimited liability the business owner is personally responsible for all the debts of his or her business

vision statement states what the business aspires to become

waste minimisation a process involving the reduction of the amount of unwanted or unusable resources produced by a business in an attempt to improve the efficiency and effectiveness of operations

website development the creation and/or improvement of a connected group of pages on the internet that will be maintained by a business to promote and sell its products

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