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JACARANDA KEY CONCEPTS IN VCE

BUSINESS MANAGEMENT

UNITS 3 AND 4 | SEVENTH EDITION



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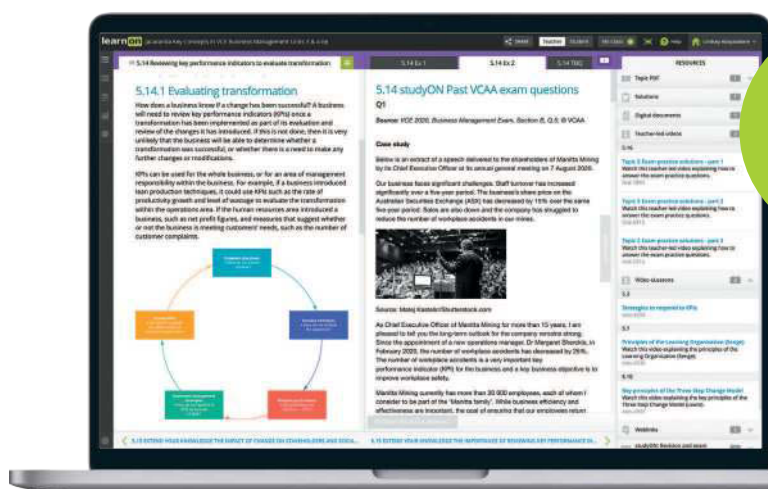
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About this resource

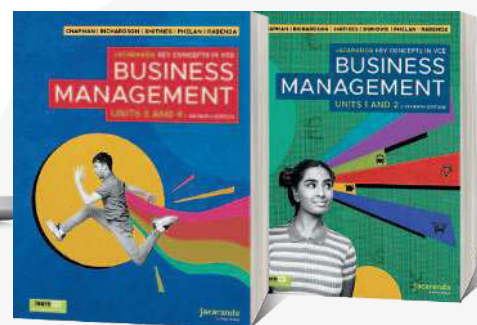


Everything you need
for your students
to succeed

JACARANDA KEY CONCEPTS IN VCE

BUSINESS MANAGEMENT

UNITS 3 AND 4 | SEVENTH EDITION



Developed by expert Victorian teachers for VCE students

Tried, tested and trusted. The **NEW Jacaranda VCE Business Management** series continues to deliver curriculum-aligned material that caters to students of all abilities.

Completely aligned to the VCE Business Management Study Design

Our expert author team of practising teachers and assessors ensures 100 per cent coverage of the new VCE Business Management Study Design (2023–2027).

Everything you need for your students to succeed, including:

- **NEW!** Access targeted question sets for every key knowledge point, including quick-quiz questions and exam-style questions with all relevant past VCAA exam questions since 2013. Ensure assessment preparedness with practice SACs for all Areas of Study.
- **NEW!** Contemporary case studies, of both manufacturing and service businesses, are revisited throughout each Area of Study to help students recall real-world examples in their assessments.
- **NEW!** Teacher-led videos to unpack concepts, plus VCAA exam questions and exam-style questions to fill learning gaps after COVID-19 disruptions.

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Everything you need
for each of your lessons
in one simple view

- Trusted, curriculum-aligned theory
- Engaging, rich multimedia
- All the teacher support resources you need
- Deep insights into progress
- Immediate feedback for students
- Create custom assignments in just a few clicks.

Practical teaching advice and ideas for each lesson provided in teachON

Each lesson linked to the Key Knowledge (and Key Skills) from the VCE Business Management Study Design

Reading content and rich media including embedded videos and interactivities

The screenshot displays the learnON platform interface for the lesson '5.12 The product life cycle'. The top navigation bar shows 'learnON Jacaranda Key Concepts in VCE Business Management Units 1 & 2 6e'. The lesson title '5.12 The product life cycle' is prominently displayed. Below the title, a 'KEY CONCEPT' box states: 'A product passes through a number of stages in its life cycle. These include the introduction, growth, maturity, decline and extension stages.' The main text explains that every product has a life cycle, from introduction to market until it is overtaken by an updated version or replacement. A sub-section '5.12.1 Product life cycle' describes how a business must launch, modify, or delete products in response to changes in the life cycle. A graph titled 'The product life cycle' shows sales over time, divided into five stages: Introduction stage (blue), Growth stage (green), Maturity stage (yellow), Decline stage (orange), and Extension stage (teal). The right sidebar contains exercises, including '5.12 Exercise 1' and '5.12 Exercise 2', with a 'SAMPLE RESPONSE' section for Exercise 1.

powerful learning tool, learnON

The screenshot displays the learnON interface in 'Teacher' view. The top navigation bar includes 'SHARE', 'Teacher', 'Student', 'No Class', 'Help', and the user name 'Lindsey Abeyasekera'. The main content area is divided into a left sidebar with '5.12 Ex 2' and '5.12 TBQ', and a central 'RESOURCES' panel. The 'RESOURCES' panel lists various materials: 'Topic PDF', 'Solutions', 'Digital documents', 'Teacher-led videos', 'Video eLessons', 'Weblinks', and 'Interactivities'. Each item has a count and a dropdown arrow. The 'Solutions' item is highlighted with a green dot. The 'Teacher-led videos' section shows a list of videos with titles like 'Topic 5 Exam practice solutions', 'The relationship between marketing, establishing a customer base and business objectives', 'Target market attributes', and 'The 7Ps model of marketing'. The 'Interactivities' section shows a list of activities with titles like 'The relationship between marketing, establishing a customer base and business objectives' and 'The 7Ps model of marketing'. The bottom of the screen shows a 'MARKING' section with a '5.13 CUSTOMER RELATIONS STRATEGIES' button. Callouts from green boxes on the right point to specific features: 'Teacher and student views' points to the 'Teacher' tab; 'Textbook questions' points to the '5.12 TBQ' tab; 'Answer and sample responses for every question' points to the 'Solutions' item; 'Digital documents' points to the 'Digital documents' item; 'Teacher-led videos' points to the 'Teacher-led videos' section; 'Video eLessons' points to the 'Video eLessons' item; 'Interactive questions with immediate feedback' points to the 'Interactivities' section; 'Interactivities' points to the 'Interactivities' item; and 'Enhanced teaching support resources' points to the 'TEACHER' section of the 'Digital documents' and 'Weblinks' items.

Teacher and student views

Textbook questions

Answer and sample responses for every question

Digital documents

Teacher-led videos

Video eLessons

Interactive questions with immediate feedback

Interactivities

Enhanced teaching support resources

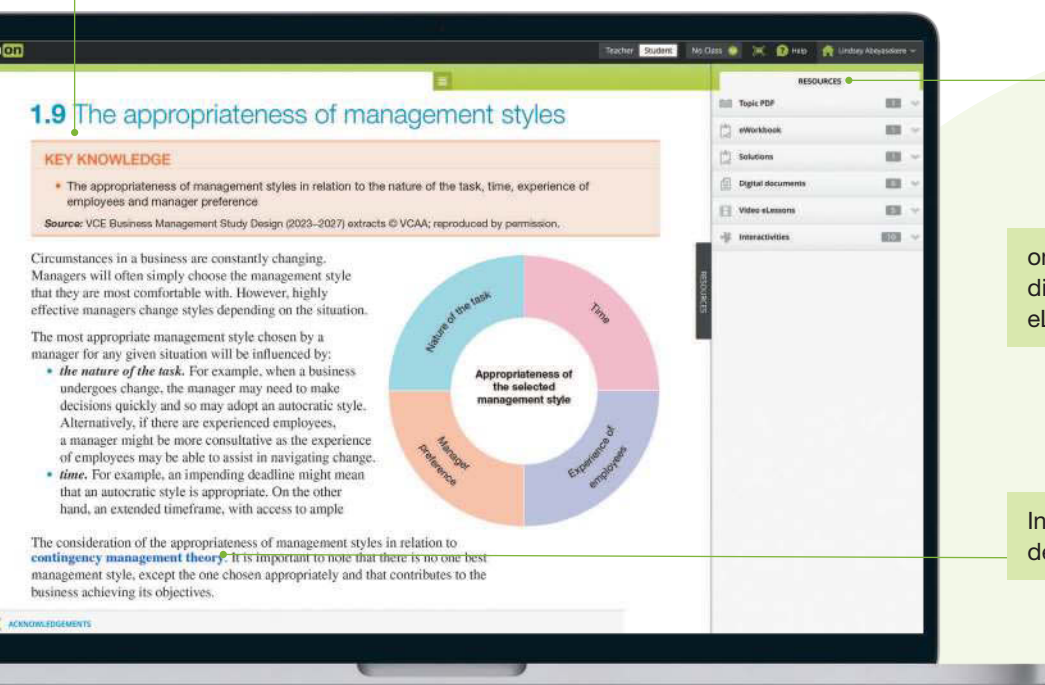
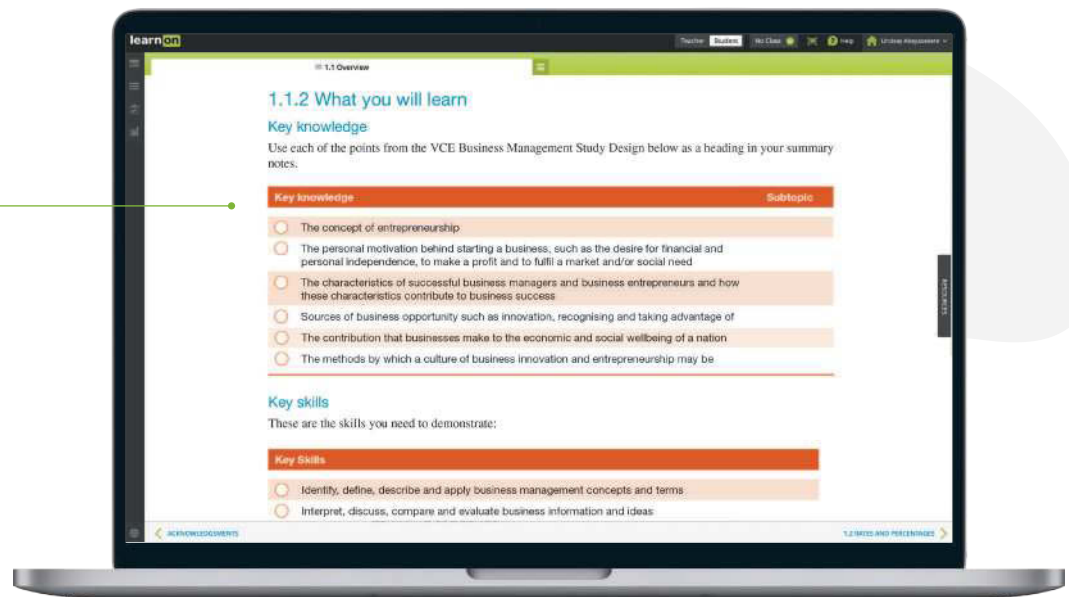
Get the most from your online resources

Online, these new editions are the complete package

Trusted Jacaranda theory, plus tools to support teaching and make learning more engaging, personalised and visible.

Each topic is linked to Key Knowledge and Key Skills from the VCE Business Management Study Design.

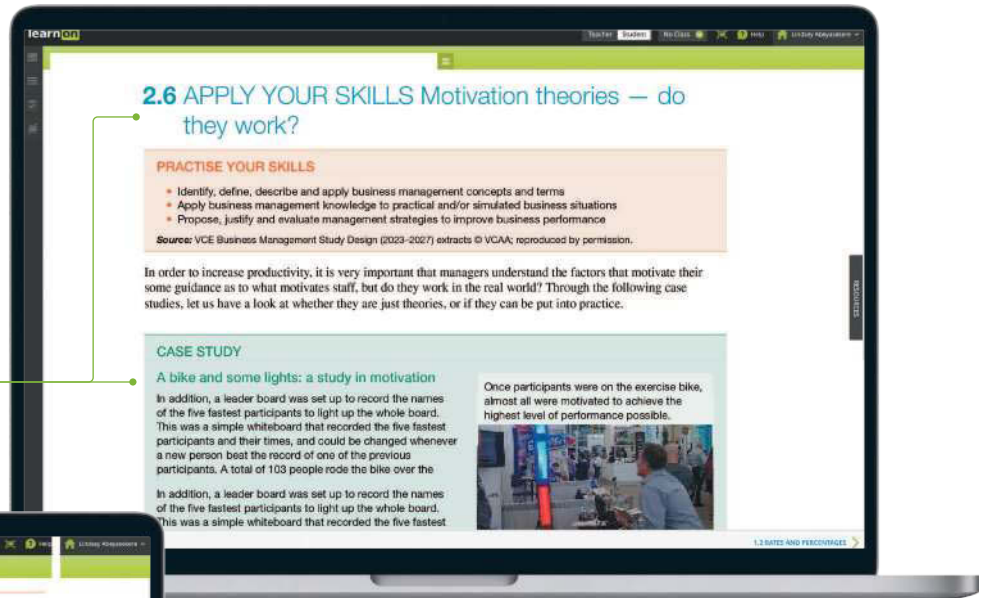
Each subtopic is linked to Key Knowledge and Key Skills from the VCE Business Management Study Design.



onResources link to targeted digital resources including video eLessons and weblinks.

Interactive glossary terms help develop and support literacy.

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

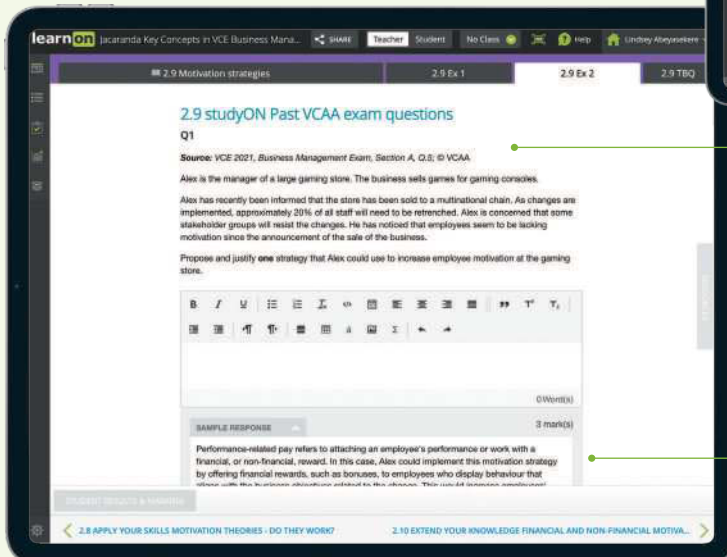
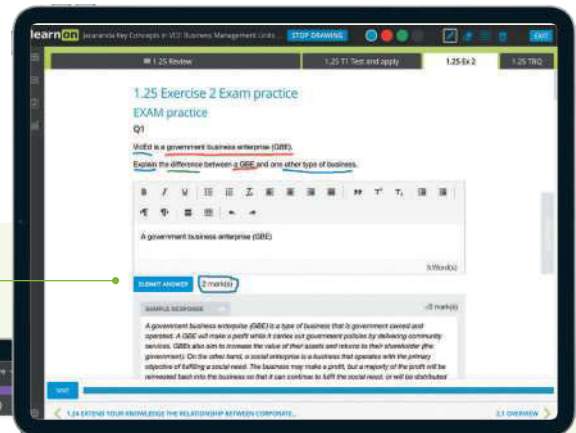


A key ideas summary is provided at the end of each subtopic.

Three sets of questions at the end of each subtopic: Quick quiz, Exercise and Exam questions (containing relevant past VCAA exam questions) encourage students to practise and apply the concepts they are studying.



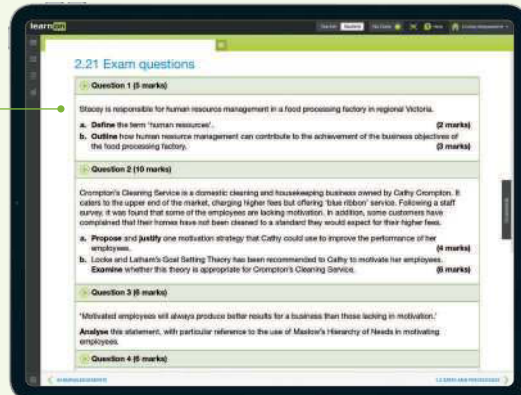
Teacher-led videos explain how to approach exam questions, including VCAA exam questions.



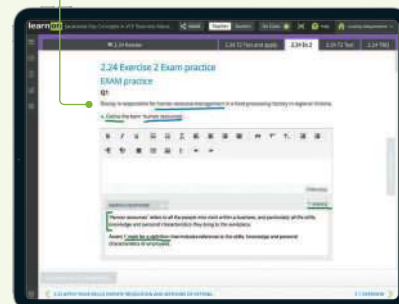
- Online and offline question sets contain quiz questions, practice questions, exam-style questions and past VCAA exam questions, with exemplary responses and marking guides.
- Every question has immediate, corrective feedback to help students overcome misconceptions as they occur and to study independently — in class and at home.

Topic reviews

Topic reviews include online summaries and topic level review exercises, including quick-quiz and exam questions, that cover multiple concepts.

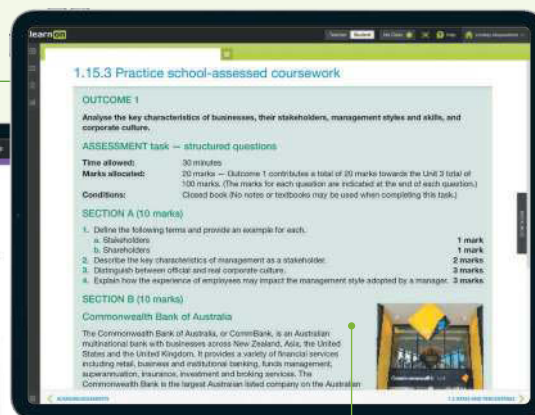
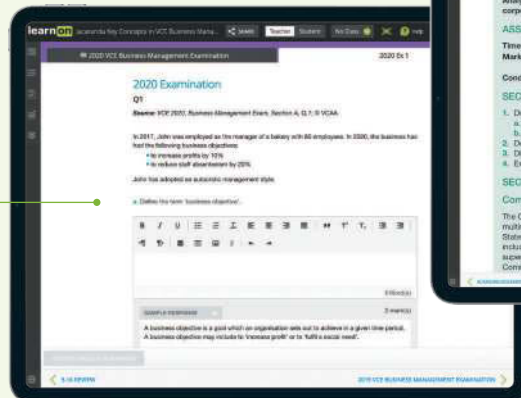


End-of-topic exam questions include relevant past VCE exam questions and are supported by teacher-led videos.



Get exam-ready!

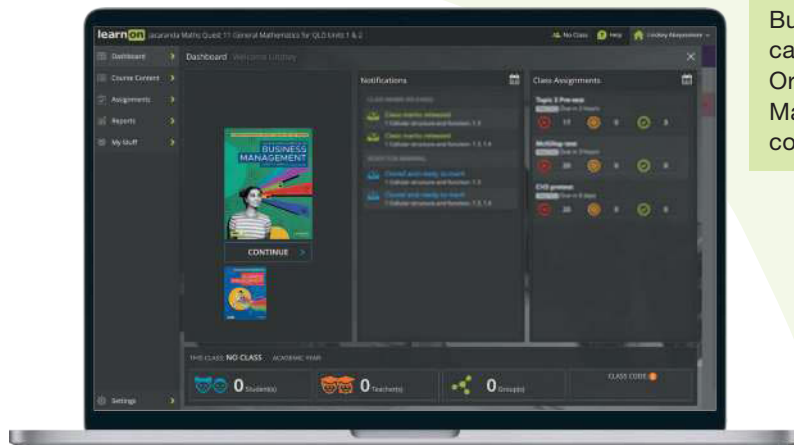
Students can start preparing from lesson one, with exam questions embedded in every lesson — with relevant past VCAA exam questions since 2013.



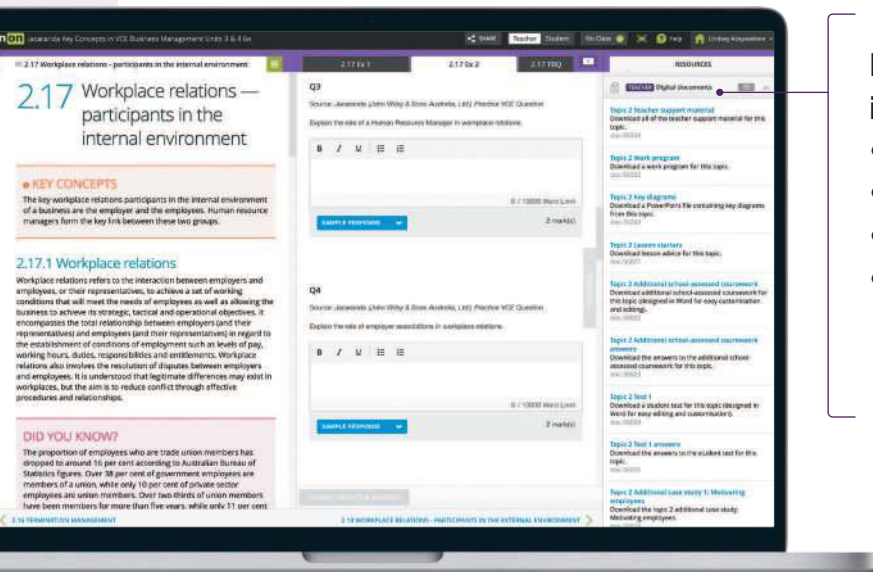
Practice, customisable SACs are available to build student competence and confidence.

Combine units flexibly with the Jacaranda Supercourse

Build the course you've always wanted with the Jacaranda Supercourse. You can combine all Business Management Units 1 to 4, so students can move backwards and forwards freely. Or combine junior humanities with Business Management Units 3 & 4 for custom elective courses. The possibilities are endless!



A wealth of teacher resources

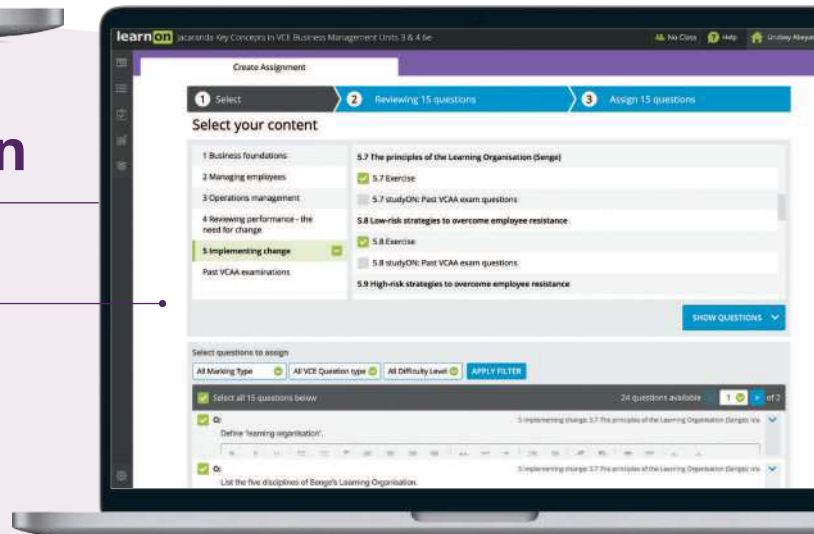


Enhanced teacher support resources, including:

- work programs and curriculum grids
- teaching advice and additional activities
- quarantined topic tests (with solutions)
- quarantined case studies and SACs (with worked solutions and marking rubrics).

Customise and assign

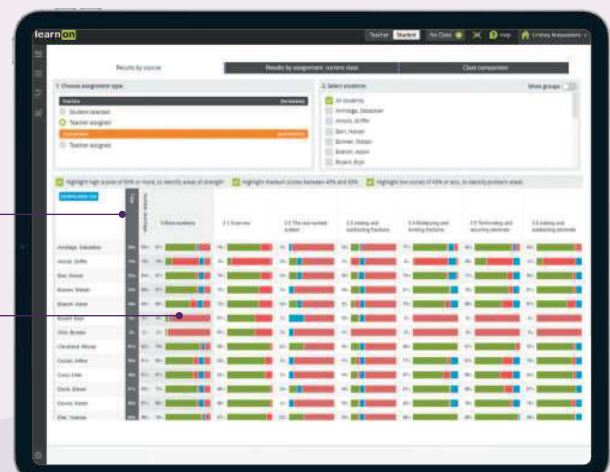
A testmaker enables you to create custom tests from the complete bank of thousands of questions (including past VCAA exam questions).



Reports and results

Data analytics and instant reports provide data-driven insights into performance across the entire course.

Show students (and their parents or carers) their own assessment data in fine detail. You can filter their results to identify areas of strength and weakness.



About the authors

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Acknowledgements

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UNIT

3

Managing a business

AREA OF STUDY 1

Business foundations

OUTCOME 1

Analyse the key characteristics of businesses, their stakeholders, management styles and skills, and corporate culture.

1 Business foundations	3

AREA OF STUDY 2

Human resource management

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.

2 Human resource management	85

AREA OF STUDY 3

Operations management

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.

3 Operations management	203

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TOPIC

1

Business foundations

UNIT 3 AREA OF STUDY 1

OUTCOME 1

On completion of this topic you should be able to analyse the key characteristics of businesses, their stakeholders, management styles and skills, and corporate culture.

LEARNING SEQUENCE

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1.1 Overview

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videos



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interactivities



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and check results

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1.1.1 Why it is important

There are approximately 2.375 million businesses in Australia. Of these, the vast majority are relatively small and have fewer than 20 employees. These are often sole traders or partnerships. Other businesses are set up as companies, social enterprises and government business enterprises. Wesfarmers is one of Australia's largest companies, employing over 200 000 employees. These employees might work for Bunnings, Officeworks, Target, Kmart or one of Wesfarmers' energy, fertiliser or insurance interests. All of these different types of businesses have objectives and stakeholders with vested interests in the business.



Management is the key to the success of a business. This means that there must be efficient and effective coordination of all the efforts of people and other available resources to achieve business objectives. In this topic you will be studying different types of businesses, their objectives and stakeholders, areas of management responsibility, management styles and skills, corporate culture, and the relationships between each of these.

CONTEMPORARY CASE STUDIES

For the purposes of VCE Business Management Units 3 & 4, students are expected to be able to reference contemporary business case studies from the last four years.

Students are expected to be familiar with the two main types of business:

- manufacturing businesses
- services businesses.

Manufacturing businesses can be described as businesses that 'make something'. They produce a physical good or product that consumers generally purchase from a retailer (such as Coles, Woolworths or Myer).

Services businesses, on the other hand, provide a service — they perform some task for the customer rather than the customer perform it for themselves. These services include hairdressers, taxis, banks, schools and the retail stores that consumers purchase their goods from.

In Topic 3, Area of Study 3 (Operations management), these business types and what they do will be more closely examined.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Yakult

Number of employees	Approximately 150
CEO Yakult Australia Pty Ltd	Managing Director, Mr Kenji Ono
Head office (Yakult Australia)	Dandenong, Victoria
Revenue	US\$29.33 million (approx. A\$40 million)
Flagship products	Yakult's parent company (Yakult Honsha) is involved in the production of pharmaceuticals, skin care, foods and other beverages containing beneficial bacteria.

Yakult Pty Ltd is known for its fermented milk-based drink of the same name, developed and first produced in 1935 in Japan. The inventor of the product commenced Yakult Honsha Co. Ltd in Japan in 1955.

The company opened its first factory in an English-speaking country in Dandenong, Victoria in 1994 and Yakult Australia Pty Ltd was born. The product is wholly-produced at the Dandenong factory, with all ingredients sourced locally except the patented bacteria strain.

As a manufacturing firm Yakult is estimated to employ approximately 150 people throughout New Zealand and Australia, and can manufacture around 350 000–400 000 bottles daily.



CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Commonwealth Bank of Australia

Number of employees	48 900
CEO Commonwealth Bank of Australia	Matt Comyn (Chair — Paul O'Malley)
Head Office	Sydney
Revenue	\$17.46 billion (2021)
Net profit	\$8.65 billion (2021)
Flagship products	Banking, home loans, insurance, investing and super, business support

The Commonwealth Bank of Australia (CBA), or CommBank, is an Australian multinational bank with businesses across New Zealand, Asia, the United States and the United Kingdom. It provides a variety of financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. The Commonwealth Bank is the largest Australian-listed company on the Australian Securities Exchange as of August 2015, with brands including Bankwest, Colonial First State Investments, ASB Bank (New Zealand), Commonwealth Securities (CommSec) and Commonwealth Insurance (CommInsure).



Its former constituent parts were the Commonwealth Trading Bank of Australia, the Commonwealth Savings Bank of Australia and the Commonwealth Development Bank.

Founded in 1911 by the Australian government and fully privatised in 1996, the Commonwealth Bank is one of the 'big four' Australian banks, along with National Australia Bank (NAB), ANZ and Westpac. The bank was listed on the Australian Stock Exchange in 1991.

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 knowledge	Subtopic
☐ Types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises	1.2
☐ Business objectives including to make a profit, to increase market share, to improve efficiency, to improve effectiveness, to fulfil a market need, to fulfil a social need and to meet shareholder expectations	1.4
☐ Stakeholders of businesses including owners, managers, employees, customers, suppliers and the general community	1.5
☐ Characteristics of stakeholders of businesses including their interests and potential conflicts between stakeholders	1.6
☐ Management styles including autocratic, persuasive, consultative, participative and laissez-faire	1.8
☐ The appropriateness of management styles in relation to the nature of the task, time, experience of employees and manager preference	1.9
☐ Management skills including communication, delegation, planning, leadership, decision-making and interpersonal	1.11
☐ The relationship between management styles and management skills	1.12
☐ Corporate culture, both official and real	1.13

Key skills

These are the skills you need to demonstrate.

Key skills
☐ Identify, define, describe and apply business management concepts and terms
☐ Interpret, discuss, compare and evaluate business information and ideas
☐ Analyse case studies and contemporary examples of business management
☐ Apply business management knowledge to practical and/or simulated business situations

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Resources



Digital document Key terms glossary



Weblinks Commonwealth Bank of Australia (CBA)
Yakult

1.2 Types of businesses

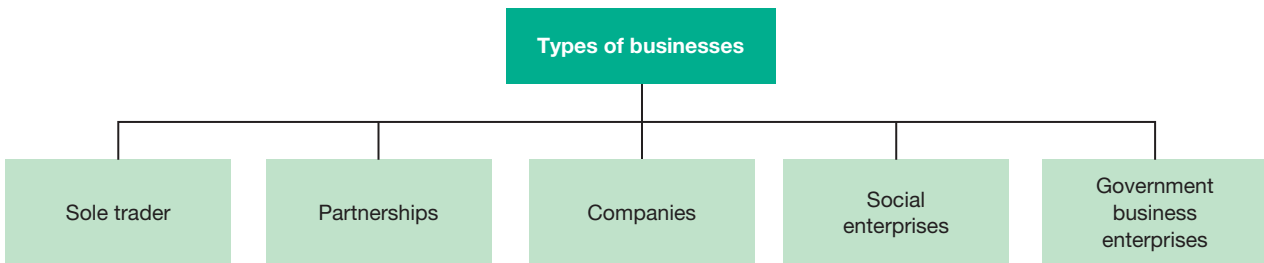
KEY KNOWLEDGE

- Types of businesses including sole traders, partnerships, private limited companies, public listed companies, social enterprises and government business enterprises

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1.2.1 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 small 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 this subtopic. Each of these structures has certain advantages and disadvantages. Two other types of businesses are social enterprises and government business enterprises.



on Resources

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

EXAM TIP

The **Unit 3, Area of Study 1** outcome states that you need to ‘be able analyse the key characteristics of businesses’. An analysis provides detail and breaks a larger concept into smaller parts. This suggests that you should know the main features of each type of business and the relationship between them.

1.2.2 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

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
shareholders (or members) the owners of a company
sole trader a business owned and operated by one person

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



1.2.3 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 (i.e. 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 their 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.

unlimited liability refers to when the business owner is personally responsible for all the debts of their business

partnership a business owned by two or more people (generally a maximum of 20)

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

The advantages and disadvantages of a partnership



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.

1.2.4 Incorporation

Many businesses that 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.

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

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

liquidation the process of selling off the assets of a business in order to repay creditors, with any assets remaining to be distributed among 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.

1.2.5 Private limited companies

A **private limited 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 (an external party appointed to carry out the liquidation process) will manage the process of selling the company's assets, paying its debts and distributing funds from the **asset** sales among the shareholders.

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

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

assets items of value owned by a business

ESTABLISHING A COMPANY

Companies are established subject to the provisions of the *Corporations Act 2001* (Cwlth). These provisions include the following:

Part 1.5 — Small business guide

3 Setting up a new company

3.2 Setting up a company

To set up a new company themselves, the operator must apply to ASIC for registration of the company.

To obtain registration, a person must lodge a properly completed application form with ASIC. The form must set out certain information including details of every person who has consented to be a shareholder, director or company secretary of the company.

A proprietary company limited by shares must have at least 1 shareholder.

The company comes into existence when ASIC registers it.

s.113 Proprietary companies

1. A company must have no more than 50 non-employee shareholders if it is to:
 - a. be registered as a proprietary company; or
 - b. change to a proprietary company; or
 - c. remain registered as a proprietary company.

The cost of registering a company ranges from \$422 to \$512 depending on the size of the company (as at March 2022). In addition, forms must be lodged every year to ensure the register of companies is kept up-to-date. There is no additional fee charged for this, but a late fee may be charged if updated forms are not lodged on time.

The advantages and disadvantages of private limited companies



1.2.6 Public listed companies

The shares for a **public listed company** are listed on the Australian Securities Exchange, and the general public may buy and sell shares in this type of company. 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.

public listed company an incorporated business with a minimum of one shareholder (and no maximum), and whose shares are openly traded on the Australian Securities Exchange

The advantages and disadvantages are much the same for both private limited and public listed companies. However, public listed companies can attract extra capital by issuing shares on the share market. This means that 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 a private limited company.

1.2.7 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 2022, 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.

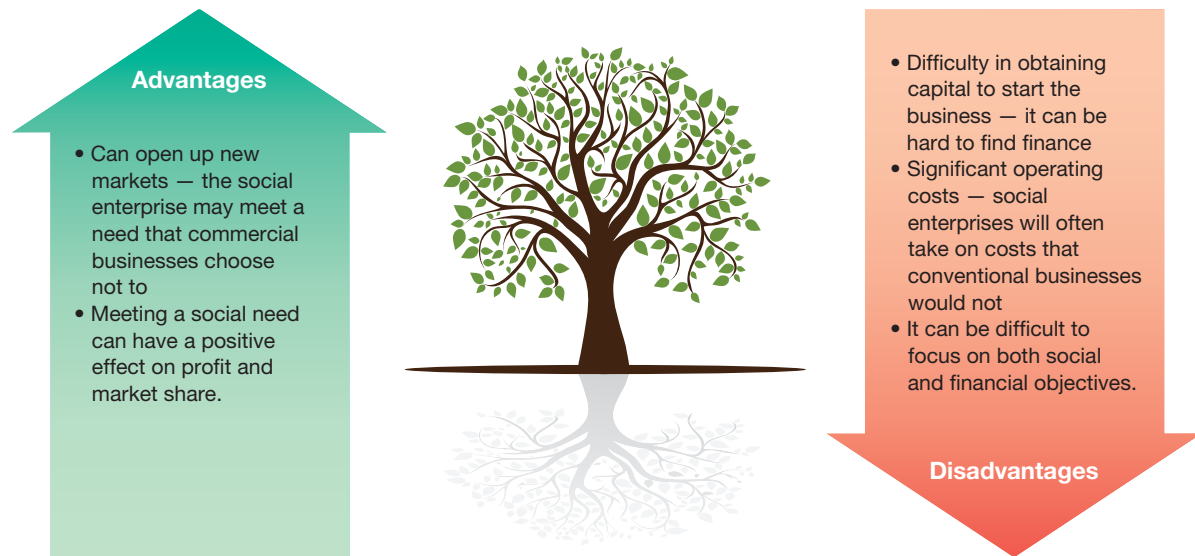
There are over 2200 public companies listed on the Australian Securities Exchange. The share price for each company changes according to demand and supply. If a company is considered a 'good buy', its share price is likely to rise (green indicates the stock or share price is rising, and red indicates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

ASX		ASX				STOCK		BID	OFFER
STOCK	BID	OFFER	LAST	VOL					
EUR GROUP	0.060	0.070	0.000	0	FARM PRIDE		0.100	0.140	
EURGOLD	0.098	0.140	0.000	0	FE LIMITED		0.026	0.030	
EURO GAS	0.325	0.335	0.335	771	FEOLX		0.120	0.130	
EUROF	1.000	1.020	1.000	4T	FERRAWEST		0.024	0.033	
EVALUTION	1.835	1.940	1.935	2M	FERRUM		0.052	0.057	
EVZ LTD	0.041	0.050	0.050	5T	FIDUCIAN		0.800	0.810	
EXAD RES	0.000	0.000	0.000	0	FEAX		0.110	0.125	
EXCAY	0.040	0.049	0.040	50T	FINEAR		1.075	1.080	
EXCELBER	0.001	0.002	0.000	0	FINDERS		0.200	0.220	
EXELA	0.010	0.010	0.000	0	FIRSTONE		0.008	0.009	
EXCISLER	0.190	0.195	0.190	30T	FIRSTOLD		0.014	0.015	
EXCO RES	0.260	0.265	0.260	5HT	FISSION EN		0.020	0.035	
EXOMA SNER	0.072	0.075	0.072	35T	FITZROYRES		0.049	0.068	
EXAK	3.360	3.500	0.000	0	FKPSTAPLED ETAI		0.225	0.230	
EXALUD	0.430	0.490	0.000	0	FLATGLASS		0.050	0.190	
EXALITE	0.020	0.053	0.000	0	FLIGHTWOOD		10.21	10.22	
EXMIRA	0.665	0.400	0.305	18M	FLUXIGROUP		3.28	3.28	
EXMSTAR	0.008	0.010	0.009	3M					
EXMANN	0.002	0.028	0.000	0					
EXMAYERS COI 1	0.003	0.008	0.000	0					
EXMAYERS	0.003	0.008	0.000	0					

The Big Issue magazine is a social enterprise that promotes social inclusion and works to alleviate poverty in Australia. It employs 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.



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



DID YOU KNOW?

When the sole petrol station in the town of Yackandandah closed down in 2002, the 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 the town. 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. In the 2020–2021 financial year, the business sold almost 3 million litres of petrol, delivered a surplus of \$262 639 before tax and provided \$11 686 in community sponsorship.

1.2.8 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.

government business enterprise (GBE) a type of business that is government owned and operated
revenue the income that a business earns from the sale of goods and services to customers

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 executive officer (CEO). Stephen Rue (CEO at NBN Co) announced **revenue** totalling \$4.6 billion for the year ended 30 June 2021.



The advantages and disadvantages of government business enterprises

Advantages

- Able to carry out government policies delivering community services in areas where private sector businesses might hesitate to invest
- Can operate with some independence from government
- Provision of healthy competition to businesses operating in the private sector — this can lead to lower prices in the markets where GBEs are competing



- Political interference in the day-to-day operation of the GBE
- Inefficiencies caused by government 'red-tape' — excessive regulation or rigid conformity to rules
- Management of GBEs can be less effective than that of the private sector.
- There can be less accountability within a GBE, resulting in less productivity.

Disadvantages

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.



Resources



Weblink Defence Housing Australia

KEY IDEAS

- Each type of business has certain advantages and disadvantages.
- 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, and generally a maximum of 20.
- 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.

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1.2 Quick quiz

on

1.2 Exercise

1.2 Exam questions

1.2 Exercise

TEST your understanding

- Explain** the difference between a sole trader and a partnership.
- 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.
- Outline** the advantages and disadvantages of a partnership.
- Eve operates a successful homemade-casserole business as a sole trader. She is interested in taking on partners in her business.
 - What advantages will Eve gain from a partnership arrangement that she does not have as a sole trader?
 - What disadvantages could Eve experience from the partnership arrangement?
- Explain** what limited liability is and how it affects shareholders in a company.
- Explain** the key differences between a private limited company and a public listed company.
- Identify** what you believe to be the three main advantages and three main disadvantages of a private limited company. **Explain** each selection.
- Outline** the advantages and disadvantages of a public listed company.
- In what ways does a social enterprise differ from a company?
- Summarise** the advantages and disadvantages of a social enterprise.
- What is the main purpose of a government business enterprise?
- Outline** the advantages and disadvantages of a government business enterprise.

APPLY your understanding

- 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.
- 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
- Fairfax Limited
- M&M Communications
- Bigga Community Group
- Ozemail Limited

- Rural Services Co-op
- Perpetual Water
- Tip Top Bakeries Pty Ltd
- Paul Banwell Motors
- Tynan Motors Pty Ltd

- David Tyler and Sons
- Jacinta's Newsagency
- Newcrest Mining Ltd
- Sue King Plumbing
- R&R Antiques Pty Ltd

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

- 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?

16. Use the **Defence Housing Australia** weblink in the Resources tab to find out what this government business enterprise does. Answer the following questions.
- a. Who owns Defence Housing Australia?
 - b. Who manages this business?
 - c. What is the objective of Defence Housing Australia?
 - d. How many staff does Defence Housing Australia employ?

1.2 Exam questions

▶ Question 1 (2 marks)

Source: Adapted from VCE 2020, Business Management Exam, Section B, Q.1; © VCAA

Case study

Below is an extract of a speech delivered to the shareholders of Manitta Mining by its Chief Executive Officer at its annual general meeting on 7 August 2020.

Our business faces significant challenges. Staff turnover has increased significantly over a five-year period. The business's share price on the Australian Securities Exchange (ASX) has decreased by 15 per cent over the same five-year period. Sales are also down and the company has struggled to reduce the number of workplace accidents in our mines.



Using evidence from the case study, **outline** what type of business Manitta Mining is.

▶ Question 2 (2 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.1a; © VCAA

ChocYum Pty Ltd is a manufacturing business located in regional New South Wales. It prides itself on manufacturing chocolate products of the finest quality for major retailers in Australia, New Zealand and the United Kingdom.

Outline the characteristics of a private limited company.

▶ Question 3 (2 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.1a; © VCAA

123 Childcare Centre is a business operating as a partnership. It provides childcare services for children aged five and under. Mary Kidd, one of the partners at the centre, wants to meet the demand for high-quality and reliable childcare in her local area. However, employees complain of long hours and their motivation is low. Staff turnover is a problem and Mary is unsure of how to address this.

Define the term 'partnership' as a type of business.

▶ Question 4 (2 marks)

Source: Adapted from VCE 2018, Business Management Exam, Section B, Q.1; © VCAA

Case study

The Daily Swell is a local print and online newspaper. The following is an extract from an article the paper printed recently about a local business.

Regional Community Hub for All

Tessa Adams and Charlie Liu opened Ocean Skate Hub in 2017. It is a social enterprise aimed at servicing the needs of the local youth community. It offers indoor and outdoor skate parks, and youth and homework clubs. It also operates a sports shop and cafe.

Describe one feature of a social enterprise like Ocean Skate Hub.

▶ Question 5 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.1a & b; © VCAA

Gadget Industries has recently changed its business structure from being a sole trader to a partnership. The business has also employed a new Human Resource Manager to oversee this area of management responsibility.

a. Define the term 'sole trader'.

1 mark

b. Outline one reason why a business may choose to operate as a partnership rather than as a sole trader.

2 marks

More exam questions are available online.

1.3 APPLY YOUR SKILLS Analysing and discussing social enterprises

PRACTISE YOUR SKILLS

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

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.

Social enterprises use their profits to help communities.



CASE STUDY

Vanguard does the laundry to provide jobs

Luke Terry is the founder of Vanguard Laundry Services which 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.

Luke Terry, Managing Director of Vanguard Laundry Services



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 reinvested 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 Swinburne University study funded by the 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.

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.

In recent years, Vanguard has worked with the support of its partners. COVID-19 caused volume of sales to drop by 80 per cent in 2021, which had a significant impact on the business. However, Vanguard remains very much in business and 2022 saw the establishment of a new partnership with 'Hello Good World'.

CASE STUDY

i=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.

Over the last 10 years, in an attempt to understand this issue, Jeremy has met with NGOs and communities in many countries around the world.

Jeremy also makes Yellingbo olive oil with his father on their family grove. Over 10 years ago in New York, wishing to find a way for Yellingbo to give back, Jeremy arrived on an idea to have his partner businesses (NGOs with a

Jeremy Meltzer, founder of i=Change



focus on women's development) donate two dollars to a charity of the customer's choice with each purchase of the oil.

Meltzer decided to develop the idea into something bigger that could be offered to other e-commerce businesses. The i=Change model 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, by 2022, it had reached over \$5.8 million in donations. It has partnered with over 36 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 school in Zimbabwe.

on Resources

 **Weblink** Social Traders

1.3 Exercises

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1.3 Exercise

1.3 Exam questions

1.3 Exercise

TEST your skills

1. Read the 'Vanguard does the laundry to provide jobs' case study. **Outline** why Luke Terry established Vanguard Laundry Services.
2. **Identify** what Vanguard's objective is.
3. **Explain** what Vanguard does with any surplus it makes.
4. **Outline** the benefits that Vanguard brings to the Toowoomba community.
5. Read the 'i=Change' case study. **Outline** i=Change's business objective.
6. **Outline** how Meltzer's online cause-based marketing platform works.
7. **Why** does Meltzer believe that social enterprises need to be profitable businesses?

APPLY your skills

8. Using internet sources, find an example of a social enterprise. For example, you might use the **Social Traders** weblink in the Resources tab 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.

9. **Identify** whether or not the following businesses are social enterprises. **Justify** each response.
- 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.
 - Delia is a sole trader operating a landscape gardening business. She started the business to pay off her and her husband's mortgage.
 - 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.
 - 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.
 - Assistenz Health is a public company that produces and distributes health care products to pharmacies. Its vision is to improve health care while creating unprecedented value and opportunity for customers, employees and investors.

1.3 Exam questions

▶ Question 1 (2 marks)

Define the term 'social enterprise'.

▶ Question 2 (4 marks)

Discuss the use of a social enterprise as a type of business.

More exam questions are available online.

1.4 Business objectives

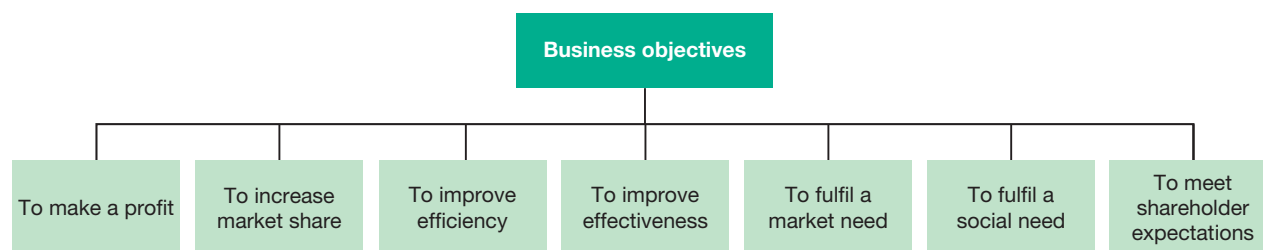
KEY KNOWLEDGE

- Business objectives including to make a profit, to increase market share, to improve efficiency, to improve effectiveness, to fulfil a market need, to fulfil a social need and to meet shareholder expectations

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

1.4.1 Business objectives

Every business should have 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 most common business objectives, and the ones included in the VCE Business Management Study Design (2023–2027), are shown in the diagram below.



To make a profit

Making a profit is an objective that is central to most 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.

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

The 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.



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**.

To increase market share

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**. For small to medium-sized businesses, increasing market share is usually measured against local competitors. For example, a suburban shopping centre may contain four competing cafés. Each will be trying to increase market share against the other three local competitors by offering better-quality food and drink, better service or cheaper prices. Larger businesses are often competing for increased market share on a national, Australia-wide basis. 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 improve efficiency

In order to sell a product or provide a service to customers, a business will use resources (inputs) to produce the product or service (an output).

A business will hope to use these resources efficiently — to minimise the resources used and/or to maximise the outputs generated from those inputs. This can be achieved by using up-to-date technology and innovative processes, having highly skilled employees or using the best quality components for the product so waste and inefficiencies are reduced.

Improving **efficiency** will reduce the waste generated by the business, which will reduce the costs 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

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

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

efficiency how well a business uses resources to achieve objectives

To improve effectiveness

Effectiveness refers to how successful a business has been in terms of achieving its stated objectives. A business may set a target for itself of increasing net profit by 10 per cent in the coming year. If it increases profit by 10 per cent, the business has been effective; if profit increased by 8 per cent, then it hasn't been as effective as it planned.

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

The business should be able to consider its effectiveness in relation to all the objectives that it set, either short- or long-term, and should always be looking to improve in these areas.

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 increases, then shareholders will have their expectations met.

1.4.2 Setting business objectives

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



As businesses seek to achieve different things, each business will have different objectives. It is obvious that most businesses exist to make a profit and will consequently measure their performance against objectives established around profitability (sales, market share, returns on investment).

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's reputation are some likely consequences when a business is focused solely on making profits.

Objectives from a range of businesses

Bakers Delight (private limited company)
<i>Vision</i> 'To be the world's best fresh bread retailer'
VicRoads (government business enterprise)
<i>Purpose</i> '. . . 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)
<i>Objective</i> 'To create awareness and change public perceptions for people who have experienced being a refugee'
Commonwealth Bank (public listed company)
<i>Vision</i> '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 in 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.

1.4.3 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.

1.4.4 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 the following:

- 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.

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 a business's operations. Examples of key performance indicators that relate to some of the business objectives we have explored can be seen in the following table. KPIs are covered in more detail in topic 4.

vision statement states what the business aspires to become
mission statement expresses why the business exists, its purpose and how it will operate
strategies the actions that a business takes to achieve specific objectives
key performance indicators (KPIs) specific criteria used to measure the efficiency and/or effectiveness of the business's performance

Business objective	Key performance indicator (KPI)	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.

on Resources

 **Weblinks** NAB
Australia Post

KEY IDEAS

- A business objective is a desired outcome or specific result that a business intends to achieve.
- Business objectives include 'to make a profit', 'to increase market share', 'to improve efficiency', 'to improve effectiveness', 'to fulfil a market need', 'to fulfil a social need' and 'to meet shareholder expectations'.
- After a business has determined its objectives, it will develop strategies to achieve those objectives, and will eventually analyse performance using key performance indicators.

1.4 Exercises

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1.4 Quick quiz

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1.4 Exercise

1.4 Exam questions

1.4 Exercise

TEST your understanding

1. **Identify** why businesses should analyse their performance.
2. **Differentiate** between effectiveness and efficiency.
3. **Outline** the difference between an objective and a strategy.
4. **Explain** the importance of business objectives.
5. **Examine** the four businesses' objectives outlined in the figure at the end of section 1.4.2, 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?

APPLY your understanding

6. What are your objectives for this year? Do you have a strategy to achieve those objectives? **Complete** the following table to see how strategies are linked to objectives (both personal and business ones). The table has been started for you.

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.	Increase profit	1. Launch new advertising campaign 2. Improve customer service training 3.

7. **Use** the **NAB** weblink in the Resources tab to determine NAB's objective. **List** the strategies you find.
8. **Use** the **Australia Post** weblink in the Resources tab to find out what type of business it is. **Outline** Australia Post's objectives.

1.4 Exam questions

▶ Question 1 (2 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.1a; © VCAA

In 2017, John was employed as the manager of a bakery with 80 employees. In 2020, the business has had the following business objectives:

- to increase profits by 10%
- to reduce staff absenteeism by 20%.

John has adopted an autocratic management style.

Define the term 'business objective'.

▶ Question 2 (2 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.1b; © VCAA

123 Childcare Centre is a business operating as a partnership. It provides childcare services for children aged five and under. Mary Kidd, one of the partners at the centre, wants to meet the demand for high-quality and reliable childcare in her local area. However, employees complain of long hours and their motivation is low. Staff turnover is a problem and Mary is unsure of how to address this.

Describe a business objective (other than 'to make a profit') that would be relevant to 123 Childcare Centre.

▶ Question 3 (3 marks)

Distinguish between the objectives 'to make a profit' and 'to increase market share'.

▶ Question 4 (2 marks)

Explain the business objective 'to meet shareholder expectations'.

▶ Question 5 (4 marks)

Anja has established a social enterprise called 'Social Bikes'. **Describe** two business objectives that Social Bikes will need to achieve.

More exam questions are available online.

1.5 Business stakeholders

KEY KNOWLEDGE

- Stakeholders of businesses including owners, managers, employees, customers, suppliers and the general community

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.

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

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.



Stakeholders come from various areas of the business world: some stakeholders work for the business or have an ownership interest, while some interact with the business in a commercial or social manner. All stakeholders are important as they can impact how a business conducts itself.

1.5.1 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 their vested interest in its activities. For example, a sole trader or a partner will have a direct say in what the business does.

The owners who manage or operate the business on a day-to-day basis will probably 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.



Shareholders

Shareholders is the name given to owners of a company. In a private limited company, there can be up to 50 shareholders. In a private listed company, the number of shareholders is effectively unlimited.

Shareholders have an ownership interest and have a say in the conduct of the company as they are able to vote at an annual general meeting (AGM). The number of votes equate to the number of shares owned. They also receive a portion of the distributed profits according to the number of shares held.

In the first half of the 2022 financial year, the Commonwealth Bank of Australia declared a net profit after tax (NPAT) of \$4741 million and provided a \$1.75 dividend for each share held. A shareholder with 1000 shares would therefore have received \$1750 as a return on their investment.

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.



manager the person who has the responsibility for successfully achieving the objectives of the business

1.5.2 Managers

Managers have 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 the manager(s) 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

Managers are key to the success of a business.



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.

1.5.3 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?

Many businesses now publish a specific stakeholder report. The Conversation — a network of not-for-profit media outlets publishing news stories and research reports online, with accompanying expert opinion and analysis — does just this. For the past decade, The Conversation has provided a yearly stakeholder report that recognises the many groups of people who contribute to its operation.

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



1.5.4 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.

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

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

Customers are seeking more energy-efficient options to lower energy expenses and reduce impacts on the environment.



1.5.5 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.

Businesses rely on suppliers to provide resources to be used in their production processes.



1.5.6 The general 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 — supports a large number of charities and community causes. For its first two years, the company donated to the National Breast Cancer Foundation, mental health organisation R U OK? and the RSPCA — organisations that She Wear founder Stacey Head believed resonated with herself and with her customers. Over the years the company has donated over \$45 000 to organisations and individuals in need around Australia. In February 2020 it sent care packages to women who had been affected by the summer bushfires and the droughts. Over \$13 000 worth of product was sent to women in need, including She Wear work boots, clothing and socks.

Founded in 2009, R U OK? is an Australian non-profit suicide prevention organisation that advocates for people to have meaningful conversations with others about mental health.



Telstra encourages staff to become involved in issues they are passionate about by providing an annual day of paid volunteering leave. In 2020, staff from Telstra's Gippsland branch chose to use this day to assist CFA volunteers who had fought the bushfires over summer. Over 10 kilometres of damaged farm fences were replaced with new fencing, assisting six local families of firefighting volunteers.

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 2021 Sustainability Report, Wesfarmers outlined how it had reduced greenhouse gas emissions across the Group by 9 per cent. Furthermore, the Bunnings, Kmart and Officeworks groups have 100 per cent renewable electricity usage targets for 2025.

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

The stakeholders of businesses and their interests

Stakeholders	Interests
Owners	Want the business to make profit — they may depend on the success of the business for their income or wealth 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 Will typically want the business to conduct itself in a socially responsible manner
Managers	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
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
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
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
The general 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



Resources



Weblinks The Conversation
 Business stakeholder: Scentre Group
 Business stakeholder: Village Roadshow
 Business stakeholder: Visy
 Business stakeholder: Link Housing Ltd

KEY IDEAS

- Businesses have many stakeholders, with varying interests.
- Stakeholders for a business include owners, managers, employees, customers, suppliers and the general community.

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1.5 Quick quiz



1.5 Exercise

1.5 Exam questions

1.5 Exercise

TEST your understanding

1. **Define** what is meant by the term 'stakeholder'.
2. **State** the type of interest a stakeholder will have in a business.
3. **Identify** two likely interests of customers as stakeholders of a business.
4. **Explain** how the interests of owners and managers may differ.
5. **Outline** the interests of the suppliers of a business.
6. **Explain** why the general community may have an interest in local businesses.
7. **Describe** the interests of the employees of a business.

APPLY your understanding

8. Choose a contemporary business with which you are familiar and use the internet to research the internal stakeholders of the business; for example, you could find out how many owners the business has. Do these owners have direct involvement in the operations of the business?
9. **Use** the information in this subtopic to **identify** the stakeholders and their interests, using the table below.

Stakeholder	Description	Interest

10. **Use** the **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 owners/shareholders
Number of managers
Number of employees

1.5 Exam questions

Question 1 (2 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.1a; © VCAA

Fran is the newly appointed manager of an Australian software business. The business is a public listed company working towards the achievement of its business objectives.

With reference to this business, **define** the term 'stakeholder'.

Question 2 (4 marks)

Source: VCE 2008, Business Management Exam, Q.2d; © VCAA

Country Foods is a food processing company with plants in Bendigo, Ballarat and Geelong. It is a major employer in these regional centres. Due to the severe drought in Victoria, Country Foods has made a business decision to close the Bendigo factory. The Human Resource Manager, Bob Spiteri, is responsible for implementing the closure in relation to staffing matters. The company's CEO has contacted Bob Spiteri as he is concerned about possible industrial relations action that might impact on the company's stakeholders.

Identify two stakeholders of Country Foods. Discuss the potential impact of this closure on these stakeholders.

Question 3 (4 marks)

Source: VCE 2006, Business Management Exam, Q.1b; © VCAA

Southern Furniture Ltd's mission statement reads

Southern Furniture Ltd is a leader in the manufacturing of household furniture. Our mission is to meet customer needs with the highest quality products and services. This will support the profitability and the growth expectations of our shareholders. We care about the future of our environment and we support programs that protect communities.

The CEO, Mr Gomm, and his senior managers have developed a strategic plan for the next five years. The intention of this plan is to inform all staff within the organisation that changes have to be made.

The strategic plan includes the following objectives.

- Increase market share by 25% in China (an identified growth area)
- Reduce materials waste by 5% per year
- Achieve and maintain ISO 9000 accreditation
- Increase productivity by 8% through the use of new automation/technology.

In addition, Mr Gomm also announced there would be a review of the current organisational structure to assess whether it is still appropriate.

Mr Gomm informed Susan Wu, Human Resource Manager, that the following strategies must be put into action.

- The firm will adopt enterprise bargaining agreements.
- Current staff will need to be retrained to use the latest technology.
- Training of staff will now be outsourced.

Apart from the stakeholders mentioned in the **mission statement**, **identify two** other stakeholders of Southern Furniture Ltd and explain their importance to the organisation.

Question 4 (2 marks)

Source: VCE 2005, Business Management Exam, Q.2a; © VCAA

Blue Berry Jam is a publicly listed company located 90 kilometres from Melbourne. It relies on fresh farm produce to supply its fruit and employs people from the local area. The business started selling its jam to retailers in Melbourne, but has quickly expanded its market overseas to Hong Kong and Indonesia. It has a strong reputation for reliability, nutritional value and support for the environment.

However, the CEO has identified the following areas of concern for future growth.

- Falling reputation if ethical and social responsibility management is not maintained. Local residents are complaining that a new plant will become an environmental nightmare. The residents are particularly worried about Blue Berry Jam using valuable land resources. They are also concerned about more waste material polluting the nearby rivers.
- Shareholders are complaining about the cost of the new plant necessary for the extra production.
- Low price imports that may reduce Blue Berry Jam's sales and force it to close.

Distinguish between shareholders and stakeholders.

More exam questions are available online.

1.6 Potential conflicts between stakeholders and corporate social responsibility considerations

KEY KNOWLEDGE

- Characteristics of stakeholders of businesses including their interests and potential conflicts between stakeholders

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

1.6.1 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.

Research has found that some popular food brands are reducing the size of their products sold in Australian supermarkets without decreasing prices accordingly. Data released by consumer advocacy group Choice shows companies including Nestlé, Kellogg's and Cadbury have shrunk their product sizes while charging the same price or more for the items.



Stakeholders and their conflicting interests



Stakeholders	Conflicting interest
Employees and owners/shareholders	Employees require safe working conditions and reasonable wages, but this may reduce the business's profit and dividends to owners/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 the general community	Management might decide to cut costs by neglecting maintenance, which could possibly put members of the community in danger.
Suppliers and the general 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 list of the 128 World's Most Ethical Companies for 2019, representing 21 countries and 50 industries. Ethisphere CEO Timothy Erblich stated, 'Today employees, consumers and stakeholders value companies that show both a commitment to business integrity, and also have the organisational humility to never stop seeking improvement. The World's Most Ethical Companies honourees understand that this approach has a profound impact on communities and is the foundation for broader success and profitability.'

1.6.2 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'.

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

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.



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.

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.

In the 2021 'The Forces of Good' report (compiled by The Lab), which examines online discourse around corporate social responsibility, NRMA topped the list. This was largely due to the company's handling of the COVID-19 crisis and frontline worker support, as well as its significant profile in the sustainability space through renewable energy and wildlife conservation efforts.



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.

KEY IDEAS

- Businesses have many stakeholders, with varying interests, and these interests can conflict.
- 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.

1.6 Exercises

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1.6 Exercise

TEST your understanding

1. **Explain** why there are potential conflicts between the interests of stakeholders.
2. Looking at the information in the table in section 1.6.1, **identify** in what ways the interests of stakeholders conflict.
3. **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
4. **List** some business activities that could involve corporate social responsibility considerations.
5. **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

6. 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.
7. 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?
8. '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.

1.6 Exam questions

Question 1 (2 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5a; © VCAA

Dennis Greeves is the manager of a highly successful, Melbourne-based burger chain. In response to a decline in sales and a change in customer tastes, Dennis has made the decision to implement a policy of using only ethically sourced, high-quality local ingredients. Dennis is aware that a new pricing strategy will be required as a result and that the Executive Chef will require support to implement the changes.

Define the term 'corporate social responsibility'.

Question 2 (5 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.5; © VCAA

Case study

The Daily Swell is a local print and online newspaper. It recently published the following article about a local business.

Regional Community Hub for All

Tessa Adams and Charlie Liu opened Ocean Skate Hub in 2017. It is a social enterprise aimed at servicing the needs of the local youth community. It offers indoor and outdoor skate parks, and youth and homework clubs. It also operates a sports shop and cafe.

After finishing school, Charlie completed a Sports Management degree and Tessa completed a Commerce degree. Having both worked in their chosen fields for several years, Tessa and Charlie recently moved from the city back to their hometown, where they began setting up their business enterprise. Charlie commented that 'we wanted to offer a place where young people from the community could come and try different activities, socialise and gain some new skills'.

After carrying out their research into what financial assistance was available, Tessa and Charlie applied for support through a government initiative called Social Enterprise Finance Australia (SEFA).

SEFA provides finance solutions to mission-led organisations and is deeply committed to fostering positive social and environmental impacts in communities across Australia. SEFA is also there to help new business ventures, like Ocean Skate Hub, build their capacity to manage debt and become financially sustainable.

'We highly value the intensive support we received from SEFA. They helped us put together a rock-solid business case', said Tessa.

Ocean Skate Hub uses its website and social media to provide information to customers and has launched an app to let members book activity sessions. Members are encouraged to give feedback to the organisation to help it meet its aims of improving customer service and finding interesting activities for all users.

All employees are from the local area, and Tessa and Charlie are passionate about keeping all services within the region. Their preference is for staff training to be carried out within the business; however, this is proving to be challenging for Ocean Skate Hub to achieve, and Tessa and Charlie feel they may have to outsource staff training in the future.

With the success of the business behind them, Tessa and Charlie have big plans for expansion in 2019 to provide services for the whole community, not just its youth. These include IT classes for the elderly, as well as photography, cooking, woodwork and gardening classes for all ages.

‘With all these exciting changes planned for 2019, we will be relaunching as “Ocean Hub” to better reflect the expanded range of community activities that will soon be available’, Charlie said.

Mayor Colin Sprey commented that ‘it is encouraging to see our young entrepreneurs giving back to their community’.

Outline the interests of two relevant stakeholders of Ocean Skate Hub. Explain how these interests may be in conflict.

 Question 3 (4 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4c; © VCAA

Small Goods Pty Ltd is a manufacturer of various types of processed meats, including ham, salami and sausages. The Operations Manager, Heidi, is concerned about the increasing level of wastage. She has set an objective to reduce wastage from the production process by 90% over the next two years.

Analyse the impact that the reduction of the level of wastage may have on Small Goods Pty Ltd’s suppliers and one other stakeholder.

 Question 4 (4 marks)

Source: VCE 2007, Business Management Exam, Q.2e; © VCAA

WAY TO GO

Skye Daily Press — 22 September 2007

Recent figures show that Meehan Electric Company is leading in productivity and quality compared with all other electricity providers. It has an excellent industrial relations record that has resulted from a significant change in its corporate culture.

Established 10 years ago by James Meehan, the business initially struggled to gain market share. There were feelings of mistrust between management and staff, and as a result productivity was low.

James decided to introduce enterprise bargaining to endeavour to become more productive and to improve the relationship between staff and management. He succeeded beyond his expectations and other electricity providers now benchmark their performance against his company.

Discuss the differing opinions that two stakeholders may have had about James Meehan’s decision to introduce enterprise bargaining.

 Question 5 (3 marks)

Explain a potential conflict between two stakeholders over the distribution of the profit of a business.

More exam questions are available online.

1.7 EXTEND YOUR KNOWLEDGE Stakeholders and corporate social responsibility

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

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

1.7.1 Stakeholder interests

Stakeholders have become more concerned about climate change, pollution, renewable energy and other social issues related to sustainability. For businesses, these concerns are covered under the concept of corporate social responsibility.

Corporate social responsibility (CSR) 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. The Commonwealth Bank and Yakult both practise CSR in many aspects of their business activities.

CONTEMPORARY BUSINESS CASE STUDY

Commonwealth Bank of Australia

Our approach to sustainability

Focusing on sustainable practices, policies and decisions to create long-term value.

Our approach

Our unique position and scale means we have a key role to play in creating a better future. This year we have embedded sustainability further into our business strategy, strengthening our approach to risks and directing capital towards a more resilient and sustainable economy, in turn creating value for customers, communities and shareholders.

Our focus areas

Our key focus areas include identifying how the Bank supports Australia's transition to a sustainable economy. This year we have also prioritised minimising risk of modern slavery, as well as evolving and strengthening our organisational culture.

Enhancing risk governance

We formalised governance over environmental and social risks through a new executive level committee. We continue to enhance our risk assessment methodologies and tools. A key focus of these activities is addressing climate risks and opportunities.

Addressing climate change

We are committed to playing our part in limiting climate change in line with the goals of the Paris Agreement and supporting the transition to net zero emissions by 2050. As Australia's largest financial institution, we recognise our important role helping our customers transition to a low carbon future.

Commitments

- 42% new Scope 1 and 2 greenhouse gas emissions reduction target by 2030
- 25% new upstream Scope 3 greenhouse gas emissions target reduction by 2030 (including financed emissions)
- \$70 billion new Sustainability Funding Target in cumulative financing between FY21 and FY30

Source: https://www.commbank.com.au/content/dam/commbank-assets/about-us/2021-08/2021-annual-report_spreads.pdf#page=12

CONTEMPORARY BUSINESS CASE STUDY

Yakult and CSR

Yakult has built a reputation for its socially responsible practices, for customers, employees and the general community.

Waste management and recycling

- Effective waste management strategies contribute to a cleaner and less wasteful facility — 99.5 per cent of Yakult's raw ingredients end up in the bottle. There are no by-products.
- Cleaning waste goes into a holding tank in the on-site water treatment facility.
- Paper products such as skim milk powder bags are recycled.
- Empty bottles can be collected for recycling as they are able to be crushed and mixed with other resin to be made into other products.

Energy management

Yakult is aware of minimising its environmental impact and incorporate energy efficient practices into its daily activities. These include:

- heating liquids via heat exchange plates so no energy is lost or wasted
- not using chlorofluorocarbons in cooling or refrigeration units
- using a natural gas boiler which does not pollute the air.

Quality assurance

Quality assurance is used to maintain excellence in hygiene standards, training for staff and cleaning processes.

Quality assurance utilises 'Hazard Analysis and Critical Control Points' (HACCP) principles for achieving food and public health specifications. This is an internationally recognised program.

Ethical and social responsibilities

Yakult consider the interests of various stakeholders through specific actions they take.

- Staff regularly undergo training to ensure appropriate operation of machinery
- Regular hearing checks for production workers
- Community involvement in public education services
- Health professional scientific communication
- Commitment to waste reduction
- A signatory of the Australian Packaging Covenant
- Supporting local Australian industries by sourcing local ingredients
- Corporate sponsorship
- Conducting free of charge educational tours of the factory

Source: <https://www.yakult.com.au/>



Resources



Weblinks CBA Annual Report
Yakult

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1.7 Exercise

1.7 Exam questions

1.7 Exercise

TEST your understanding

1. **What** is meant by the term 'stakeholder interests'?
2. Read the 'Commonwealth Bank of Australia' case study. **List** the stakeholders of the Commonwealth Bank identified in the case study.
3. **Outline** some of the conflicts that could occur between the stakeholders of the Commonwealth Bank.
4. Read the 'Yakult and CSR' case study. **Explain** what is meant by CSR.
5. **Explain** how the adoption of quality assurance is an example of CSR.

EXTEND your understanding

6. **Complete** the following table to identify three stakeholders and demonstrate how the Commonwealth Bank is considering the interests of its stakeholders.

Stakeholder	How the stakeholder is considered by Commonwealth Bank

7. **Select** two stakeholders from the table in question 6 and **explain** how their interests may conflict.
8. **Explain** the interest of one other stakeholder not yet identified that may be opposed to the actions of the Commonwealth Bank.
9. **Complete** the following table to identify three stakeholders and demonstrate how Yakult is considering corporate social responsibility through its actions.

Stakeholder	How corporate social responsibility is considered by Yakult

10. **Explain** what 'costs' there may be for a business that meets its corporate social responsibility considerations.

1.7 Exam questions

Question 1 (4 marks)

Explain whether or not it is possible for a business to satisfy the expectations of all stakeholders. **Justify** your answer.

Question 2 (4 marks)

Many businesses are now examining ways in which they can reduce greenhouse gas emissions, rather than waiting for governments to set targets. **Explain** the benefits and costs to a business of acting in such a socially responsible manner.

More exam questions are available online.

1.8 Management styles

KEY KNOWLEDGE

- Management styles including autocratic, persuasive, consultative, participative and laissez-faire

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

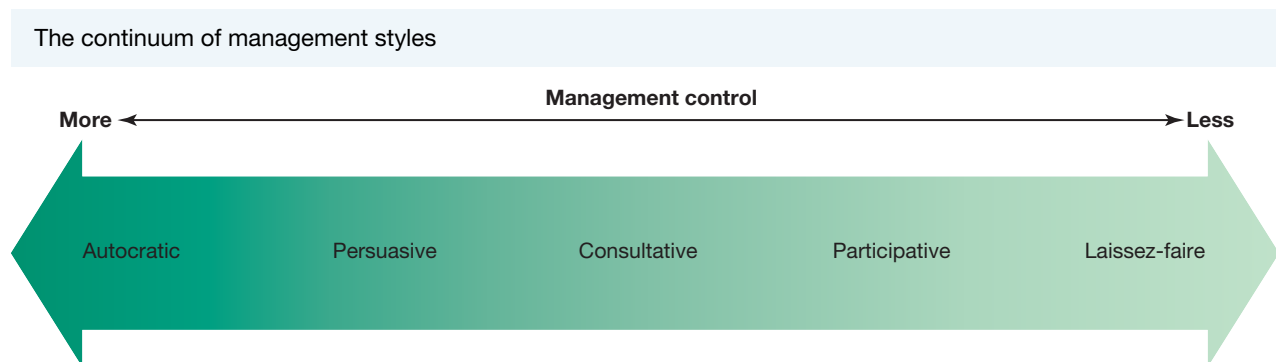
The important task faced by managers is to determine how best to achieve the objectives of their business. This task can be accomplished only by working with and through other people, so managers must select a management style appropriate to the environment in which they operate.

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.

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

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



EXAM TIP

The **Unit 3, Area of Study 1** key skills state that you should be able to 'analyse and discuss business information and ideas'. This includes analysing the key characteristics of management styles.

1.8.1 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.

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



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 and disadvantages of the autocratic management style

Advantages	Disadvantages
• Directions and procedures are clearly defined; there is little uncertainty. • Employees' roles and expectations are detailed and precise, 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.	• 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. Workers are often 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.

1.8.2 Persuasive management style — 'I think it is best if you do it this way'

A variation 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 remain 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. Like a manager making use of the autocratic style, a manager using the persuasive management style will be very task-oriented. However, a manager making use of this style will seek the trust of employees by taking the trouble to assure them that a decision is in their best interest.

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

The persuasive management style



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

The main advantages and disadvantages of the persuasive management style

Advantages	Disadvantages
• 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. • There is some acceptance of negative situations (such as altered work hours) when the benefits of management decisions are explained. • Instructions and explanations remain clear and constant.	• 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.

1.8.3 Consultative management style

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 consultative management style



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

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

The main advantages and disadvantages of the consultative management style

Advantages	Disadvantages
• 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 time taken to consult all the relevant employees can slow the entire process. • Some issues to be decided on 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.

1.8.4 Participative management style

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 participative management style



The main advantages and disadvantages of the participative management style

Advantages	Disadvantages
• 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.	• 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.

1.8.5 Laissez-faire management style

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.



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

The main advantages and disadvantages of the laissez-faire management style

Advantages	Disadvantages
• 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.	• 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?

Daniel Goleman is an international psychologist who lectures to business professionals. Goleman states that 'leaders with the best results do not rely on only one leadership style; they use many or most of them in a given week — seamlessly and in different measures — depending on the business situation.'

on Resources

 **Video eLesson** Management styles (eles-4288)

KEY IDEAS

- 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 responsibility for, and control of, workplace operations.

1.8 Exercises

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1.8 Quick quiz

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1.8 Exercise

1.8 Exam questions

1.8 Exercise

TEST your understanding

1. **Explain** what is meant by a 'management style'.
2. **Outline** the characteristics of the autocratic and persuasive styles.
3. **Outline** the characteristics of the consultative and participative styles.
4. In **what** ways is the consultative style similar to the participative style? In **what** ways are the two styles different?
5. **List** the main advantages and disadvantages of the laissez-faire management style.

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. Do you know any participative managers? **Identify** what characteristics of the style they display. **How** do they motivate staff to get things done? Is their style successful?
8. For the following situations, **suggest** which management 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.
 - c. 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.
 - d. 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.

1.8 Exam questions

Question 1 (5 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.1b; © VCAA

In 2017, John was employed as the manager of a bakery with 80 employees. In 2020, the business has had the following business objectives:

- to increase profits by 10%
- to reduce staff absenteeism by 20%.

John has adopted an autocratic management style.

Evaluate the suitability of the management style John has adopted for achieving the bakery's business objectives.

Question 2 (5 marks)

Source: Adapted from VCE 2019, Business Management Exam, Section B, Q.5; © VCAA

Case study

ATI-TUDE is a Melbourne-based clothing manufacturer and retailer. It was established as a public-listed company in 2009. ATI-TUDE produces a range of innovative and quality sportswear products for men, women and children. Customers can buy products online as well as through the five ATI-TUDE stores located in Melbourne, Sydney, Brisbane, Perth and Adelaide.

ATI-TUDE's market share has risen steadily since 2009 to a peak of 15% of overall market share in the sportswear market in Australia in 2019.

The Finance Manager recently produced data for ATI-TUDE's senior managers, showing key performance indicators (KPIs) for the past two years. One of the KPIs was net profit.

The Sales and Marketing Director has identified an increase of 75% in the number of online sales over the same period of time (2018–2019). She believes that this is due to the strategy of increased investment in technology and the development of the company's website and online store.

The following KPIs, for the last 12 months, were also presented to ATI-TUDE's shareholders.

Table 1 Level of staff turnover and number of customer complaints (2019)

	Level of staff turnover (%)	Number of customer complaints
Adelaide	40%	increased ↑ 12%
Brisbane	23%	decreased ↓ 10%
Melbourne	12%	increased ↑ 10%
Perth	30%	increased ↑ 19%
Sydney	15%	decreased ↓ 5%

At the recent annual general meeting, it was announced to shareholders that the board will be streamlining business operations. As a result, the board will be closing two stores and this will lead to the termination of the employment of many staff.

The Human Resource Manager is known for his autocratic management style.

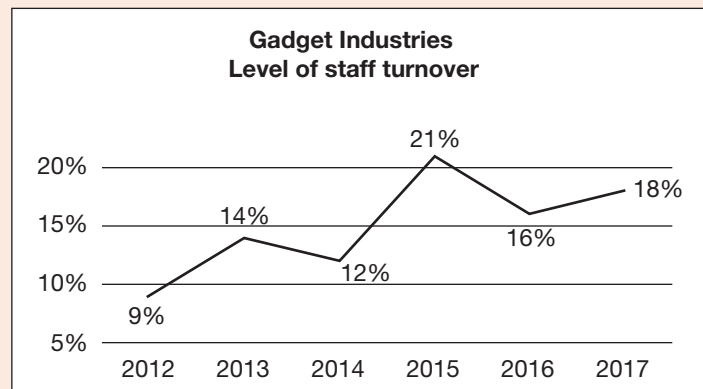
Evaluate the suitability of this management style as the store closures are implemented.

Question 3 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.1d; © VCAA

Gadget Industries has recently changed its business structure from being a sole trader to a partnership. The business has also employed a new Human Resource Manager to oversee this area of management responsibility.

The new Human Resource Manager has examined the data below.



The data shows that the level of staff turnover, which is a key performance indicator, has changed over time.

In order to reduce the level of staff turnover, the Human Resource Manager has decided to adopt a persuasive management style. **Explain** how a persuasive management style may assist in reducing the level of staff turnover.

Question 4 (2 marks)

Source: VCE 2016, Business Management Exam, Section B, Q.5c; © VCAA

Justify an appropriate management style that could be used to help in the resolution of conflicts that may arise in the workplace.

Question 5 (4 marks)

Source: VCE 2012, Business Management Exam, Q.2b; © VCAA

Glass Transport is a long-established bulk transport provider, which has recently taken a decision to invest in becoming a national parcel delivery service. The opportunity that CEO Catherine Glass seized on arose from fast-growing online sales. In order to build the expanded business, a significant number of new staff will be required. Some of these staff could be relocated from the bulk transport division and some will need to be recruited. Service standards will need to be set and new vehicles purchased. Further decisions will be made to determine whether parcel pick-up from residential and business premises will be offered. The major existing competitor in parcel delivery is a government-owned postal service. Its business of delivering mostly letters is declining because of emails and texting. Its delivery infrastructure is mostly suited to letters, not parcels. The growing parcel sector is a highly profitable business opportunity for the organisation that 'gets it right'.

As Glass Transport is becoming more complex in its service offerings, Ms Glass is considering changing the management structure of her organisation.

By nature, Ms Glass is a consultative manager.

Identify two characteristics of this management style, and explain one advantage and one disadvantage of using this style.

More exam questions are available online.

1.9 The appropriateness of management styles

KEY KNOWLEDGE

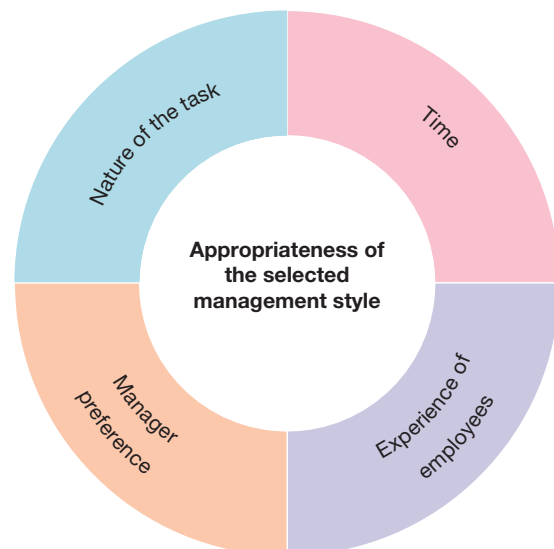
- The appropriateness of management styles in relation to the nature of the task, time, experience of employees and manager preference

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.** For example, when a business undergoes change, the manager may need to make decisions quickly and so may adopt an autocratic style. Alternatively, if there are experienced employees, a manager might be more consultative as the experience of employees may be able to assist in navigating change.
- time.** 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.** 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 the 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.

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

KEY IDEAS

- 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.
- Some management styles are more appropriate in some circumstances than others.

1.9 Exercises

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1.9 Quick quiz

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1.9 Exercise

TEST your understanding

1. **Explain** what is involved in choosing an appropriate management style for a given situation.

APPLY your understanding

2. **Describe** which management style you would prefer to adopt if you were a senior manager. Under what style of management would you prefer to work?
3. 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?



4. **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	

1.9 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2015, Business Management Exam, Q.1c; © VCAA

Swanston Airlines is a large-scale organisation providing flights to all capital cities in Australia. Swanston Airlines recently suffered a technology breakdown in its computerised ticketing system that led to customers not being able to book tickets, get seat allocations or board flights for 24 hours. This resulted in very unhappy customers who missed flights, were angry and argued with staff, and demanded refunds.

The CEO of Swanston Airlines has called a meeting of senior management to review current policies and procedures in order to develop a new policy to better deal with customer relations in the future.

Justify a management style that would be appropriate for the management of Swanston Airlines to use when implementing its new policy.

▶ Question 2 (4 marks)

Source: VCE 2014, Business Management Exam, Q.3b; © VCAA

Shackleton Pty Ltd is a large-scale business producing and installing state-of-the-art security systems. Its headquarters is in Melbourne and it has numerous offices across Australia. The organisation employs 1000 people. Shackleton has grown into a leader in its field. Shackleton believes in using products of the highest possible quality to ensure that the customer has many years of problem-free use. Shackleton's CEO, Zac Shackleton, believes that if he employs capable staff, they will motivate themselves to do a good job.

However, last month Zac noticed a drop in productivity and a rise in the number of customer complaints.

Zac knows he must act swiftly or face competitors gaining a larger market share.

Discuss a management style that would best suit Zac in overcoming the drop in productivity that he has identified.

More exam questions are available online.

1.10 APPLY YOUR SKILLS Management styles

PRACTISE YOUR SKILLS

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

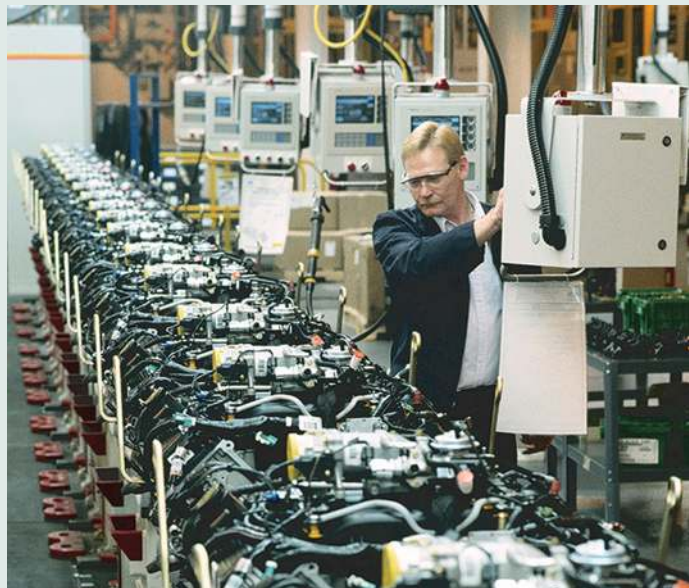
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CASE STUDY

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.

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1.10 Exercise

1.10 Exam questions

1.10 Exercise

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 following scenarios, answer the following questions.
 - a. Consider scenario one.
What management style will Peter adopt with the CEO and Kim Laffin? **Justify** your answer. **How** could communication between Peter and Kim be improved?

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.

- b. Consider scenario two. What management style should Peter adopt when meeting with his staff? **Justify** your answer.

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.

- c. Consider scenario three. **Explain** what management style you might expect Harvey Beck to adopt for each relationship. **Justify** 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.

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.

1.10 Exam questions

Question 1 (4 marks)

Heather is the production manager in a factory manufacturing cosmetics. She regularly calls meetings of staff to discuss ways of improving production processes, and often implements suggestions from staff for improvements. **Discuss** the management style being applied by Heather.

Question 2 (3 marks)

Leah is a human resources manager who has noticed a rapid increase in the number of employees leaving the business. She decides to adopt a consultative management style in the hope of reversing this trend. **Explain** how the use of a consultative style of management might help solve the problem that the business is facing.

More exam questions are available online.

1.11 Management skills

KEY KNOWLEDGE

- Management skills including communication, delegation, planning, leadership, decision-making and interpersonal

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

1.11.1 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:

- communication
- delegation
- planning
- leadership
- 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.

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

RESEARCH ON MANAGEMENT SKILLS

For over three decades now in Australia there has been a focus on and acceptance of the idea that managers need to possess certain skills. These skills are sometimes known as ‘soft skills’, or employability skills, and include communicating, delegating and leading.

The National Skills Commission found that over 75 per cent of employers consider such employability skills as just as, if not more, important than technical skills. The top management skills sought by employers include communication and problem-solving skills.

In response to changing work conditions (such as working from home) brought on by the pandemic, there has been a renewed interest in management and workplace skills. A recent PWC report states that, more than ever, management and employees need ‘transferable skills’ such as communication, innovation and the ability to lead and inspire.

EXAM TIP

The **Unit 3, Area of Study 1** descriptor states that students should be able to apply a range of management skills to contemporary business case studies from the last four years.

DID YOU KNOW?

Hays, a worldwide recruitment business, compiled a 2022 list of the top ‘in demand’ management skills. The list was based on conversations the consultancy had held with its clients. Near the top of the list was communication. Hays suggests that giving an example of how you demonstrate communication provides proof of the extent of your skill.

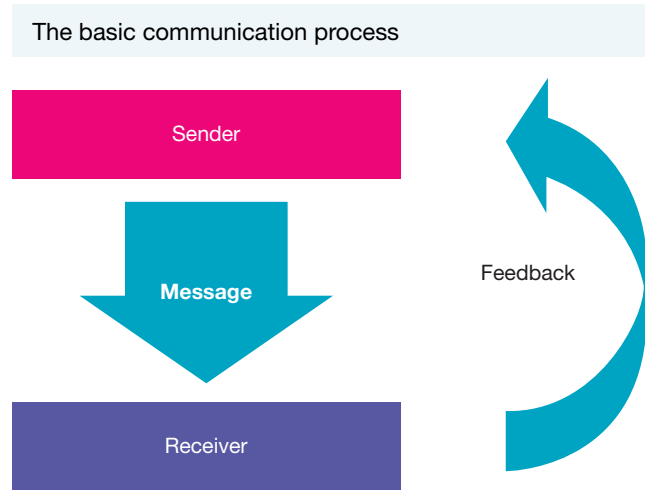
1.11.2 Communication

Communication 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 verbal (through the use of words — 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.



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

CASE STUDY

Communication as a dynamic management skill

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

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



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.

CASE STUDY

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 that 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.

1.11.3 Delegation

Delegation 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

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

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 are:

- 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 anymore' 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 per cent.
- 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*.

1.11.4 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- 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 following figure).

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.

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

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

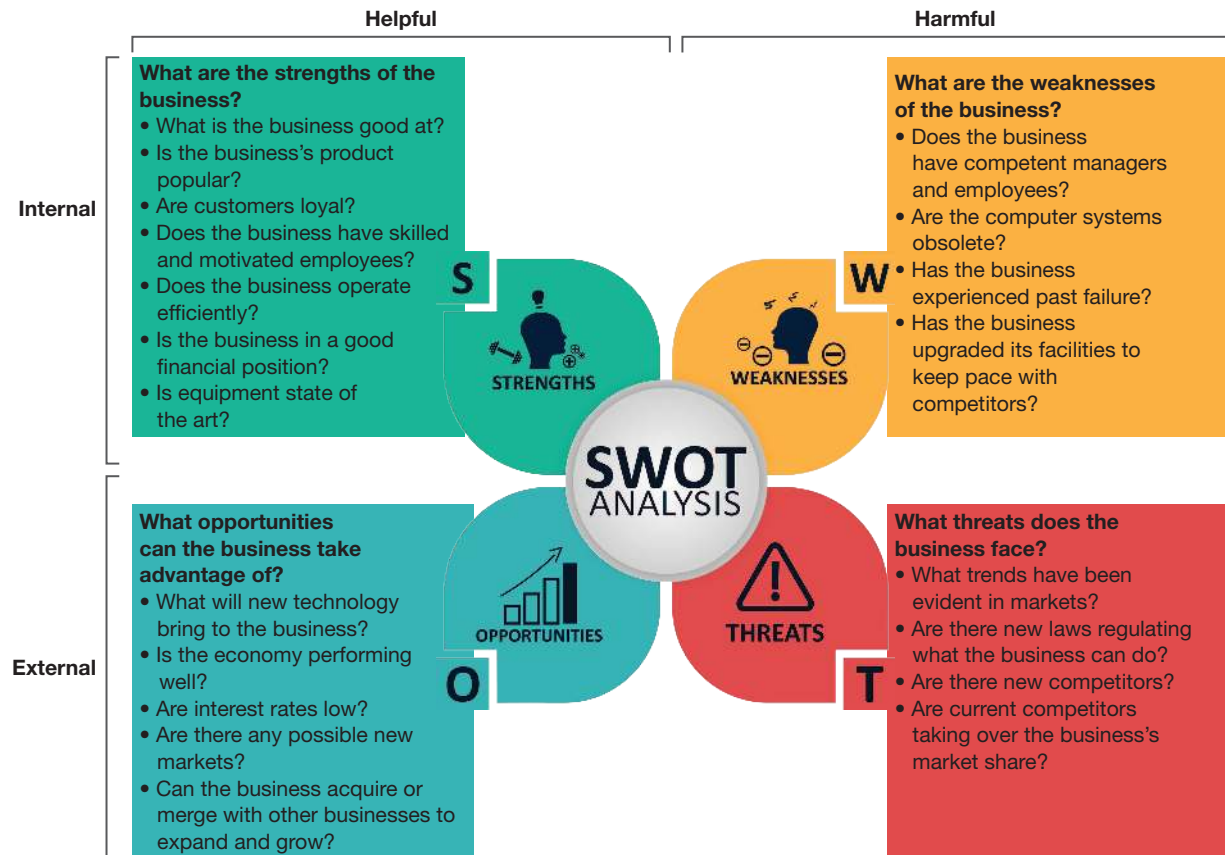
operational planning specific details about the way in which the business will operate in the short term

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

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.

1.11.5 Leadership

Leadership 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

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

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 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**

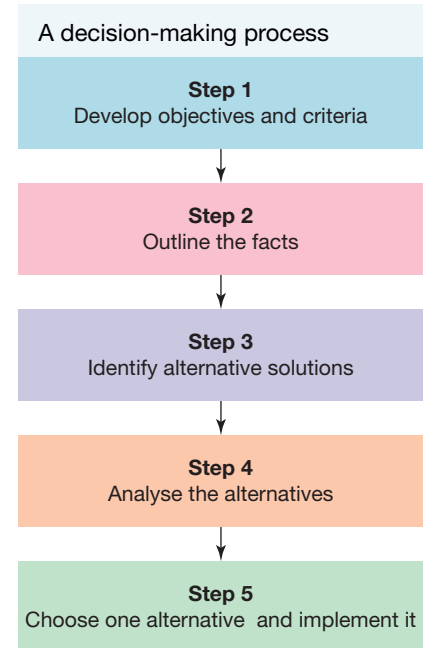
1.11.6 Decision-making

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. The use of SWOT analysis may assist this process. 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 (step 5).

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.



Elon Musk, CEO of Tesla and SpaceX, is one of the richest people in the world. His company portfolio has included businesses such as PayPal, Neuralink, OpenAI and Zip2. He has most recently made news with his attempt to take over Twitter. Musk's decision-making is led by his ability to ask questions and gather evidence to solve issues.



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

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.

1.11.7 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 positive interpersonal skills is likely to lead to greater staff morale and higher productivity.

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.

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



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

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*

-  **Video eLesson** Management skills (eles-4289)
-  **Weblink** Communication Skills Test

KEY IDEAS

- 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.
- Delegation 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.
- Leadership 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.

1.11 Exercises

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1.11 Quick quiz

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1.11 Exam questions

1.11 Exercise

TEST your understanding

1. Read the 'Research on management skills' case study. **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 the following questions.
 - a. **Why** did the original message become so confused?
 - b. **Identify** whose responsibility it is 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. **Outline** the advantages and disadvantages of leading, decision-making and interpersonal skills.

APPLY your understanding

7. **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?
8. In groups of three or four, select a management skill. **Explain** the skill to the class using a PowerPoint presentation or a report, or in the form of a lesson. Include a definition of the skill, its characteristics and application to the workplace.
9. 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 they 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.

1.11 Exam questions

Question 1 (6 marks)

Source: Adapted from VCE 2019, Business Management Exam, Section B, Q.4; © VCAA

Case study

ATI-TUDE is a Melbourne-based clothing manufacturer and retailer. It was established as a public-listed company in 2009. ATI-TUDE produces a range of innovative and quality sportswear products for men, women and children. Customers can buy products online as well as through the five ATI-TUDE stores located in Melbourne, Sydney, Brisbane, Perth and Adelaide.

ATI-TUDE's market share has risen steadily since 2009 to a peak of 15% of overall market share in the sportswear market in Australia in 2019.

The Finance Manager recently produced data for ATI-TUDE's senior managers, showing key performance indicators (KPIs) for the past two years. One of the KPIs was net profit.

The Sales and Marketing Director has identified an increase of 75% in the number of online sales over the same period of time (2018–2019). She believes that this is due to the strategy of increased investment in technology and the development of the company's website and online store.

The following KPIs, for the last 12 months, were also presented to ATI-TUDE's shareholders.

Table 1 Level of staff turnover and number of customer complaints (2019)

	Level of staff turnover (%)	Number of customer complaints
Adelaide	40%	increased ↑ 12%
Brisbane	23%	decreased ↓ 10%
Melbourne	12%	increased ↑ 10%
Perth	30%	increased ↑ 19%
Sydney	15%	decreased ↓ 5%

At the recent annual general meeting, it was announced to shareholders that the board will be streamlining business operations. As a result, the board will be closing two stores and this will lead to the termination of the employment of many staff.

Explain two skills that ATI-TUDE's Human Resource Manager will require during the period of the store closures.

 Question 2 (4 marks)

Source: VCE 2016, Business Management Exam, Section A, Q.5d; © VCAA

Other than communication, **justify** two management skills required to successfully resolve disputes.

 Question 3 (4 marks)

Source: VCE 2014, Business Management Exam, Section A, Q.3c; © VCAA

Shackleton Pty Ltd is a large-scale business producing and installing state-of-the-art security systems. Its headquarters is in Melbourne and it has numerous offices across Australia. The organisation employs 1000 people. Shackleton has grown into a leader in its field. Shackleton believes in using products of the highest possible quality to ensure that the customer has many years of problem-free use. Shackleton's CEO, Zac Shackleton, believes that if he employs capable staff, they will motivate themselves to do a good job. However, last month Zac noticed a drop in productivity and a rise in the number of customer complaints. Zac knows he must act swiftly or face competitors gaining a larger market share.

Identify and **explain** two management skills that Zac could use to address the issue of customer complaints.

 Question 4 (4 marks)

Source: VCE 2013, Business Management Exam, Q.2b; © VCAA

ZX Bank is a large retail bank that operates in all states in Australia.

In response to a recent market survey of its customers, it is considering opening its branches on Saturdays and Sundays.

Currently, the bank's employees feel that their expectations regarding conditions of employment and work-life balance are being met.

The employees have been asked about the proposed change in opening hours and 70 per cent said that they would prefer not to work on weekends but, if they had to, they would expect higher pay rates on those days.

The Human Resource Manager has responded, saying that an increase in pay rates might make opening on weekends unprofitable. The bank executives are hoping to reach an agreement with the employees that keeps pay rates at current levels.

Both sides believe that it is important to discuss this issue further.

To resolve the issue regarding the proposed change in opening hours and the employees' expectations of higher pay rates on weekends, the bank executives will need to apply a range of management skills.

Describe two management skills and justify their use in this situation.

More exam questions are available online.

1.12 The relationship between management styles and skills

KEY KNOWLEDGE

- The relationship between management styles and management skills

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.

CEO of the Commonwealth Bank Matt Comyn has been described as having a willingness to ‘get his hands dirty’ in response to problems that the business has faced. His management style values communication, getting involved at all levels and working hard.



1.12 Exercises

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1.12 Exercise

TEST your understanding

1. **Explain** how each of the six management skills would be used if a manager decided to select:
 - a. an autocratic management style
 - b. a persuasive management style
 - c. a consultative management style
 - d. a participative management style
 - e. a laissez-faire management style.
2. In your own words, **outline** the relationship between management styles and skills.

APPLY your understanding

3. 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. **Identify** the skills Josh is using. In what way is he using each of these skills?
4. 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. Individually, or in a small group, complete the following tasks.
 - a. **List** the skills you would require.
 - b. **Identify** the type of personality and management style you would hope to find for your company.
 - c. **Compare** your response to that of other groups in the class. Were there similarities or differences? **Why** might this be so?

1.12 Exam questions

▶ Question 1 (4 marks)

Explain a decision-making process that could be used by a consultative manager introducing new technology to a business.

▶ Question 2 (4 marks)

Analyse how the use of leadership as a management skill by a consultative manager would be important in the achievement of business objectives.

More exam questions are available online.

1.13 Corporate culture — both official and real

KEY KNOWLEDGE

- Corporate culture, both official and real

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.

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

1.13.1 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.

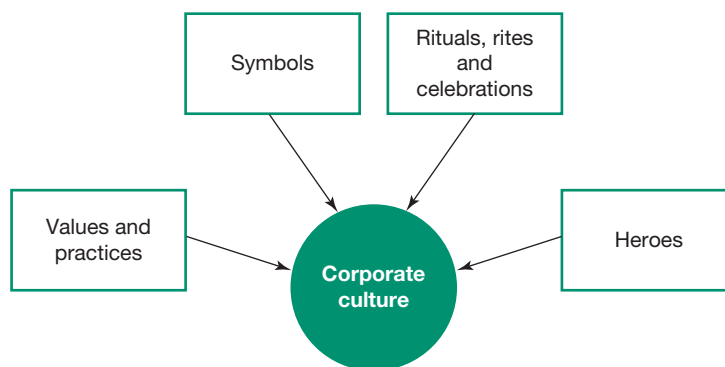
Corporate culture can also be seen in the unwritten or informal rules that guide how people in the business behave, such as the way staff dress, the language staff use, and the way that staff treat each other and customers. This is referred to as real corporate culture.

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



1.13.2 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), the PlayStation (1994), the first digital camera for cinema production (2000), the first Blu-ray players (2006) and Sustainable Oriented Recycled Plastic (SORPLAS) — a plastic made from 99 per cent recycled materials (2014).

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 or other competitions between employees. 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.

KEY IDEAS

- All businesses have their own corporate culture — the values and beliefs of the people in a business.
- Official corporate culture can be revealed 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.

1.13 Exercises

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1.13 Quick quiz

on

1.13 Exercise

1.13 Exam questions

1.13 Exercise

TEST your understanding

1. **Explain** how corporate culture can influence the success of a business.
2. **Outline** the main difference between official and real corporate culture.
3. **Why** is a positive corporate culture important when new work methods are being introduced?

APPLY your understanding

4. 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.
5. **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.
6. 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. **Identify** the symbols or celebrations you found that reflect the business's culture.

1.13 Exam questions

▶ Question 1 (1 mark)

Source: VCE 2016, Business Management Exam, Section A, Q.2a; © VCAA

Define the term 'corporate culture'.

▶ Question 2 (2 marks)

Distinguish between official corporate culture and real corporate culture.

▶ Question 3 (4 marks)

Identify two indicators (or elements) of corporate culture and **explain** how each reflects the shared values and beliefs of a business.

▶ Question 4 (2 marks)

Explain what is meant by the official corporate culture of a business.

▶ Question 5 (4 marks)

Describe two elements that may be visible to customers that would indicate a business has a poor real corporate culture.

More exam questions are available online.

1.14 APPLY YOUR SKILLS Styles, skills and corporate culture

PRACTISE YOUR SKILLS

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

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

1.14.1 Managing leadership capability and corporate culture

CASE STUDY

Recipe for life — Nikki Lawson

Nikki Lawson was the Managing Director of KFC South Pacific (SOPAC) between 2016 and 2020. KFC is an American fast food business owned internationally by Yum! Brands. Ms Lawson was recently promoted to Chief Brand Officer at Taco Bell (which is also within the Yum! Brands group of businesses). She joined Yum! Brands in 2001.

Most KFC restaurants in Australia are franchises, with the majority run by Collins Foods. Ms Lawson was responsible for the KFC restaurants in Australia and New Zealand (and the South Pacific Islands, where options are still being explored).

As the Managing Director of KFC South Pacific, Ms Lawson was focused on inspiring the young people working there to reach their goals and developing the business's corporate culture. She was dedicated to tapping into the potential of her team members and preparing them for the future, whether they stayed with the company or not.

When interviewed by CEO Magazine in 2019, Ms Lawson said, 'We launched #myplan in 2016, which is designed to help our people achieve their personal and career goals. They may want to buy a car, become a teacher or lawyer. Whatever they want, their manager can help them to make it happen. If they need more money to buy a car their manager will give them more shifts. If they want to be a teacher, we might suggest taking on board the training in our restaurants to give them practical experience. Obviously, we also identify areas for career-minded KFC team members as well. They are the ones we put on shift-supervisor and restaurant-manager training programs.'

The KFC Youth Foundation was another area of interest for Ms Lawson, who sought to offer a unique contribution to the lives of young people.

'We want young Australians to thrive beyond our restaurants, so we landed on this idea of building their confidence. If you give young people confidence they will succeed, so we partnered with various youth organisations to raise money for them. So far we've raised more than A\$1.8 million since we launched 18 months ago,' Ms Lawson said.

Thousands of employees working in leadership roles at KFC have worked their way up from entry level as teenagers, either in the kitchen or behind the counter. The company develops these staff through its Graduate Leadership and Global Emerging Leaders programs.

As a leader, Ms Lawson worked hard to develop a sustainable role, believing that teamwork determines ultimate success. It was important for her to create an environment where people wanted to work, and where loyalty and collaboration could develop naturally.

'Success through teamwork enables people to feel valued,' she explained. 'When I was coming up through the ranks and looking at how to grow the business, I was told to notice everyone around me because when people feel valued, when they're seen as people first, they go on to achieve great things. There's a real art to creating an incredible environment where people love to work while also making sure people deserve to be part of that environment. It's a fine balance. I am constantly inspired by our restaurant managers and area coaches who do it so naturally every day. They know they can't run a restaurant if they haven't got the right team with them.'

Ms Lawson also valued a workplace where the best ideas were developed. She encouraged teams to volunteer ideas and to challenge them to see if something better could be done.

'I don't believe I've got all the best ideas, nor do I believe that my leadership team always has the best ideas. We've got the humility and the openness in this company to listen and ensure the best ideas are brought to the top,' Ms Lawson said. 'People ask why I've stayed with the one company for nineteen years, and it's genuinely because I have grown as a leader, progressing and learning each year to not only become a better leader, but a better mum, a better wife and a better friend. And we do have fun — we have loads of fun.'

Source: Adapted from 'Recipe for Life: Nikki Lawson', The CEO Magazine, 14 November 2019.

Nikki Lawson was previously Managing Director of KFC South Pacific (SOPAC)



KFC is an American fast food business with headquarters in Kentucky. A subsidiary of Yum! Brands Inc, KFC specialises in fried chicken, but it also sells side dishes such as fries and coleslaw, desserts, and soft drinks. It is the world's second-largest restaurant chain. Australia has approximately 600 KFC outlets, and there are around 100 in New Zealand.



1.14.2 Management styles and skills

CASE STUDY

Healthy management

Citywide Health is a private health care 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. The CEO of Citywide 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 Citywide 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 health care.



CASE STUDY

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 or concerns of individuals. 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!'

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1.14 Exercise

1.14 Exam questions

1.14 Exercise

TEST your skills

1. Read the 'Recipe for life — Nikki Lawson' case study. **Outline** how Nikki Lawson makes use of the following management skills: communicating, delegating, leading, decision-making and interpersonal skills.
2. **Identify** the management style used by Nikki Lawson and **justify** your response.
3. **Describe** the corporate culture at KFC, using evidence from the case study.
4. **Identify** the strategies used by Nikki Lawson as the managing director of KFC South Pacific to develop corporate culture.
5. **What** role does a managing director/CEO play in changing corporate culture?
6. Read the 'Healthy management' case study. **Identify** the management style Jan Dvorak is using. **Outline** the characteristics of this style.
7. Read the 'Choco management' case study. **Identify** the management style Jack is using. **Outline** the characteristics of this style. **Compare** this style to the one being used by Carly.
8. Are the styles used in these case studies the best styles to use in each of these situations, or should any of the managers reconsider? **Justify** your answer.
9. **Identify** and **explain** two management skills that could be used by Jan Dvorak to develop the corporate culture.
10. **Identify** and **explain** two management skills that Jack could use to improve the workplace conditions at Nars Chocolates.
11. **Explain** and **apply** a decision-making process that could be used either to develop the corporate culture at Citywide Health, or at Nars for the new chocolate bar project.

APPLY your skills

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 strategy used by Nikki Lawson as the managing director of KFC South Pacific to develop corporate culture and **justify** the use of this strategy.
- b. In your opinion, what management style appears to be in action within KFC? **Justify** your response.
13. **Identify** and **explain** two management skills that are evident in the way management behaves at KFC.
14. 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.
15. 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		
Delegation		
Planning		
Decision-making		
Interpersonal		
Leadership		

- b. **Explain** how the choice of management style will affect the way in which management skills are used.
- c. Using your answers to parts a and b, **analyse** the relationship between management styles and management skills.
- d. **Analyse** the relationship between corporate culture, management styles and management skills.
16. 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.
17. 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.

1.14 Exam questions

▶ Question 1 (3 marks)

Outline the relationship between the corporate culture of a business and the management skill of leading.

▶ Question 2 (4 marks)

Identify and **explain** two management skills that would be essential for a manager wishing to adopt a participative management style.

▶ Question 3 (5 marks)

Select one management style studied this year, and **explain** two management skills that would be essential in applying that management style, giving reasons for your selection.

More exam questions are available online.

1.15 Review

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1.15.1 Summary

Types of businesses

- Each type of business has certain advantages and disadvantages.
- 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, and generally a maximum of 20.
- 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.

Business objectives

- A business objective is a desired outcome or specific result that a business intends to achieve.
- Business objectives include 'to make a profit', 'to increase market share', 'to improve efficiency', 'to improve effectiveness', 'to fulfil a market need', 'to fulfil a social need' and 'to meet shareholder expectations'.
- After a business has determined its objectives, it will develop strategies to achieve those objectives, and will eventually analyse performance using key performance indicators.

Business stakeholders

- Businesses have many stakeholders, with varying interests.
- Stakeholders for a business include owners, managers, employees, customers, suppliers and the general community.

Potential conflicts between stakeholders and corporate social responsibility considerations

- Businesses have many stakeholders, with varying interests, and these interests can conflict.
- 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.

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 responsibility for, and control of, workplace operations.

The appropriateness of management styles

- 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.
- Some management styles are more appropriate in some circumstances than others.

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.
- Delegation 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.
- Leadership 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 — both official and real

- All businesses have their own corporate culture — the values and beliefs of the people in a business.
- Official corporate culture can be revealed 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.

1.15.2 Key terms

assets items of value owned by a business

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

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

communication 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

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

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

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

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 business enterprise (GBE) 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

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

key performance indicators (KPIs) 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 ability to influence or motivate people to work towards the achievement of business objectives

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

liquidation the process of selling off the assets of a business in order to repay creditors, with any assets remaining to be distributed among shareholders

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, when directing and motivating staff, and when implementing plans to achieve business objectives

manager the person who has 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

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

partnership a business owned by two or more people (generally a maximum of 20)

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

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 one shareholder (and no maximum), 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

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

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

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



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

unlimited liability refers to when the business owner is personally responsible for all the debts of their business

vision statement states what the business aspires to become

Resources

 **Digital documents** Key terms glossary (doc-37933)
Missing word glossary quiz (doc-35205)
Crossword (doc-35206)

1.15.3 Practice school-assessed coursework

OUTCOME 1

Analyse the key characteristics of businesses, their stakeholders, management styles and skills, and corporate culture.

ASSESSMENT task — structured questions

Time allowed: 30 minutes

Marks allocated: 20 marks — Outcome 1 contributes a total of 20 marks towards the Unit 3 total of 100 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.)

SECTION A (10 marks)

Question 1 (2 marks)

Define the following terms and provide an example for each.

a. Stakeholders

1 mark

b. Shareholders

1 mark

Question 2 (2 marks)

Describe the key characteristics of management as a stakeholder.

Question 3 (3 marks)

Distinguish between official and real corporate culture.

Question 4 (3 marks)

Explain how the experience of employees may impact the management style adopted by a manager.

SECTION B (10 marks)

Commonwealth Bank of Australia

The Commonwealth Bank of Australia, or CommBank, is an Australian multinational bank with businesses across New Zealand, Asia, the United States and the United Kingdom. It provides a variety of financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. The Commonwealth Bank is the largest Australian listed company on the Australian Securities Exchange as of August 2015 with brands including Bankwest, Colonial First State Investments, ASB Bank (New Zealand), Commonwealth Securities (CommSec) and Commonwealth Insurance (CommInsure).

Founded in 1911 by the Australian government and fully privatised in 1996, the Commonwealth Bank is one of the 'big four' Australian banks, along with National Australia Bank (NAB), ANZ and Westpac. The bank was listed on the Australian Stock Exchange in 1991.

As of June 2022, the Commonwealth Bank employs around 45 000 people 'from all walks of life, with different goals, experiences and perspectives'. At the Commonwealth Bank, staff are encouraged and supported to be themselves. The bank considers itself a place where employees can feel confident expressing who they really are.



Read the 'Commonwealth Bank of Australia' case study, then answer the following questions.

Question 1 (1 mark)

Identify the type of business structure adopted by the Commonwealth Bank.

Question 2 (2 marks)

Explain why this structure is appropriate for the Commonwealth Bank.

Question 3 (2 marks)

Explain the interests of one stakeholder suggested by the case study.

Question 4 (4 marks)

Explain how the management skills of leadership and communication are utilised by the Commonwealth Bank.

Question 5 (1 mark)

State the management style suggested by the information in the case study.

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Digital document School-assessed coursework (doc-37968)

1.15 Exercises

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1.15 Multiple choice quiz

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1.15 Exercise

1.15 Exam questions

1.15 Exercise

TEST your understanding

1. **Describe** the key characteristics of the following types of business.
 - a. Sole traders
 - b. Partnerships
 - c. Private limited companies
 - d. Public limited companies
 - e. Social enterprises
 - f. Government business enterprises

2. **Identify** and **explain** three advantages and disadvantages of each type of business.
3. Does every business have profit as its main objective? **Explain** your response.
4. **Outline** the difference between a vision statement and a mission statement.
5. **Explain** what a strategy is, using an example.
6. **Explain** the difference between effectiveness and efficiency.
7. **Define** the term 'key performance indicator' and **explain** what they are used for.
8. In what ways can stakeholder interests potentially conflict?
9. **Explain** the importance of management styles to a business.
10. **Compare** the autocratic management style to the persuasive management style.
11. **Identify** two advantages and two disadvantages of both the autocratic and persuasive management styles.
12. **Distinguish** between the consultative and participative management styles.
13. **Identify** two advantages and two disadvantages of both the consultative and participative management styles.
14. **Describe** the laissez-faire management style and **outline** two advantages and two disadvantages of this style.
15. **Outline** the factors a manager will need to consider when choosing an appropriate management style.
16. **Define** each of the following management skills and **outline** their main features.
 - a. Communicating
 - b. Delegation
 - c. Leadership
 - d. Interpersonal skills
17. **Outline** the steps involved in a planning process.
18. **Define** 'decision-making' and **identify** the steps in a decision-making process.
19. **Explain** how management skills relate to the management styles.
20. **Define** 'corporate culture'.
21. **Explain** the difference between official and real corporate culture.
22. Briefly **outline** elements or indicators of the type of culture a business has.

APPLY your understanding

23. **Summarise** the characteristics and objectives of the various types of businesses by completing the following table.

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

24. **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
25. 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.
26. **Explain** how attempting to meet all stakeholder expectations can lead a business to behave in a socially responsible manner.
27. Chloe is the marketing manager for Exceptional Technology Company. She prefers to use a participative management 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.
 - a. **Discuss** Chloe's use of the participative management style.
 - b. **Identify** one management skill that Chloe is making use of and **justify** why it is necessary for the successful management of Exceptional Technology Company.

28. 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.
29. **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		

1.15 Exam questions

▶ Question 1 (2 marks)

VicEd is a government business enterprise (GBE). **Explain** the difference between a GBE and one other type of business.

▶ Question 2 (6 marks)

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.

- Discuss** Koda's decision to operate his business as a sole trader. **4 marks**
- Explain** one business objective that Koda's business might aim to achieve. **2 marks**

▶ Question 3 (2 marks)

Distinguish between the objectives to fulfil a market need and to fulfil a social need.

▶ Question 4 (2 marks)

The demands of stakeholders on a business potentially conflict. **Explain** why this may occur.

▶ Question 5 (6 marks)

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.

▶ Question 6 (2 marks)

Rochelle uses the autocratic management style. **Identify** two factors indicating the appropriateness of this style.

▶ Question 7 (2 marks)

Explain the difference between management styles and management skills.

▶ Question 8 (4 marks)

Describe two skills that would be appropriate for a manager making use of the autocratic management style.

▶ Question 9 (4 marks)

Using examples, **explain** the relationship between management styles and management skills.

▶ Question 10 (12 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.

- a. **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**

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TOPIC

2 Human resource management

UNIT 3 AREA OF STUDY 2

OUTCOME 2

On completion of this topic you should be able to explain theories of motivation and apply them to a range of contexts, and analyse and evaluate strategies related to the management of employees.

LEARNING SEQUENCE

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2.1 Overview

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2.1.1 Why it is important

It is said that employees are a business's most important resource. However, employees are more than just resources. They are, first and foremost, people — people with their own hopes, ambitions, likes and dislikes and ultimately their own individual reasons for working.

TechnologyOne is a public listed company committed to providing a workplace environment in which its employees can realise their full potential. The business provides enterprise software (software relating to business-oriented tools, including payroll, supply chain, budgeting, performance planning and asset management) to more than 1000 customers including corporations, government departments and statutory authorities. The business employs over 1200 staff in 14 offices around the world with headquarters in Brisbane.



For TechnologyOne, its employees are seen as the source of its competitive advantage. Its Compelling Customer Experience (CCE) program provides staff with support and ongoing training in skills for delivering great customer service. The company has been recognised in the Australian Business Awards as an Employer of Choice a number of times, most recently in 2021.

When you learn about the management of employees in this topic, you will be studying how businesses motivate employees, train employees, manage the performance of employees and manage termination, as well as gaining an overview of workplace relations.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Telstra

Number of employees	26 000
Net profit	\$1.9 billion
Revenue	In excess of \$26 billion
CEO	Vicki Brady
Flagship products	Fixed line, mobile phone, internet, data and network services, and pay TV
Head office	Melbourne, Victoria

Strategies related to the management of employees at Telstra

Telecommunications business Telstra Corporation Limited is a well-known Australian company with a long history in this country and a strong commitment to being a great place to work. The company employs approximately

26 000 people across 14 geographic locations. Telstra provides stimulating and interesting work, rewards and benefits, opportunities for empowerment, and flexible workplace conditions to motivate employees.

Unfortunately, the human resources area faced a number of challenges during the COVID-19 pandemic. In March 2020, Telstra told its Australian-based office staff to work from home, if they could. While not all employees were able to work remotely, Telstra's human resources area was suddenly required to support a large amount of team members working in a range of locations.



As call centre volumes increased in the early stages of the pandemic, Telstra was also required to recruit additional team members. Employees are a crucial input in a business's production process and without employees continuing to work throughout this time, Telstra would not have been able to continue meeting the needs of its customers. Because the teaching of skills was necessary for these new employees, as well as existing employees, Telstra's human resources area implemented remote training and virtual training. To ensure the effective management of employees, the company invested over \$21.4 million in training and development in the 2021 financial year.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: SunRice

Number of employees	2000
Revenue	\$1.3 billion (FY 2022)
Net profit	\$48.7 million (FY 2022)
CEO	Rob Gordon
Flagship products	Rice, rice flour, snacks and rice meals
Head office	New South Wales

SunRice strike action

It is unlikely that you would have heard of the business name Ricegrowers Limited, but it is one of Australia's leading food exporters. The ASX-listed company trades as SunRice and manufactures many products including rice, rice flour, snacks and rice meals. SunRice employs approximately 2000 people.

Early in 2022, SunRice workers walked off the job for two days in what they claimed was an attempt to make the company understand that their pay needed to be increased and work conditions improved. More than 300 workers from SunRice and its subsidiaries took strike action at six sites across NSW and Victoria.



United Workers Union food and beverage lead Tom Czech said that union members had been attempting to bargain in good faith for eight months but would not stand for an agreement that slashes conditions. 'SunRice is a company which continues to grow and record profits but is refusing modest wage rises for the very workers who have contributed to its successes', he said.

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 knowledge	Subtopic
☐ The relationship between human resource management and business objectives	2.3
☐ Key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria)	2.4
☐ Motivation strategies including performance-related pay, career advancement, investment in training, support strategies and sanction strategies	2.6
☐ Advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation	2.6
☐ Training options including on-the-job and off-the-job training, and the advantages and disadvantages of each	2.9
☐ Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation	2.11
☐ Termination management including retirement, redundancy, resignation and dismissal, entitlement considerations and transition considerations	2.13
☐ The roles of participants in the workplace including human resource managers, employees, employer associations, unions and the Fair Work Commission	2.14
☐ Awards and agreements as methods of determining wages and conditions of work	2.15
☐ An overview of the dispute resolution process including mediation and arbitration	2.18

Key skills

These are the skills you need to demonstrate.

Key skills
☐ Identify, define, describe and apply business management concepts and terms
☐ Interpret, discuss, compare and evaluate business information, theories and ideas
☐ Analyse case studies and contemporary examples of business management
☐ Apply business management knowledge to practical and/or simulated business situations
☐ Propose, justify and evaluate management strategies to improve business performance

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Resources



Digital document Key terms glossary (doc-37934)



Weblinks SunRice
Telstra

2.2 BACKGROUND KNOWLEDGE Overview of the employment cycle

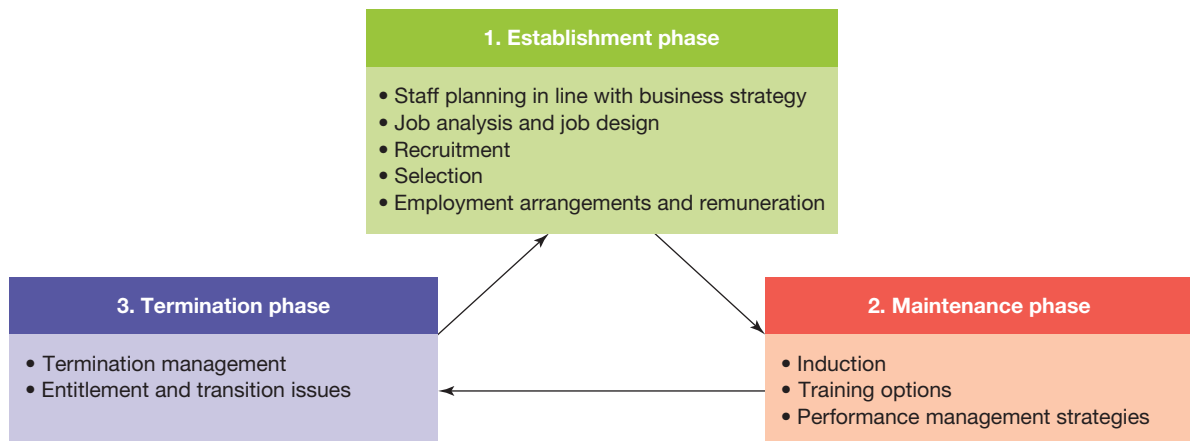
BACKGROUND INFORMATION

- The employment of staff involves a three-stage cycle, consisting of the establishment phase, the maintenance phase and the termination phase.

2.2.1 The employment cycle

As you study the effective management of employees, you will be working through part of the employment cycle. The employment cycle refers to the relationship between a business and its employees throughout the stages of each employee's time with the business, 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 following diagram. The establishment phase and part of the maintenance phase (induction) were covered in Unit 2. In Unit 3, we will look in detail at the training and performance management aspects of the maintenance phase, and 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.

Planning

The staff planning process begins when a business decides to consider its 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 job identified. This is most commonly done using advertisements on employment websites, employment agencies and sometimes by 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 undertake the job. 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 wages or salary package provided 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 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 ensuring that the new employee is familiar 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.

The induction period begins on the first day in a new job and will be completed within the first few days.



Training

Employees will usually take on training throughout their time with a business. This involves learning new skills and knowledge, and might be necessary in order to adapt to a change in business processes or the duties or tasks that the employee is required to carry out.

Performance management

All businesses seek to achieve their objectives by improving productivity, and getting the best 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 2.11.

remuneration payments made to the employee for work or a service performed

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. Subtopic 2.13 covers these issues in more detail.

Termination management

The employment relationship may end voluntarily, when an employee retires at the end of their working life. An employee may also resign and leave their job to take up a position with a different company. Departures of this type will be managed differently from involuntarily departures. Involuntarily departures occur when a position becomes redundant. Redundancy might occur when a job no longer exists (usually due to technological changes, restructuring, or a merger or acquisition) and the person can no longer be retrained. Sometimes an employee may be dismissed, such as in cases of unsatisfactory behaviour.

When an employee leaves a business, the termination needs to be managed in a suitable way. This involves the employer considering any entitlements that the employee is owed, such as annual leave or long-service leave. The employer will also need to take into account transition considerations, such as offering support and assistance to employees who are dealing with a change in employment circumstances.

2.2 Exercises

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2.2 Quick quiz

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2.2 Exercise

2.2 Exercise

TEST your understanding

1. **Identify** 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, **identify** the additional training that 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? **Identify** the issues that might arise with each type of termination.

2.3 The relationship between human resource management and business objectives

KEY KNOWLEDGE

- The relationship between human resource management and business objectives

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2.3.1 Human resource management

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.

Telstra is a great place to work. The business was recognised by LinkedIn as one of the top companies to work for in Australia for 2022. Employing over 26 000 employees, Telstra prides itself on providing employee benefits such as flexible working, pay for performance and unlimited learning.

Positive work relationships between management and staff are considered vital to the company's success. Telstra has its own designated human resources and careers web pages that include specific information for potential employees about interviews and the selection process.

2.3.2 Relationship to business objectives

You will recall from topic 1 that business objectives are the desired outcomes or specific results that a business intends to achieve. The main objective of most businesses is to maximise profit. As employees make essential contributions to the achievement of these business objectives, the relationship between managing employees and business objectives is an important one. The successful management of employees should contribute to profit and other objectives including increased sales, growth in market share, a positive customer experience and improved **productivity**.

Businesses such as Telstra 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.

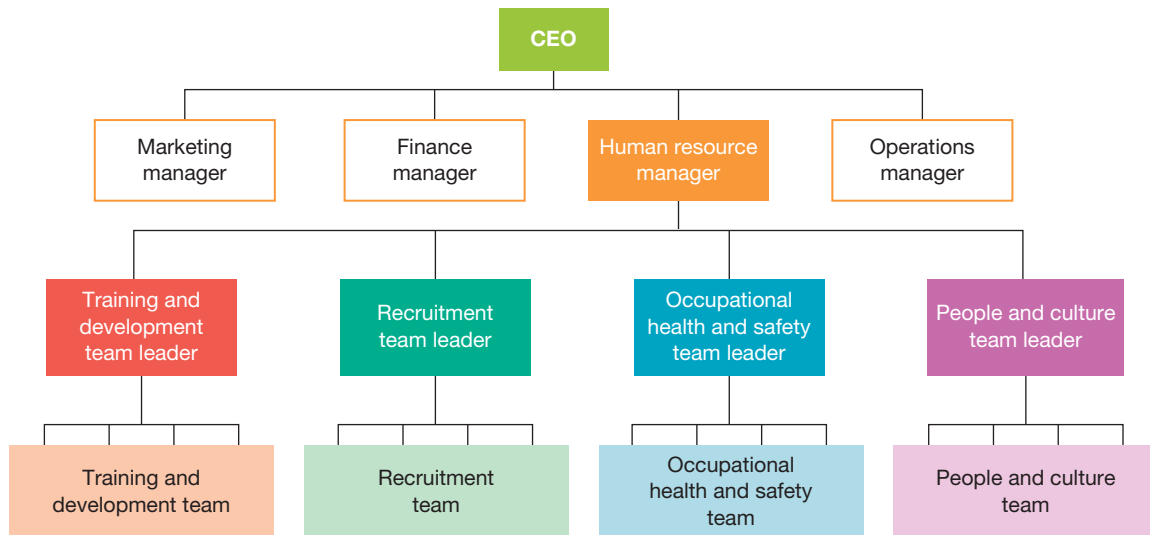
A large-scale business will usually establish a human resource function or department to be responsible for all aspects of staffing (see the following organisational structure diagram). The human resource manager will be involved in determining business objectives, along with the other senior managers.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

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

productivity a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services)

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



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

How human resource strategies can support business objectives

Business objectives	Human resource objectives	Human resource 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 human resources area 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 resource management area 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 to improving business productivity. No business objective can be achieved unless employees are able to make a positive contribution.

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



The relationship between human resource management and business objectives can be described in several ways.

**Relationships
between
human resource
management
and business
objectives**

- Employees are a crucial input in the operations of a business and, ultimately, it is staff who will achieve the objectives of the business.
- Well-designed strategies related to the management of employees, including recruitment, training and performance related pay, help to ensure that employees contribute effectively to the achievement of business objectives.
- The human resources area will be involved in determining business objectives and will work closely with other areas in the business to support them in achieving objectives.
- The human resource department's focus on positive work and employment relationships should lead to a motivated staff, increased productivity and the achievement of business objectives.

CASE STUDY

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 human resource 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.



CONTEMPORARY CASE STUDY

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. The company supports its team with benefits that include physical, financial and emotional wellbeing for them and their families.



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>.

KEY IDEAS

- 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.
- The relationship between human resource management and business objectives is very important as it is staff who achieve the business's objectives and human resource strategies that help ensure objectives are achieved.

2.3 Exercises

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2.3 Quick quiz

on

2.3 Exercise

2.3 Exam questions

2.3 Exercise

TEST your understanding

1. **Outline** what is meant by 'human resources'.
2. **Define** what you understand by 'human resource management'.
3. **Explain** why human resources are the most important resource used by businesses.
4. **Describe** the relationship between HR and business objectives.
5. **Outline** why employee motivation is central to HR management.

APPLY your understanding

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

2.3 Exam questions

▶ Question 1 (2 marks)

Outline the relationship between human resource management and business objectives.

▶ Question 2 (4 marks)

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. **Identify** two human resource strategies Jess might implement to achieve the business objective explained in part a. **2 marks**

▶ Question 3 (4 marks)

Analyse the importance of the relationship between operations management and business objectives.

▶ Question 4 (4 marks)

With reference to a contemporary business case study, **explain** how managing employees relates to business objectives.

More exam questions are available online.

2.4 Theories of motivation

KEY KNOWLEDGE

- Key principles of the following theories of motivation: Hierarchy of Needs (Maslow), Goal Setting Theory (Locke and Latham) and the Four Drive Theory (Lawrence and Nohria)

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2.4.1 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,

motivation the individual, internal process that directs, energises and sustains a person's behaviour

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, motivation is much more complicated than just these two variables. Different theories have been formulated showing that individual employees respond differently to various motivational techniques.

Motivation — carrot or stick approach

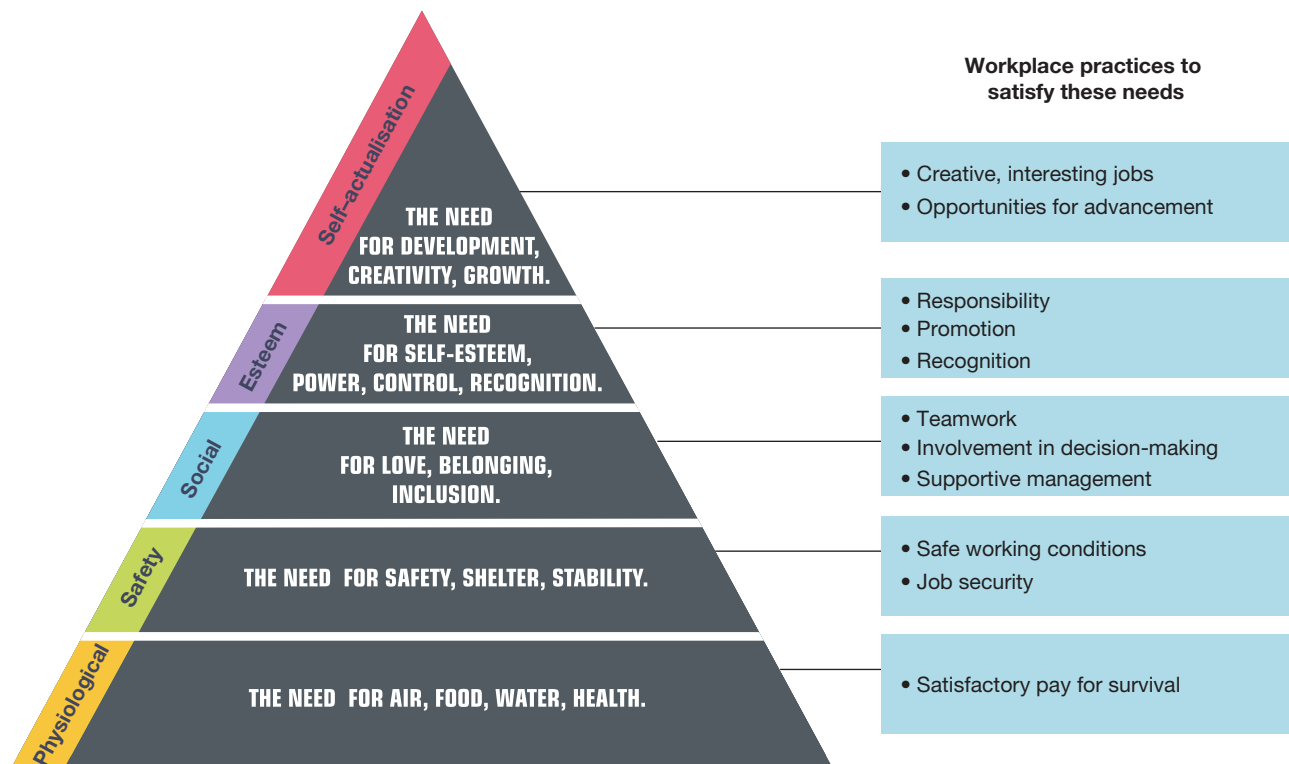


2.4.2 Maslow's Hierarchy of Needs

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 the **Hierarchy of Needs** (see the following figure).

need a personal requirement
Hierarchy of Needs Maslow's sequence of human needs in the order of their importance

Maslow's Hierarchy of Needs



The Hierarchy of Needs includes five needs: physiological, safety (or security), social, esteem and self-actualisation. The most basic needs are situated at the bottom of the hierarchy, progressing to higher level needs at the top. Maslow's theory assumes that each need will act as a source of motivation while it remains unsatisfied. An employee's needs at a specific stage must be fulfilled before they can move up to the next level. Once a particular need is satisfied it is no longer a motivator.

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.

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 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.

Strengths and weaknesses of Maslow's Hierarchy of Needs

Strengths	Weaknesses
- Allows management to develop an understanding of individual needs — all individual employees are different and they all have specific needs. - 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. - The theory is fairly easy to understand — most managers should be able to make use of the Hierarchy of Needs and employees should be able to relate to it.	- Maslow's Hierarchy of Needs is only a theory — it is not supported by empirical evidence and the stages in the hierarchy do not apply to all individuals. - 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. - The Hierarchy of Needs is very simplistic and one motivation strategy should be able to satisfy several needs at the same time.

on Resources

Video eLesson Theories of motivation: Hierarchy of Needs (Maslow) (eles-2925)

EXAM TIP

The **Unit 3, Area of Study 2** outcome states that you need to 'explain theories of motivation and apply them to a range of contexts'. The key skills state that you need to 'interpret, discuss, compare and evaluate business information, theories and ideas'. The outcome and key skills indicate that you should know the Hierarchy of Needs well enough that you are able to relate it to a practical example or a case study, or link it to an example or case study, as well as knowing the strengths and weaknesses/limitations of Maslow's theory of motivation. You should also be able to point out similarities and differences between Maslow's Hierarchy of Needs and other theories of motivation.

2.4.3 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.

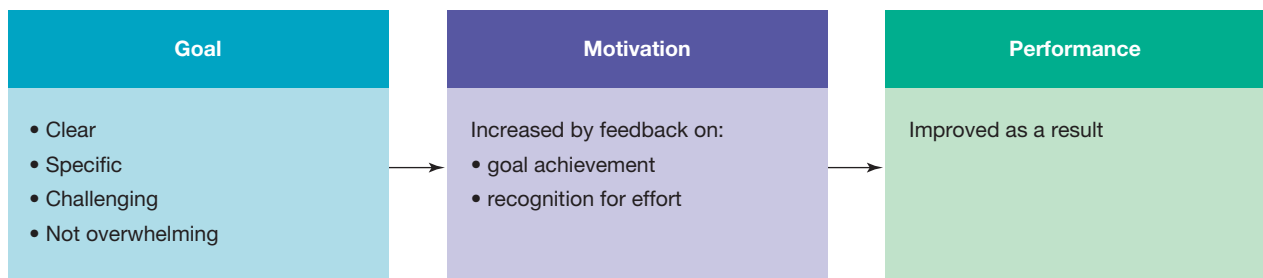
That is, Locke found that in order to motivate employees, goals must be clear, specific and provide a challenge. The employee must also be committed to meeting the challenge, and it helps if each employee receives regular feedback that provides clarification and adjustment of the goals and recognition 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.

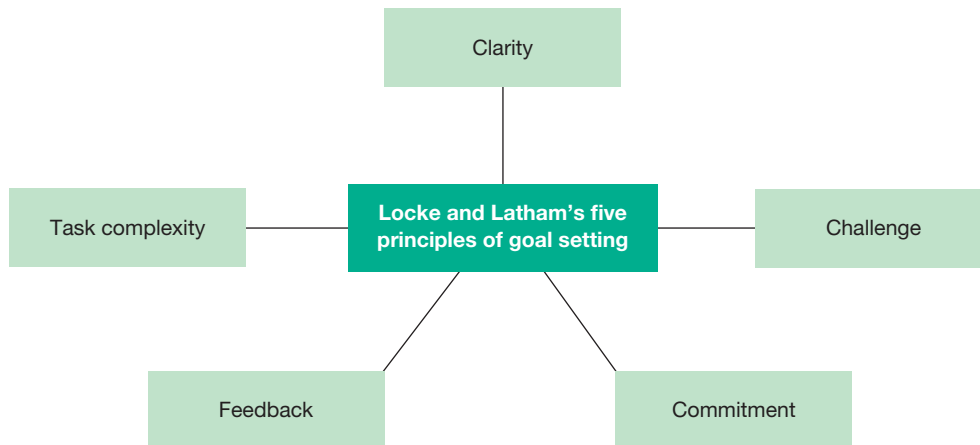


Locke and Latham's theory has been applied in many circumstances over a number of years.



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.

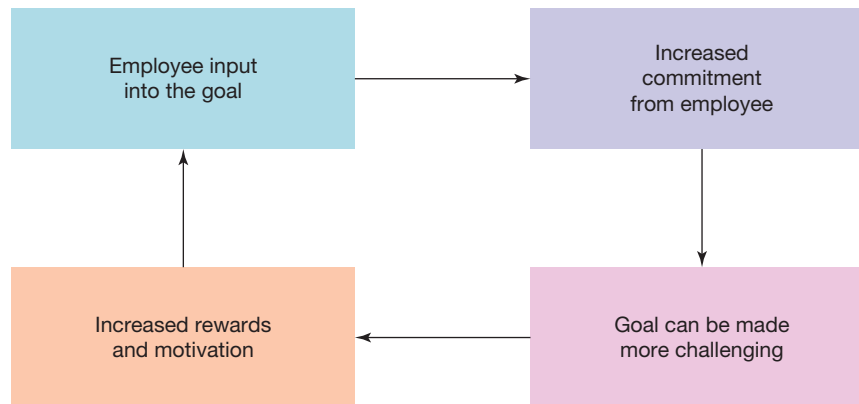
Challenge

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.

The importance of employee commitment to a 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.

Task complexity

It is likely that setting a clear, specific and challenging goal will require a number of complex tasks to be carried out in order to achieve the goal. While goals should be challenging enough to motivate employees, it is important that the level of complexity of the associated tasks should not be overwhelming. Rather, the tasks set to achieve the goal should be straightforward enough that employees feel that they are able to fulfil them.

Additional training may be required to assist the employee to complete the task – it is important that this 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.

Regular feedback can ensure that an employee is on track to achieve goals.



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** outcome states that you need to 'explain theories of motivation and apply them to a range of contexts'. The key skills state that you need to 'interpret, discuss, compare and evaluate business information, theories and ideas'. The outcome and key skills indicate that you should know the Goal Setting Theory well enough that you are able to relate it to a practical example or a case study, or link it to an example or case study, as well as knowing the strengths and weaknesses/limitations of Locke and Latham's theory of motivation. You should also be able to point out similarities and differences between Locke and Latham's Goal Setting Theory and other theories of motivation.

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. - Many studies support the theory — that challenging and specific goals, together with commitment and feedback will motivate employees. - Staff will perform at a higher standard due to their clear and specific goals, leading to a higher rate of productivity. - Better relationships between management and employees will occur as managers work with each employee to collaboratively set goals and provide feedback.	- Setting goals that are too vague can lead to poor performance — goals that are not challenging (or that are overwhelming) can become demotivating. - Individual employee goals may clash with each other or with business objectives, or may not support the attainment of business objectives. - Employees may focus so intently on their goals that they ignore other aspects of their job. - 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.

on Resources

 **Video eLesson** Theories of motivation: Goal Setting Theory (Locke and Latham) (eles-2926)

2.4.4 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 four drives as fundamental to all human behaviour (see the following figure).

Lawrence and Nohria's Four Drive Theory is based on the concept of drives that exist within all of us.



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.

on Resources

 **Video eLesson** Theories of motivation: Four Drive Theory (Lawrence and Nohria) (eles-2927)

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.

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. • Four Drive Theory is very adaptable to complicated or intricate environments or situations. • The four drives will convert into effort that is directed at improving behaviour, thereby improving business performance and achieving objectives.	• 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. • 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.

EXAM TIP

The **Unit 3, Area of Study 2** outcome states that you need to 'explain theories of motivation and apply them to a range of contexts'. The key skills state that you need to 'interpret, discuss, compare and evaluate business information, theories and ideas'. The outcome and key skills indicate that you should know the Four Drive Theory well enough that you are able to relate it to a practical example or a case study, or link it to an example or case study, as well as knowing the strengths and weaknesses/limitations of Lawrence and Nohria's theory of motivation. You should also be able to point out similarities and differences between Lawrence and Nohria's Four Drive Theory and other theories of motivation.

KEY IDEAS

- 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.
- 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.
- 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.

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2.4 Quick quiz



2.4 Exercise

2.4 Exam questions

2.4 Exercise

TEST your understanding

1. **Define** the term 'motivation'.
2. **Identify** the five needs in Maslow's motivation theory.
3. **Explain** how goal setting affects a person's motivation.
4. **Identify** Lawrence and Nohria's four drives.

APPLY your understanding

5. **Explain** why Maslow's theory is important.
6. Have you set goals for yourself recently? **Explain** how this affected your motivation.

2.4 Exam questions

▶ Question 1 (6 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.1c; © VCAA

123 Childcare Centre is a business operating as a partnership. It provides childcare services for children aged five and under. Mary Kidd, one of the partners at the centre, wants to meet the demand for high-quality and reliable childcare in her local area. However, employees complain of long hours and their motivation is low. Staff turnover is a problem and Mary is unsure of how to address this.

Maslow's Hierarchy of Needs has been suggested to Mary as an appropriate motivational theory for improving employee performance. **Describe** this theory of motivation and **explain** how it could be applied at 123 Childcare Centre to reduce the level of staff turnover.

▶ Question 2 (4 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.3c; © VCAA

Car Bright is a car cleaning and detailing service business owned by Aaron Bright. It charges higher prices than its competitors. Following a staff survey, it was found that some of Car Bright's employees are lacking motivation. In addition, some customers have complained of slow service and that their cars have been returned not fully cleaned.

Locke and Latham's Goal Setting Theory has been recommended to Aaron to motivate his employees. **Examine** whether this theory is appropriate for Car Bright.

▶ Question 3 (4 marks)

Source: VCE 2014, Business Management Exam, Q.1b; © VCAA

Welham Consulting is a large accounting firm with an excellent reputation. Welham Consulting takes pride in hiring the best university graduates. It is also well known for paying its staff high salaries that are above the industry average. Despite this, staff turnover is unacceptably high and the Senior Manager believes that not all staff are working to their full potential.

Explain, with reference to Maslow's hierarchy of needs, why the high salaries at Welham Consulting do not appear to be motivating staff.

 Question 4 (4 marks)

Outline the strengths and weaknesses/limitations of Lawrence and Nohria's Four Drive Theory.

 Question 5 (6 marks)

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.

More exam questions are available online.

2.5 EXTEND YOUR KNOWLEDGE Comparing theories of motivation

EXTEND YOUR UNDERSTANDING OF THIS 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. This is important to remember because you need to be able to analyse and evaluate motivation theories and strategies related to the management of employees.

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

 **Video eLesson** Comparison of motivation theories (eles-2928)

2.5.1 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.

Extrinsic rewards involve employees being given a tangible or physical reward for doing something because they want to earn the reward (or avoid a punishment) whereas intrinsic rewards involve employees feeling a sense of satisfaction or achievement — usually arising from within the employee who is doing the activity or acting in a certain way.



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.

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.

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.

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2.5 Exercise

2.5 Exam questions

2.5 Exercise

TEST your understanding

1. **Distinguish** between extrinsic rewards and intrinsic rewards and provide an example of each.
2. **Identify** one similarity between Maslow's Hierarchy of Needs and Locke and Latham's Goal Setting Theory.
3. **Identify** one difference between Lawrence and Nohria's Four Drive Theory and Locke and Latham's Goal Setting Theory.

EXTEND your understanding

4. **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
5. 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 must be between 400 and 500 words and should include responses to the following questions.
 - a. **Identify** the similarities and differences between the three theories of motivation you have studied.
 - b. **Identify** and **justify** the theory you would recommend be adopted for the business.

2.5 Exam questions

▶ Question 1 (4 marks)

Describe two differences between Maslow's and Locke and Latham's theories of motivation.

▶ Question 2 (2 marks)

Explain one similarity between Locke and Latham's and Lawrence and Nohria's theories of motivation.

▶ Question 3 (4 marks)

Distinguish between Maslow's and Lawrence and Nohria's theories of motivation.

▶ Question 4 (4 marks)

Compare Locke and Latham's and Lawrence and Nohria's theories of motivation.

▶ Question 5 (4 marks)

Compare Maslow's and Locke and Latham's theories of motivation.

More exam questions are available online.

2.6 Motivation strategies

KEY KNOWLEDGE

- Motivation strategies including performance-related pay, career advancement, investment in training, support strategies and sanction strategies
- Advantages and disadvantages of motivation strategies and their effect on short- and long-term employee motivation

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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. 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. However, as you are already aware, motivation is not as straightforward as this. Not all needs or drives will be met through money. Effective managers and business leaders recognise the importance of providing methods (or devising strategies) of motivation that go beyond money but instead meet the individual needs and ambitions of their employees. At the same time, managers should be aware that each motivation strategy has advantages and disadvantages, and that each will have different effects on short- and long-term employee motivation.

2.6.1 Performance-related pay

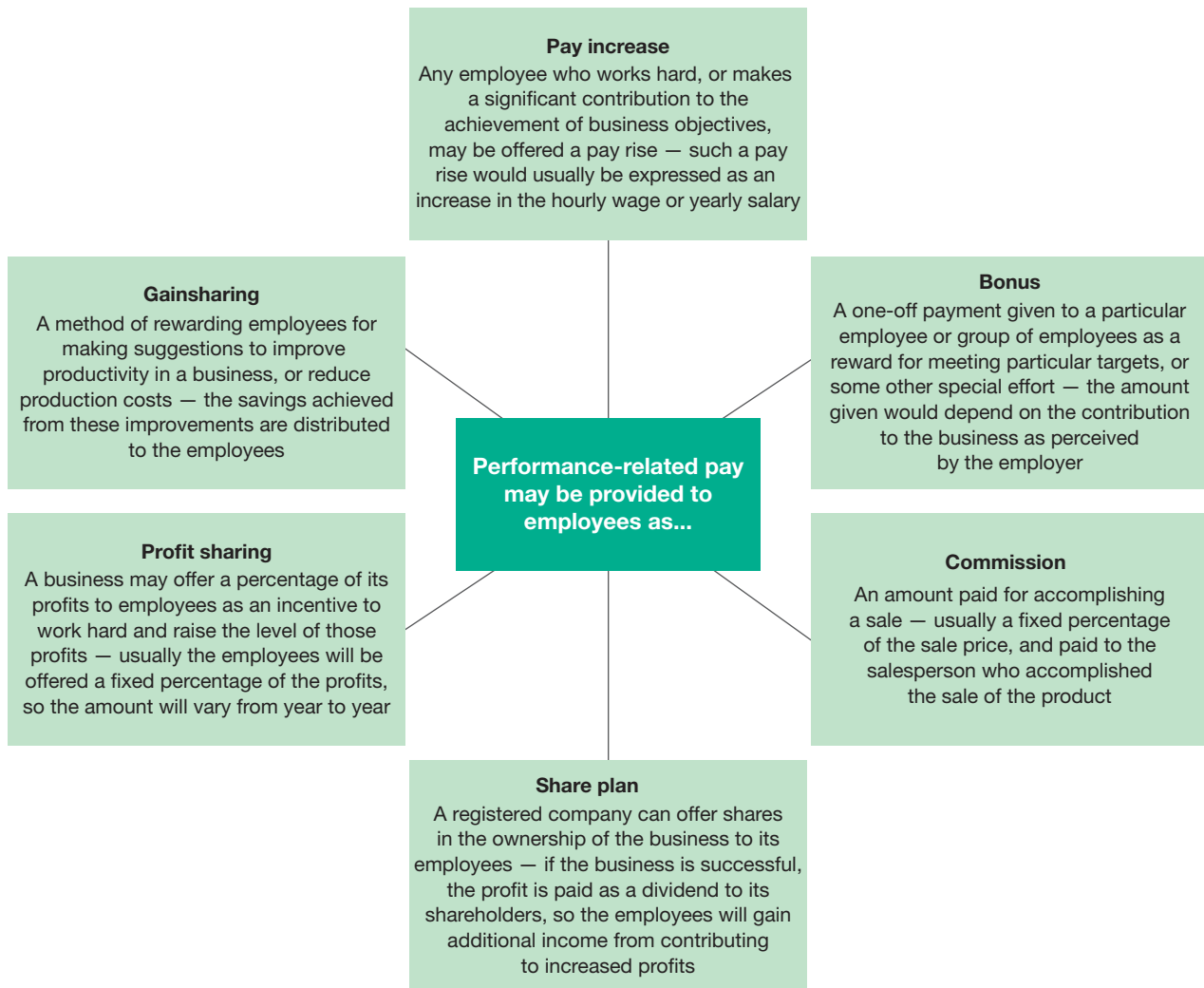
Performance-related pay is a means of rewarding employees through monetary compensation when they perform their duties in a manner that equals or exceeds a set of pre-determined goals or criteria. It is usually designed as a means of motivating employees. An employer can provide motivation with direct payments to employees, such as pay increases, bonuses and commissions, as well as other methods including share plans, profit sharing and gainsharing. Employees who achieve the set standards, or reach above the standards, will be motivated to work hard at their job and perform well in order to receive the financial incentive.

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.



performance-related pay the monetary compensation provided to employees relative to how their performance is assessed according to set standards

There are a number of ways in which a business may provide performance-related pay to employees.



Effects of performance-related pay 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.

The advantages and disadvantages of performance-related pay

Advantages

- Provides a financial reward to employees directly related to improved performance
- Should improve productivity levels, consequently improving levels of engagement and commitment to the business
- Rewards are generally predictable and easily calculated
- Will only apply when there is actual performance improvement



- Other employees doing similar work may expect similar rewards, even if their performance is not as good, leading to jealousies, conflict and lower morale.
- A business may not be able to afford performance-related pay
- If the value of the rewards is not maintained or increased each year, it may lead to employee dissatisfaction
- If base pay is too low, some employees may not earn enough, so may leave, resulting in high staff turnover
- Not all employees will be motivated by pay

Disadvantages

EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to 'discuss, compare and evaluate business information, theories and ideas'. 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.

2.6.2 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.

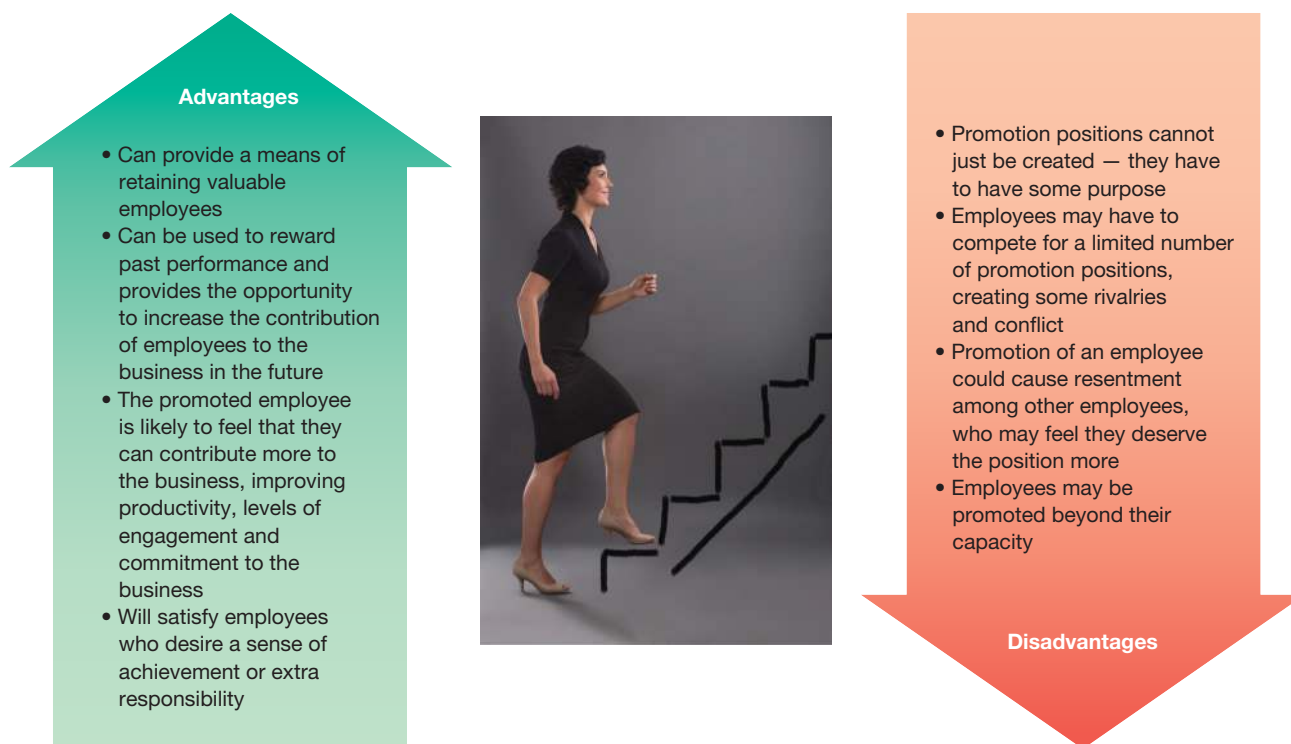
Career advancement can satisfy some of the higher level needs in Maslow's hierarchy and some of Lawrence and Nohria's four drives.



Effects of career advancement on short- and long-term employee motivation

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
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



EXAM TIP

The **Unit 3, Area of Study 2** key skills state that you need to propose and justify ‘management strategies to improve business performance’. 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.

2.6.3 Investment in training

Investment in training refers to the direction of finances, or resources such as time, 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.

Effects of investment in training on short- and long-term employee motivation

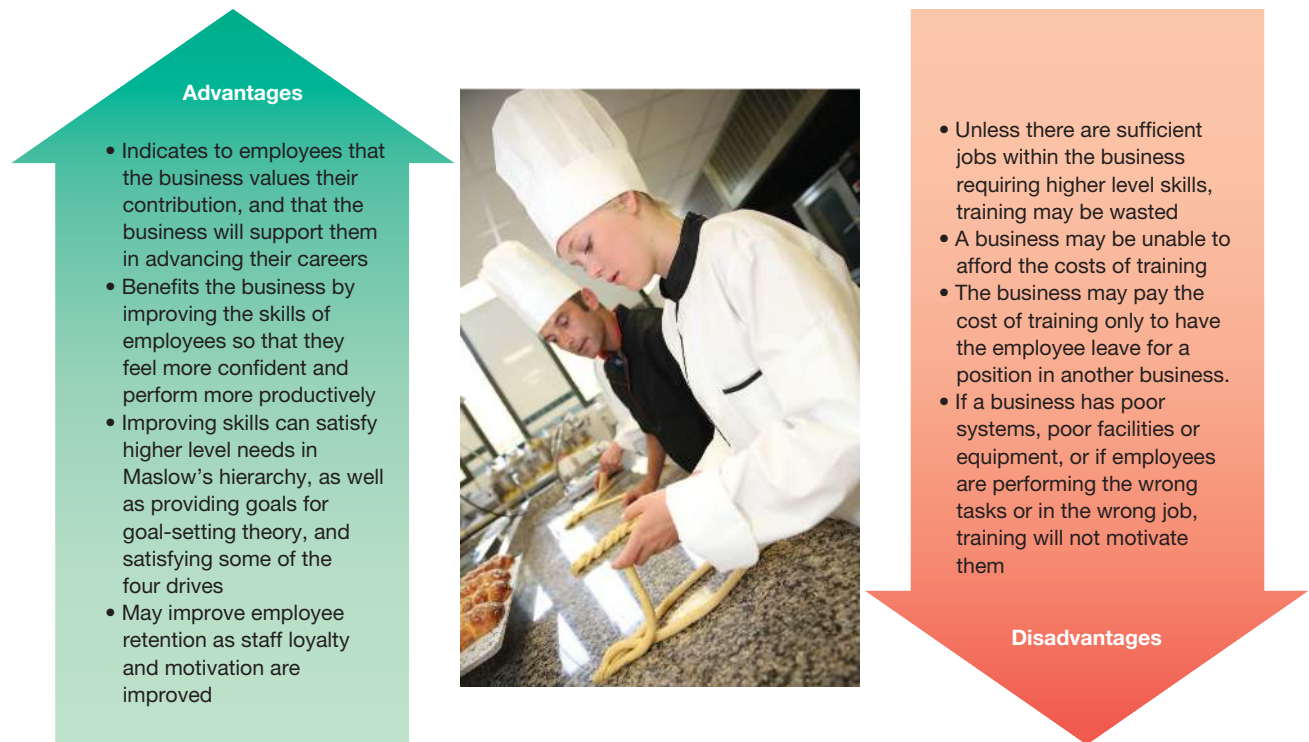
Providing employees with additional skills can increase job satisfaction, and promote higher levels of both short- and long-term motivation. A more highly skilled job will usually pay more, so naturally employees will take the opportunity to take on additional training in the short term to give them 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

investment in training the direction of finances, or resources such as time, into the teaching of skills to employees

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.

The advantages and disadvantages of investment in training



2.6.4 Support strategies

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.

Effects of support strategies on short- and long-term employee motivation

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.

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

Advantages

- Many forms of support, such as encouragement, can be provided with little to no cost
- Services such as counselling and mentoring should help employees to develop meaningful professional relationships
- Support and encouragement can positively influence employee attitudes and help them to improve in confidence, improving motivation



- It may be difficult to find reasons to support and encourage some employees
- Employees may become too dependent on the support service provided (whether it be counselling or mentoring) or on the person offering the counselling or mentoring.
- Requires a business to have a positive corporate culture

Disadvantages

2.6.5 Sanction strategies

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. Sanctions may range from a verbal warning, to a re-assignment of duties, a demotion or a reduction in salary. In serious cases, an employee may be terminated from the business.

sanction a form of penalty or discipline imposed on an employee for poor performance

Effects of sanction strategies on short- and long-term employee motivation

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.





KEY IDEAS

- Performance-related pay refers to the monetary compensation provided to employees relative to how their performance is assessed according to set standards. Performance-related pay can be provided to employees through direct payment incentives such as pay increases, bonuses and commissions, as well as providing employees with the opportunity to share in the performance of the business through share ownership, profit sharing and gainsharing.
- 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, or resources such as time, 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.

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2.6 Quick quiz



2.6 Exercise

2.6 Exam questions

2.6 Exercise

TEST your understanding

1. **Identify** two methods of performance-related pay.
2. **Define** the term 'career advancement'.
3. **Outline** one possible advantage and one possible disadvantage of investment in training.
4. **Distinguish** between support strategies and sanction strategies.

APPLY your understanding

5. **Explain** why it is important for employers to provide career advancement opportunities.
6. **Explain** why investment in training is able to provide benefits for both employers and employees.
7. **Outline** why it is usually better to use support strategies rather than sanction strategies.
8. Jane is the 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.
 - a. **Explain** how each of the following strategies may help Jane to meet the motivational needs of employees.
 - Providing career advancement opportunities
 - Investing in the training of employees
 - b. **Identify** and **explain** three difficulties that Jane may face in implementing these strategies.

2.6 Exam questions

▶ Question 1 (3 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.5c; © VCAA

Alex is the manager of a large gaming store. The business sells games for gaming consoles.

Alex has recently been informed that the store has been sold to a multinational chain. As changes are implemented, approximately 20% of all staff will need to be retrenched. Alex is concerned that some stakeholder groups will resist the changes. He has noticed that employees seem to be lacking motivation since the announcement of the sale of the business.

Propose and **justify** one strategy that Alex could use to increase employee motivation at the gaming store.

▶ Question 2 (10 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.4; © VCAA

When motivating employees, managers can use a range of strategies.

Evaluate two different motivation strategies. **Identify** and **justify** which one of these strategies would be most effective for the short-term motivation of employees and which one would be most effective for the long-term motivation of employees.

▶ Question 3 (2 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.3a; © VCAA

Car Bright is a car cleaning and detailing service business owned by Aaron Bright. It charges higher prices than its competitors. Following a staff survey, it was found that some of Car Bright's employees are lacking motivation. In addition, some customers have complained of slow service and that their cars have been returned not fully cleaned.

Describe an appropriate motivation strategy that Aaron could use to improve the performance of his employees.

 Question 4 (8 marks)

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**

 Question 5 (6 marks)

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.

 Question 6 (8 marks)

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**

More exam questions are available online.

2.7 EXTEND YOUR KNOWLEDGE Financial and non-financial motivation

EXTEND YOUR UNDERSTANDING OF THIS 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 rewards such as pay as the main method of motivating staff. However, many studies have shown that for people with good salaries, non-financial motivators are actually 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, nurturing the bond between employee and manager as well as improving performance. This may involve a manager taking time to reflectively discuss performance with each employee and create individual action plans.
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.** Providing employees with more responsibility may result in staff feeling that their contribution is more valuable to the business. This might include offering opportunities to lead a project or a team.
4. **providing creative, challenging and varied work.** Many employees are likely to find their jobs more engaging when the work they are doing is 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.

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.

Telstra

Telstra rewards staff in financial and non-financial ways. As well as performance-related pay, the company offers staff discounts on its range of products and services, and provides access to a top 10 industry super fund (TelstraSuper), as well as other health and financial benefits.

It also rewards staff in other ways, ranging from team celebrations to a company-wide rewards program called Appreciate.

The work that staff do at Telstra is, in itself, interesting. This would positively contribute to staff motivation.



CONTEMPORARY CASE STUDY

Motivating employees at SunRice

Rice food company SunRice aims to attract, motivate and retain employees who contribute to its business objectives. The business motivates staff using both financial and non-financial strategies. For example, it offers rewards for performance, as well as an employee share scheme.

A strong alignment between staff motivation and achieving business objectives is central to the culture at SunRice.



The business is also committed to investing in the career pathways of its employees. For example, it offers the Jan Cathcart Scholarship program for female shareholders, growers and employees and their extended families, supporting them where they may demonstrate a passion for and commitment to the rice industry.

2.7 Exercises

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2.7 Exercise

2.7 Exam questions

2.7 Exercise

TEST your understanding

1. **Identify** five motivation strategies that have been found to be effective in motivating staff.
2. **Identify** two factors that could deter managers from using non-financial motivators.
3. **Outline** how the business objectives of Telstra and SunRice are met through the motivation strategies each business uses.

EXTEND your understanding

4. 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 and **explain** your conclusions. **Compare** your findings with those of your classmates.
5. **Outline** the ways in which Telstra and SunRice demonstrate 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.

2.7 Exam questions

▶ Question 1 (2 marks)

Define the term 'performance-related pay'.

▶ Question 2 (2 marks)

Outline two benefits of career advancement.

▶ Question 3 (3 marks)

Distinguish between career advancement and support as motivation strategies.

▶ Question 4 (6 marks)

Explain how a manager might apply one theory of motivation and a related motivational strategy to manage employees effectively. In your response, refer to a contemporary business case study.

More exam questions are available online.

2.8 APPLY YOUR SKILLS Evaluating motivation strategies

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

2.8.1 Employee effort

TURNING UP AT WORK, BUT LEAVING MOTIVATION AT HOME

The COVID-19 pandemic forced many businesses and workers to experiment with different ways of work, including working from home. While many businesses are continuing with remote work, many employees have experienced 'COVID fatigue', resulting in burnout and stress. Consequently, large numbers of employees are pursuing work-life balance opportunities. Recent research by Gartner, a research and consulting business, revealed that 65 per cent of workers believe that the pandemic has made them rethink the place that work should have in their life. Based on a survey in October 2021 of more than 3500 employees around the world, Gartner's results also showed that 56 per cent of workers wanted to contribute more to society as a result of the pandemic.

Additionally, a survey conducted by Gartner between July and September 2021 found that extended COVID-19 lockdowns in major Australian cities had taken their toll on employees, as they were less willing to go 'above and beyond' at work. The survey showed that only 13.9 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 Gartner Global Labor Market Survey was made up of more than 18 000 employees in 40 countries, including 849 in Australia in the third quarter of 2021. Aaron McEwan, vice president in the Gartner HR practice, said that the data painted a picture of a decline in Australian workforce health and confirmed the heavy toll of more than 18 months living and working through a pandemic.

The Gartner Global Labor Market Survey also showed that the proportion of employees actively seeking a new job rose slightly. While 40.5 per cent of Australian employees surveyed reported high intent to stay with their current employer, there was variability between job functions and industries. For example, only 12 per cent of Australian IT workers showed high intent to stay, pointing to a significant turnover problem. Work-life balance remained the top priority for Australians seeking a new job, and was the number two reason for leaving, according to the Gartner survey. Manager quality was the top reason for leaving, while location of work premises also ranked highly.

Similarly, new research from National Australia Bank (NAB) suggests that many Australians have changed jobs or are planning to. In 2021, the bank asked over 1200 Australians working full or part time about their employment behaviours, attitudes and intentions. Published in February 2022, its Behavioural Insight Report found that one in five Australian workers changed employment in 2021, and a quarter were considering leaving their workplace. According to the study, for those Australians considering changing jobs, over one in three said the COVID-19 pandemic had had a big impact on their decision. The survey found that reasons for wanting to quit included a

The pandemic caused a significant percentage of people to be less motivated in their work.



lack of personal fulfilment, a lack of purpose or meaning, career limitations, mental health concerns, and poor pay and benefits, the research showed. Other explanations for wanting to change jobs included poor work–life balance, burnout and needing a fresh start. Human resource managers need to be aware that workers are motivated by more than money.

2.8.2 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, and has written articles for and been featured in *The Australian*, *Australian Financial Review*, *The Conversation*, *BOSS* magazine, *BRW*, AICD's *Company Director* magazine, *SmartCompany*, *Startup Daily* and *Entrepreneur.com*. She has been referred to as 'one of the leading women in Australia's innovation ecosystem'.

Dr Matthews believes 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', Feb 2022, at <https://centreforbusinessgrowth.com/news-and-events/the-motivation-dilemma>.

2.8.3 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>.

2.8 Exercises

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2.8 Exercise

2.8 Exam questions

2.8 Exercise

TEST your skills

1. Read the 'Turning up at work, but leaving motivation at home' case study. The Gartner Global Labor Market Survey found that only 13.9 per cent of Australian workers were putting a high discretionary effort into their work.
 - a. **Define** the term 'discretionary effort'.
 - b. **Outline** why discretionary effort would be significant for Australian businesses.
2. **Identify** two factors in the workplace that Australian workers rate more highly than money.
3. Read the case study 'The motivation dilemma'.
 - a. **Explain** how Dr Matthews believes that an employer can identify a prospective employee who has the right levels of motivation for a job vacancy.
 - b. **Outline** why Dr Matthews believes that people who are motivated primarily by levels of pay are not the best people to hire.
 - c. **Define** the term 'demotivation'. **Outline** two types of behaviour that could lead to a manager being a 'demotivator'.

4. Read the 'Keeping your employees motivated' case study.
 - a. **Identify** three ways listed in the case study in which communication between employer and employees is seen to be important as a motivating strategy.
 - b. **Identify** two key features of a successful employee rewards program, as suggested in the case study.

APPLY your skills

5. Based on Dr Matthews' hints for maintaining high levels of motivation in 'The motivation dilemma' case study, **propose** and **justify** two motivation strategies that would be consistent with her views.
6. **Outline** the extent to which 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
7. Collins Construction has been in operation for 10 years and employs 30 people throughout Victoria. Sales and staff morale have been declining. The HR manager has been asked to improve the situation.
 - a. **Propose** two motivation strategies that will assist the HR manager to motivate the employees.
Justify which strategy would be the most suitable for Collins Construction.
 - b. **Evaluate** how one motivation strategy will assist the HR manager to motivate employees.

2.8 Exam questions

Question 1 (8 marks)

Gemma is disappointed by the discretionary effort that her employees are putting into their work for her sheet metal business.

- a. **Examine** the key principles of Maslow's Hierarchy of Needs for improving motivation at Gemma's business. **4 marks**
- b. **Propose** and **justify** a motivation strategy that will assist Gemma to motivate the employees at her business. **4 marks**

Question 2 (4 marks)

Compare performance-related pay and investment in training.

Question 3 (4 marks)

Compare performance-related pay and career advancement.

Question 4 (4 marks)

Compare investment in training and support.

Question 5 (5 marks)

Evaluate the use of career advancement for motivating employees in a business.

More exam questions are available online.

2.9 Training options

KEY KNOWLEDGE

- Training options including on-the-job and off-the-job training, and the advantages and disadvantages of each

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

2.9.1 An introduction to training

Training is aimed at improving employees' skills and abilities — it is 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 following table.

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 constant 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.

Training is required in almost all professions. Some professions, such as nursing, have a lengthy training period.



training the process of teaching staff how to do their job more efficiently and effectively by boosting their knowledge and skills

Benefits of training

Benefits for employees	Benefits for the business
• Opportunity for promotion and self-improvement • Improved job satisfaction through better job performance • A challenge — the chance to learn new things • Adaptability — greater ability to adapt to and cope with changes	• Higher productivity through better job performance and more efficient use of human resources • Goals and objectives more effectively met • Reduced costs due to less labour turnover and absenteeism, and fewer errors and accidents • 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.



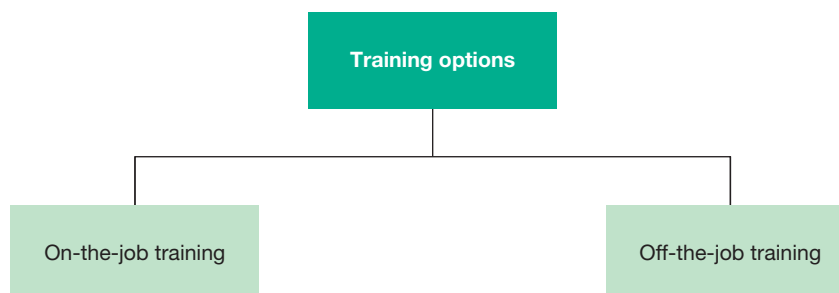
DID YOU KNOW?

The Australian Government Department of Education and Training (now the Department of Education, Skills and Employment) in 2013 established 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, 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.

More recently, the Morrison government in 2021 extended a partnership with the National Rugby League (NRL) to raise the profile of the vocational education and training (VET) sector as a career choice for Australians. The additional funding will support the NRL's CareerWise VET Pathways program to promote the stories of current and retired NRL players who have achieved success after their playing days through their VET qualification.

2.9.2 Training options

Employers have a number of different training 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.

On-the-job training helps employees learn the skills they need to do the job.



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. • Employees are often actually working while training, so are more productive. • Trainees use the actual equipment that is required to do the job. • Employees are in a familiar environment, with colleagues they are used to working with. • Immediate feedback from more experienced colleagues is available.	• The quality of the trainer may vary — not everyone has the ability to teach others. • Bad habits of older staff may be passed on to younger employees. • The learning environment may be noisy, with distractions from other work activities. • If real tools and equipment are used, it may disrupt production. • 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.

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.

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).

Employees can undertake training off-the-job in a TAFE setting with a specialist trainer.



Advantages and disadvantages of off-the-job training

Advantages	Disadvantages
• Availability of a wider range of skills and qualifications than those in the workplace • Outside experts and specialists can provide broader experiences. • Usually more structured and organised, with clear assessment processes • Can provide a formally recognised qualification for employees • Can be more intense without workplace distractions for both trainer and trainee	• May be too theoretical without access to workplace tools or equipment • More expensive, with fees charged, travel costs, etc. • Lost working time while the employee is absent from the workplace • Employees with an externally recognised qualification may be tempted to leave to find a better job. • 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 business information, theories and ideas'. 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.

The key skills also state that you need to be able to propose and justify 'management strategies to improve business performance'. The task word 'propose' suggests that you should put forward a training option (on-the-job or off-the-job training) for consideration or action when asked. This involves a little more than simply identifying or suggesting the strategy. You should be able to define the training strategy, as well as explain a little about it. The task word 'justify' requires you to show how the training option you have selected is the best choice or to provide evidence to support your argument.

2.9.3 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).

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.



development the process of preparing employees to take on more responsibilities in the future, acquiring better knowledge and skills, and gaining more experience

Closely related to developing staff is the concept of succession planning. Succession planning is ensuring that there are managers in the business who are able step into senior management positions, if for some reason a vacancy occurs.

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.

on Resources

-  **Weblinks** Succession planning 1
Succession planning 2

KEY IDEAS

- Training involves teaching staff how to do their job more efficiently and 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.

2.9 Exercises

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2.9 Quick quiz

on

2.9 Exercise

2.9 Exam questions

2.9 Exercise

TEST your understanding

1. **Outline** the purpose of training within a business.
2. **Identify** one way in which training can benefit the employee and one way in which it can benefit the employer.
3. **Distinguish** between on-the-job and off-the-job training.

APPLY your understanding

4. Eliza is the human resource manager at a sports equipment manufacturer. The business is suffering from quality issues and increasing numbers of customer complaints. Eliza wants to introduce off-the-job training. **Outline** one advantage and one disadvantage of off-the-job training as a strategy for improving the situation at Eliza's business.
5. **Define** succession planning and **outline** why many businesses undertake succession planning. You could use the **Succession planning** weblinks in the Resources tab to assist you.

2.9 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.3b; © VCAA

Car Bright is a car cleaning and detailing service business owned by Aaron Bright. It charges higher prices than its competitors. Following a staff survey, it was found that some of Car Bright's employees are lacking motivation. In addition, some customers have complained of slow service and that their cars have been returned not fully cleaned.

Aaron is considering investing in training for his employees. **Discuss** a suitable training option that could be used for Car Bright's employees.

▶ Question 2 (2 marks)

Source: VCE 2015, Business Management Exam, Q.3d; © VCAA

S&J Solar Panels is a manufacturing organisation that is rapidly expanding in a growing market. Due to high demand and increasing competition, the Operations Manager began importing partially assembled materials from overseas to keep costs low and save time. As a result, the employees were no longer required to produce entire solar panels. They were, however, required to develop new skills in order to complete the new production

process. S&J Solar Panels now guarantees delivery of solar panels to customers within seven days, whereas competitors operate on a 28-day delivery service. The new production process had been in place for a period of time when the Operations Manager discovered that many of the imported materials were faulty. As a result, a number of new strategies will need to be introduced.

Outline one form of training that management could consider to ensure that employees have the required skills.

 Question 3 (4 marks)

Explain the advantages and disadvantages of one training option.

 Question 4 (6 marks)

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.

Discuss the use of both on-the-job training and off-the-job training. **Justify** the use of the method you would recommend in this situation.

 Question 5 (6 marks)

All Parts Manufacturing Pty Ltd is a business that manufactures components for the automotive, mining, agricultural and rail industries. The company has identified that the provision of training does not meet the needs of the business. The business has recommended that there should be a review of training options.

Outline the training options that All Parts could use to implement the recommendations. **Discuss** how the use of these strategies could overcome the problems identified.

More exam questions are available online.

2.10 APPLY YOUR SKILLS Comparing and evaluating training strategies

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

CONTEMPORARY CASE STUDY

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, based in Mackay, Queensland, 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.

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.



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.

CONTEMPORARY CASE STUDY

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.

CONTEMPORARY CASE STUDY

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 these 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.



2.10 Exercises

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2.10 Exercise

2.10 Exercise

TEST your skills

1. **Define** the term 'training'.
2. **Identify** two training strategies implemented by Hector Henriquez to assist him in being able to take time off from running his business.
3. Besides the opportunity for Hector to take time off from his business, **identify** two other benefits that Visual Graphics gains 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. **Outline** the strategy that Marriott used to deal with the impending retirement of its head Teppanyaki chef.

2.10 Exam questions

APPLY your skills

6. **Propose** and **justify** two training options that Leah Calnan could use to help her retain staff at Metro Property Management.
7. **Evaluate** the use of on-the-job or off-the-job training for managing employees at the Marriott in Surfers Paradise.
8. 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.

2.10 Exam questions

▶ Question 1 (9 marks)

Aktive Pty Ltd is a clothing manufacturer. The business currently makes use of on-the-job training to ensure that its high quality standards are maintained.

- a. **Compare** on-the-job training with one other training option that could be implemented by Aktive to manage employees. **4 marks**
- b. **Evaluate** the suitability of on-the-job training for Aktive in ensuring that it maintains its high quality standards. **5 marks**

▶ Question 2 (6 marks)

Asurance is an insurance company that is seeking to improve productivity. **Discuss** two suitable training options that could be used for employees at Asurance. Recommend which option the business should adopt.

More exam questions are available online.

2.11 Performance management strategies

KEY KNOWLEDGE

- Performance management strategies to achieve both business and employee objectives, including management by objectives, appraisals, self-evaluation and employee observation

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

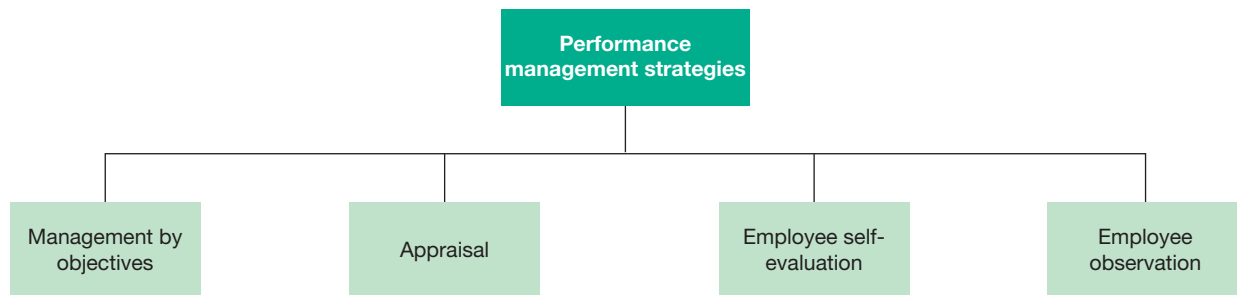
Performance management, often referred to as performance appraisal, aims to improve both business and individual employee performance by relating the business's performance objectives to the employee's performance objectives. Employees who are performing to expectations should enable the business to achieve its objectives. Corrective action can be taken should actual performance of employees fall below expectations. For employees, performing to expectations should assist them in achieving their own objectives, including promotion or gaining more experience. A business can utilise a number of different strategies to measure and evaluate the contribution each employee makes to achieving business objectives. These include appraisals, management by objectives, self-evaluation by employees and broader employee observation.

Performance management strategies aim to help achieve objectives and improve performance.



performance management a focus on improving both business and individual performance through relating business performance objectives to individual employee performance objectives

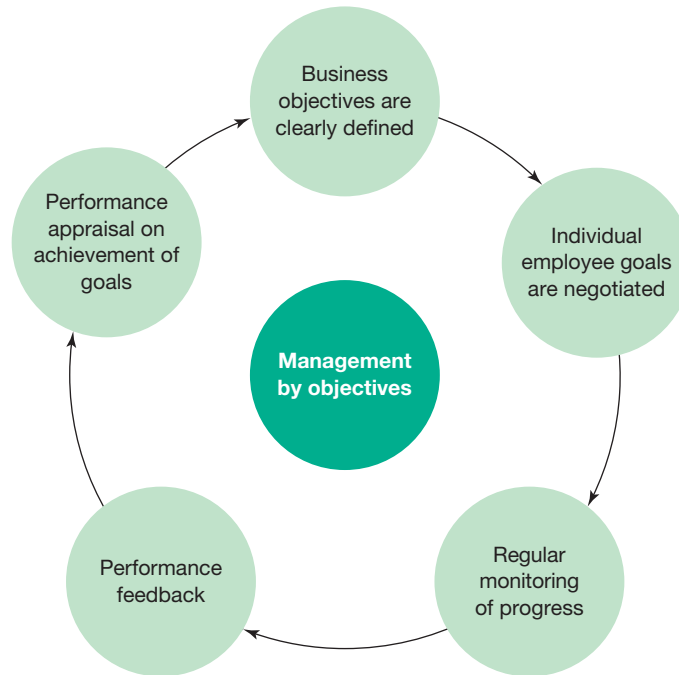
Performance management is about improving business and individual performance. If individuals performing well, the business should perform well too.



2.11.1 Management by objectives

One example of a performance management strategy 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 following diagram.

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



Advantages and disadvantages of management by objectives

Advantages	Disadvantages
• Employees who are involved in setting goals and choosing a course of action to be followed to achieve those goals, are more likely to work productively and fulfil their responsibilities. • Both manager and employee are likely to know what is expected of them, reducing ambiguity and confusion in relation to roles. • Can highlight the area/s where an employee has training needs, which can lead to career development. • Can improve communication and result in employees being more aware of a business's objectives.	• Can be time consuming — meetings and reports required can add to the responsibilities and burden of both management and employees. This can also add to expenses. • Management by objectives is not always useful for all types of employees. • A failure to meet objectives could become demoralising for some employees, resulting in a lack of motivation. • Staff who meet objectives may expect a pay rise or promotion — this can be expensive for a business.

2.11.2 Appraisal

Appraisal, often referred to as 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.

appraisal the formal assessment of how efficiently and effectively an employee is performing their role in the business

Performance appraisal typically occurs at frequent intervals, such as every 12 months, every six months or every quarter. The 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 appraisal is a crucial function of good management.

DID YOU KNOW?

Appraisals are sometimes criticised for making employees feel stressed, and they can create a negative culture. Dell, Microsoft, IBM and other big business names such as GAP, Accenture and General Electric have ditched annual appraisals in favour of more consistent and regular checking in with employees.

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.

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 and 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.

Advantages and disadvantages of performance appraisals

Advantages	Disadvantages
• Facilitates communication and allows positive relationships to develop between management and employees. • Feedback can help employees improve their performance. Employees can be provided with clear areas for improvement. • Information from an appraisal can assist managers when making decisions about pay increases, promotions and/or dismissals.	• Can be time consuming, particularly if the cycle becomes shorter (such as monthly or weekly). • Can be stressful for both managers and employees. • Staff who meet performance standards may expect a pay rise or promotion — this can be expensive for a business.

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.

2.11.3 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 a process whereby employees carry out self-assessment, based on a set of agreed criteria

Self-evaluation should also take into account an employee's career aspirations. They 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.

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.

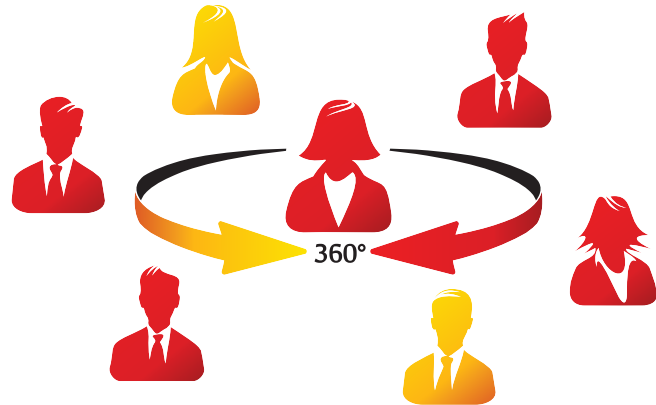
Advantages and disadvantages of employee self-evaluation

Advantages	Disadvantages
• Allows employees to be actively involved in the process of performance management and assists them in understanding their role in the business. • Allows employees to assess their own contribution to the business, their strengths and weaknesses, and how they can improve their performance. • Provides an opportunity for the business to gain an insight into how employees perceive their performance, as well as understand their strengths and weaknesses. • Can highlight the need for training and allows employees to request training opportunities to assist them to improve work performance and productivity.	• Employees can often overstate their own performance when completing a self-evaluation, or may complete parts of the process dishonestly. • 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. • The provision of training will increase expenses for the business.

2.11.4 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.

360-degree feedback relies on observations from fellow employees.



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

Advantages and disadvantages of employee observation

Advantages	Disadvantages
• Allows a manager to gain a broad range of observations on an employee from a variety of different sources, which can provide a comprehensive picture of employee performance. • Very useful in identifying strengths and weaknesses, and evaluating skills such as leadership, teamwork and interpersonal abilities. • Employees observing strengths of colleagues may imitate their behaviour. • Employees receiving feedback from other staff may be more likely to respond to the suggestions, if they value opinions of their peers.	• Staff may feel stressed when they know that they are being observed. • Not always valuable in assessing technical skills, or the achievement of objectives, as these may not always be fully understood by every participant in the process. • 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. • Staff who receive positive feedback may expect a pay rise or promotion — this can be expensive for a business.

KEY IDEAS

- Performance management focuses on improving both business and individual performance through relating business performance objectives to individual employee performance objectives.
- 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.
- An appraisal refers to the formal assessment of how efficiently and effectively an employee is performing their role in the business.
- 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.

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2.11 Quick quiz



2.11 Exercise

2.11 Exam questions

2.11 Exercise

TEST your understanding

1. **Define** the term 'performance management'.
2. **Identify** the key steps in the process of management by objectives.
3. **Outline** two different methods of conducting a performance appraisal.
4. **Identify** two main advantages of employee self-evaluation.

APPLY your understanding

5. Read the 'Regular feedback equals successful performance appraisal' case study.
 - a. **Outline** the benefits of a regular informal catch up with employees.
 - b. **Explain** how the author of the article believes performance appraisals can contribute to ongoing employee development.
6. Survey five people, asking them to respond to the following statements. Collate your results and write a paragraph to **explain** what the survey has revealed about performance management. Share your results with your class.

		Yes	No
1	I am required to complete regular performance appraisals.		
2	Performance appraisals are a worthwhile experience.		
3	When appraising work, everyone should be given the same score.		
4	If the business as a whole has not made a profit, no employee should receive a bonus.		
5	Poor performers should be sifted out and sacked.		
6	Pay increases should be linked to good individual performance.		
7	A good rating in a performance review is more likely to reveal excellent self-promotion skills than anything else.		

2.11 Exam questions

▶ Question 1 (3 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.1c; © VCAA

In 2017, John was employed as the manager of a bakery with 80 employees. In 2020, the business has had the following business objectives:

- to increase profits by 10%
- to reduce staff absenteeism by 20%.

John has adopted an autocratic management style.

Propose and **justify** one performance management strategy, other than a change in management style, that John could use to reduce staff absenteeism.

▶ Question 2 (6 marks)

Fatima is keen to introduce a staff performance management process into her restaurant. **Explain** how each of the following might operate in her workplace.

- Employee self-evaluation
- Management by objectives

▶ Question 3 (3 marks)

Distinguish between management by objectives and employee observation as performance management strategies.

▶ Question 4 (4 marks)

The human resource manager of Southern Industrial Sales has identified a problem with employees at the business. She believes that staff performance can be improved by implementing a more effective performance management strategy.

Describe one performance management strategy that could be used to achieve both business and employee objectives at Southern Industrial Sales. **Justify** the use of this strategy.

▶ Question 5 (4 marks)

Discuss the use of employee observation as a performance management strategy.

More exam questions are available online.

2.12 EXTEND YOUR KNOWLEDGE Getting value from performance management

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

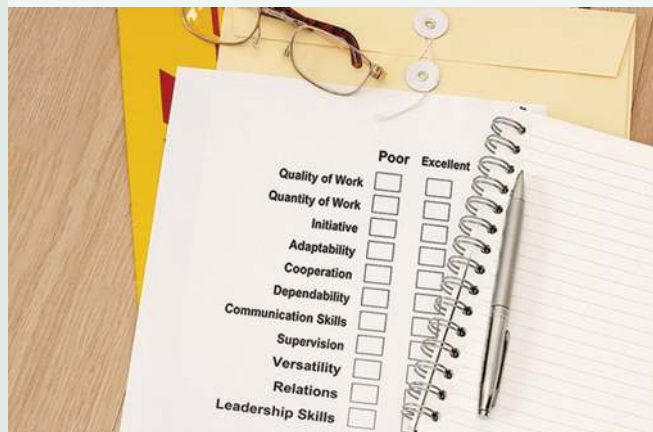
- Traditionally businesses have carried out performance appraisal as an annual process, with rewards such as pay rises determined by the annual performance review carried out by a manager or supervisor. In recent times, the major annual review has fallen out of favour, with greater emphasis on frequent 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.

Annual performance reviews have often been reduced to little more than a tick-the-box exercise.



- 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 to the business.

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.

CONTEMPORARY CASE STUDY

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 has removed annual performance reviews.



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.

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2.12 Exercise

2.12 Exercise

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. **Outline** one approach that is considered preferable to annual employee performance reviews.
3. **Explain** what the head of people and performance at Deloitte might have meant when he described annual reviews as being like a 'drive-by shooting'.
4. In addition to weekly 'check-ins', **identify** two other strategies that Deloitte has put in place as part of its performance management strategy.

EXTEND your understanding

5. **Explain** why a 'tick-the-box' activity might 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. **Analyse** whether this is a real problem, or if managers should be brutally honest with their employees.
7. The weekly 'check-in' at Deloitte can be initiated by the employee rather than the employer. **Explain** why this is a positive approach, and **outline** the benefits that both the employer and employee gain from such an approach.

2.12 Exam questions

▶ Question 1 (3 marks)

Distinguish between appraisals and self-evaluation as performance management strategies.

▶ Question 2 (4 marks)

Rafael wants the company that he started five years ago to be considered a high-performance business.

Propose and **justify** one performance management strategy that will enable him to manage employees effectively and achieve his objective.

▶ Question 3 (4 marks)

Analyse the benefits of appraisals as a performance management strategy.

▶ Question 4 (6 marks)

Other than appraisals, **evaluate** the use of one performance management strategy to achieve business and employee objectives.

More exam questions are available online.

2.13 Termination management

KEY KNOWLEDGE

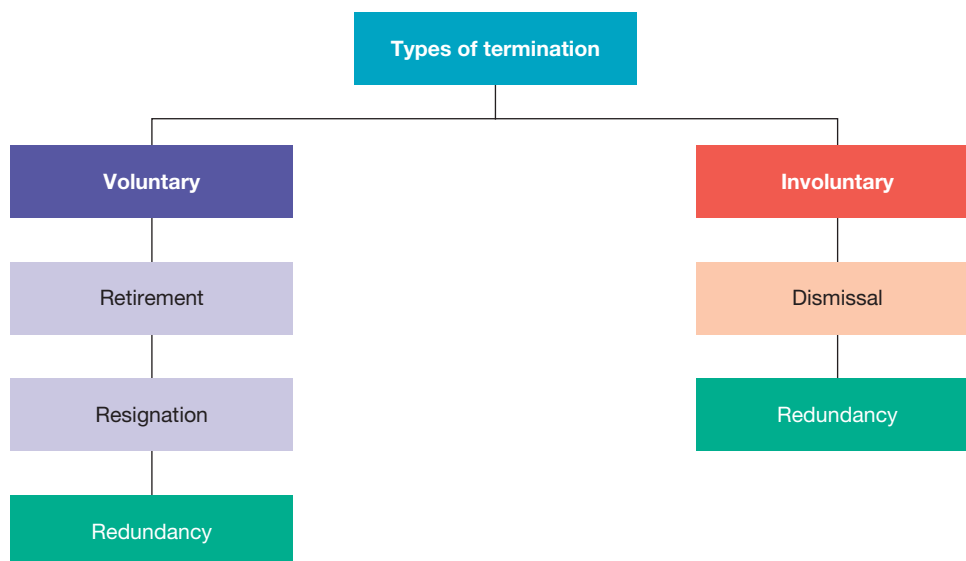
- Termination management including retirement, redundancy, resignation and dismissal, entitlement considerations and transition considerations

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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 below).

Termination — voluntary and involuntary



Work patterns and business operations have undergone radical change over the past two decades; people no longer commence full-time work at 16 or 17, spend 45 years working and then retire, and this change 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 and change how they operate. This leads to changes in the types of jobs in demand. As a result, there has been a marked increase in the number of voluntary (retirement or resignation) and involuntary (dismissal) redundancies being offered.

2.13.1 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.

termination the ending of the employment of an employee
retirement occurs when an employee decides to give up full-time or part-time work and no longer be part of the labour force

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 and 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.



2.13.2 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).

2.13.3 Redundancy

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.

resignation the voluntary ending of employment by the employee ‘quitting’ their job

redundancy occurs when a person’s job no longer exists, usually due to technological changes, a business restructure, or a merger or acquisition

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.

2.13.4 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.

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 unable to pay the bills makes termination difficult to bear for some people.



dismissal occurs when the behaviour of an employee is unacceptable and a business terminates their employment

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

Your boss can't just tell you 'You're fired'; there are procedures and laws to follow.



DID YOU KNOW?

- An employment contract is legally binding. Therefore, employers must terminate the contract in a legally compliant manner. Employers cannot tell you that you are 'sacked' or 'fired'. Rather they must follow relevant laws and provide you with the correct support should they need to terminate your employment contract.



2.13.5 Entitlement considerations

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 considerations** 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. An employer must provide the employee with written notice clearly stating that the employee's employment is being terminated and the actual date of termination. An employer can allow the employee to stay employed throughout their notice period, pay the notice out to them (this is also known as pay in lieu of notice) or provide a combination of the two.

2.13.6 Transition considerations

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 considerations**. As mentioned in this subtopic, 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 considerations 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.

entitlement considerations the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis

transition considerations issues relating to the process of changing from one job to another or from one set of circumstances to another

In the case of retirement, the transition considerations that may be offered 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 'management strategies to improve business performance'. 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.



Resources



Weblink Termination of employment

KEY IDEAS

- 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 considerations are the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis.
- Transition considerations relate to the process or a period of changing from one job to another or from one set of circumstances to another.

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2.13 Quick quiz



2.13 Exercise

2.13 Exam questions

2.13 Exercise

TEST your understanding

1. **Distinguish** between voluntary and involuntary termination of employment, providing an example of each.
2. **Identify** two reasons why a person may decide to resign from their current employment.
3. **Explain** what redundancy is.
4. **Outline** how a business could use the resignation or retirement of employees as a means of downsizing its workforce.
5. a. **Explain** the entitlements that may be owed to an employee who has been made redundant.
b. **Outline** how a business might also assist that employee to find alternative employment.

APPLY your understanding

6. **Explain** how a dismissal would be considered to be unfair.
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.
8. Termination management is about managing the final phase of the employment cycle, when the employee leaves. **Identify** the issues a human resource manager must be aware of when dismissing an employee.
9. **Outline** the latest employee rights and rules that apply to termination of employment. (You could use the **Termination of employment** weblink in the Resources tab to assist your response.)

2.13 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2019, Business Management Exam, Section B, Q.6; © VCAA

ATI-TUDE is a Melbourne-based clothing manufacturer and retailer. It was established as a public-listed company in 2009. ATI-TUDE produces a range of innovative and quality sportswear products for men, women and children. Customers can buy products online as well as through the five ATI-TUDE stores located in Melbourne, Sydney, Brisbane, Perth and Adelaide.

ATI-TUDE's market share has risen steadily since 2009 to a peak of 15% of overall market share in the sportswear market in Australia in 2019.

The Finance Manager recently produced data for ATI-TUDE's senior managers, showing key performance indicators (KPIs) for the past two years. One of the KPIs was net profit. The net profit figures for each of the five ATI-TUDE stores are shown in Figure 1.

The Sales and Marketing Director has identified an increase of 75% in the number of online sales over the same period of time (2018–2019). She believes that this is due to the strategy of increased investment in technology and the development of the company's website and online store.

A map of ATI-TUDE stores and their net profit figures

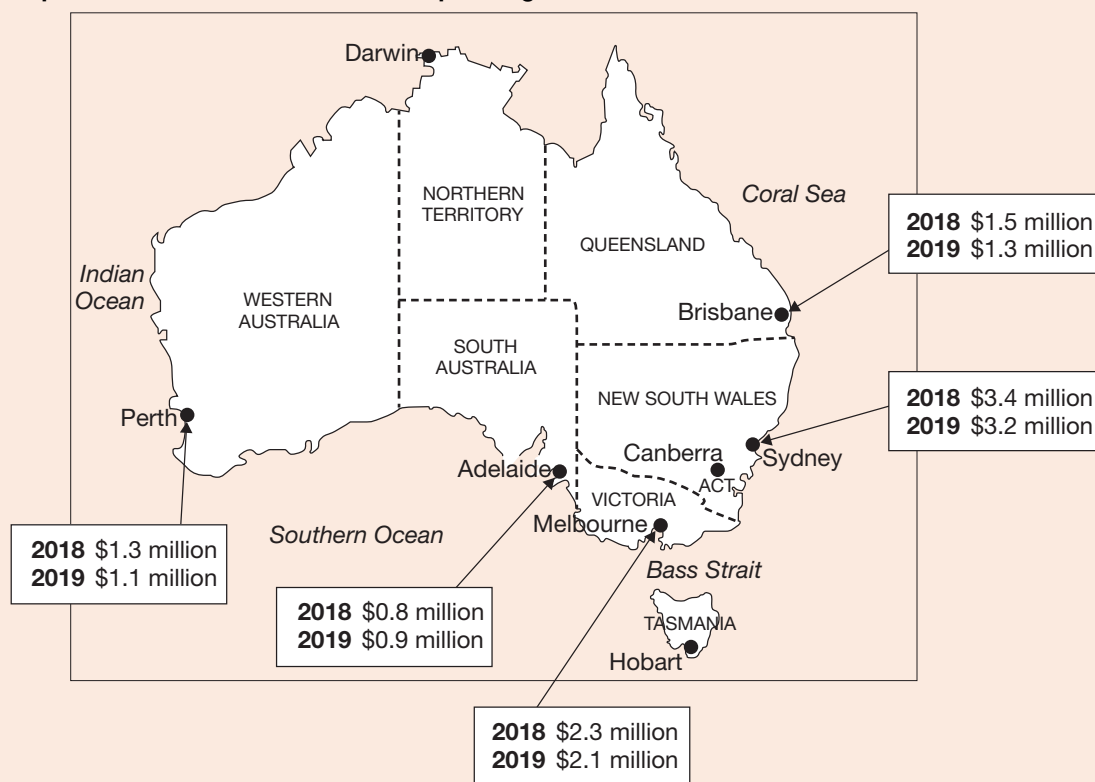


Figure 1

The following KPIs, for the last 12 months, were also presented to ATI-TUDE's shareholders.

TABLE 1. Level of staff turnover and number of customer complaints (2019)

	Level of staff turnover (%)	Number of customer complaints
Adelaide	40%	increased ↑ 12%
Brisbane	23%	decreased ↓ 10%
Melbourne	12%	increased ↑ 10%
Perth	30%	increased ↑ 19%
Sydney	15%	decreased ↓ 5%

At the recent annual general meeting, it was announced to shareholders that the board will be streamlining business operations. As a result, the board will be closing two stores and this will lead to the termination of the employment of many staff.

Describe one employee entitlement issue and **one** employee transition issue that may result from the ATI-TUDE store closures.

▶ Question 2 (2 marks)

Define the term 'redundancy'.

▶ Question 3 (4 marks)

Distinguish between retirement and resignation.

▶ Question 4 (2 marks)

Define the term 'dismissal'.

▶ **Question 5 (4 marks)**

Using examples, **distinguish** between entitlement and transition considerations.

▶ **Question 6 (5 marks)**

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.

More exam questions are available online.

2.14 Workplace relations — the roles of participants in the workplace

KEY KNOWLEDGE

- The roles of participants in the workplace including human resource managers, employees, employer associations, unions and the Fair Work Commission

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

2.14.1 Workplace relations

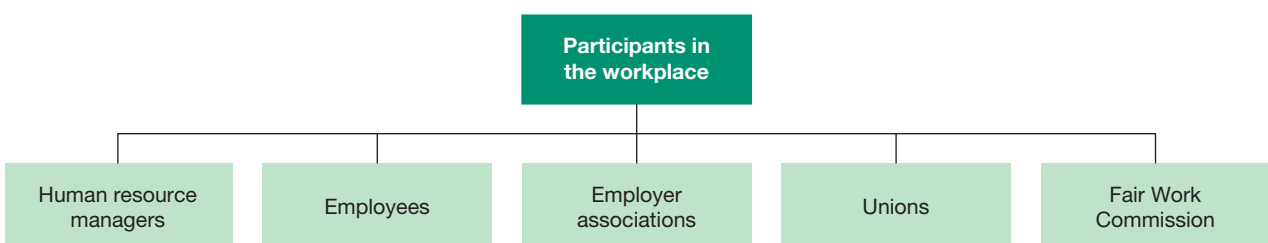
Workplace relations refers to the interaction between employers and employees, or their representatives, to achieve a set of working conditions that will meet the needs of employees as well as allowing the business to achieve its strategic, tactical and operational objectives. The terms ‘employee relations’ and ‘industrial relations’ are often used as substitutes for ‘workplace relations’. 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.

workplace relations the interactions 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 objectives

It is understood that legitimate differences may exist in workplaces; however, businesses generally aim to reduce conflict through effective procedures and good working relationships.

Ultimately, the goal of workplace relations is to achieve positive relationships, in which employees are satisfied with their pay and work conditions, the business can remain productive and competitive, and disputes are kept to a minimum. Businesses with effective workplace relations tend to manage change more successfully, enhancing their ability to gain a sustainable competitive advantage.

There are a number of participants in the workplace, that we will now explore, including human resource managers, employees, employer associations, unions and the Fair Work Commission. Understanding the role of each participant will help you to become more familiar with what workplace relations is about.



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.

on Resources

 **Video eLesson** The roles of participants in the workplace (eles-2929)

2.14.2 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 resource 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.

2.14.3 Employees

As the people working for the business in return for pay, employees are expected to contribute through their work efforts to the achievement of business objectives. However, 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 increasingly common practice of negotiating employment agreements at the workplace level means that employees will be more closely involved in the process of developing new or changed agreements. This is very likely to occur to a large extent 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 (referred to as an enterprise 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. Unfortunately, there may be situations where negotiations with an employer break down. In such circumstances, employees may be involved in taking industrial action to make the employer understand that their pay needs to be increased and/or work conditions improved. For example, employees may go on strike in an attempt to force the employer to return to negotiations.

Unions can negotiate employment agreements on behalf of workers; sometimes this leads to industrial action.



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.

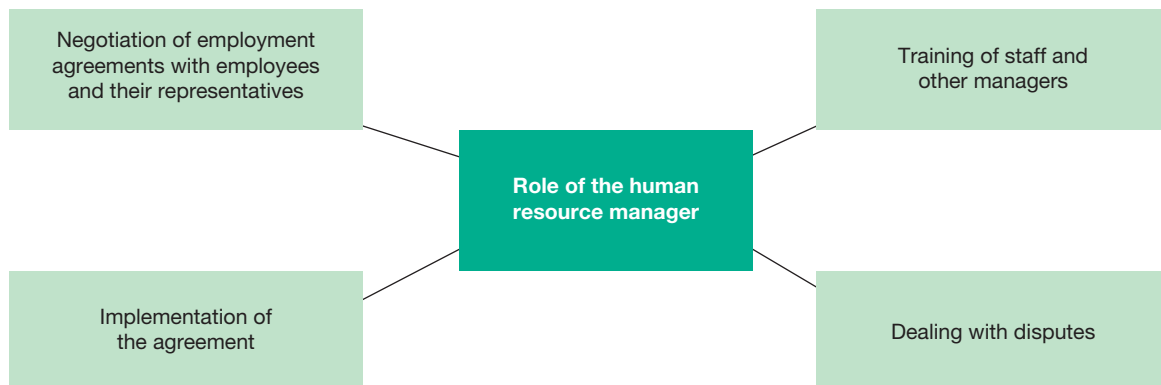
2.14.4 Human resource managers

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.

The role of the human resource manager in the workplace



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 human resource 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 2.15), 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 2.18.

2.14.5 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. According to the ABS, in 2020, 14 per cent of employees (1.4 million) were members of a trade union. Since 1992, the proportion of employees who are trade union members has fallen from 40 per cent.

The groups with the highest trade union membership are the Education and Training industry (31 per cent) and the Professionals occupation group (21 per cent).

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

2.14.6 Employer associations

Employer associations are groups that represent and assist employers. They were originally created by employers in response to employee membership of unions, to represent employers in the making of Awards. 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. Employer associations also have input into the regular four-yearly review of Awards.



DID YOU KNOW?

Employer associations are more likely to be involved in unionised workplaces, and in mining, manufacturing, wholesaling, health and community services sectors.

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.

2.14.7 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.



employer associations organisations that represent and assist employer groups
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.

The union movement sometimes conducts campaigns on issues that affect its members.



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).

2.14.8 Peak employer bodies

Peak employer bodies represent employer associations. 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.

2.14.9 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 following ‘Did you know?’ feature).
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.

In 2022, the Fair Work Commission lifted the national minimum wage by 5.2 per cent to \$812.60 per week. Employer groups criticised the decision, suggesting that the increase was too great and that it would stifle growth in jobs.



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 2009*. 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 2.15, 2.17 and 2.18.

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.

Fair Work Commission

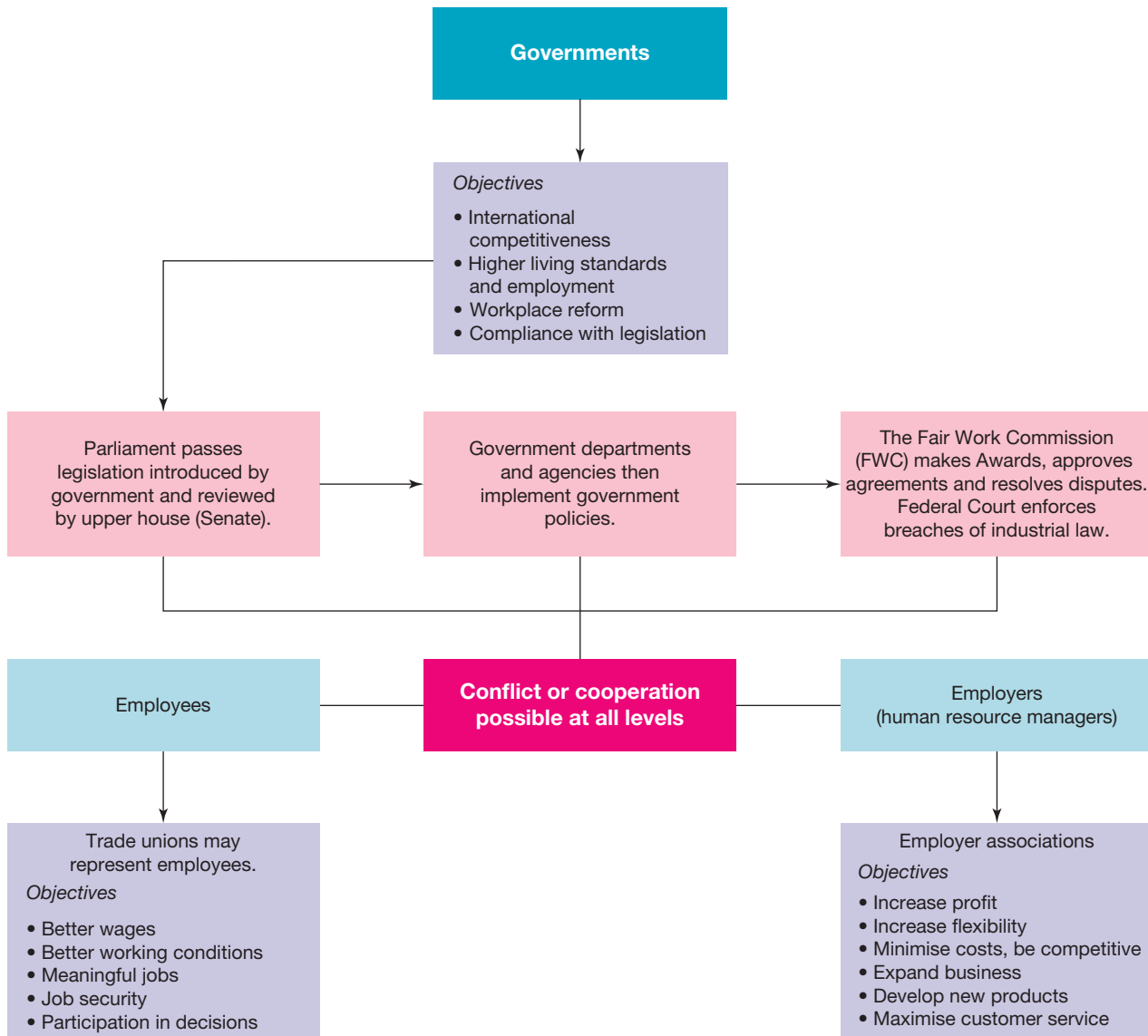
Australia’s national workplace tribunal that has a number of responsibilities under the *Fair Work Act 2009*

DID YOU KNOW?

The federal department responsible for industrial relations is currently the Attorney-General's Department. 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.

Participants in workplace relations



CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: SunRice

Roles of workplace participants at SunRice

SunRice workers took strike action in 2022 in their fight for a new enterprise agreement. Representing the employees, the United Workers Union was seeking a 4 per cent annual pay rise, improved job security and better conditions for casual employees. A SunRice spokesperson said that the company had presented an offer to employees providing greater security, a competitive pay increase each year and opportunities for career progression. 'Our leaders are continuing to have positive conversations with our employees in relation to the offer, and we continue to negotiate with the union in good faith', the spokesperson said.

In March, workers delayed industrial action because negotiations appeared to be proceeding successfully. SunRice had offered employees a 12 per cent pay rise across four years. However, the union believed that the agreement would fail the 'better off overall test' undertaken by the Fair Work Commission. SunRice believed that the proposed enterprise agreement was sound.

KEY IDEAS

- 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 associations, 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 the government to deal with the resolution of industrial disputes. It creates Awards for different industries, determines and maintains minimum wages, 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.

2.14 Exercises

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2.14 Quick quiz

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2.14 Exercise

2.14 Exam questions

2.14 Exercise

TEST your understanding

1. **Define** the term 'workplace relations'.
2. **Outline** how employees might be involved in the employee relations processes.
3. **Identify** two roles of human resource managers in the workplace.
4. **Describe** what a trade union is.
5. **Identify** a role of employer associations.
6. **Outline** the role of the Fair Work Commission in the employee relations system.

APPLY your understanding

7. 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.
- Identify** and **explain** the key issues Hannelore needs to be aware of before she begins the process of negotiating a new agreement.
 - Outline** the three most important issues that Hannelore needs to keep in mind during the negotiation process.
8. 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.
- Outline** the role each of the following could have in the development of the new agreement.
- The human resource manager
 - Australian Manufacturing Workers Union
 - Printing Industries Association of Australia (employer organisation)

2.14 Exam questions

Question 1 (3 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.3a; © VCAA

Established in 2018, Abs Are Us is a chain of gyms located across Victoria. Minh and Tony have been employed in permanent, full-time personal training roles. Both employees are informed by the Abs Are Us Human Resource Manager that their wages and conditions will be determined by the Fitness Industry Award 2010.

Explain the role of either unions or employer associations in a workplace such as Abs Are Us.

Question 2 (6 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.5; © VCAA

Jackson Incorporated is currently trying to determine new wages and conditions of work for its employees. Some of the employees are worried that their expectations will not be met.

Explain the role of each of the following workplace relations participants during this process.

- Human Resource Managers
- Fair Work Commission

Question 3 (3 marks)

Distinguish between the role of employer associations and the role of unions as participants in the workplace.

Question 4 (3 marks)

Genuine Energy Ltd is determining new levels of pay and conditions of work for its employees. **Explain** the role of employees during this process.

Question 5 (4 marks)

Distinguish between the role of employees and the role of human resource managers as participants in the workplace.

More exam questions are available online.

2.15 Awards and agreements

KEY KNOWLEDGE

- Awards and agreements as methods of determining wages and conditions of work

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

2.15.1 Industry-wide Awards

Historically most employees in Australia have had their wages and working conditions set by an **Award**. 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. Today, Awards are determined by the Fair Work Commission.

Advantages and disadvantages of Awards	
Advantages	Disadvantages
• Less costly for the business • Less time consumed in determining appropriate terms and conditions • Less work for management to complete as allowances are already determined for each occupation • Employees have limited input. • Provides a stable and secure safety net for employees	• Provides less flexibility — cannot be customised to the needs of a workplace • A business may need to implement numerous different Awards in the same workplace. • Modern Awards can be complex. • A business making use of Awards may not attract the best or most talented candidates for a position.

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 following table summarises the National Employment Standards and the matters included in modern Awards.

Award a legally binding document determined by the Fair Work Commission 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

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.

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.

2.15.2 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**.

penalty rates additional wages paid to employees who work outside of normal working hours

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.



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

- the agreement specifies a date as its nominal expiry date (not more than 4 years after the date of Commission approval)
- the agreement provides a dispute settlement procedure
- the agreement includes a flexibility clause and a consultation clause.

Advantages and disadvantages of enterprise agreements

Advantages	Disadvantages
• Very flexible — can be tailored to specific workplace needs. • Greater effort and contribution to productivity improvements by employees can be rewarded. • Must meet the 'better off overall test' (BOOT) so that employees are better off overall when conditions in the agreement are compared to the relevant Award. • May be used to attract talented or highly skilled employees to the business. • A simpler method for determining wages and conditions of work when compared to using a modern Award — for example, a business might make an enterprise agreement that incorporates Award entitlements into a base rate that will be paid to employees.	• Time-consuming to negotiate — for example, employees must be consulted during enterprise bargaining and a proposed agreement must go through an approval process before it will be approved by the Fair Work Commission. • Conditions that are better than the relevant Award may be very expensive for a business. • Varying pay or conditions of work may result in industrial action.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Telstra

Negotiating enterprise agreements at Telstra

Telstra recently split into four entities (InfraCo Fixed, InfraCo Towers, ServeCo and Telstra International). Accordingly, management at the company wanted to negotiate four separate enterprise agreements when the single enterprise agreement covering Telstra's workforce expired in 2021. Telstra said each agreement could possibly be structured differently and may contain different terminology. Each agreement would roll over all existing terms and conditions contained in the old Telstra Enterprise Agreement 2019–2021. The Communications, Electrical and Plumbing Union of Australia (CEPU) welcomed this move. Telstra proposed a wage rise of 2.5 per cent payable in October 2022, and 3 per cent payable in October 2023. Seeking the views of its members, the union then held online meetings to gather feedback on the proposed agreement.

on Resources

 **Video 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 2020 was set

common law individual employment contract covers those employees who are not under any Award or collective/enterprise agreements

at \$153 600. 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 were phased in between 2017 and 1 July 2020 under each of the above Awards. The intention was that these would 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.

on Resources

 **Weblink** Fair Work Commission

KEY IDEAS

- Awards are legally binding documents determined by the Fair Work Commission, setting out minimum wages and conditions for whole industries or occupations.
- Enterprise agreements are agreements on pay and conditions of work made at the workplace level, and negotiated between groups of employees (or their union representatives) and employers.
- Individual agreements apply in only a minority of workplace situations, and must conform to Award standards.

2.15 Exercises

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2.15 Quick quiz

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2.15 Exercise

2.15 Exam questions

2.15 Exercise

TEST your understanding

1. **Define** the term 'Award' as a method of establishing wages and conditions of work.
2. **Identify** two key elements that must be included in an enterprise agreement.
3. **Identify** two advantages and two disadvantages of enterprise agreements.
4. **Explain** what an individual common law employment contract is.

APPLY your understanding

5. **Explain** the role of industry-wide Awards in the current employee relations environment.
6. **Outline** the requirements that must be satisfied before the Fair Work Commission will approve an enterprise agreement.
7. 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. **Identify** and briefly **explain** the key matters that are covered by this Award.
8. Obtain a copy of either an enterprise agreement that applies to an employer in one of the industries mentioned in question 7, or an individual common law contract as provided by your own or a classmate's employer, and compare it with the relevant Award.
 - a. **Identify** the features that this document contains 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.

2.15 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.3b; © VCAA

Established in 2018, Abs Are Us is a chain of gyms located across Victoria. Minh and Tony have been employed in permanent, full-time personal training roles. Both employees are informed by the Abs Are Us Human Resource Manager that their wages and conditions will be determined by the Fitness Industry Award 2010.

Compare Awards and agreements as methods of determining wages and conditions of work.

Question 2 (7 marks)

Source: VCE 2018, Business Management Exam, Section B, Q.4; © VCAA

The Daily Swell is a local print and online newspaper. It recently published the following article about a local business.

Regional Community Hub for All

Tessa Adams and Charlie Liu opened Ocean Skate Hub in 2017. It is a social enterprise aimed at servicing the needs of the local youth community. It offers indoor and outdoor skate parks, and youth and homework clubs. It also operates a sports shop and cafe.

After finishing school, Charlie completed a Sports Management degree and Tessa completed a Commerce degree. Having both worked in their chosen fields for several years, Tessa and Charlie recently moved from the city back to their hometown, where they began setting up their business enterprise. Charlie commented that 'we wanted to offer a place where young people from the community could come and try different activities, socialise and gain some new skills'.

After carrying out their research into what financial assistance was available, Tessa and Charlie applied for support through a government initiative called Social Enterprise Finance Australia (SEFA).

SEFA provides finance solutions to mission-led organisations and is deeply committed to fostering positive social and environmental impacts in communities across Australia. SEFA is also there to help new business ventures, like Ocean Skate Hub, build their capacity to manage debt and become financially sustainable.

'We highly value the intensive support we received from SEFA. They helped us put together a rock-solid business case', said Tessa.

Ocean Skate Hub uses its website and social media to provide information to customers and has launched an app to let members book activity sessions. Members are encouraged to give feedback to the organisation to help it meet its aims of improving customer service and finding interesting activities for all users.

All employees are from the local area, and Tessa and Charlie are passionate about keeping all services within the region. Their preference is for staff training to be carried out within the business; however, this is proving to be challenging for Ocean Skate Hub to achieve, and Tessa and Charlie feel they may have to outsource staff training in the future.

With the success of the business behind them, Tessa and Charlie have big plans for expansion in 2019 to provide services for the whole community, not just its youth. These include IT classes for the elderly, as well as photography, cooking, woodwork and gardening classes for all ages.

'With all these exciting changes planned for 2019, we will be relaunching as "Ocean Hub" to better reflect the expanded range of community activities that will soon be available', Charlie said.

Mayor Colin Sprey commented that 'it is encouraging to see our young entrepreneurs giving back to their community'.

Employee wages and conditions of work are currently determined via the Sporting Organisations Award 2010. However, Tessa and Charlie are considering establishing an agreement.

Explain Awards and agreements as methods of establishing employee wages and conditions of work. **Propose** and **justify** which method Tessa and Charlie should adopt.

Question 3 (4 marks)

Distinguish between Awards and agreements as methods of determining wages and conditions of work.

Question 4 (2 marks)

Jacinta has just been successful in her application for a top managerial role in a major accounting firm. Her salary is \$160 000 per year plus bonuses for excellent performance.

Explain the type of agreement that Jacinta is likely to be employed under.

▶ **Question 5 (2 marks)**

Identify two considerations that the Fair Work Commission must examine when approving an enterprise agreement.

▶ **Question 6 (4 marks)**

Discuss the use of enterprise agreements as a method of establishing wages and conditions of work.

More exam questions are available online.

2.16 EXTEND YOUR KNOWLEDGE Determining enterprise agreements and Awards

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- Negotiation is an important part of determining Awards and agreements, which have very different processes of determination.

2.16.1 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

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.

- *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 following case study).

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.

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.
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.

Preparations for the negotiation process should start long before the expiry date of the current agreement.



2.16.2 Making enterprise agreements and Awards

The processes for completing enterprise agreements and making, or varying, Awards, is completely different.

ENTERPRISE AGREEMENT APPROVAL PROCESS

Introduction

Once bargaining is complete and a proposed agreement has been made, certain steps must be taken to make sure the agreement can be approved by the Fair Work Commission.

Pre-approval steps to be taken by employers

Terms explained

The employer must take all reasonable steps to ensure that:

- the terms of the agreement, and the effect of those terms, are explained to the employees
- the explanation is provided in an appropriate manner (for example, appropriate for young employees or employees from culturally diverse backgrounds).

Notice and vote to approve

The employer may ask the employees who are employed at the time and will be covered by the proposed agreement to approve the agreement by voting for it.

A vote must not occur until at least 21 days after the last day on which employees were given notice of their representational rights.

The employer must take all reasonable steps to ensure that during the 7-day access period employees employed at the time who will be covered by the agreement are given a copy of the following materials:

- the agreement
- any other material incorporated by reference in the agreement, or the relevant employees have access throughout the 7-day access period to a copy of those materials.

The employer must take all reasonable steps to ensure that by the start of the 7-day access period the relevant employees have been notified of:

- the time when the vote will take place
- the place where the vote will take place
- the voting method that will be used.

Agreement content

Agreements may contain terms about:

- matters pertaining to the relationship between the employer and the employees who will be covered by the agreement
- matters pertaining to the relationship between the employer and any employee organisation that will be covered by the agreement
- deductions from the wages for any purpose authorised by an employee covered by the agreement
- how the agreement will operate.

Unlawful content

Agreements should not include any unlawful content. This includes:

- a discriminatory term
- an objectionable term
- a term that would enable an employee or employer to 'opt out' of coverage of the agreement
- a term that confers an entitlement or remedy in relation to unfair dismissal before the employee has completed the minimum employment period
- a term that excludes, or modifies, the application of unfair dismissal provisions in a way that is detrimental to, or in relation to, a person

- a term that is inconsistent with the industrial action provisions
- a term that provides for an entitlement to right of entry that is not in accordance with Part 3–4 of the *Fair Work Act 2009*, or
- a term that provides for the exercise of a state or territory WHS right other than in accordance with Part 3–4 of the *Fair Work Act 2009* (which deals with right of entry).

Applying to the Commission for approval

Once an enterprise agreement is made, a bargaining representative for the agreement must apply to the Commission for approval of the agreement.

The application must be lodged with the Commission within 14 days of the agreement being made or within such further period as the Commission allows.

What the Commission considers

To approve an enterprise agreement, the Commission must be satisfied that:

- the pre-approval steps have been taken
- the agreement has been genuinely agreed to by the relevant employees
- the agreement passes the better off overall test
- the agreement does not contain terms which exclude or have the effect of excluding the NES or a provision of the NES
- the agreement does not include any unlawful terms or designated outworker terms
- the group of employees covered by the agreement was fairly chosen
- the agreement specifies a date as its nominal expiry date (not more than 4 years after the date of Commission approval)
- the agreement provides a dispute settlement procedure
- the agreement includes a flexibility clause and a consultation clause.

Source: Extracts from <https://www.fwc.gov.au/awards-and-agreements/agreements/approval-process>.
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MAKING OR VARYING MODERN AWARDS

Four-yearly review

The Fair Work Commission must conduct four-yearly reviews of all modern Awards.

Modern Awards objective

In addition, the Commission may vary modern Awards at other times, if necessary to achieve the modern Awards objective.

Varying an Award to correct an error, ambiguity or uncertainty

In addition, the Commission may vary modern Awards at other times to remove an ambiguity or uncertainty, or to correct an error.

Source: Extracts from <https://www.fwc.gov.au/awards-and-agreements/agreements/approval-process>.
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2.16 Exercise

2.16 Exercise

TEST your understanding

1. **Define** 'negotiation'.
2. **Identify** the skills that are important to be an effective negotiator.
3. **Outline** why a win-win attitude is important for negotiation in today's workplace.
4. **Identify** four examples of the types of things that may be negotiated between an employer and an employee.
5. **Identify** two differences between the processes for completing enterprise agreements and making, or varying, Awards.

EXTEND your understanding

6. After reading the 'Preparing for enterprise agreement negotiations' case study, **outline** how the 10 steps for a successful enterprise agreement should contribute to a win-win for both parties in a negotiation process.
7. **Outline** the steps that need to be followed to make an enterprise agreement. Use your existing knowledge of enterprise agreements, as well as the information in the 'Enterprise agreement approval process' case study.

2.16 Exam questions

▶ Question 1 (9 marks)

Eastern Water is a company with an excellent industrial relations record that results from its positive corporate culture. The business decided three years ago to introduce enterprise bargaining to develop the relationship between staff and management further and for the business to become more productive. This change has succeeded beyond expectations and other water providers now benchmark their performance against the company.

- a. **Justify** the use of enterprise agreements as methods of determining wages and conditions of work at Eastern Water. **4 marks**
- b. **Evaluate** the use of enterprise agreements as methods of determining wages and conditions of work at Eastern Water. **5 marks**

▶ Question 2 (4 marks)

Outline two similarities and two differences between Awards and agreements as methods of determining wages and conditions of work.

More exam questions are available online.

2.17 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.

2.17.1 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 overtime, 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.

dispute a result of disagreements or dissatisfaction between individuals and/or groups

strike occurs when employees withdraw their labour for a period of time in pursuit of improvements in their employment conditions

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

Absenteeism — an employee may take excessive amounts of 'sick days' as a form of disruption to the workplace or to prevent things from getting done



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.

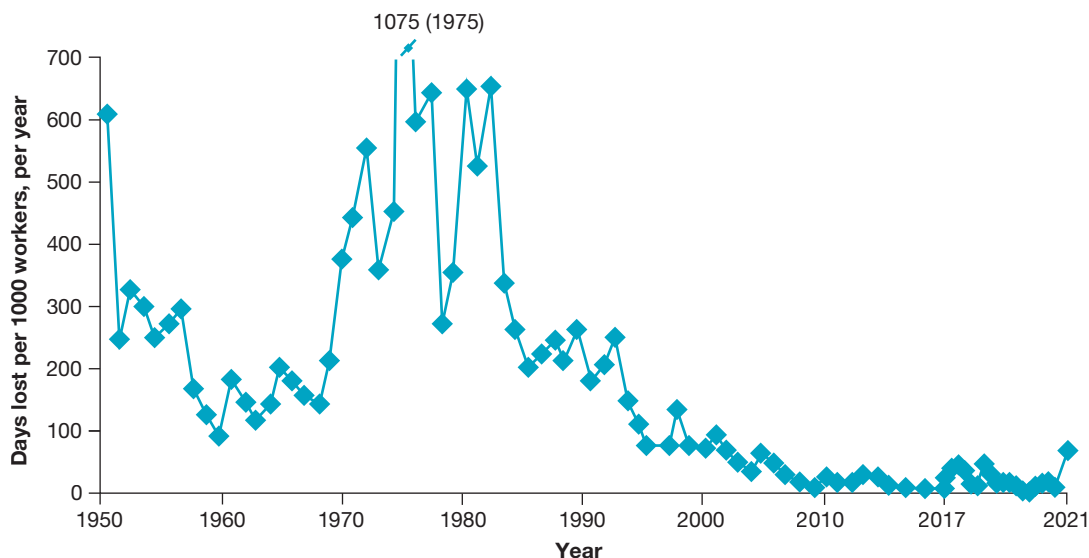
2.17.2 Causes of disputes

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.

Working days lost to industrial disputes relative to population, 1950–2021



Source: J. Stanford, *Historical Data on the Decline in Australian Industrial Disputes* (The Australia Institute, January, 2018) and <https://www.abs.gov.au/statistics/labour/earnings-and-working-conditions/industrial-disputes-australia/latest-release>

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.

2.17.3 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.

protected industrial action
action taken by either party to a dispute that has been approved by the Fair Work Commission

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.



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2.17 Quick quiz

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2.17 Exercise

2.17 Exercise

TEST your understanding

1. **Distinguish** between a strike and a lockout.
2. **Outline** the main causes of industrial conflict.
3. **Explain** why industrial disputes over 'managerial policy' are the most common in Australia when compared to the other causes of industrial conflict.
4. **Outline** the circumstances under which industrial action will be 'protected' under current legislation.
5. **Describe** the steps that the Fair Work Commission could take to deal with unprotected industrial action.

APPLY your understanding

6. Read the 'Blockade of Melbourne wharf by Maritime Union' case study. Many members of other unions came to support the MUA picket. **Outline** possible reasons for why this occurred.
7. 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. **Identify** the type of action the employees might take.
 - b. **Outline** what employees might hope to achieve by taking industrial action.
 - c. **Explain** what has to happen for industrial action to be 'protected'.

2.18 Dispute resolution

KEY KNOWLEDGE

- An overview of the dispute resolution process including mediation and arbitration

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.

2.18.1 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.

Successfully negotiating a resolution to a dispute usually results in all parties feeling optimistic about the decision and committed to the outcome. If negotiation fails to resolve a dispute, the employer and employees will need to try another dispute resolution method such as mediation or arbitration.

A negotiated decision



negotiation a method of resolving disputes whereby discussions between the parties result in a compromise and a formal or informal agreement about a dispute

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Telstra

Negotiation at Telstra

Telstra says that it negotiates with staff before implementing any significant changes. The company says that it regularly engages with three employee unions: the Communications, Electrical and Plumbing Union of Australia (CEPU), the Community and Public Sector Union (CPSU) and Professionals Australia (APESMA). The aim is to maintain an open and constructive relationship with the representatives of these unions. In 2021, Telstra conducted more than 15 formal consultation meetings with unions and employees. This included discussions about how the business has been protecting the health, safety and wellbeing of staff in response to COVID-19 and what the proposed Telstra Group legal restructure will mean for employees.

DISPUTE RESOLUTION IN AWARDS

The *Fair Work Act 2009* requires that all modern Awards include a term which sets out a procedure for resolving disputes between employers and employees about any matter arising under the modern Award and the National Employment Standards (NES).

Every modern Award contains a dispute resolution clause. Generally, the clause will provide for a process with the following stages:

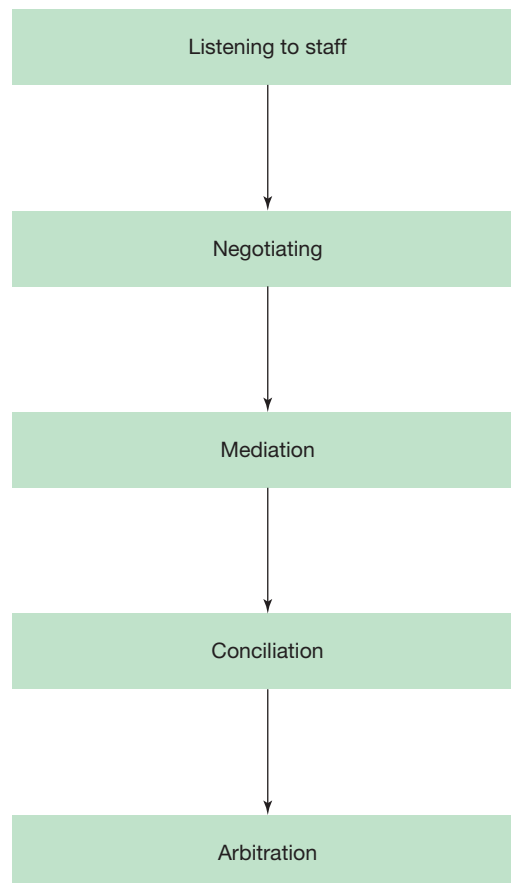
- employee/s meet with their direct supervisor to discuss the grievance
- failing resolution, the matter is discussed further with more senior management
- failing resolution of the matter, the employer refers the dispute to a more senior level of management or more senior national officer within the organisation

- where the dispute remains unresolved, the parties may jointly or individually refer the matter to the Fair Work Commission
- the employer or employee may appoint another person, organisation or association to represent them during this process.

Employers should be aware of, and familiarise themselves with, any dispute resolution procedure that applies to their workplace.

Source: Extract from <https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/best-practice-guides/effective-dispute-resolution#fwchelp>.

A typical dispute resolution process



DISPUTE RESOLUTION IN ENTERPRISE AGREEMENTS

When making an enterprise agreement, the Fair Work Act requires the parties to include a dispute resolution clause. Enterprise agreements lodged with the Fair Work Commission without such a clause will not be approved. The dispute resolution clauses in enterprise agreements must provide a process to resolve any disputes:

- arising under the agreement, or
- relating to the NES.

The Fair Work Act requires that a dispute resolution clause in an enterprise agreement must:

- set out a procedure that requires or allows either the Fair Work Commission or some other independent person to settle the dispute

- allow for the representation of employees covered by the agreement when there is a dispute (for example by another employee or a union).

A 'model dispute resolution clause' is available in the Fair Work Regulations 2009 and can be used to develop a dispute resolution term in an enterprise agreement.

Source: Extracts from <https://www.fairwork.gov.au/how-we-will-help/templates-and-guides/best-practice-guides/effective-dispute-resolution#fwchelp>.

2.18.2 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. Mediators do not act for either of the parties, nor do they advise or decide who is right or wrong. Their main role is to encourage the parties to examine all the issues.

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 Australian Human Rights Commission. Discussions in mediation are confidential and are held in a non-threatening environment. Because the outcome has been reached by the parties to the dispute, the agreement will only be legally binding if the parties draw up a contract on the terms of the agreement.

mediation the confidential discussion of issues in a non-threatening environment, in the presence of a neutral, objective third party, who helps the parties in dispute to work towards an agreement, but does not offer suggestions or solutions

A mediated decision — the parties own the outcome



Advantages and disadvantages of mediation

Advantages	Disadvantages
• Mediation is generally more cost effective than other means of dispute resolution, as it usually occurs in a less formal setting. • The use of mediation will usually result in resolution in a shorter space of time than other means of dispute resolution, if the parties are able to compromise. Mediation may last from a few hours to a few days. • Positive working relationships are maintained as the parties in dispute are encouraged to work together in reaching a decision. • Mediation is voluntary — if both parties have agreed to it, they are both clearly willing to work towards a solution.	• A decision made using mediation may not be legally binding on the two parties (depending on the terms of settlement) meaning that one of the parties or both parties may not honour their commitments. • One party may refuse to attend mediation as it is not compulsory to attend — it is also not compulsory to reach agreement. This may result in mediation becoming a waste of time and money. • One party may be stronger than the other. This is likely to be management, so the other party (most likely employees) may feel intimidated. Management may be better able to control proceedings and achieve a more favourable outcome. • Information could be shared with the other party during mediation that may benefit the other party.

2.18.3 Arbitration

Arbitration is a means of dispute resolution involving an independent third party hearing submissions from the parties in dispute and then making a decision in favour of one or the other. This decision will be binding on the parties. Arbitration is usually a formal process in which both parties present their evidence to the arbitrator. The arbitrator then determines which party is more in the right and makes a binding decision.

arbitration a means of dispute resolution involving an independent third party (such as a commissioner of the Fair Work Commission) hearing both arguments in a dispute and determining the outcome

An arbitrated decision is a decision that is imposed upon the parties by the Fair Work Commission.



Advantages and disadvantages of arbitration

Advantages	Disadvantages
• The decision made by the arbitrator is legally binding and enforceable. Parties can be confident that the arbitrator's decision will be enforced if the other party fails to honour it, so can experience some sense of closure. • Arbitrations are compulsory to attend. • The arbitrator will make a decision if the parties are unable to agree, which means that a result is not reliant on compromise between two disputing parties. • The dispute will normally be resolved much more quickly than if it was taken to court. • Arbitration is normally private (there is no public record of proceedings), though it is not always confidential (subject to the agreement of the parties).	• Parties have reduced control over the outcome, as the decision will be imposed by the arbitrator. • The process may be more time consuming and more expensive than other dispute resolution methods, depending on the nature of the dispute and how the arbitration is conducted. • Less effective at preserving the relationship between the parties in dispute, as arbitration does not aim to create a 'win-win' situation for the parties, and one party may be dissatisfied with the outcome.

2.18.4 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.

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 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 at the Fair Work Commission 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 resource 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.



conciliation a process that occurs when a third party participates in the resolution of a dispute and attempts to resolve the differences through discussion

2.18.5 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.

KEY IDEAS

- 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.
- A variety of avenues are available for the resolution of disputes in the workplace.
- A typical dispute resolution process includes negotiation, mediation and arbitration.
- Mediation refers to the confidential discussion of issues in the presence of a neutral, objective third party, who helps the parties in dispute to work towards an agreement, but does not offer suggestions or solutions.
- Arbitration is a means of dispute resolution involving an independent third party (such as a commissioner of the Fair Work Commission) hearing both arguments in a dispute and determining the outcome.

2.18 Exercises

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2.18 Quick quiz

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2.18 Exercise

2.18 Exam questions

2.18 Exercise

TEST your understanding

1. **Define** the term 'mediation'.
2. **Define** the term 'arbitration'.
3. **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.

APPLY your understanding

4. **Explain** the conciliation and arbitration procedures utilised by the Fair Work Commission.
5. **Identify** a similarity and a difference between mediation and arbitration.

2.18 Exam questions

▶ Question 1 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.2; © VCAA

Distinguish between mediation and arbitration as a means of dispute resolution.

▶ Question 2 (4 marks)

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 as soon as possible.

Outline a dispute resolution process that could be implemented by the human resource manager to attempt to resolve Ellen's issue.

▶ Question 3 (4 marks)

Compare mediation and arbitration as a means of dispute resolution.

▶ Question 4 (4 marks)

Discuss mediation as a means of dispute resolution.

More exam questions are available online.

2.19 APPLY YOUR SKILLS Dispute resolution and methods of determining wages and conditions of work

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

2.19.1 Dispute resolution

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 complaint, 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?

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. The Australian Human Rights Commission recently reported the costs of workplace bullying are between \$6 billion and \$36 billion every year. This includes its hidden and lost opportunity costs.

2.19.2 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 also needs 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.

2.19 Exercises

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2.19 Exercise

2.19 Exam questions

2.19 Exercise

TEST your skills

1. Read 'Workplace disputes: how to extinguish the flame and avoid a fire'.
 - a. **Explain** why a manager's skill in resolving disputes at the workplace level is crucial in avoiding the escalation of an industrial dispute.
 - b. **Outline** why a manager who adopts an autocratic management style may find it difficult to resolve disputes at the workplace level.
 - c. **Identify** steps a manager should take when confronted with an employee complaint in the first instance at the workplace level.

2. After completing the 'Employment contracts for Business Management students' activity, answer the following questions.
 - a. **Define** the term 'common law individual contract'.
 - b. **Describe** what an enterprise agreement is.
 - c. **Outline** how the enterprise agreement was negotiated in your classroom.
 - d. **Outline** the outcome of the enterprise agreement (what conditions were in the agreement?).
 - e. **Outline** how the common law individual contracts were negotiated in your classroom.
 - f. **Outline** the outcome of your individual contract.
 - g. **Compare** the conditions of the enterprise agreement to the conditions of your individual contract. **Identify** which has the better conditions. **Explain** why you think that this is the case.
 - h. **Compare** the conditions of your individual contract to the conditions of the individual contracts negotiated by other students in your class. **Identify** which has the better conditions. **Explain** why you think that this is the case.

APPLY your skills

3. 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 for 'a few weeks' because he was so busy. He also added that it has never been a problem in the past.
 - c. 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'.
 - d. 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.
4. 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.
5. Imagine 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.

2.19 Exam questions

Question 1 (2 marks)

Describe the role of a human resource manager in a dispute in a workplace.

Question 2 (4 marks)

Explain two characteristics of enterprise agreements.

Question 3 (8 marks)

Employees at Bill's Burgers are concerned that their pay and conditions of employment have fallen considerably behind employees working at other fast food chains. Currently, the staff at Bill's are under the Fast Food Industry Award. They have requested that management negotiate an enterprise agreement.

- a. **Explain** Awards and agreements as methods of establishing employee wages and conditions of work. **Identify** and **justify** which method Bill's Burgers should adopt. **5 marks**
- b. **Explain** a dispute resolution process to resolve the conflict between the employees at Bill's Burgers and management. **3 marks**

More exam questions are available online.

2.20 Review

Hey students! Now that it's time to revise this topic, go online to:



Review your
results



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2.20.1 Summary

The relationship between human resource management and business objectives

- 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.
- The relationship between human resource management and business objectives is very important as it is staff who achieve the business's objectives and human resource strategies that help ensure objectives are achieved.

Theories of motivation

- 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.
- 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.
- 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

- Performance-related pay refers to the monetary compensation provided to employees relative to how their performance is assessed according to set standards. Performance-related pay can be provided to employees through direct payment incentives such as pay increases, bonuses and commissions, as well as providing employees with the opportunity to share in the performance of the business through share ownership, profit sharing and gainsharing.
- 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, or resources such as time, 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 strategies include 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.

Training options

- Training involves teaching staff how to do their job more efficiently and 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.
- 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.
- An appraisal refers to the formal assessment of how efficiently and effectively an employee is performing their role in the business.
- 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 considerations are the rights to benefits that employees have when leaving the workplace, either on a voluntary or an involuntary basis.
- Transition considerations relate to the process or a period of changing from one job to another or from one set of circumstances to another.

Workplace relations — 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 associations, 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, determines and maintains minimum wages, 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

- Awards are legally binding documents determined by the Fair Work Commission, setting out minimum wages and conditions for whole industries or occupations.
- Enterprise agreements are agreements on pay and conditions of work made at the workplace level, and negotiated between groups of employees (or their union representatives) and employers.
- 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.
- A variety of avenues are available for the resolution of disputes in the workplace.
- A typical dispute resolution process includes negotiation, mediation and arbitration.
- Mediation refers to the confidential discussion of issues in the presence of a neutral, objective third party, who helps the parties in dispute to work towards an agreement, but does not offer suggestions or solutions.
- Arbitration is a means of dispute resolution involving an independent third party (such as a commissioner of the Fair Work Commission) hearing both arguments in a dispute and determining the outcome.

2.20.2 Key terms

appraisal the formal assessment of how efficiently and effectively an employee is performing their role in the business

arbitration a means of dispute resolution involving an independent third party (such as a commissioner of the Fair Work Commission) hearing both arguments in a dispute and determining the outcome

Award a legally binding document determined by the Fair Work Commission that sets out minimum wages and conditions for whole industries or occupations

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

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, and gaining more experience

dismissal occurs when the behaviour of an employee is unacceptable and a business terminates their employment

dispute 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 considerations 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 2009*

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, or resources such as time, into the teaching of skills to employees

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, who helps the parties in dispute to work towards an agreement, but does not offer suggestions or solutions

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

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 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

productivity a measure of performance that indicates how many inputs (resources) it takes to produce an output (goods or services)

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

sanction a form of penalty or discipline imposed on an employee for poor performance

self-evaluation a process whereby employees carry out 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

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

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 considerations issues relating to the process 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

workplace relations the interactions 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 objectives

Resources

 **Digital documents** Key terms glossary (doc-37934)
Missing word glossary quiz (doc-35210)
Crossword (doc-35211)

2.20.3 Practice 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: 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.)

Section A (27 marks)

Question 1 (6 marks)

Dana's children's party business is struggling financially. She realises that termination is a necessary strategy for a number of her employees in order for the business to survive.

- a. **Define** the term 'termination'. **2 marks**
- b. **Analyse** one termination management strategy that Dana could implement to effectively manage her business and employees. **4 marks**

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, while the company had made record profits.

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, Human Resource 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.

Question 2 (11 marks)

Read the case study 'Impending strike action' and answer the following questions.

- a. **Distinguish** between the Supa Dupa Foods agreement and Awards as methods of determining wages and conditions of work. **3 marks**
- b. **Identify** and **explain** two possible means of resolving the dispute that have not yet been used by the parties. **4 marks**
- c. If the parties cannot reach agreement, **describe** the workplace participant that could become involved, and explain the processes that participant could use to arrive at a resolution. **4 marks**

Part of the furniture

Dani is the Human Resource Manager in a large furniture manufacturing company. She has 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. A supervisor in his section of the factory for several years, he recently seems to have lost 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 and is responsible for promoting new products to furniture retailers who sell the company's products, and ensuring orders are filled promptly. She is scheduled to start work at 8.00 am, but is often late to arrive. While she is a great worker who produces good results and is well liked in the company, and has developed strong relationships with many of the retailers, she says that she is unhappy with the pay she receives and is looking for a new job.

Question 3 (10 marks)

Read the case study 'Part of the furniture'. **Explain** what you think currently motivates the two workers referred to in the case study. **Apply** the key principles of one theory of motivation you have studied to the motivation of the employees at the furniture company.

Section B (13 marks)

Use the case study provided to answer the questions in this section. Answers must apply to the case study.

Telstra's management of employees

Telstra Corporation Limited is a telecommunications company that provides a range of communications services including fixed-line and mobile access, internet access, and pay television. Employing approximately 26 000 staff, the business's objectives relate to making profit, providing customers with the best experience and delivering the best technology, as well as doing business responsibly.

During the COVID-19 pandemic, Telstra experienced an increase in call centre volumes. Because its call centres in the Philippines and India were affected by lockdowns, Telstra announced that it had been required to recruit extra temporary call centre staff. Far more applications were received than the 1000 vacancies which were advertised, leading Telstra's human resource executive Alex Badenoch to say that the business did not anticipate so many people applying. She told *The Australian*, 'This shows there's plenty of talent in the market and we look forward to welcoming some of our new team members from this week to help us better serve our customers during this unprecedented time'.

In early April 2020, 500 applicants had been hired by Telstra and were ready to begin training. Due to social distancing rules, the company introduced remote training and virtual training to ensure consistency in the service that its employees were providing to customers. A help desk of subject-matter experts was set up to assist new staff during and after training. Telstra anticipated that thousands more new roles would need to be created; these new employees would also need to be trained. In fact, in its 2021 Sustainability Report, Telstra said that it had assessed the capabilities required to prepare its staff for the future world of work. To build this capability the company invested over \$21.4 million in training and development in the 2021 financial year. This investment included finances directed towards training in technology, decision making and



negotiation skills, as well as all company access to LinkedIn learning. More than 13 000 employees participated in a technical learning platform and recorded nearly 96 000 hours of learning.

Telstra is also focused on building a high performance culture. In its 2021 Sustainability Report, Telstra noted that each quarter, its employees have a conversation with their leader about how they have performed against their objectives and key results (OKRs), the feedback they have received from colleagues, and their development needs. At the end of the financial year, staff receive an individual performance rating that equally assesses what they achieved and how they role-modelled the company's values and desired behaviours. The overall rating informs pay decisions and outcomes.

Read the 'Telstra's management of employees' case study, then answer the following questions.

Question 1 (4 marks)

Outline the relationship between the management of human resources at Telstra and its business objectives.

Question 2 (5 marks)

Discuss the use of on-the-job training or off-the-job training at Telstra.

Question 3 (4 marks)

Outline the performance management strategy that Telstra is using and **explain** how this strategy would be used by the company to achieve both business and employee objectives.

on Resources

 **Digital document** School-assessed coursework (doc-37969)

2.20 Exercises

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2.20 Multiple choice quiz

on

2.20 Exercise

2.20 Exam questions

2.20 Exercise

TEST your understanding

1. **Outline** how human resource strategies are linked to overall business objectives.
2. Choose one motivational theory and **explain** how it could be used by a business to motivate staff.
3. **Explain** how an employer can use performance-related pay to improve employee motivation.
4. **Outline** how career advancement can be used to align business objectives with the personal objectives of employees.
5. Other than performance-related pay and career advancement, **identify** two motivation strategies that can be used to motivate employees.
6. **Outline** one advantage and one disadvantage of on-the-job training.
7. **Outline** one advantage and one disadvantage of off-the-job training.
8. **Define** the following terms.
 - a. Management by objectives
 - b. Employee observation
9. **Outline** one entitlement issue and one transition issue related to:
 - a. retirement
 - b. redundancy.
10. **Explain** the difference between resignation and dismissal.
11. **Outline** 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

12. **Distinguish** between Awards and agreements.
13. **Identify** two circumstances where the Fair Work Commission might not approve an enterprise agreement.
14. **Describe** a process that a human resource manager could use to resolve a workplace dispute.

APPLY your understanding

15. 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.
16. **Describe** the two most effective strategies that you would recommend a business use to maximise the motivation of its employees. **Examine** the advantages and disadvantages of each motivation strategy and **identify** the strategy that you believe would be best for motivating employees.
17. 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.

18. Read the 'Supporting staff in regional business' case study and answer the questions that follow.
 - a. **Propose** and **justify** an appropriate training option for Timboon Fine Ice Cream.
 - b. **Analyse** the use of a performance management strategy within Tim and Caroline's business.

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.



2.20 Exam questions

Use the case study provided to answer questions 1 to 3.

Source: VCE 2021, Business Management Exam, Section B; © VCAA

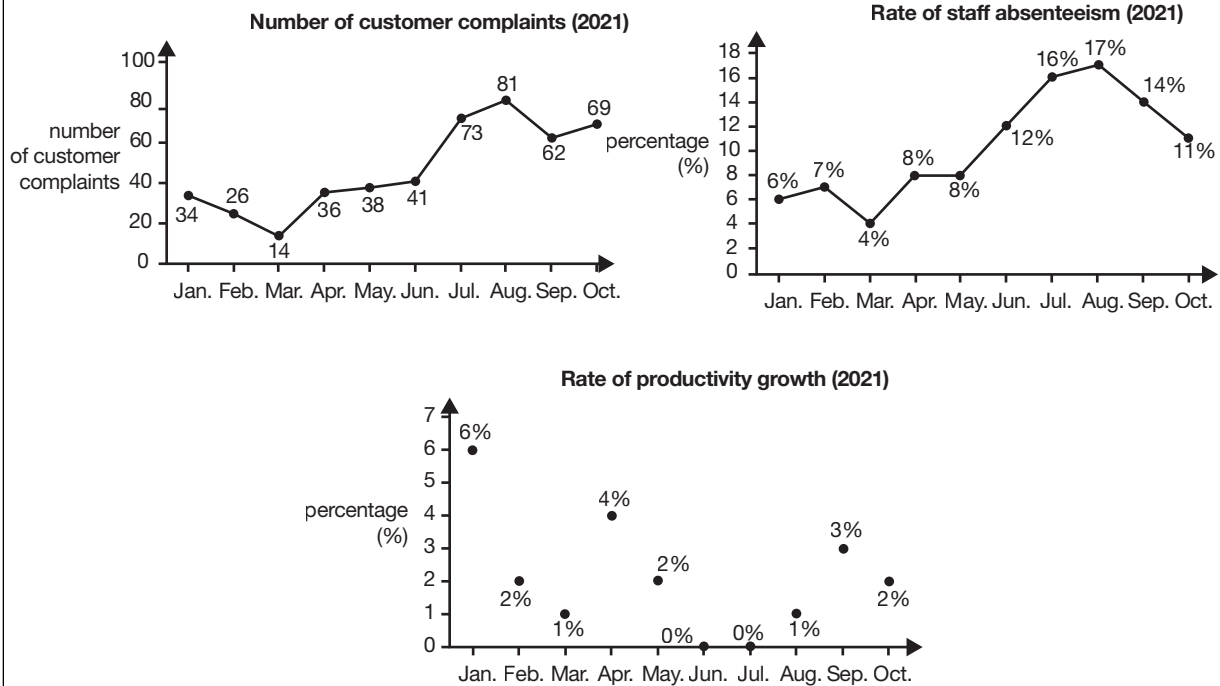
Case study

Rabwood Mutual is a financial services firm that was established as a partnership 10 years ago. The head office is in Geelong. The business also has three smaller branches in Ballarat, Bendigo and Warrnambool.

During 2020 the business went through a period of restructure. As part of this restructure, the human resource department was expanded and a data analyst was recruited. The data analyst is responsible for monitoring the key performance indicators (KPIs) of the business.

Early in 2021 the business implemented a new program that required all employees to complete five days of on-the-job training each year. The business is also using redeployment in all its Victorian locations whenever staff shortages are experienced. Employees are expected to move between the four branches in regional Victoria. For example, several employees from the Warrnambool branch have been redeployed to Geelong following the unexpected resignation of three members of staff.

In late 2021, the human resource manager presented the following three graphs to the partners of the business. The partners have expressed some concern about the data shown in the graphs.



 Question 1 (6 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.6; © VCAA

With reference to **two** principles of Lawrence and Nohria's Four Drive Theory of motivation, **describe** how Rabwood Mutual could use this theory to improve **one** of the KPIs shown in the graphs.

 Question 2 (4 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.3; © VCAA

Describe one advantage and **one** disadvantage of on-the-job training as a strategy for improving the effectiveness of employees.

 Question 3 (4 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.4; © VCAA

With reference to the situation at Rabwood Mutual, **compare** resignation and dismissal as forms of termination.

 Question 4 (6 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.6; © VCAA

With reference to a contemporary business case study, **explain** how managers could apply one theory of motivation and a related motivational strategy to successfully manage employees.

 Question 5 (5 marks)

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 human resource management can contribute to the achievement of the business objectives of the food processing factory. **3 marks**

 Question 6 (10 marks)

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**

 Question 7 (6 marks)

'Motivated employees will always produce better results for a business than those lacking in motivation'.

Analyse this statement, with particular reference to the use of Maslow's Hierarchy of Needs in motivating employees.

▶ **Question 8 (6 marks)**

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**

▶ **Question 9 (8 marks)**

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**

▶ **Question 10 (5 marks)**

Evaluate either on-the-job training or off-the-job training as an option for effectively managing employees.

▶ **Question 11 (4 marks)**

Describe the relationship between performance management and training.

▶ **Question 12 (3 marks)**

Distinguish between dismissal and redundancy.

▶ **Question 13 (5 marks)**

Identify and **explain** two roles of the Fair Work Commission in workplace relations in Australia.

▶ **Question 14 (4 marks)**

Using examples, **distinguish** between mediation and arbitration.

▶ **Question 15 (4 marks)**

Propose and **justify** one performance management strategy for managing employees effectively.

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TOPIC

3 Operations management

UNIT 3 AREA OF STUDY 3

OUTCOME 3

On completion of this topic you should be able to analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations.

LEARNING SEQUENCE

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3.1 Overview

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3.1.1 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 eight 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 topic, 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.



CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Yakult

Number of employees	Approximately 150
CEO Yakult Australia Pty Ltd	Managing Director, Mr Kenji Ono
Head office (Yakult Australia)	Dandenong, Victoria
Revenue	US\$29.33 million (approx. A\$40 million)
Flagship products	Yakult's parent company (Yakult Honsha) is involved in the production of pharmaceuticals, skin care, foods and other beverages containing beneficial bacteria.

Operations system

As introduced in topic 1, Yakult is a fermented milk drink produced in factories around the world. Yakult Australia operates a factory in Dandenong South in Melbourne. As with other businesses, the operations system of Yakult comprises three key elements: inputs, processes and outputs.



Inputs

- The resources used in the process of production
- Inputs comprise the raw materials, such as skim milk powder, water, sugars, lemon flavouring and the important bacteria strain for which the product is known.
- The business also requires the inputs of machinery and equipment, employees to oversee production, and information regarding the quantity and timing of production.

Processes	• The value-adding steps taken to transform the inputs into outputs • It involves combining the milk powder, water, sugar, bacteria and flavouring in sterilised vats, heating the mixture, testing the mixture for quality during the fermentation process and then filling the unique bottles (which are made on-site) with the finished product. • The finished bottles are capped, wrapped and stored until ready for distribution to retail outlets. • The processing stage of Yakult utilises technology, quality strategies, the management of materials and waste in an effort to maximise efficiency and effectiveness.
Outputs	• The final element is the output, which is the finished product. • In the case of Yakult, these are the packs of 5 or 10 bottles wrapped and chilled that are delivered to retail outlets. • Yakult's finished products may be in one of two forms — the original Yakult or Yakult Light.

CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Commonwealth Bank of Australia

Number of employees	48 900
CEO Commonwealth Bank of Australia	Matt Comyn (Chair — Paul O'Malley)
Head Office	Sydney
Revenue	\$17.46 billion (2021)
Net profit	\$8.65 billion (2021)
Flagship products	Banking, home loans, insurance, investing and super, business support

Operations system

As introduced in topic 1, the Commonwealth Bank of Australia (CBA), provides a variety of financial services including retail, business and institutional banking, funds management, superannuation, insurance, investment and broking services. The Commonwealth Bank also has an operations system comprising the three elements: inputs, processes and outputs.



Inputs	• The Commonwealth Bank has a range of inputs. • They have the physical resources of buildings, desks and computers. • They also have staff who interact with customers, as well as paper, pens and assorted stationery. • However, because the bank provides services such as granting loans and providing advice to customers, it relies on information as an input for its business.
Processes	• The processing will look different from that of a manufacturer. • The employees at the bank take down information from customers, listen to what they are seeking and process this information, looking for the best account, type of loan or superannuation fund for the customer. • The process still utilises technology and quality management strategies, and also monitors waste.
Outputs	• The output should be a satisfied customer who has received the right financial advice, the appropriate home loan or the right type of bank account for their need.

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 knowledge	Subtopic
☐ The relationship between operations management and business objectives	3.2
☐ Key elements of an operations system: inputs, processes and outputs	3.4
☐ Characteristics of operations management within both manufacturing and service businesses	3.5
☐ Strategies to improve both the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, robotics, computer-aided design, computer-aided manufacturing techniques, artificial intelligence and online services	3.6
☐ Strategies to improve both the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just in Time	3.7
☐ Strategies to improve both the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management	3.8
☐ Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including reduce, reuse, recycle	3.9
☐ The pull, one-piece flow, takt, zero defects strategy to improve the efficiency and effectiveness of operations related to lean management	3.10
☐ Corporate social responsibility considerations for an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs	3.12
☐ Global considerations for operations management including global sourcing of inputs, overseas manufacture and global outsourcing	3.14

Key skills

These are the skills you need to demonstrate.

Key skills
☐ Identify, define, describe and apply business management concepts and terms
☐ Interpret, discuss, compare and evaluate business information, theories and ideas
☐ Analyse case studies and contemporary examples of business management
☐ Apply business management knowledge to practical and/or simulated business situations
☐ Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.



Resources



Digital document Key terms glossary (doc-37935)



Weblinks Yakult
Commonwealth Bank of Australia (CBA)

3.2 The relationship between operations management and business objectives

KEY KNOWLEDGE

- The relationship between operations management and business objectives

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3.2.1 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.



CASE STUDY

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

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 2020, the South32 Chief Executive Officer stated that, despite a challenging environment, the company was delivering positive results.

Operating costs had trended down in the half and the Group lowered its cost guidance across most operations. There was record production at Brazil Alumina and higher output rates at Worsley Alumina were maintained. Higher cost trucking was cut in response to lower manganese prices at South Africa Manganese. Integral to the Group's strategy is creating shareholder value by investing in exploration, while reshaping and improving the Group portfolio. The Group has continued to embed high quality development options including the Ambler Metals Joint Venture in Alaska and has invested in its portfolio of more than 20 exploration projects targeting base metals in prospective jurisdictions.

In its March 2022 Quarterly Report, South32 CEO Graham Kerr made the following observations regarding operations:

- The company has decided to cease commodity sales to Russian entities, due to the war in Ukraine.
- Global operations and supply chains have been greatly impacted by the COVID-19 pandemic and this could potentially continue into FY22.

Source: Based on *South32 Financial Results and Outlook Half Year ended 31 December 2019* and Quarterly Report March 2022.

operations management all the activities in which managers engage to produce goods or services
inputs resources used in the process of production

Australia Post

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 its 2019 Annual Report, Australia Post's CEO and managing director said:

We committed more resources to manage customer enquiries efficiently and trained over 20 000 employees in customer service. We invested over \$423.9 million in our operational network in the period, including installing new sorting automation and tracking in Sydney, Melbourne and Canberra, just in time for our record-breaking Christmas 2018 peak. And not least, we continued to focus on giving our customers more choices for deliveries, faster delivery times and new and innovative products.

Source: Australia Post Annual Report 2019.

3.2.2 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 topic 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 3.3.

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 topic 4.

DID YOU KNOW?

Efficiency is not a new concept. 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.

3.2.3 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.

business competitiveness the ability of a business to sell products in a market

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 below). 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.

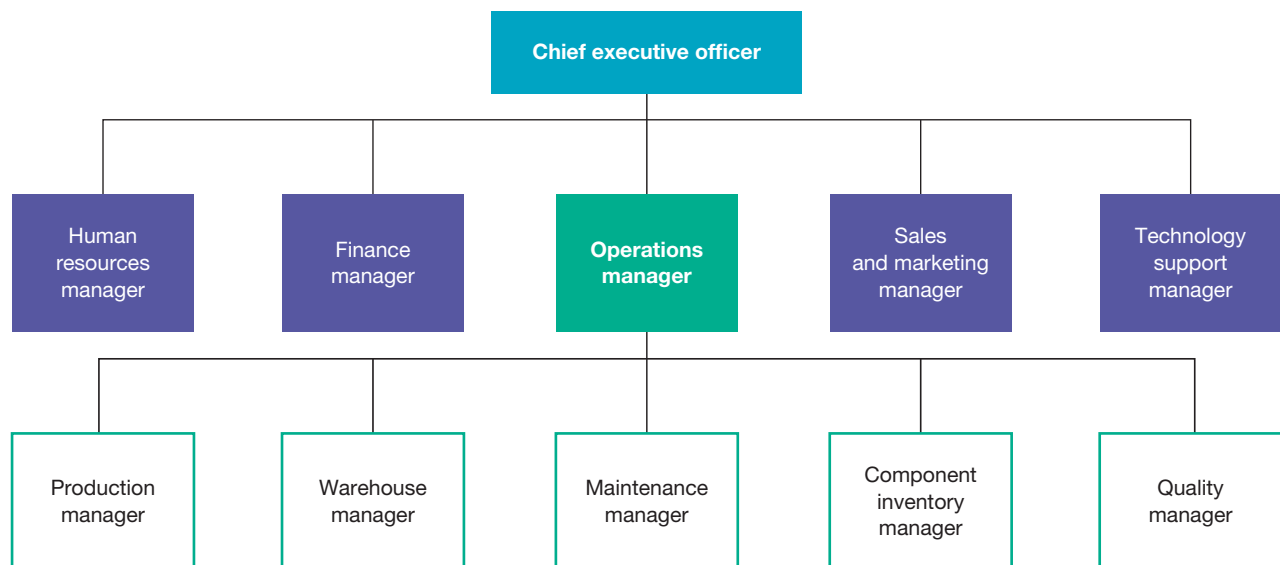
The operations department will work closely with other areas in the business. Operations may, for example, work closely with the Human Resource Management department to recruit and select new staff to work in the area of operations. Additionally, operations strategies can be used to achieve objectives by supporting strategies in other areas of the business. The following table shows more examples of how operations strategies can be used to help the business achieve its objectives.

How operations objectives and 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. 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.



CASE STUDY

Interview with an operations manager

Harry Souris: National Operations Manager
Company: M&J Chickens
Studied: Business Management, University of Western Sydney



How did you get to where you are today?

My siblings and I have been actively involved with the business since we were very young; I remember being aged eight and packing product into boxes. We all still play an active part in running the business on a national level, endeavouring 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 are the primary roles and responsibilities in your job?

I am responsible for the operational side of the business on a national level, liaising daily with our teams across Australia to maintain stock control and to generally ensure that things are running smoothly. I'm also required to travel regularly, and to conduct meetings and training for our management teams to pass onto their staff.

What software do you use on a daily basis?

We use a software system called Clear Objective; this processes all sales and purchase orders, I refer to this system as the 'brains' behind our business; it allows us to maintain stock control and forecast stock moving forward to ensure we are not caught off guard.

What is the biggest frustration in the job?

Frustration can arise on the rare occasion when something out of my control goes wrong, such as a supplier not being able to fulfil our product needs in order for us to produce product for a client. This is the ultimate frustration for me because letting down clients is always the worst-case scenario. I would exercise every possible option before letting down the client.

Source: Based on extracts from *Food Magazine*, 9 April 2013.

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.

KEY IDEAS

- 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.

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3.2 Quick quiz

on

3.2 Exercise

3.2 Exam questions

3.2 Exercise

TEST your understanding

1. **Explain** what is meant by 'operations management'.
2. **Outline** how operations management can improve a business's ability to compete with its competitors.
3. **Outline** some of the tasks that Harry Souris carries out as National Operations Manager for M&J Chickens.
4. In your own words, **describe** the relationship between operations management and business objectives.

APPLY your understanding

5. '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).
6. 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	

7. Select a well-known 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.
8. 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 fulfil these responsibilities.

3.2 Exam questions

▶ Question 1 (3 marks)

Source: VCE 2020, Business Management Exam, Section B, Q.2; © VCAA

Case study

Below is an extract of a speech delivered to the shareholders of Manitta Mining by its Chief Executive Officer at its annual general meeting on 7 August 2020.

Our business faces significant challenges. Staff turnover has increased significantly over a five-year period. The business's share price on the Australian Securities Exchange (ASX) has decreased by 15% over the same five-year period. Sales are also down and the company has struggled to reduce the number of workplace accidents in our mines.

As Chief Executive Officer of Manitta Mining for more than 15 years, I am pleased to tell you the long-term outlook for the company remains strong. Since the appointment of a new operations manager, Dr Margaret Sherckle, in February 2020, the number of workplace accidents has decreased by 25%. The number of workplace accidents is a very important key performance indicator (KPI) for the business and a key business objective is to improve workplace safety.



Manitta Mining currently has more than 20 000 employees, each of whom I consider to be part of the 'Manitta family'. While business efficiency and effectiveness are important, the goal of ensuring that our employees return home safely each day is our priority.

A safe workplace will reduce staff turnover. It will also reduce staff absenteeism. We aim to keep staff turnover below 5% in the year ahead. This will reduce associated costs. For example, reduced staff turnover will reduce staff training costs. WorkCover premiums will also fall. Manitta Mining expects that increased employee retention will lead to significant increases in the rate of productivity growth during the next 12 months.

Finally, I would like to thank you, the shareholders. Loyalty deserves to be rewarded. The implementation of strategies that improve business performance through increased productivity growth will ensure that your investment grows in turn.

Thank you.

Explain the relationship between operations management and the business objectives of Manitta Mining.

▶ Question 2 (2 marks)

Explain the importance of the relationship between operations management and business objectives.

▶ Question 3 (4 marks)

With reference to a contemporary business case study, **explain** how operations management relates to business objectives.

▶ Question 4 (6 marks)

Describe how the operations area can support a business in achieving objectives such as 'to make a profit' and 'to meet shareholder expectations'.

▶ Question 5 (3 marks)

Explain what is meant by 'operations management' and why it is important for a business.

More exam questions are available online.

3.3 EXTEND YOUR KNOWLEDGE Efficiency and effectiveness of operations

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- Efficiency and effectiveness work together to enable a business to achieve objectives.
- 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 study 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

Effectiveness refers to the degree to which a business accomplishes the objectives it set out to achieve. 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. (Profit is defined as what remains after business expenses have been deducted from revenue.) For example, one materials strategy is 'Just in Time'. By ensuring that the right amount of materials arrive just as they are needed, storage costs are reduced and the risk of waste occurring is reduced (also minimising costs). Reduced costs impact positively on profit. 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.

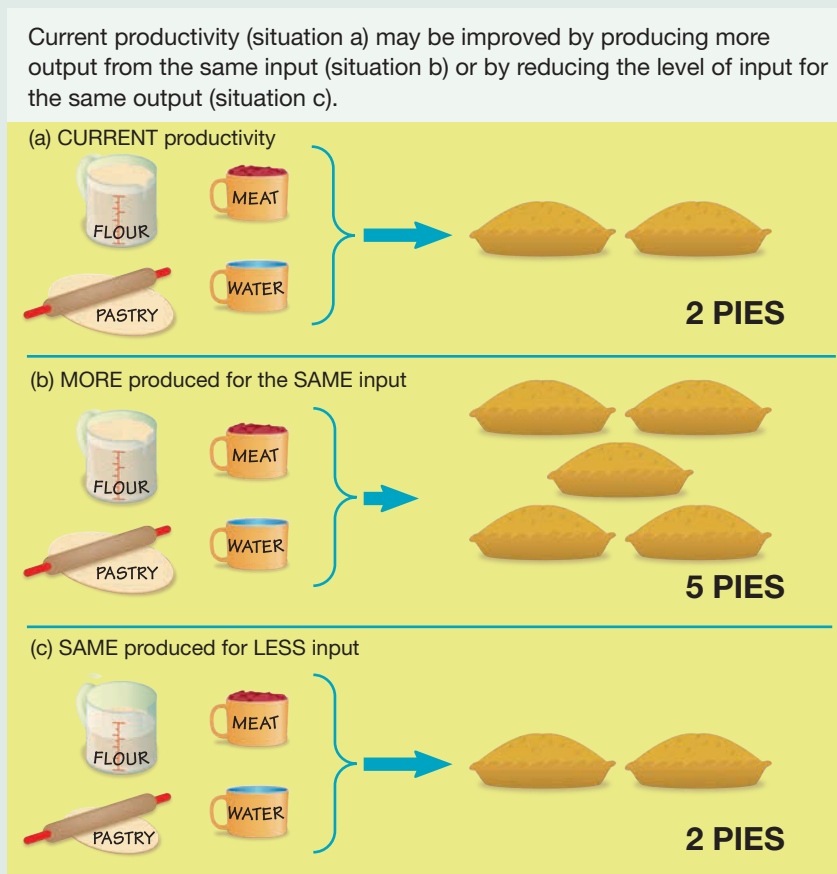
Effectiveness refers to achieving the objectives or goals of the business.



EFFICIENCY

Efficiency refers to how well a business is using its resources to achieve objectives. 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.



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 1.8) 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 topic 2). Automating production lines to reduce the labour required to perform a task and increase output is standard practice in many manufacturing businesses.

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 associated software, 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	Effective	Effective in achieving objectives, but inefficient use of resources at the same time (e.g. costs are high)	Effective in achieving objectives whilst also being efficient in the use of resources
	Ineffective	Ineffective in achieving the objectives of the business and also inefficient in the use of resources (e.g. not producing enough products, at high cost)	Efficient in the use of resources but ineffective at meeting the businesses objectives (e.g. not producing enough but at low cost)

3.3 Exercises

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3.3 Exercise

3.3 Exam questions

3.3 Exercise

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 to D in the following table.
 - b. Working in groups of three or four, **suggest** why:
 - i. bakery D's labour productivity is so high
 - ii. 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. In your own words, **explain** how a business can be both:
 - a. both effective and efficient
 - b. effective but not efficient
 - c. efficient but not effective.
8. 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:
 - a. how the business improved productivity
 - b. whether or not you believe that the business is effective
 - c. whether or not you believe that the business is efficient.

3.3 Exam questions

▶ Question 1 (2 marks)

Define the term 'efficiency' in relation to operations management.

▶ Question 2 (3 marks)

Explain how a business could implement Just in Time to improve the efficiency or effectiveness of its operations system.

▶ Question 3 (3 marks)

Identify one technological development and outline how it could be used by a business to improve the efficiency and effectiveness of its operations.

▶ Question 4 (4 marks)

Explain two reasons why it might be easier to increase productivity in a manufacturing business than in a service business.

▶ Question 5 (4 marks)

Distinguish between efficiency and effectiveness.

More exam questions are available online.

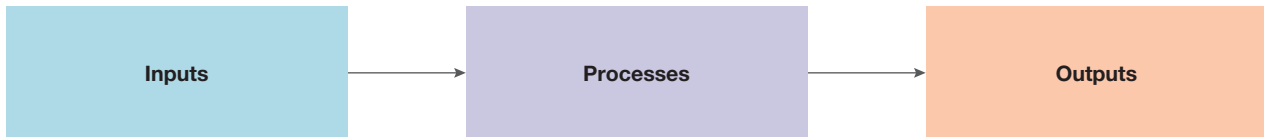
3.4 Key elements of an operations system

KEY KNOWLEDGE

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

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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.



3.4.1 Inputs

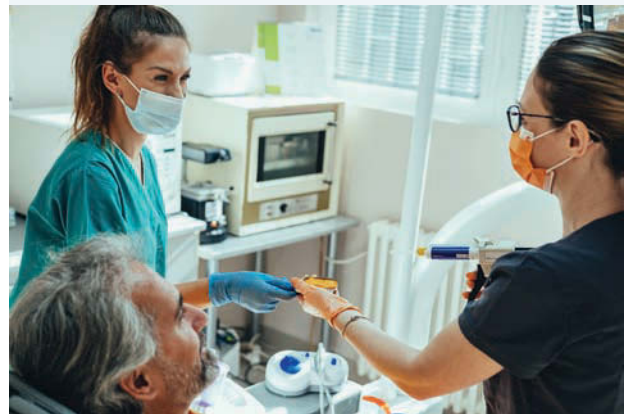
Inputs are the resources used in the process of production. Some resources are owned by the business, while others are from suppliers. There are six categories of inputs:

1. **Natural resources and materials** includes raw materials, components and parts consumed or converted by the transformation process.
2. **Physical resources** includes the plant, machinery, equipment and property necessary to conduct operations.
3. **Human resources** refers to people involved in the operations function.
4. **Financial resources** refers to the funds/money required to commence and continue operations.
5. **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.

6. **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.

In a dental surgery, inputs include labour, dentists and assistants, the equipment and materials that they use, as well as the premises themselves.



Differences between the inputs of manufacturing and service businesses

Inputs differ between manufacturing businesses and service businesses.

We introduced Yakult as an example of a manufacturing business and the Commonwealth Bank as an example of a service business.

Inputs in a manufacturing business

Manufacturers such as Yakult tend to make more use of capital equipment and materials and use less human resources and information. Yakult uses milk, water, sugar and a specific bacteria strain to make its product. The business also requires significant physical resources, such as equipment and buildings, in which to complete its processes.

Inputs in a service business

A bank such as the Commonwealth Bank is a business that provides financial services. The inputs to provide these services involve buildings (bank branches) and computers where information can be stored and retrieved. Human resources, in the form of bank tellers and financial advisers, are also required. For a service provider such as the Commonwealth Bank, information is a very important input. For example, information about financial position is important in providing advice and support.

transformation process the conversion of inputs (resources) into outputs (goods or services)

3.4.2 Processes/transformation

The main concept of operations management is the processes the inputs (resources) undergo to become the output (goods or services) — often referred to as the **transformation process**.

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, teachers, books, study designs, support staff and buildings — and produces school-leavers who have the knowledge and skills for further education and employment.

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.

Processes in a manufacturing business

A manufacturer such as Yakult produces its product by combining the milk, bacteria, water and sugar and then fermenting the mixture using machinery. The finished drink is then packaged and stored until delivery to retail outlets. This transformation process converts the inputs into a tangible product (goods that can be touched).

Processes in a service business

A service business such as the Commonwealth Bank transforms the inputs (information, time and human resources) into an intangible product (services that cannot be touched) — the financial advice, bank account or home loan required by the customer. 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.

Electronic devices are an output that requires many individual processes. There may be several thousand inputs, such as plastic, metal, rubber and electronic parts, supplied by hundreds of businesses.



The production of yoghurt goes through a transformation process, where inputs such as labour, raw materials and machinery are combined and converted into output.



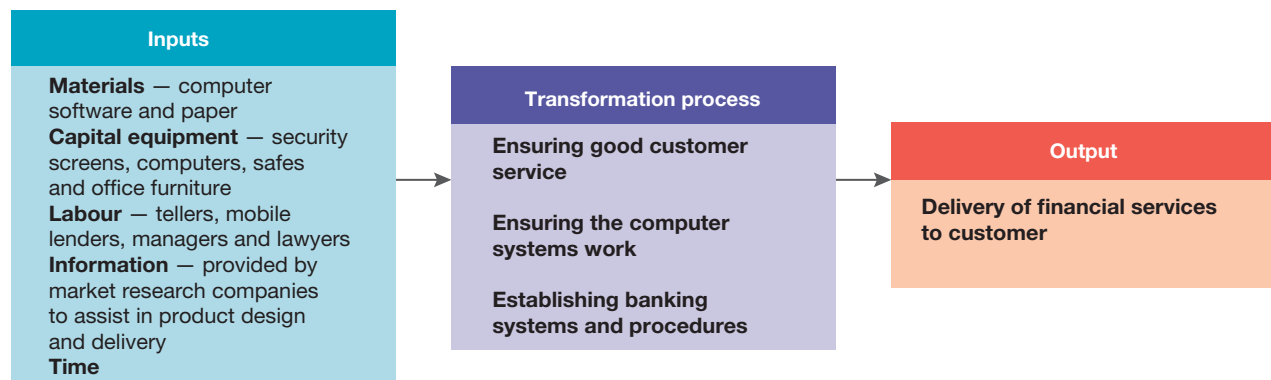
3.4.3 Outputs

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 are sometimes classed as 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 example operations system for Yakult



An operations system for a bank, such as the Commonwealth Bank, delivering financial services



3.4.4 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.

outputs the end result of a business's efforts — the service or product that is delivered or provided to the consumer

Operations management is a delicate balancing act.



on Resources

 **Weblinks** Rio Tinto
Monash Health

KEY IDEAS

- The elements of an operations system are inputs (natural resources and materials, physical resources, human resources, financial resources, information and time), the transformation process and outputs (the finished good or service).

3.4 Exercises

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3.4 Quick quiz

on

3.4 Exercise

3.4 Exam questions

3.4 Exercise

TEST your understanding

1. **Distinguish** between 'input', 'process' and 'output'.
2. **Identify** the inputs, processes and outputs of the following businesses:
 - a. Coles supermarkets
 - b. Four'n'Twenty pies
 - c. RACV

3. Miriam's Interior Decorating Service is a business specialising in home redecorating. **Outline** the range of operations activities offered in such a business.

APPLY your understanding

4. 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.
5. 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.

3.4 Exam questions

Question 1 (4 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.4; © VCAA

WCTY Cleaning Services provides cleaning and maintenance services for homes and businesses. The business operates 30 branches across Australia.

Outline the three key elements of the operations system. Apply one of these elements to WCTY Cleaning Services.

Question 2 (6 marks)

Source: VCE 2018, Business Management Exam, Section B, Q.2; © VCAA

Case study

The Daily Swell is a local print and online newspaper. It recently published the following article about a local business.

Regional Community Hub for All

Tessa Adams and Charlie Liu opened Ocean Skate Hub in 2017. It is a social enterprise aimed at servicing the needs of the local youth community. It offers indoor and outdoor skate parks, and youth and homework clubs. It also operates a sports shop and cafe.

After finishing school, Charlie completed a Sports Management degree and Tessa completed a Commerce degree. Having both worked in their chosen fields for several years, Tessa and Charlie recently moved from the city back to their hometown, where they began setting up their business enterprise. Charlie commented that 'we wanted to offer a place where young people from the community could come and try different activities, socialise and gain some new skills'.

After carrying out their research into what financial assistance was available, Tessa and Charlie applied for support through a government initiative called Social Enterprise Finance Australia (SEFA).

SEFA provides finance solutions to mission-led organisations and is deeply committed to fostering positive social and environmental impacts in communities across Australia. SEFA is also there to help new business ventures, like Ocean Skate Hub, build their capacity to manage debt and become financially sustainable.

'We highly value the intensive support we received from SEFA. They helped us put together a rock-solid business case', said Tessa.

Ocean Skate Hub uses its website and social media to provide information to customers and has launched an app to let members book activity sessions. Members are encouraged to give feedback to the organisation to help it meet its aims of improving customer service and finding interesting activities for all users. All employees are from the local area, and Tessa and Charlie are passionate about keeping all services within the region. Their preference is for staff training to be carried out within the business; however, this is proving to be challenging for Ocean Skate Hub to achieve, and Tessa and Charlie feel they may have to outsource staff training in the future.

With the success of the business behind them, Tessa and Charlie have big plans for expansion in 2019 to provide services for the whole community, not just its youth. These include IT classes for the elderly, as well as photography, cooking, woodwork and gardening classes for all ages.

‘With all these exciting changes planned for 2019, we will be relaunching as “Ocean Hub” to better reflect the expanded range of community activities that will soon be available’, Charlie said.

Mayor Colin Sprey commented that ‘it is encouraging to see our young entrepreneurs giving back to their community’.

Describe the key elements of Ocean Skate Hub’s operations system.

 Question 3 (2 marks)

Explain the difference between inputs and outputs.

 Question 4 (4 marks)

Describe the key elements of an operations system. Illustrate your answer using a service business.

 Question 5 (6 marks)

T&A Windows and Doors Pty Ltd is a manufacturer of timber and aluminium windows and doors. **Explain** the key elements of T&A Windows and Doors’ operations system. Provide an example for each element.

More exam questions are available online.

3.5 Operations management in manufacturing and service businesses

KEY KNOWLEDGE

- Characteristics of operations management within both manufacturing and service businesses

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

3.5.1 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. Yakult produces a fermented milk drink that can be purchased and consumed — it is a tangible good.

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 Commonwealth Bank produces financial advice for customers who may be planning their retirement. Although documentation may be provided, the actual service can’t be touched — it is an intangible service.

tangibles goods that can be touched
intangibles services that cannot be touched

The characteristics of operations management within manufacturing and service businesses

Manufacturing businesses	Service businesses
• Produce goods that are tangible (can be touched) • Manufactured goods can be stored for later use • Little customer involvement in production — the consumer is typically not present when the good is produced • Production process and consumption are not linked • Manufactured goods tend to be homogenous or standardised • Examples include bread, clothing, cars	• Produce services that are intangible (cannot be touched) • Services cannot be stored • Customer is involved in production — the consumer typically has to be present when the service is produced • Production process and consumption typically occur at the same time • Services tend to be differentiated or tailored to individual customers • 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, which is an example of a service. When a customer enters a contract with an internet provider, they will receive a service (their broadband connection), but also associated goods such as a modem 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.



KEY IDEAS

- 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.

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3.5 Quick quiz



3.5 Exercise

3.5 Exam questions

3.5 Exercise

TEST your understanding

1. **Explain** the main differences between goods and services.
2. **Outline** the differences between the characteristics of operations management within a manufacturing business and a service business.

APPLY your understanding

3. **Compare** the processes used by a manufacturing business such as Yakult and a service business such as the Commonwealth Bank.
4. **Distinguish** between tangible and intangible when referring to the outputs of a business.

3.5 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.1b; © VCAA

ChocYum Pty Ltd is a manufacturing business located in regional New South Wales. It prides itself on manufacturing chocolate products of the finest quality for major retailers in Australia, New Zealand and the United Kingdom.

Compare the characteristics of operations management within a manufacturing business (such as ChocYum Pty Ltd) with those of a service business.

▶ Question 2 (4 marks)

Source: VCE 2016, Business Management Exam, Q.1b; © VCAA

Distinguish between two key elements of the operations system of a manufacturing organisation and a service organisation. In your response, use examples that you have studied this year.

▶ Question 3 (2 marks)

Source: VCE 2012, Business Management Exam, Q.1e; © VCAA

In the chocolate industry, four large-scale organisations dominate the market, collectively accounting for 92% of all chocolate sales. Currently these four organisations compete on price. The smallest of the four organisations, Websters, is less able to take advantage of economies of scale than the three larger organisations. As a result, Websters has decided to focus on competing on quality rather than price to ensure its long-term success.

Sam Webster, grandson of the founder of the business, is currently the CEO and has identified that numerous changes must be made.

As the focus of Websters shifts to quality, it will need to measure quality as part of its operations management. A human resources audit has identified that the current staff do not have the necessary capabilities to implement this change. To allow the staff to develop the necessary capabilities, Mr Webster has identified two preferred options:

- improve the capabilities of the current staff
- purchase and import state-of-the-art equipment from Belgium.

While the purchase of equipment will be more expensive initially, it will improve productivity and reduce waste and carbon emissions in the longer term.

Describe one difference between the operations management of a manufacturing organisation, such as Websters, and a service organisation.

Question 4 (4 marks)

Pharma Group Ltd is a manufacturer of pharmaceutical products. **Describe** two differences between the operations management of a manufacturing business, such as Pharma Group, and a service business.

Question 5 (4 marks)

Compare the main characteristics of a manufacturing business with those of a service business.

More exam questions are available online.

3.6 Technological developments

KEY KNOWLEDGE

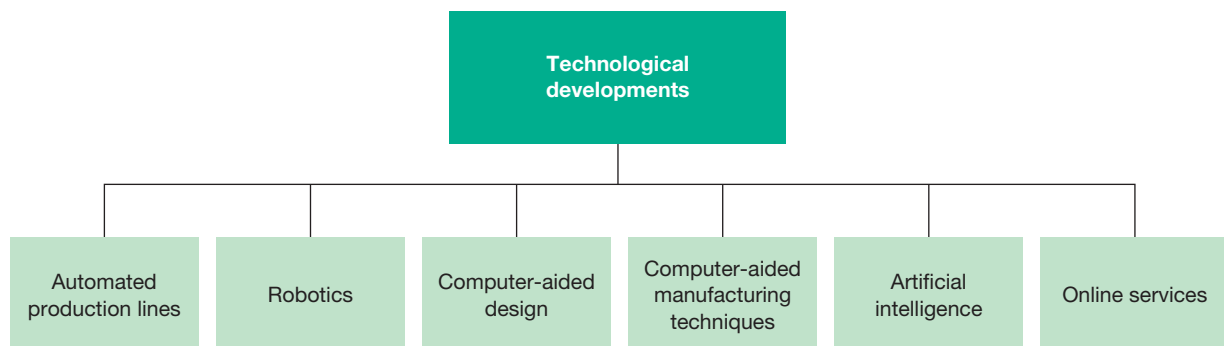
- Strategies to improve both the efficiency and effectiveness of operations related to technological developments, including the use of automated production lines, robotics, computer-aided design, computer-aided manufacturing techniques, artificial intelligence and online services

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

Imagine if Yakult tried to produce its fermented milk drink with absolutely no technology, or if the Commonwealth Bank attempted to maintain customer financial 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, six strategies that you must be aware of related to technological developments are the use of automated production lines, robotics, computer-aided design, computer-aided manufacturing techniques, artificial intelligence and online services.

Six strategies related to technological developments



EXAM TIP

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.

3.6.1 Automated production lines

An **automated production line** consists of machinery (often robotics) and equipment arranged in a sequence, usually on a conveyor belt. As a good passes along the line, the machinery will add components to it. An automated production line does not need employees directly involved in its operation as all or part of the process is automatic, and self-operating or -controlling. Computers manage the process and humans are likely to be given the task of monitoring the operations system.

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

Advantages and disadvantages of automated production lines

Advantages	Disadvantages
• Allows a business to produce at faster rates — this will result in higher output and increased productivity • Reduced need for human labour allows a business to produce at reduced cost and increased productivity • The use of robotics on an automated production line allows for a degree of precision, accuracy and speed in production, which would generally be unmatched by human labour. • The use of robotics on an automated production line allows production to continue for long periods, as robots work without complaint or demands for wage rises, in conditions that might be considered unacceptable for employees (i.e. repetitive, difficult or even dangerous). • Minimises waste • Can improve standardisation	• Robotics are high-cost forms of technology that can be unaffordable for many small and medium-scale manufacturers. • Robotics can be costly to maintain or replace. • Training is required so that employees are familiar with using robotics — this will cost the business both financially and in time. • The use of this strategy can lead to the loss of jobs as fewer employees are likely to be required. • Robotics can break down, halting production.

The car manufacturing industry makes use of automated production lines that feature robotics and automation. While the need for human labour is reduced, employees are still required for supervision and monitoring, as well as their analytical ability.



3.6.2 Robotics

Robotics is the combination of science, engineering and technology that produces machines, called robots. 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. Robots have been described as intelligent machines that can assist humans in a variety of ways.

On an automated production line, the use of robotics allows production to continue for long periods of time, as robots work without complaint or demands for wage rises, in conditions that might be considered unacceptable for employees (for example, repetitive, difficult or dangerous conditions).

3.6.3 Computer-aided design (CAD)

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, including architects, for building design, car manufacturers and even fashion designers when they develop new collections.

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 time using the least material.

robotics highly specialised form of technology capable of complex tasks

computer-aided design (CAD) a computerised design tool that allows a business to create product possibilities from a series of input parameters

CAD allows a business to create, modify and document product designs using less time, effort and cost.



Advantages and disadvantages of CAD

Advantages	Disadvantages
• Product designs can be produced at a faster rate, without the need for erasing and redrawing. • The designer can produce a two- or three-dimensional computerised version of a product. Changes can be made to this before a prototype is made. Material choices and associated costs can be explored at this stage. • Allows a business to view a design from multiple angles, assisting both the designer and the end user to visualise what will be produced.	• Computer software can crash, resulting in the possible loss of work. • Costs of software can be expensive. • The costs and time involved in training staff can deter many businesses from the use of CAD. • The use of this strategy may lead to the loss of jobs as fewer employees are likely to be required.

EXAM TIP

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.

3.6.4 Computer-aided manufacturing (CAM) techniques

Computer-aided manufacturing (CAM) refers to the use of software and machinery that allow computers to direct and control the manufacturing process. CAM involves automated machinery being programmed by an operator and then performing the instructions with speed and precision. Doing so should reduce waste, increase production and improve quality.

CAM usually comes after CAD. CAM consists of software that tells a machine how to make a product. CAM relies on information from the CAD process, so that the products imagined can be manufactured. CAM reduces the need for labour resources; however, CAM operators and engineers can be highly specialist and expensive to employ.

computer-aided manufacturing (CAM) the use of software to direct and control manufacturing processes

An employee might export data from CAD into CAM software, which would then send the information to a machine to start making a product or part.



Advantages and disadvantages of CAM

Advantages	Disadvantages
- Allows a business to produce at faster rates at reduced cost - Allows a business to produce with greater consistency (each component or finished product will be exactly the same) and greater accuracy (free of errors) - CAM allows a business's manufacturing process to become computer-directed by controlling the process — this will lead to greater efficiency as machines controlled by computers will not need to take breaks.	- Computer software can crash, resulting in production stopping. - CAM-enabled machinery is generally designed for a specific task, and is typically not versatile. - CAM systems and machinery are very expensive, requiring a business to make a huge upfront investment. - The costs and time involved in training staff can also deter many businesses from the use of CAM. - The use of these strategies can lead to the loss of jobs as fewer employees are likely to be required.

Computer-aided design is used in car design to finalise dimensions, materials and costs.



3.6.5 Artificial intelligence (AI)

Artificial intelligence (AI) is the ability of a computer or a robot controlled by a computer to do tasks that are usually done by humans because they require human intelligence and discernment.

Some examples of AI applications include web search engines (for example, Google), recommendation systems (such as those used by YouTube and Netflix), apps that understand human speech (such as Siri) and self-driving cars.

In operations, artificial intelligence can be used by service businesses in the production of documents. This is done through text editors that provide the best writing experience through things such as an NLP algorithm to identify incorrect grammar usage and suggest corrections. Besides auto-correction, some writing tools also provide readability and plagiarism grades. Airports use facial recognition technology for some passengers to improve and speed up the processing of overseas arrivals.

Manufacturing businesses can utilise chat robots or chatbots. These chatbots can impersonate the conversational styles of customer representatives using natural language processing.

Chatbots can now answer questions that require a detailed response in place of a specific yes or no answer. They are also able to learn from previous bad ratings to ensure maximum customer satisfaction.

As a result, machines now perform basic tasks such as answering FAQs or taking and tracking orders, allowing manufacturers to better plan production schedules.

3.6.6 Online services

Most businesses require a website (a connected group of pages on the internet maintained by a business to sell its products). A website can be used for marketing but it can also be developed for operations purposes, or to allow customers to make bookings or appointments. Many restaurants allow customers to reserve a table online, for example.

A business needs to ensure that a website that will handle private and sensitive personal information provided by customers can effectively protect this information. This is crucial for financial institutions such as banks who offer online banking services to customers. 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.

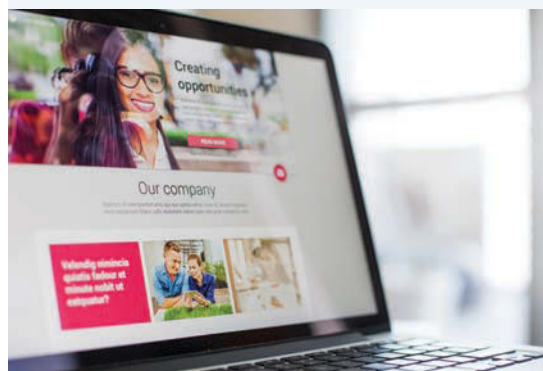
A website can provide detailed information to suppliers. For example, it can make **procurement** activities available to potential suppliers. Furthermore, a portal for suppliers might be established to identify and obtain qualified suppliers.

A social media site can allow a business to receive feedback from customers, measure interest in the business and make improvements to all aspects of the good or service — quality, packaging, warranty, return policy and so on.

Smartphone apps provide another source of contact between a business and its customers. The business can use the data from these apps to determine interest in a product and plan production schedules.

PayPal and other payment methods including AfterPay allow for online payment for goods and services. These applications can make payment more secure. AfterPay can spread out payments over a number of weeks to tempt customers to make larger purchases.

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.



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

Advantages and disadvantages of online services

Advantages	Disadvantages
- Can be used to deliver consistent messages to customers and suppliers, and can also be used to gain customer feedback - A website means that a business is accessible for sales 24 hours a day, 7 days a week. - Reduces the costs of labour and of leasing or purchasing physical space	- Designing, registering and publishing a website may initially be expensive and time-consuming. - Websites and applications can suffer outages or 'go down'. This can be very frustrating for customers and a business may lose sales or have its reputation affected. - Operating websites and applications can require highly skilled staff, who may be expensive to employ or train.

KEY IDEAS

- 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.
- 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 conveyor belt and computers control the process.
- The use of robotics allows for a degree of precision and accuracy, as well as speed, in production that would generally be unmatched by human labour.
- 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 directs and controls the process of producing a product.
- Online services can be developed for operations purposes. A website can make it easier for customers to purchase products or to find information online.

3.6 Exercises

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3.6 Quick quiz



3.6 Exercise

3.6 Exam questions

3.6 Exercise

TEST your understanding

1. **Explain** the impact of technology on service businesses.
2. **Outline** the main features of an automated production line.
3. **Explain** the impact of technology on manufacturing businesses.
4. **Outline** two benefits and two costs of technology in a business.

APPLY your understanding

5. **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.
6. Use 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.



3.6 Exam questions

Question 1 (3 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.4b; © VCAA

WCTY Cleaning Services provides cleaning and maintenance services for homes and businesses. The business operates 30 branches across Australia.

Explain how WCTY Cleaning Services could improve the efficiency of its operations system through the adoption of technological developments.

Question 2 (3 marks)

Source: VCE 2019, Business Management Exam, Section B, Q.2; © VCAA

Case study

ATI-TUDE is a Melbourne-based clothing manufacturer and retailer. It was established as a public-listed company in 2009. ATI-TUDE produces a range of innovative and quality sportswear products for men, women and children. Customers can buy products online as well as through the five ATI-TUDE stores located in Melbourne, Sydney, Brisbane, Perth and Adelaide.

ATI-TUDE's market share has risen steadily since 2009 to a peak of 15% of overall market share in the sportswear market in Australia in 2019.

The Finance Manager recently produced data for ATI-TUDE's senior managers, showing key performance indicators (KPIs) for the past two years. One of the KPIs was net profit. The net profit figures for each of the five ATI-TUDE stores are shown in Figure 1.

The Sales and Marketing Director has identified an increase of 75% in the number of online sales over the same period of time (2018–2019). She believes that this is due to the strategy of increased investment in technology and the development of the company's website and online store.

A map of ATI-TUDE stores and their net profit figures

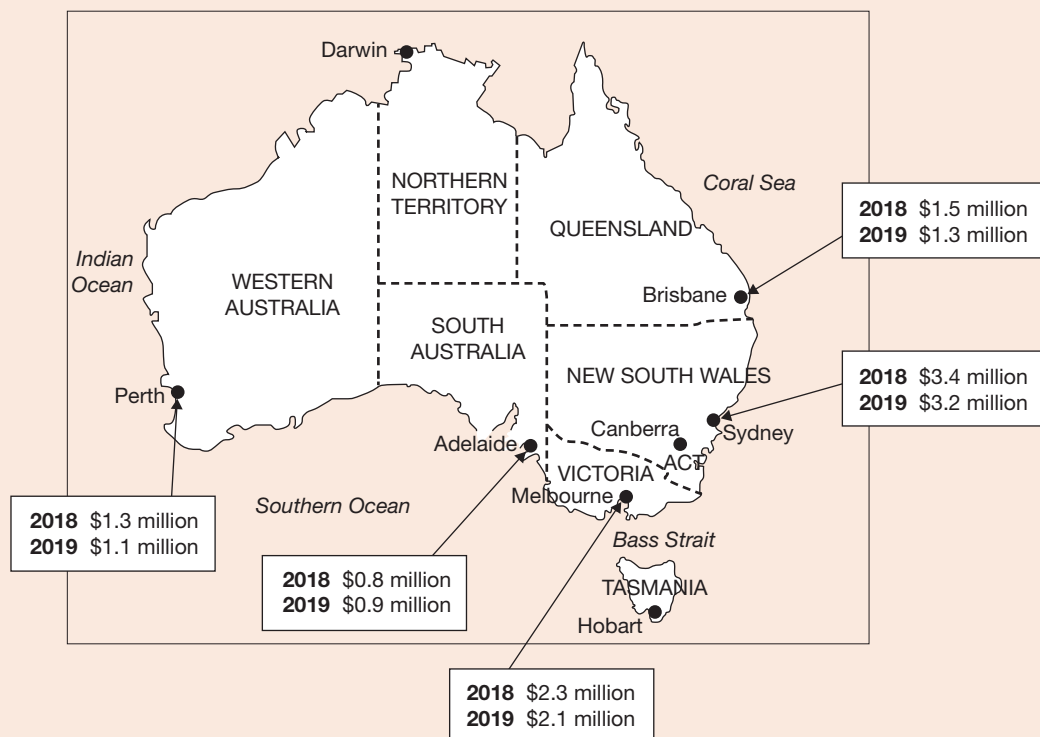


Figure 1

The following KPIs, for the last 12 months, were also presented to ATI-TUDE's shareholders.

TABLE 1. Level of staff turnover and number of customer complaints (2019)

	Level of staff turnover (%)	Number of customer complaints
Adelaide	40%	increased ↑ 12%
Brisbane	23%	decreased ↓ 10%
Melbourne	12%	increased ↑ 10%
Perth	30%	increased ↑ 19%
Sydney	15%	decreased ↓ 5%

At the recent annual general meeting, it was announced to shareholders that the board will be streamlining business operations. As a result, the board will be closing two stores and this will lead to the termination of the employment of many staff.

Describe one way technological developments could help ATI-TUDE to improve the efficiency of its business operations.

 Question 3 (6 marks)

Source: Adapted from VCE 2013, Business Management Exam, Q.2d; © VCAA

ZX Bank is a large retail bank that operates in all states in Australia. In response to a recent market survey of its customers, it is considering opening its branches on Saturdays and Sundays. Currently, the bank's employees feel that their expectations regarding conditions of employment and work-life balance are being met. The employees have been asked about the proposed change in opening hours and 70 per cent said that they would prefer not to work on weekends but, if they had to, they would expect higher pay rates on those days. The Human Resource Manager has responded, saying that an increase in pay rates might make opening on weekends unprofitable. The bank executives are hoping to reach an agreement with the employees that keeps pay rates at current levels. Both sides believe that it is important to discuss this issue further.

Discuss the likely consequences of banks or other businesses introducing new technology to optimise operations.

 Question 4 (3 marks)

Distinguish between automated production lines and computer-aided design.

 Question 5 (5 marks)

The Operations Manager at Geelong Foods, a manufacturer of wholegrain flour products, is planning to introduce an automated production line. **Evaluate** the suitability of this technological development strategy.

More exam questions are available online.

3.7 Materials management

KEY KNOWLEDGE

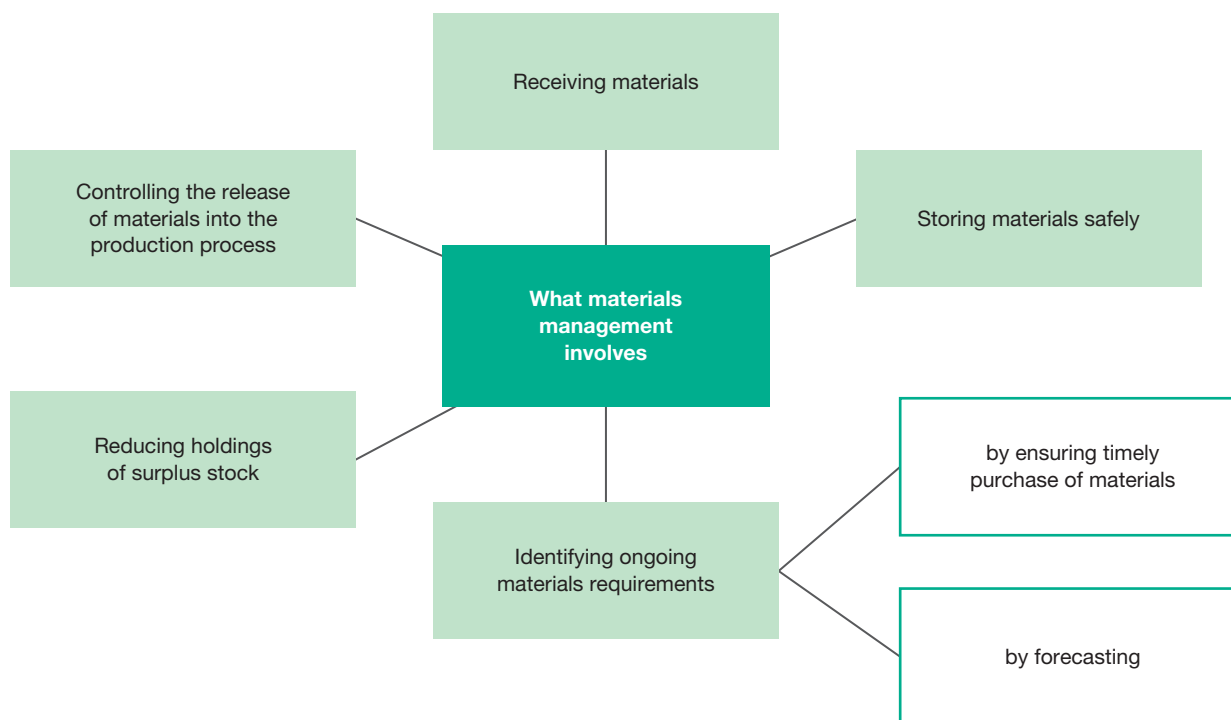
- Strategies to improve both the efficiency and effectiveness of operations related to materials, including forecasting, master production schedule, materials requirement planning and Just in Time

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

3.7.1 Materials management

Vehicle manufacturer Toyota 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 2022, Toyota reported that its customers had to wait much longer, sometimes up to 12 months, to receive their new vehicle. This was due to ‘global supply challenges’ whereby components and parts (such as microchips and semiconductors) were in short supply. To add to complications, after the pandemic most car manufacturers were facing strong demand for new vehicles. **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 of time.

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
inventory goods and materials held as stock by a business

Some businesses, such as Toyota, reduce costs by having fewer materials held as stock. Its efficient handling of materials keeps costs down, but when materials don't arrive on time (as in the case of a shortage in supply materials or suppliers experiencing strike action) 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.

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 following diagram and covered in the sections that follow.

materials handling the physical handling of goods in warehouses and at distribution points

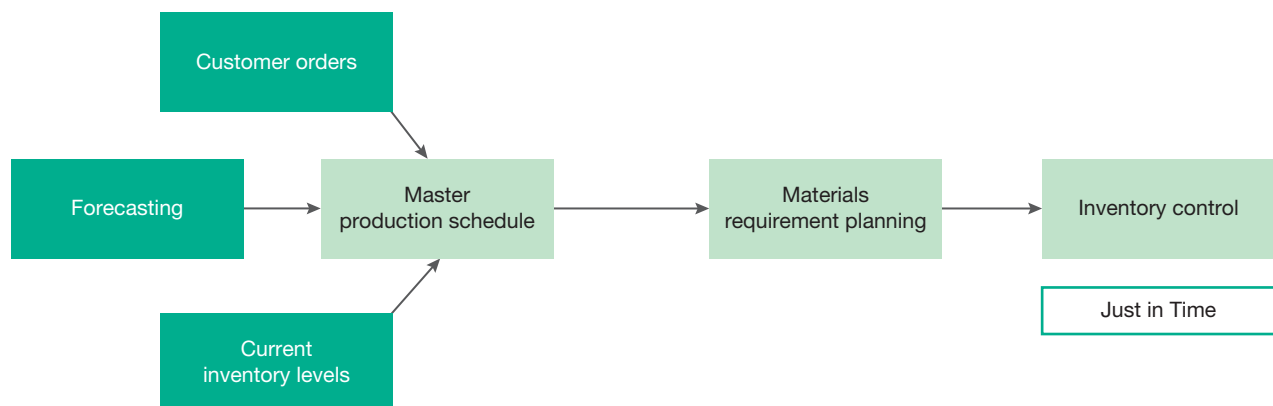
Huge warehouses holding inventory represent a cost to a business.



It is important that materials such as these huge steel rolls are handled efficiently to keep costs down.



The process for managing materials



DID YOU KNOW?

In 2022, many vehicle manufacturers could not source enough microchips and semiconductors for automated functions in vehicles. The supply of critical minerals (which come from Russia or Ukraine) was disrupted; so much so that some car producers went back to providing cars with analogue speedometers. BMW even had to remove some of its touchscreen functions.

3.7.2 Forecasting

One of the initial stages of the management of materials involves **forecasting**. This materials planning tool relies on data from the past and present, allowing a business to analyse trends so that it can predict future events. The operations area will use forecasting to develop a production plan and attempt to reduce the uncertainty of unforeseen 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 finished products 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, 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.

forecasting a materials planning tool that relies on data from the past and present and analysis of trends to attempt to determine future events

Advantages and disadvantages of forecasting

Strengths	Limitations
• Ensures that a business maintains an appropriate level of materials for the operations system without overproducing (which would result in the business carrying a large inventory of finished products, representing a cost to the business — stock remaining idle is also prone to theft, damage or spoilage and may become unusable after a period) • Ensures that a business does not find itself underproducing (the situation where it does not have enough inventory for the operations to function), resulting in a loss of customers and possibly a decline in market share	• 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 conditions is hard for businesses. Airlines were particularly affected following the pandemic. While there was a huge demand from customers wishing to travel overseas, Qantas was still operating on a reduced flight capacity. This meant travel chaos, with overbooked flights and staff shortages.

3.7.3 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 requirement 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. Decisions such as upgrading plant and equipment or employing additional staff may be related to ongoing problems in meeting this schedule.

production plan an outline of the activities undertaken to combine resources (inputs) to create goods or services (outputs)

master production schedule a plan that details what is to be produced and when

materials requirement planning involves developing an itemised list of all materials involved in production to meet the specified orders

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.

Manufacturers such as Toyota use master production schedules to ensure that shortages and excesses of inventory in their operations systems are minimised.



Like MPS, MRP is typically software-based. However, it is possible to conduct MRP manually. Both MPS and MRP are used widely by manufacturing businesses, but have also been successfully implemented in other industries, including retail, construction, banking, hospitality and other services.

Advantages and disadvantages of MPS and MRP	
Strengths	Limitations
- Both strategies allow a business to avoid overproducing (which is likely to result in an excess inventory of finished products) 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. - 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.	- 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 TIP

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.

3.7.4 Inventory control and Just in Time

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.

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

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 and parts arrive just as they are needed for production. The use of JIT means that a business's inventory of materials, work in progress and finished products can be kept to a minimum. Accordingly, this strategy will reduce storage costs and lessen the risk of any waste occurring in storage, thus increasing competitiveness. Modern businesses use computer software to plan production including ordering the correct materials. The use of JIT requires suppliers to be carefully chosen and then organised so that deliveries are reliable — received at the appropriate time. As discussed, car manufacturers such as Toyota have only a limited amount of materials available in inventory at any given point in time. One Toyota car is comprised of approximately 30 000 parts; in 2019, the failure to receive just a single part on time at Toyota's factory in South Africa brought the production line to a halt.

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

Advantages and disadvantages of Just in Time

Strengths	Limitations
• Holding less stock in storage reduces storage costs — improves efficiency and effectiveness. • Less of the business's finances are tied up in stock as materials are only obtained as needed. • Reduces the risk of any waste occurring in storage — less inventory will be lost or damaged while being stored for long periods • Ensures that production can continue to flow smoothly with the right amount of materials arriving just as they are needed	• Supplier deliveries must be reliable — a limited amount of materials will be held in inventory so a supplier failing to deliver can hold up production. • Materials must be received at the appropriate time — failure to do so can bring a production line to a halt. • Can increase transportation costs as orders are arriving in smaller quantities more regularly • JIT procedures may require a major overhaul of a business's systems and procedures — these may be challenging, as well as time-consuming and expensive to alter.

Inventory control software provides managers with precise knowledge of quantities and locations of stock.



EXAM TIP

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 identifying or suggesting the strategy. You should be able to define the materials strategy as well as explain a little about it.

on Resources

 **Weblink** Role of forecasting

KEY IDEAS

- 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. JIT ensures that the right amount of materials and parts arrive just as they are needed for production.

3.7 Exercises

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3.7 Quick quiz

on

3.7 Exercise

3.7 Exam questions

3.7 Exercise

TEST your understanding

1. **Explain** what is meant by 'materials management'.
2. **Outline** three benefits of efficient materials handling.
3. **Explain** the purpose of forecasting as a materials planning tool.
4. Briefly **outline** the two key steps or strategies involved in materials planning.
5. **a. Identify** the benefits of MPS and MRP.
b. Suggest any possible limitations for a business using MPS and MRP.
6. What is meant by the term 'inventory'?
7. **Explain** how the Just in Time approach can improve productivity and reduce costs.

APPLY your understanding

8. 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.
9. **Explain** how materials management can be used to optimise operations.
10. 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?

3.7 Exam questions

Question 1 (3 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.4c; © VCAA

WCTY Cleaning Services provides cleaning and maintenance services for homes and businesses. The business operates 30 branches across Australia.

Describe how one of the following strategies could be used at WCTY Cleaning Services to ensure that materials are managed efficiently:

- forecasting
- Just in Time

Question 2 (4 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.5b; © VCAA

Chef@Home aims to transform the way people prepare meals in their homes. The business delivers all the ingredients required to cook a meal, in a chilled box, to customers' homes. Chef@Home is committed to minimising its carbon footprint, especially through the elimination of waste. All boxes, bags and containers used by the business are recyclable. Ingredients are prepared and packaged using automated production lines. Chef@Home has a policy of sourcing all inputs from local suppliers. Forecasting is a key component of its business operations. At times, Chef@Home's local suppliers have been unable to source and deliver orders placed by the business. Consequently, Chef@Home is considering whether to source some ingredients from overseas suppliers.

Analyse how forecasting might be used by Chef@Home to improve the efficiency and effectiveness of its operations.

Question 3 (4 marks)

Discuss the benefit of a business employing Just in Time as a materials management strategy.

Question 4 (2 marks)

Define the term 'master production schedule'.

Question 5 (4 marks)

The Operations Manager at Global Resources Ltd is concerned about waste at the business and wants to review the company's materials management strategies. **Propose** and **justify** one materials strategy for improving efficiency and meeting the needs of stakeholders.

More exam questions are available online.

3.8 The management of quality

KEY KNOWLEDGE

- Strategies to improve both the efficiency and effectiveness of operations related to quality, including quality control, quality assurance and Total Quality Management

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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 is the degree of excellence of something, especially when it is compared to something else. A quality product has a high degree of excellence, and 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 TIP

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.

3.8.1 Quality control

Quality control is used by businesses to ensure efficiency and effectiveness in their operations processes.

Quality control relies on a business setting benchmarks and standards for quality. In a manufacturing business, like Tatura Milk, products may be tested in on-site laboratories for bacteria or contaminants and even consistency in taste. In a service business, such as a bank, quality might be measured by customer service speed or accuracy.

quality the degree of excellence of goods or services and their fitness for a stated purpose

quality control the use of inspections at various points in the production process to check for problems and defects

Quality control relies on inspections or checks on goods and services. Inspectors might be qualified professionals employed by the business. Quality control is considered a reactive approach to quality, as it detects faults in products, goods and services that have already been produced. In reality, it is not possible to check every product; instead inspections are carried out at various points, or on random samples. Poor-quality products with defects may still reach the customer and poor service may still occur even if overall experiences are good.

If products are of good quality, the business will be effective in meeting its objectives of increased sales and profit. Likewise, efficiency will be improved as there will be less wastage.

Businesses such as Tatura Milk conduct testing or inspections throughout the operations process — this strategy is known as quality control.



on Resources

 **Video eLessons** Quality control — Capilano (eles-1050)
Comparing operations strategies (eles-2930)

3.8.2 Quality assurance

Quality assurance is an integral part of a business'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 assurance 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.

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.



quality assurance the use of a system so that a business achieves set standards in production

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.

3.8.3 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. As TQM focuses on preventing quality issues before they occur, it is said to be a proactive strategy. 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.

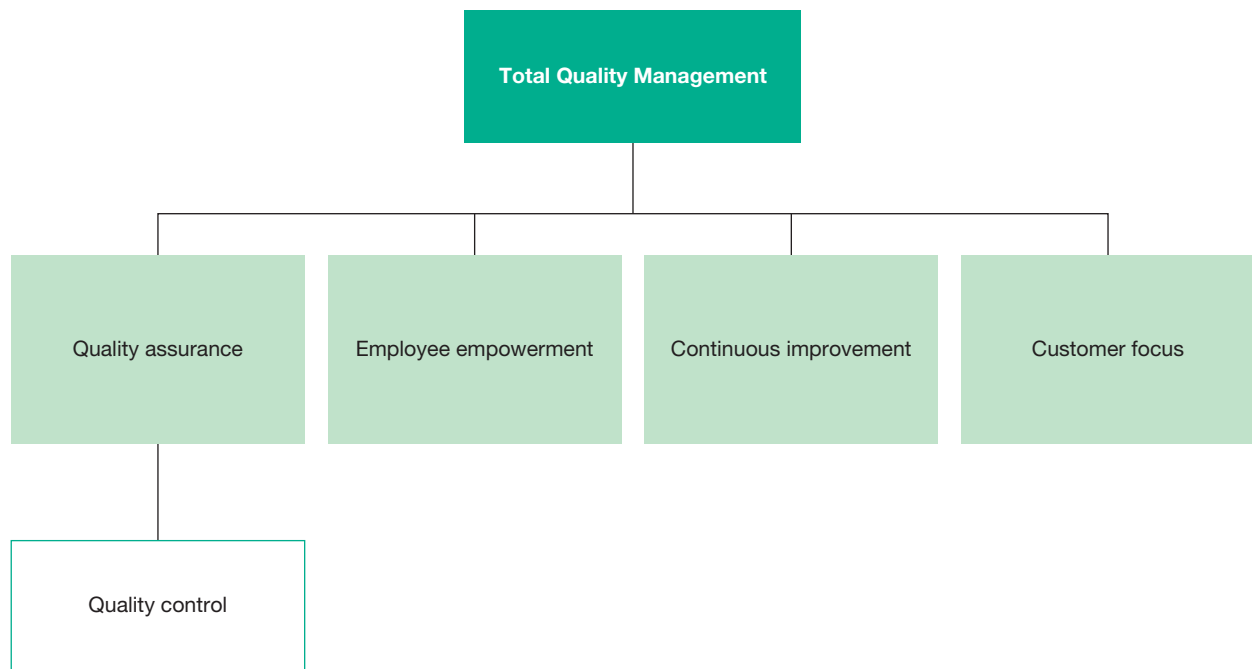
DID YOU KNOW?

Total Quality Management can be traced back to W Edwards Deming, who is considered the 'founder of the quality movement', in the 1950s and 1960s. Deming advocated for better product design to help improve service, better product quality across the board, and improved testing of products, both in workplaces and in research. Businesses such as Toyota initiated TQM in the 1950s as a direct result of Deming's work.

To achieve TQM objectives, businesses will make use of a number of approaches. These include the empowerment of employees, continuous improvement and improved customer focus. It can also be seen that quality assurance is likely to be utilised by a business as part of TQM and that quality control is a subset of a business's quality assurance activities.

Total Quality Management
an ongoing, business-wide commitment to excellence that is applied to every aspect of the business's operation

Total Quality Management refers to a business-wide commitment to continuous improvement, product quality and customer needs.



Employee empowerment

A fundamental part of Total Quality Management is employee involvement. Many businesses use **quality circles** as a means of achieving employee empowerment. Under this approach, teams of up to ten workers meet regularly to solve problems related to process, design or quality. A circle will typically make use of data, analysis of the problem and problem-solving to develop solutions. 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. Australian Arrow Pty Ltd, a designer and manufacturer of automotive products, uses quality circles as a method of problem solving.

Quality circles improve the quality of production.



Continuous improvement

For a business making use of TQM, efforts to improve quality are not a one-time event. **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.

quality circles groups of workers who meet to solve problems relating to quality

continuous improvement an ongoing commitment to achieving perfection

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 approximately 350 million pallets and containers for manufacturers, distributors and retailers in more than 60 countries. Brambles is committed to continuous improvement and this has boosted performance and efficiencies across many facets of its business. Continuous improvement is achieved by monitoring best practice, minimising its environmental impact and collaborating with customers.

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.

In TQM, all employees should aim to satisfy internal customers as well as external customers. Every business has a chain of customers — each employee improves a product and passes it along to their customer, the next employee in the process, until the finished product is sold to the external customer. Each employee should seek to satisfy the immediate internal customer, as well as satisfy the final customer. In this way, the customer ultimately decides the level of quality. Focusing on the customer involves delivering products that meet or exceed the customer's expectations.

Many successful businesses have adopted this idea, including Toyota. In embracing 'Customer First' and 'Quality First' principles, Toyota is committed to developing and providing the highest quality products that meet its customers' demands.

EXAM TIP

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 identifying or suggesting the strategy. You should be able to define the quality strategy as well as explain a little about it.

KEY IDEAS

- 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.

3.8 Exercises

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3.8 Quick quiz

on

3.8 Exercise

3.8 Exam questions

3.8 Exercise

TEST your understanding

1. **Outline** the main features of 'quality management'.
2. **Explain** why quality control is important to businesses.
3. In what ways can businesses offer quality assurance to customers?
4. **Explain** what is meant by 'Total Quality Management'.
5. **Suggest** possible benefits and limitations for a business making use of Total Quality Management.

APPLY your understanding

6. 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.
7. 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?

3.8 Exam questions



Question 1 (5 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.4d; © VCAA

WCTY Cleaning Services provides cleaning and maintenance services for homes and businesses. The business operates 30 branches across Australia.

Explain and **justify** one quality strategy that WCTY Cleaning Services could implement to ensure that the quality of cleaning across its branches is of a high standard.

Question 2 (4 marks)

Source: Adapted from VCE 2012, Business Management Exam, Q.1c; © VCAA

In the chocolate industry, four businesses dominate the market, collectively accounting for 92 per cent of all chocolate sales. Currently these four businesses compete on price. The smallest of the four businesses, Websters, is less able to take advantage of economies of scale than the three other, larger businesses. As a result, Websters has decided to focus on competing on quality rather than price to ensure its long-term success. Sam Webster, grandson of the founder of the business, is currently the CEO and has identified that numerous changes must be made. As the focus of Websters shifts to quality, it will need to measure quality as part of its operations management.

Identify and **explain** two systems from the strategy of managing quality that Websters could use to ensure a high-quality chocolate product.

Question 3 (4 marks)

Source: VCE 2015, Business Management Exam, Q.3c; © VCAA

S&J Solar Panels is a manufacturing organisation that is rapidly expanding in a growing market. Due to high demand and increasing competition, the Operations Manager began importing partially assembled materials from overseas to keep costs low and save time. As a result, the employees were no longer required to produce entire solar panels. They were, however, required to develop new skills in order to complete the new production process. S&J Solar Panels now guarantees delivery of solar panels to customers within seven days, whereas competitors operate on a 28-day delivery service. The new production process had been in place for a period of time when the Operations Manager discovered that many of the imported materials were faulty. As a result, a number of new strategies will need to be introduced.

Explain a management of quality strategy that S&J Solar Panels could use to improve its operations.

Question 4 (3 marks)

Describe a strategy that a business could use to improve the efficiency and effectiveness of its operations in relation to quality.

Question 5 (4 marks)

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.

More exam questions are available online.

3.9 Waste minimisation

KEY KNOWLEDGE

- Strategies to improve the efficiency and effectiveness of operations through waste minimisation in the production process, including reduce, reuse, recycle

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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:

- reducing waste at the source
- redesigning products and packaging
- procurement of materials made from recycled materials
- reusing scrap material
- improving quality control
- exchanging waste with other businesses
- recycling waste materials.

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.

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

CASE STUDY

Trolley tracker: win-win

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.



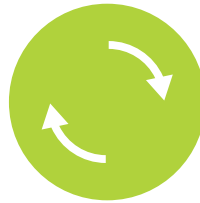
3.9.1 Waste minimisation strategies

All businesses should adopt a structured approach to the minimisation of waste. A structured approach allows all employees to be aware of the processes implemented and this can form part of the training of new employees and be built into the culture of the business.

There are a number of waste minimisation strategies a business can choose from. One such strategy is the '3R' approach — reduce, reuse, recycle.



Reduce



Reuse



Recycle

Reduce

Reducing is achieved by creating less waste. In doing so, a business is able to decrease its costs, which improves efficiency. Lower costs of production can often lead to an increase in profits and so operations become more effective.

The process of reducing waste stops the problem of waste generation at its source — this means there is less waste generated and so less waste to be cleaned up or disposed of. Again, this is an example of decreasing the costs of a business and so improving the efficiency and effectiveness of operations.



Reduce

There are a number of ways businesses can reduce the amount of waste they generate:

- Use the Just in Time system when arranging the delivery of materials. As discussed in subtopic 3.7, Just in Time makes sure that the right amount of materials and parts arrive just as they are needed for production. The use of JIT means that a business's inventory of materials, work in progress and finished products can be kept to a minimum. Accordingly, this strategy will reduce storage costs and lessen the risk of any waste occurring in storage.
- Implement a quality management system. If a business can introduce a quality system that identifies defective processes and products before they occur (TQM or quality assurance) or during production (quality control), the business can reduce the amount of waste generated and rectify issues in production to further reduce waste in the future.
- Introduce robotics or automated production lines to remove human involvement in repetitive, dangerous and/or precision tasks so that defective products aren't generated, and so waste is reduced at its source.

SUSTAINABLE WATER RESOURCES AT CARLTON & UNITED BREWERIES

Carlton & United Breweries takes water sustainability very seriously, as water is essential to the production of its beverages.

To this end, the company sets the following Sustainable Water Resources Goals:

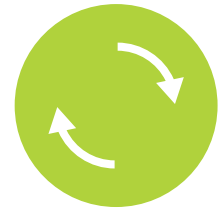
- to reduce its water use to 2.19 litres per litre of beverages produced by 2030, which would make it one of the most economical users of water in the industry
- to ensure its processes are sustainable through regular Water Risk Assessments conducted across its key manufacturing sites.

Reuse

Reusing is taking old or unwanted items you might otherwise throw away and finding a new use for them. Once an item has been used for its intended purpose, it may be possible to repurpose it and reuse it in another way.

One such example gaining popularity is the reuse of CDs and DVDs. Owing to the growth of streaming services such as Netflix, Stan, YouTube and a host of others, the appeal of purchasing CDs or DVDs has decreased. For some people, the 'collection' of these items are now a burden rather than a source of pleasure.

CDs and DVDs are comprised of useful materials that can be reused — mainly polycarbonate and aluminium. These recovered materials can be reused to make other products.



Reuse



Some products that can be made from polycarbonate include the following:

- water bottles
- food trays
- display covers
- laboratory safety goggles

The ability to reuse products or items from the production process saves money that would normally be used to dispose of waste. At the same time, if an input can be reused it can generate a second income stream for the business.



REUSING LEFT OVER BARLEY AT CARLTON & UNITED BREWERIES

Carlton & United Breweries uses barley in the production of beer. Once fermented, the barley is no longer needed in the production process. Rather than discarding the barley into landfill, Carlton & United Breweries sells the leftover barley as livestock feed.



Recycle

Recycling is the most common and well-known waste minimisation strategy. Recycling is changing discarded materials into new products in order to avoid using more virgin resources.

If a business is able to use recycled materials in its production process, it can reduce costs. Alternatively, if the business produces goods that are packaged in recyclable material, this will benefit the community and the environment and create a positive image for the business.



Recycle

Businesses wishing to minimise their waste need to learn which products can be recycled and which cannot. Carefully choosing recyclable products can be the first step towards efficient recycling. This can be done through:

1. purchasing inputs from the market that are made up of recycled materials
2. purchasing inputs that can be recycled, such as paper, glass, aluminium and plastic
3. inventing new ways to recycle different items. (However, recyclables need to be gathered systematically and separated from the rest of the waste, ensuring a continuous supply for the recycling process.)
4. avoiding buying hazardous materials that could be difficult to recycle.

KEY IDEAS

- 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 reduce, reuse and recycle. This approach improves the efficiency and effectiveness of operations by eliminating waste at all stages of the operations system.

3.9 Exercises

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3.9 Quick quiz

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3.9 Exam questions

3.9 Exercise

TEST your understanding

1. **Define** waste minimisation.
2. **State** the three elements of a waste minimisation system.

APPLY your understanding

3. **Describe** how a waste minimisation strategy may improve the efficiency of operations.
4. **Explain** a link between a quality management system and waste minimisation.
5. **Analyse** how a business implementing a waste minimisation strategy could be considered socially responsible.

3.9 Exam questions

▶ Question 1 (4 marks)

Describe one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process.

▶ Question 2 (4 marks)

ABakers, a chain of bread shops, has experienced increasing levels of wastage and recently decided to implement waste minimisation. **Justify** the use of the principles of waste minimisation in reducing the level of wastage at ABakers.

▶ Question 3 (4 marks)

Discuss the use of waste minimisation for managing operations in a business.

More exam questions are available online.

3.10 Lean management

KEY KNOWLEDGE

- The pull, one-piece flow, takt, zero defects strategy to improve the efficiency and effectiveness of operations related to lean management

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

The concept of **lean management** came 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 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. 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.

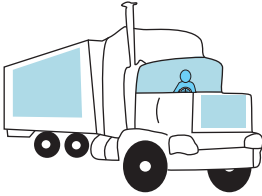
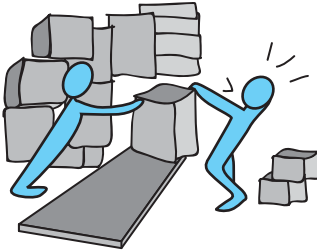
There are a number of different areas of waste that a business can focus on, as seen in the following diagram. A business may choose to eliminate, reduce or avoid any one or more of the following wastes: excess transport, defects (or errors), excess motion, overproduction, excess inventory, waiting time 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 among 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 an approach that improves the efficiency and effectiveness of operations by eliminating waste and improving quality

Jaguar, the high-quality British car brand, has also incorporated lean manufacturing into the way it produces its motor vehicles.



Lean management identifies seven wastes that a business should work towards eliminating: excess transport, excess inventory, excess motion, waiting time, over processing, overproduction and defects (or errors).

1. Reducing excess TRANSPORTATION	2. Avoiding excess INVENTORY	3. Avoiding excess MOTION	
			
Reducing unnecessary movement of machines and products among the processes	Minimising storage required	Reducing unnecessary movement of workers and products within the process	
4. Eliminating WAITING TIME	5. Avoiding OVERPROCESSING	6. Avoiding OVERPRODUCTION	7. Reducing DEFECTS (or errors)
			
Eliminating any idle time waiting between stages and processes	Not adding more value to a product than customers want	Not making more than is required or making it earlier than required	Reducing errors that require time to fix

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.

on Resources

 **Video eLesson** Lean management in operations (eles-4291)

BACKGROUND KNOWLEDGE: A history of lean management

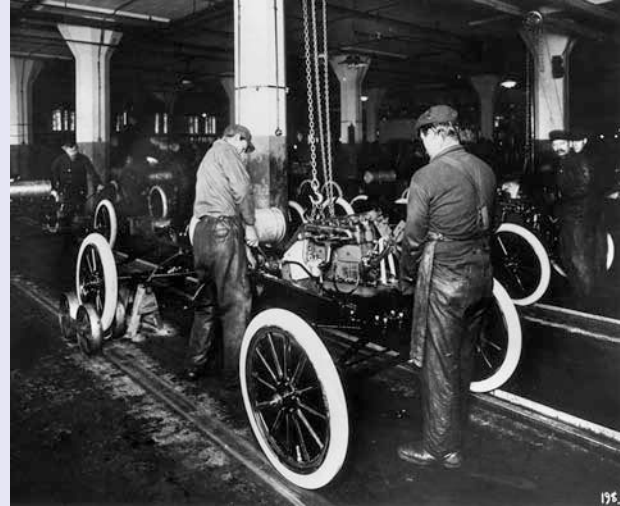
A good understanding of lean management can be gained by understanding its history. Given that lean manufacturing has its origins in the automobile industry, it is necessary to consider the development of the car, which was invented in 1880.

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 time spent on the assembly of a car from 728 hours to just 1.5 hours.

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.



Large organisations such as Nike use the 'lean' concept. Nike specifically uses advanced demand-sensing and inventory optimisation technology platforms. These systems help Nike to predict, plan and shape one-to-one consumer demand. At the same time, they can schedule the right amount of materials and production.

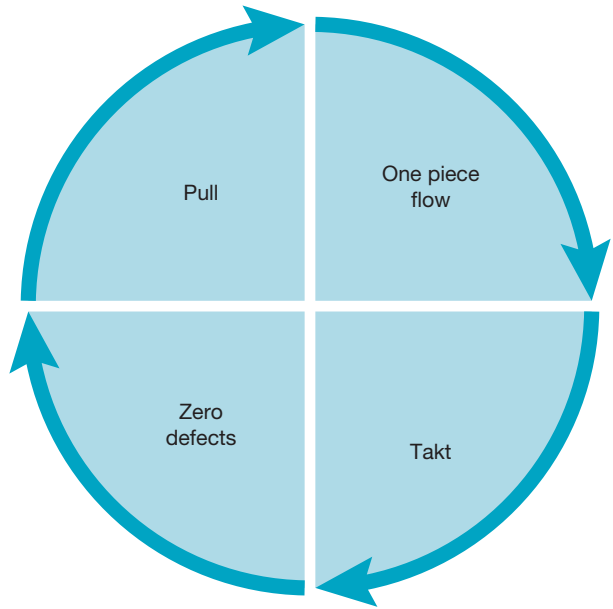


3.10.1 Four Principles application of lean management

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 10 minutes, this means every 10 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 following diagram. However, the use of lean management does have a number of weaknesses or limitations, also outlined in the following diagram.

The strengths and weaknesses of lean management

Strengths

- Reduced energy and resource consumption
- Reduced delays
- Increased worker productivity
- Reduced uncertainty
- Increased customer satisfaction



- Requires committed and experienced employees
- Employees may resent the change to lean or may prefer not to provide any input.
- The constant focus on improvement and elimination of waste can result in workplace stress.
- Requires good relationships with suppliers
- Can involve high implementation costs

Weaknesses

EXAM TIP

The **Unit 3, Area of Study 3** outcome states that you need to ‘analyse the relationship between business objectives and operations management, and propose and evaluate strategies to improve the efficiency and effectiveness of business operations’. This suggests that you should know the advantages/strengths and disadvantages/limitations of lean management strategies including lean management, as well as the strategy’s impact on improving the efficiency and effectiveness of operations.

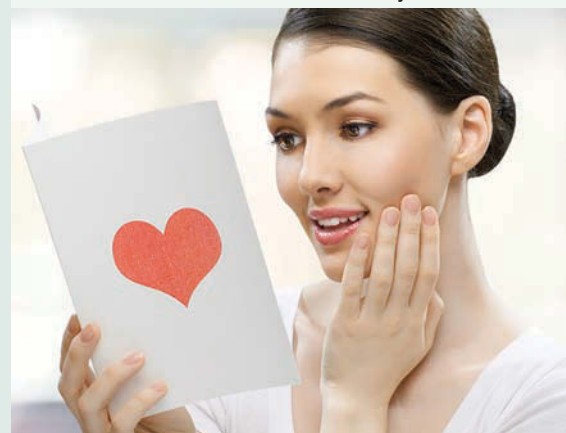
CASE STUDY

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.



KEY IDEAS

- The efficiency and effectiveness of operations can be improved by adopting the principles of lean management.
- Pull, one-piece flow, takt and zero defects are lean management principles.

3.10 Exercises

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3.10 Quick quiz

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3.10 Exercise

3.10 Exam questions

3.10 Exercise

TEST your understanding

1. **Define** the term 'lean management'.
2. Briefly **outline** where the idea of lean management originated.
3. What are the benefits or strengths of lean manufacturing and what are its limitations or weaknesses?

APPLY your understanding

4. 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?
5. 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.
6. Why do you think work cells would rely more heavily on teamwork than individual achievement?
7. 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?
8. 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.

3.10 Exam questions



Question 1 (6 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.1c; © VCAA

ChocYum Pty Ltd is a manufacturing business located in regional New South Wales. It prides itself on manufacturing chocolate products of the finest quality for major retailers in Australia, New Zealand and the United Kingdom.

Explain how ChocYum Pty Ltd could implement the principles of lean management to improve the efficiency or effectiveness of its operations system.

▶ Question 2 (6 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4a&b; © VCAA

Small Goods Pty Ltd is a manufacturer of various types of processed meats, including ham, salami and sausages. The Operations Manager, Heidi, is concerned about the increasing level of wastage. She has set an objective to reduce wastage from the production process by 90% over the next two years.

- a. **Describe** the principles of lean management. **2 marks**
- b. Heidi has investigated the introduction of lean management principles. **Explain** how lean management principles might assist in the reduction of the level of wastage at Small Goods Pty Ltd. **4 marks**

▶ Question 3 (2 marks)

Explain the principles of lean management.

▶ Question 4 (4 marks)

ABakers, a chain of bread shops, 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 ABakers.

More exam questions are available online.

3.11 APPLY YOUR SKILLS Managing technological developments, quality, materials and waste minimisation

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

CONTEMPORARY CASE STUDY

Yakult

Yakult is a fermented milk drink, and a probiotic product. It is manufactured in numerous countries around the world, including in a plant in Dandenong, Victoria. The operations system used at Yakult comprises three key elements:

- **Inputs** — The raw ingredients of skim milk powder, sugar, water and a bacteria strain registered as *Lactobacillus casei* Shirota strain. There is also the building and equipment used to store, mix and ferment the ingredients as well as fill and pack the bottles the Yakult is sold in. Labour is also a key element, with employees overseeing the operations and packing processes.
- **Processes** — This is the combining of the ingredients, the making of the unique bottles Yakult is sold in, and the testing of the product at various stages of the process. The water is filtered and sterilised and then the powdered skim milk and sugar are mixed with the water. This mixture is heated and then pumped to a tank where the *Lactobacillus casei* Shirota is added. Flavouring is added some time later before the mixture is chilled and then bottled.
- **Output** — This is the final Yakult product that is bottled, capped, wrapped in packs of 5 or 10 and then stored in the cool room until delivered to retail outlets.

In manufacturing their product, Yakult utilises all key operations management strategies.

Technology developments

Yakult makes use of technology in a number of ways.

The business uses a closed system (meaning there is no human contact) to transfer the milk solution to the fermentation tanks. A series of pipes and valves are used and controlled by a computer program to ensure the correct amount of solution is placed in the tank and automatically heated to optimum growth temperature.

The uniquely shaped bottle is made on-site from recyclable polystyrene pellets. They are melted and injected under pressure into 'core' rods onto which cool air is blasted, in a mould in the shape of the bottle.



Once cooled, the bottles are transported via a conveyor belt to the filling station where they are labelled, filled, capped and then packaged. The automated process can produce between 40 000 and 45 000 bottles per hour. Robots are used to collect slabs of Yakult and place them on a pallet. In 13 to 15 minutes, two pallets can be fully loaded with 8400 bottles each.

Quality

Yakult utilises a variety of different quality management systems.

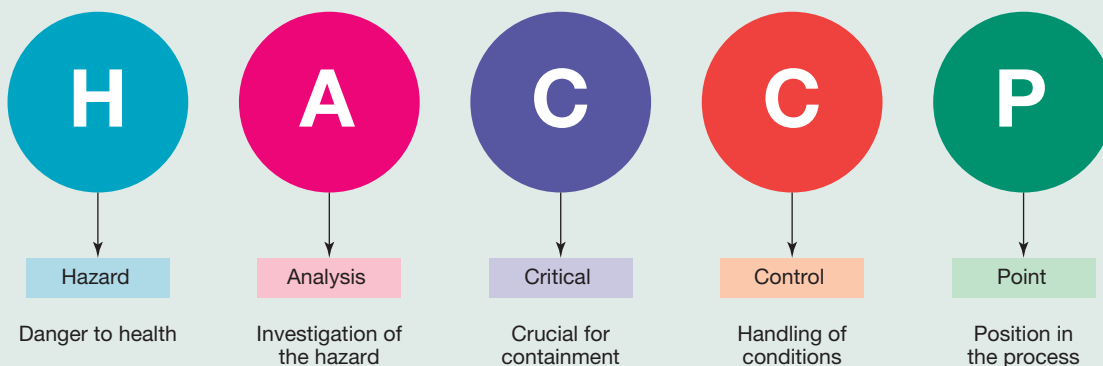
The Yakult Quality Management System (QMS) complies with the International Organization for Standardization [ISO9001:2015] which covers the manufacturing, sale and distribution of fermented milk drinks. All processes and procedures are documented and are subject to external audits on a routine basis.

Underpinning the QMS is a system of quality assurance in relation to:

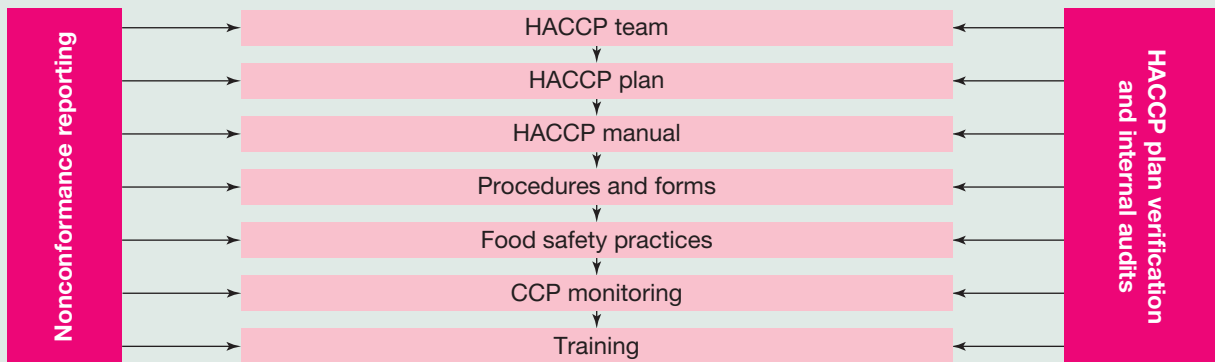
- personnel and factory hygiene standards
- equipment cleaning
- processing methods
- product handling
- purchasing raw materials
- food hygiene training for staff
- the provision for equipment and premises.

All standards here comply with the Hazards Analysis and Critical Control Points (HACCP) and internationally recognised program in food and public health specifications.

The Hazards Analysis and Critical Control Points program used as part of Quality Assurance at Yakult



Implementing a HACCP-based Food Safety Program could involve the following steps.



Finally, Yakult also utilises quality control. This involves the sampling, testing and inspection of the product, bottles and packaging in a bid to confirm the QA measures have been met.

For every batch of Yakult produced, more than 100 tests are conducted.

Materials

Yakult sources all water used in the production process from metropolitan Melbourne's water supply.

All other materials used in the process are ordered and delivered utilising a Just in Time (JIT) process. The skim milk powder and sugar are ordered and delivered at the time they are needed for injection into the production process. The bottles are made on site using the Just in Time (JIT) process.

Waste minimisation

Yakult aims to have little waste — 99 per cent of all raw ingredients end up in the bottle and there are no by-products.

Cleaning water is processed on-site in a water treatment facility and so is released back into the water supply. Prior to release it is checked and adjusted to ensure it meets Melbourne's acidity/alkalinity standards.

The bottles are made from food-grade, code 6 recyclable plastics. All materials used are recycled wherever possible.

The bottles storing Yakult are able to be collected for recycling.

In addition to these waste minimisation strategies, Yakult aims to reduce its impact on the environment through the use of LED lights, off-peak electricity a natural gas boiler which does not emit pollution, and heating exchange plates so energy is not lost or wasted. When refrigerated trucks arrive, inflatable, insulated curtain panels help maintain the temperature by reducing the amount of cold air escaping the building. Moveable storage shelves allow the chilled Yakult to be stored close together, keeping each pallet colder, therefore less cooling is required.

Packaging is made from recycled materials and further recycled where possible.



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3.11 Exercise

3.11 Exam questions

3.11 Exercise

TEST your skills

1. **Explain** the operations system at Yakult.
2. **Describe** the technology strategies utilised by Yakult.
3. **Explain** the waste minimisation approach used by Yakult.
4. **Outline** how Yakult uses Just in Time to support its waste minimisation strategy.

APPLY your skills

5. **Describe** one quality control as used by Yakult.
6. 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** the two other quality management systems used by Yakult.
7. All businesses should aim to conduct their operations in a socially responsible manner. **Analyse** Yakult's approach to social responsibility

3.11 Exam questions

▶ Question 1 (2 marks)

Define the term 'quality'.

▶ Question 2 (3 marks)

Distinguish between efficiency and effectiveness in operations.

▶ Question 3 (6 marks)

Describe the principles of waste minimisation through reduce, reuse and recycle.

▶ Question 4 (5 marks)

Analyse how a Master Production Schedule can be used in conjunction with Just in Time as strategies to manage materials.

▶ Question 5 (6 marks)

Evaluate the use of an automated production line and robotics to improve the efficiency of operations at Yakult.

▶ Question 6 (5 marks)

Compare the operations system used at Yakult with the operations system of a contemporary service business you have studied this year.

More exam questions are available online.

3.12 Corporate social responsibility considerations in an operations system

KEY KNOWLEDGE

- Corporate social responsibility considerations for an operations system, including the environmental sustainability of inputs and the amount of waste generated from processes and production of outputs

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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
- 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.

3.12.1 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.

environmental sustainability
a business making decisions that will allow it, and the rest of society, to continue to interact with the environment

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.

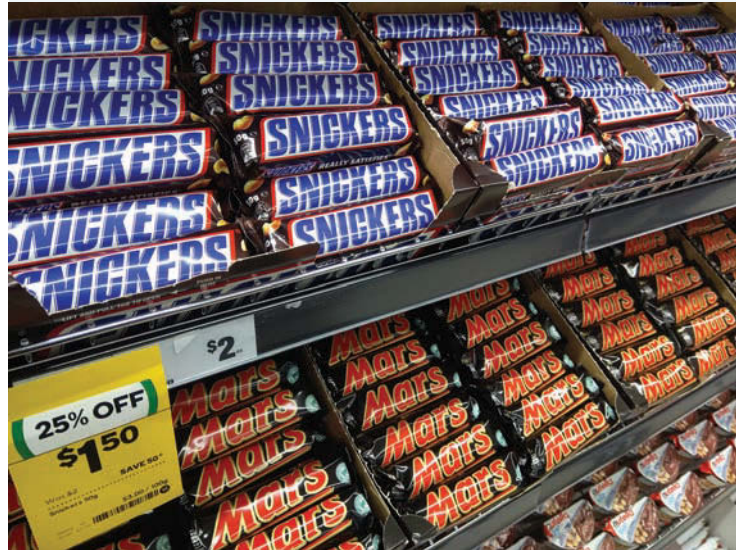
3.12.2 The amount of waste generated from processes and production of outputs

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.

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.

The table below summarises the corporate social responsibility considerations in an operations system.

Mars is committed to using only reusable, recyclable or compostable packaging.



Inputs	Processes	Outputs
A business could ensure 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).	The business should 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.

CASE STUDY

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. NAB 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 installed solar panels on many of its branches and Business Banking Centres. It also installed more than 2000 solar panels on its Knox data centre. Improving its recycling rates has also been a priority for NAB, from the recycling of e-waste, to the recycling of organic waste by employees.

According to its 2021 Sustainability Report, NAB has:

- reduced office paper use by 55 per cent in 2021
- committed \$70 billion to environmental financing (by 2025) to help address climate change
- reduced greenhouse gas emissions from 2015 baseline by 55 per cent
- sourced 31.4 per cent of electricity consumption from renewable sources.

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 has 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.

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.



DID YOU KNOW?

Commonwealth Bank was accused of not managing the customer relationship in a socially responsible way 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, CommInsure, 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.

on Resources

- ▶ **Video eLessons** CSR considerations in operations (eles-2931)
Applying operations strategies to efficiency and effectiveness (eles-2932)
- 🔗 **Weblink** BSR

KEY IDEAS

- 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.

3.12 Exercises

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3.12 Quick quiz

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3.12 Exercise

3.12 Exam questions

3.12 Exercise

TEST your understanding

1. **Outline** the main reasons why operations managers must take socially responsible decisions very seriously.
2. 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.
3. **Outline** how NAB covers the considerations of corporate social responsibility as it applies to operations management.

APPLY your understanding

4. If you were the manager of a waste management company, what factors would you consider in selecting a new facility site?
5. **Discuss** whether or not it is socially responsible to do business with suppliers who employ child labour in overseas countries.
6. 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.

3.12 Exam questions

Question 1 (6 marks)

Source: VCE 2013, Business Management Exam, Q.3c; © VCAA

Alice Smith has read the biographies of many great business leaders. She would like to follow in the footsteps of these successful leaders. Alice has just taken over as the CEO of The Traveller's Helpmate, a business that publishes print and online travel guides. Her observation is that her staff are professional, highly educated and independent. In private conversations, some staff have said that they felt underappreciated by the previous CEO as positive feedback was rarely provided.

Alice wants The Traveller's Helpmate to be seen as ethical and socially responsible. To meet this goal, she is reviewing the key elements of her operations system.

Describe one ethical and social responsibility issue that Alice may consider from **each** of the three elements of the operations system.

▶ **Question 2 (2 marks)**

Explain how a business can ensure environmental sustainability of inputs in its operations system.

▶ **Question 3 (4 marks)**

Describe one operations management strategy. **Outline** two benefits to a business of adopting corporate social responsibility considerations in this area.

▶ **Question 4 (4 marks)**

Explain how corporate social responsibility considerations can influence the decisions made by management in relation to an operations system.

▶ **Question 5 (6 marks)**

The key elements of an operations system are inputs, processes and outputs. **Describe** one corporate social responsibility consideration that an operations manager may consider from each of the three elements of the operations system.

More exam questions are available online.

3.13 EXTEND YOUR KNOWLEDGE Socially responsible operations management

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- An operations system should be managed with corporate social responsibility in mind.

CASE STUDY

Cadbury and sustainable operations

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 Cadbury factory generates a relatively low level of greenhouse gas emissions by Australian standards. Rather than burning fossil fuels to produce energy for electricity, which releases CO₂ into the atmosphere, up to 90 per cent of Tasmania's electricity is generated from wind and hydroelectric power stations. (Hydroelectric power plants produce electricity through the use of flowing water.)

Cadbury's chocolate operations in Tasmania does produce greenhouse emissions, but the company is taking steps to reduce those emissions.



Most of the emissions are generated through transport. Cadbury's inputs travel a long way to reach the factory in Claremont. The sugar comes from Queensland and the cocoa comes from Ghana in West Africa. Other materials, including cardboard and plastic, also need to be transported. All of the trucks and ships carrying these inputs produce carbon emissions.

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.

CASE STUDY

Cadbury and fair trade chocolate

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 received Fairtrade certification in 2009. Cadbury's Dairy Milk chocolate bar is Australia's biggest selling chocolate bar, and it now has 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.

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.

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.



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.'

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.

on Resources

 **Weblinks** Chocolate: the bitter truth
EY Climate Change and Sustainability Services

3.13 Exercises

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3.13 Exercise

3.13 Exam questions

3.13 Exercise

TEST your understanding

1. Read the 'Cadbury and sustainable operations' 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?

3.13 Exam questions

▶ Question 1 (6 marks)

Analyse two ways in which corporate social responsibility considerations influence decisions made by operations managers.

▶ Question 2 (4 marks)

Distinguish between the terms 'environmental sustainability of inputs' and 'the amount of waste generated from processes' as corporate social responsibility considerations in an operations system.

More exam questions are available online.

3.14 Global considerations in operations management

KEY KNOWLEDGE

- Global considerations for operations management including global sourcing of inputs, overseas manufacture and global outsourcing

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

3.14.1 Global sourcing of inputs

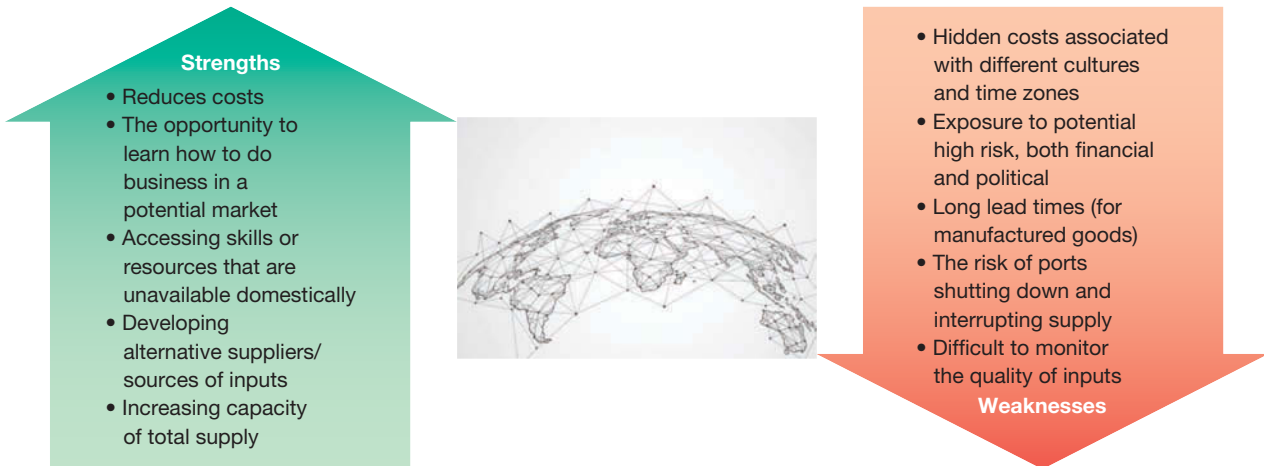
Just as you might purchase products from overseas, businesses can also buy inputs from markets in other countries. This is referred to as **global sourcing**. Many businesses today purchase inputs, particularly materials, from other countries to exploit efficiencies that can be gained from the global 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. 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.



global sourcing the practice of seeking the most cost-efficient materials and other inputs, including from countries overseas



DID YOU KNOW?

The value of honey and beeswax produced in Australia is around \$90 million annually. Honey, like other products, is subject to global sourcing issues. In particular, some countries have been found to be 'laundering' honey by concealing its true origin. Furthermore, some overseas suppliers will add sugar syrup to honey, resulting in an impure and diluted form.

3.14.2 Overseas manufacture

Overseas manufacture is also referred to as offshoring, 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.

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.



overseas manufacture the production of a good in a country that is different to the location of the business's headquarters

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.

CASE STUDY

Overseas manufacture at Toyota

Toyota was founded by Kiichiro Toyoda in 1933 as a division of Toyoda Automatic Loom Works. The company is now one of the largest vehicle manufacturers in the world, employing more than 370 000 people worldwide. Its headquarters is located in Toyota City, Japan. Toyota currently has 50 overseas manufacturing companies in 26 countries and regions, including the United States, Brazil, France, the United Kingdom, South Africa, Thailand and Indonesia. It sells its vehicles in more than 160 countries and regions.

In manufacturing in overseas countries, Toyota builds factories in those countries, employing locals who produce cars using parts produced locally. This enables Toyota to manufacture vehicles that better suit the market, or the people, of a given country, as well as deliver the product faster. Toyota also makes use of overseas manufacture to reduce labour and production costs, particularly taxes and trade tariffs that can be lower due to free trade agreements. When Toyota exports cars made in Japan, the company will sometimes have to pay import duties depending on the country to which it is exporting. However, when Toyota produces cars within those overseas countries, the company typically will not have to pay these tariffs. Manufacturing in overseas countries also saves on shipping.

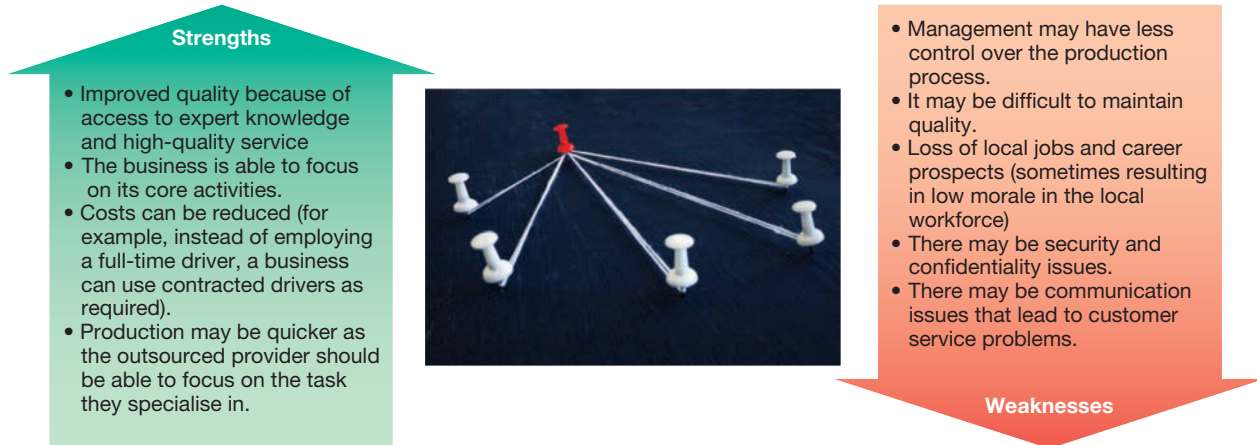
The assembly line at the Toyota manufacturing plant at Burnaston in the United Kingdom



3.14.3 Global outsourcing

The term outsourcing is a common one these days. **Global outsourcing** means that some part of a business's operations is transferred to an external person or business in another country. 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. Businesses such as ANZ, Telstra and Energy Australia outsource to call centres staffed with low-wage English-speaking workers in countries including India and the Philippines. 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 the contracting of a specific business operation to an external person or business in another country



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.

CASE STUDY

Global outsourcing at Optus

Optus is an Australian company with headquarters in Macquarie Park, New South Wales. It is wholly owned by Singtel, a Singaporean multinational telecommunications company. Optus outsources some of its customer service functions to call centres located in India and the Philippines. It does so to reduce costs of labour and to ensure that the business remains competitive, as well as to ensure that its customers are provided with quality service as its call centre operations continues to grow.

Optus recently spent three years setting common standards across its outsourced call centres, relying heavily on data and analytics. The standards program incorporated three business process outsourcing (BPO) partners and approximately 4000 offshore staff. The standards covered a range of aspects in the management of employees including recruitment and training through to how well staff serve Optus' customers.

Vaughan Paul, Vice President of Digital Consumer at Optus, said that the program had helped Optus to improve its net promoter scores (NPS). The net promoter score measures the willingness of customers to recommend a business to others. It therefore indicates the customer's overall satisfaction with a business's product or its customer service, as well as the customer's loyalty to the business.

Optus believed that its three-country presence in call centre operations would protect it from any disruptions. However, like other telecommunications companies, Optus was affected by lockdown requirements in India and the Philippines due to the COVID-19 pandemic. The lockdowns meant that its outsourced call centres were unable to operate as they did previously. To cover the shortfall in customer service and support, the business was required to develop its local call centre operations. Optus therefore retrained 1500 existing Australian staff and recruited a further 500 new employees to better serve customers.



Optus also made efforts to restart call centre operations in the Philippines and India. For example, call centre ‘microsites’ were set up in the Philippines — call centres within walking distance of where staff live, which met restrictions by not requiring staff to leave a certain area, and which also met social distancing and sanitary regulations. Optus set up some of its India-based staff to provide support for other locations who were taking service calls.

on Resources

 **Weblink** ANZ supply chain

KEY IDEAS

- 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.

3.14 Exercises

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3.14 Exercise

TEST your understanding

1. After reading the ‘Overseas manufacture at Toyota’ case study, **explain** why Toyota manufactures in overseas countries.
2. **Outline** the benefits and costs of global outsourcing.
3. Read the ‘Global outsourcing at Optus’ case study.
 - a. **Explain** why Optus makes use of global outsourcing.
 - b. **Suggest** some issues that a business must consider when making use of global outsourcing.

APPLY your understanding

4. 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.

3.14 Exam questions

 Question 1 (3 marks)

Distinguish between overseas manufacture and global outsourcing.

 Question 2 (6 marks)

Discuss two consequences of a business making use of global sourcing of inputs in its operations.

 Question 3 (4 marks)

Describe and **justify** one global consideration in operations management that could be used by a business to develop overseas markets.

 Question 4 (4 marks)

Compare global outsourcing and global sourcing of inputs.

 Question 5 (6 marks)

Evaluate the use of overseas manufacturing for a business.

More exam questions are available online.

3.15 APPLY YOUR SKILLS Comparing, evaluating, proposing and justifying operations management strategies

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

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3.15.1 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'.

3.15.2 Technological developments and lean management

CASE STUDY

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 records 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.

We believe that collaborative learning can achieve incredible things. That's why we pair up programmers 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.

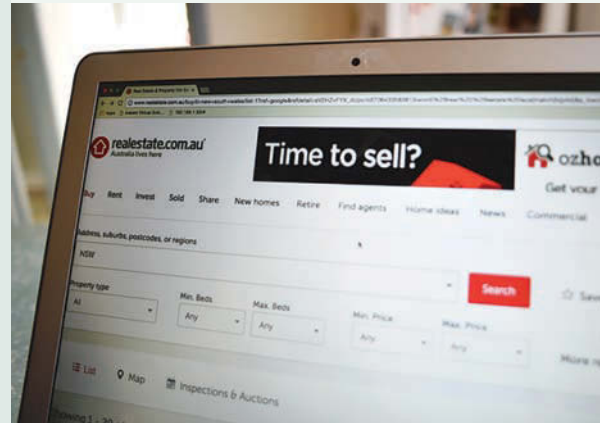
After all this, the lawyers became great ambassadors for a new way of working. As we flipped the company structure to being multidisciplinary, they were deployed as internal consultants supporting every line of business, attending many stand-ups and seeing more and more people asking for their help. 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 a 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.



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3.15 Exercise

3.15 Exam questions

3.15 Exercise

TEST your skills

1. **Define** the term 'quality'.
2. **Describe** the purpose of international standards.
3. **Distinguish** between quality control and quality assurance.
4. **Define** the term 'website development'.
5. 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.
6. **Outline** how the author of the article sees artificial intelligence transforming the real estate industry.
7. **Describe** the process by which lean management was introduced to REA Group.

APPLY your skills

8. 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. Using the information you have recorded in the table above, **compare** quality control and quality assurance.
9. a. Using tables similar to the one used in question 8, **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.

10. 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.
11. 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. 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.
12. a. Using tables similar to the one used in question 11, **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

3.15 Exam questions

Question 1 (4 marks)

Compare website development to the use of automated production lines as strategies related to technological developments.

Question 2 (4 marks)

Compare forecasting with one other materials strategy that a business might implement to maximise the efficiency and effectiveness of the production process.

Question 3 (4 marks)

Describe one advantage and one disadvantage of website development.

Question 4 (5 marks)

Evaluate the use of an automated production line as a strategy for improving the efficiency and effectiveness of a manufacturer's operations system.

Question 5 (4 marks)

Warrnambool Dairy Pty Ltd manufactures milk, butter and yoghurt products. The company makes use of high-quality materials and follows strict standards to guarantee excellence in its products. **Propose** and **justify** one strategy that Warrnambool Dairy could use to improve the efficiency and effectiveness of its operations related to technological developments.

More exam questions are available online.

3.16 Review

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3.16.1 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.

Key elements of an operations system

- The elements of an operations system are inputs (natural resources and materials, physical resources, human resources, financial resources, information and time), the transformation process and outputs (the finished good or service).

Operations management in 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.

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.
- 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 conveyor belt and computers control the process.
- The use of robotics allows for a degree of precision and accuracy, as well as speed, in production that would generally be unmatched by human labour.
- 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 directs and controls the process of producing a product.
- Online services can be developed for operations purposes. A website can make it easier for customers to purchase products or to find information online.

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. JIT ensures that the right amount of materials and parts arrive just as they are needed for production.

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 reduce, reuse and recycle. This approach improves the efficiency and effectiveness of operations by eliminating waste at all stages of the operations system.

Lean management

- The efficiency and effectiveness of operations can be improved by adopting the principles of lean management.
- Pull, one-piece flow, takt and zero defects are lean management principles.

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.

3.16.2 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 (CAD) a computerised design tool that allows a business to create product possibilities from a series of input parameters

computer-aided manufacturing (CAM) the use of software to direct and control manufacturing processes

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 outsourcing the contracting of a specific business operation to an external person or business in another country

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

outputs the end result of a business's efforts — the service or product that is delivered or provided to the consumer

overseas manufacture the production of a good in a country that is different to the location of the business's headquarters

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

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 process 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

-  **Digital documents** Key terms glossary (doc-37935)
Missing word glossary quiz (doc-29449)
Crossword (doc-29450)

3.16.3 Practice 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.)

Section A (26 marks)

Question 1 (2 marks)

Explain one reason why a business would need to manage its supply chain.

Question 2 (4 marks)

Describe how a business might use website development as a strategy to improve the efficiency and effectiveness of its operations.

Question 3 (10 marks)

Kookaburra Airlines is an airline company that operates domestically. The business has decided to focus on competing on quality to ensure its long-term success.

- Distinguish** between the operations of a manufacturing and service business. Suggest the category under which Kookaburra Airlines fits. **5 marks**
- Discuss** the use of Total Quality Management and recommend whether or not you think it would be suitable for Kookaburra Airlines' operations. **5 marks**

Question 4 (10 marks)

With reference to the terms 'forecasting', 'master production schedule' and 'materials requirement planning', explain what materials management is. **Evaluate** the use of one of these strategies for improving the operations of a contemporary business that you are familiar with.

Section B (14 marks)

Use the case study provided to answer the questions in this section. Answers must apply to the case study.

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 can now produce between 350 000 and 400 000 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 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 45 000 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 Standardization'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.

Question 1 (4 marks)

Define the following terms using examples from the Yakult case study.

- a. Automated production line
- b. Waste minimisation

2 marks

2 marks

Question 2 (2 marks)

Describe the relationship between Yakult's business objectives and operations management.

Question 3 (2 marks)

Outline the inputs used by Yakult.

Question 4 (2 marks)

Identify and **describe** one way in which Yakult has incorporated corporate social responsibility considerations into its operations system.

Question 5 (4 marks)

Compare the use of quality control and quality assurance at Yakult.



Resources



Digital document School-assessed coursework (doc-37970)

3.16 Exercises

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3.16 Multiple choice quiz **on**

3.16 Exercise

3.16 Exam questions

3.16 Exercise

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. **Explain** why materials management is 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. **Identify** the benefits and costs of using Just in Time as an inventory system.
13. **Analyse** how quality management can contribute to a business's competitiveness.
14. **Describe** the main differences between quality control and quality assurance.
15. **Explain** what is meant by Total Quality Management (TQM).
16. **Define** 'waste minimisation'.
17. **Explain** the concept of recycling in the production process.
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. Provide 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.

APPLY your understanding

23. Choose a real-life example of a manufacturer and a service business. For each example, **outline** the inputs, processes and outputs of their operations.

24. 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.

Complete 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	

25. Select 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, **outline** what strategy the operations manager could use to help achieve the goal.

3.16 Exam questions

Use the case study that follows to answer questions 1 and 2.

Source: VCE 2017, Business Management Exam, Section B; © VCAA

Case study

The following is the first page from the 2017 'Report to Shareholders' of Shandra's Dairy Ltd.

Commencing as a family-run business 15 years ago, we are now one of the largest independent dairies in Australia. We are proud of the fact that our raw materials are sourced from local suppliers and that customer satisfaction remains at the centre of our operations. We use a strict quality control strategy to maintain the overall excellence of our products.

Business highlights in 2017

- Market share increased from 15% to 17%
- Increase in volume of sales to over 10 million litres of ice-cream
- Installation of four modern wind turbines at a total cost of \$1.25 million, reducing carbon emissions by 3500 tonnes per year, thus assisting us in meeting our 2020 renewable energy target
- A saving of \$500 000 per year on electricity bills due to the installation of 600 solar panels

One of our key objectives is to enhance levels of environmental sustainability and make our entire site self-sufficient through renewable energy. Our CEO, Johanna Taylor, is eager to ensure that over 23% of the electricity used comes from renewable sources by 2020. This fits in with the Australian Government's Renewable Energy Target.

'Our commitment to renewable energy has meant an increase in expenses and debt in the short term, but shareholders will continue to see value as the saving in electricity costs will be sustained into the future.'

— Johanna Taylor



Another objective is to become a truly global brand — to do this we need to diversify. Our aim is to launch into the snack food market, concentrating on potato chips. These can be produced at our present manufacturing plant and with the use of our existing suppliers. We believe that this could commence by 2020 and we could export to markets in over 20 countries.

Future goals

- Implement a second strategy to improve quality by 1 July 2018
- Diversify into the snack food market within the next three years

 Question 1 (4 marks)

Source: VCE 2017, Business Management Exam, Section B, Q.2; © VCAA

Explain a strategy that Shandra's Dairy Ltd could use to improve the efficiency and effectiveness of its operations in relation to materials.

 Question 2 (4 marks)

Source: VCE 2017, Business Management Exam, Section B, Q.3; © VCAA

Shandra's Dairy Ltd currently uses quality control as a strategy to improve the effectiveness of its operations.

Compare quality control with one other quality strategy that Shandra's Dairy Ltd could implement to maintain the overall excellence of its products.

 Question 3 (4 marks)

Analyse the relationship between business objectives and operations management.

 Question 4 (6 marks)

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.

 Question 5 (6 marks)

Explain the elements of an operations management system. In your response, refer to a contemporary business that you have studied this year.

 Question 6 (4 marks)

Compare the use of automated production lines to computer-aided design.

 Question 7 (6 marks)

Evaluate the use of Just in Time in relation to improving the efficiency and effectiveness of operations.

 Question 8 (4 marks)

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.

▶ Question 9 (8 marks)

Propose and **evaluate** one strategy to improve the efficiency and effectiveness of operations through waste minimisation in the production process.

▶ Question 10 (4 marks)

Describe two corporate social responsibility considerations in an operations system.

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UNIT

4 Transforming a business

AREA OF STUDY 1

Reviewing performance — the need for change

OUTCOME 1

Explain the way business change may come about, analyse why managers may take a proactive or reactive approach to change, use key performance indicators to analyse the performance of a business, explain the driving and restraining forces for change, and evaluate management strategies to position a business for the future.

4	Reviewing performance — the need for change	291

AREA OF STUDY 2

Implementing change

OUTCOME 2

Discuss the importance of effective management strategies and leadership in relation to 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 a business.

5	Implementing change	343

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.



4 Reviewing performance — the need for change

UNIT 4 AREA OF STUDY 1

OUTCOME 1

On completion of this topic you should be able to explain the way business change may come about, analyse why managers may take a proactive or reactive approach to change, use key performance indicators to analyse the performance of a business, explain the driving and restraining forces for change, and evaluate management strategies to position a business for the future.

LEARNING SEQUENCE

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4.1 Overview

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4.1.1 Why it is important

Businesses are established to achieve certain objectives. These objectives include to make a profit, to increase market share, to fulfil a market and/or social need and to meet shareholder expectations. The achievement of business objectives requires businesses to maintain a suitable level of performance to ensure they continue to operate. This will require that businesses review their performance through the use of key performance indicators. From this, businesses will identify areas for change, to ensure that they remain focused and on track to achieve their objectives.

CONTEMPORARY CASE STUDY

MANUFACTURING BUSINESS: Commonwealth Serum Laboratories (CSL)

Number of employees	25 000 globally
Net profit	US\$2.37 billion
Revenue	US\$10.31 billion
CEO	Paul Perreault
Flagship products	Antivenom, therapeutics from human plasma, development and production of a wide range of vaccines including collaboration on development of the world's first human papillomavirus vaccine and licence to manufacture AZD1222 in response to COVID-19
Founded	1916

35+ 
Countries of operations
around the world

US\$10.3 
billion in annual revenue

US\$4.1 
billion in R&D investments in the last
5 years to advance product pipeline

25,000+ 
employees around the world

1,700 
R&D employees

300+ 
Plasma collection centres across
China, Europe and North America

The Commonwealth Serum Laboratories (CSL) was established in Australia in 1916, when the country was in the grip of World War I. Since then, CSL has given Australians access to many vital medications such as insulin and penicillin, as well as vaccines against infectious diseases like influenza and polio. The company was incorporated in 1991 and listed on the Australian Securities Exchange (ASX) in 1994. CSL is one of the largest and fastest growing biotechnology businesses and providers of vaccines.

Through continual research and development, CSL aims to discover, develop and deliver a range of therapies that improve quality of life. This innovation stretches across many areas but includes ongoing development in gene and cell therapy, vaccines, and advances in human transplants and management of rare blood diseases. CSL's Chief Executive Paul Perreault explains that the company always scouts for opportunities. This includes the planned acquisition of Swiss pharmaceuticals firm Vifor, which will allow CSL to diversify further. In 2021, CSL's revenue growth and net profit both increased by 10 per cent.



CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Telstra

Number of employees	26 000
Net profit	\$1.9 billion
Revenue	In excess of \$26 billion
CEO	Vicki Brady
Flagship products	Fixed line, mobile phone, internet, data and network services, and pay TV
Founded	Australia's telecommunications were established in 1901 by the federal government. After much reorganisation over time the Telstra name was introduced in 1995. Telstra was privatised between 1997 and 2011.
Head office	Melbourne, Victoria

Telstra Corporation Limited is an Australian telecommunications company that operates in all telecommunications markets throughout Australia. It provides mobile phone and internet access, pay television and other products and services, and is Australia's largest mobile phone carrier. Originally a federal government-owned business, Telstra was gradually privatised and was listed on the Australian Securities Exchange (ASX) in 1997. It now has more than one million shareholders.



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 knowledge	Subtopic
☐ The concept of business change	4.2
☐ Proactive and reactive approaches to change	4.2
☐ Key performance indicators as sources of data to analyse the performance of businesses, 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 website hits and number of workplace accidents	4.3
☐ Key principles of the Force Field Analysis theory (Lewin) including weighting, ranking, implementing a response and evaluating the response	4.4
☐ Driving forces for change in business including owners, managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes	4.5
☐ Restraining forces in businesses including managers, employees, time, organisational inertia, legislation and financial considerations	4.6
☐ The two key approaches (lower cost and differentiation) to strategic management according to Porter's Generic Strategies	4.9

Key skills

These are the skills you need to demonstrate.

Key skills
☐ Identify, define, describe and apply business management concepts and terms
☐ Interpret, discuss, compare and evaluate business information, theories and ideas
☐ Analyse case studies and contemporary examples of business management
☐ Apply business management knowledge to practical and/or simulated business situations
☐ Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

Resources

 **Digital document** Key terms glossary (doc-37936)

 **Weblinks** CSL Limited
Telstra

4.2 The concept of business change and approaches to change

KEY KNOWLEDGE

- The concept of business change
- Proactive and reactive approaches to change

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

4.2.1 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. Change can be relative — what a small business considers a major change may be minor to a large company, such as the purchase of new equipment. Conversely, a major change to a large company, such as a merger with another business, may not even be a consideration for a small business. Change may also be limited to one business or extend to involve hundreds of businesses. From 2020 onwards, Australia and the world saw numerous changes due to the COVID-19 pandemic. Businesses changed in numerous ways and governments sought ways of assisting these affected businesses through an extended period of change and uncertainty.

In response to the continual shifting of the internal and external environments, many businesses will implement **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. Businesses, and managers, will find a course of action that best suits their circumstances.

change any alteration in the internal or external environments

business change the adoption of a new idea or behaviour by a business

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.

proactive initiating change rather than simply reacting to events

reactive waiting for a change to occur and then responding to it

4.2.2 Approaches to change — proactive and reactive

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 get swept along passively or, worse, get caught unprepared. Hence, managers can be seen as **proactive** or **reactive** when it comes to change.

A proactive approach to change refers to the situation where a change is planned and occurs before a business is affected by pressures in their environment. A proactive approach is more effective in managing change as it allows the business to gain a competitive advantage due to not being affected

CSL Seqirus developed a cell-based influenza vaccination that does not use egg protein and therefore reduces the need for millions of eggs to be produced for this purpose each year. This is an example of a planned approach to change.



negatively by the change in the environment. It even allows the business to be prepared when the change occurs, so that the change does not dramatically impact the business.

A reactive approach to change, however, occurs when a change is unplanned, and takes place after the business has been affected by the pressures from its environment. It is less effective in managing change for the business, as the business has already been affected by the change, potentially causing a loss in productivity or sales due to failure to recognise that the change was imminent. The failure to respond immediately to the change can also reduce the time available to the business to recover.

To be constructive, changes must occur at a pace that allows businesses to absorb and integrate them into their operations. All changes should also 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 'explain the way business change may come about . . .'. You should understand that change may occur in a business as a result of pressure from any alteration in the business's internal or external environments, and that a business may approach change proactively or react to it once the alteration has occurred.

CONTEMPORARY CASE STUDY

Australia Post — where is my parcel?

Since the pandemic struck, online ordering and demand for postal delivery services has boomed. However, postal delays are becoming the norm, as Australia Post continues to deal with a number of issues, mostly unplanned for, and out of their direct control. Manufacturing has been delayed, and warehousing and logistics have faced employee shortages. At Australia Post, on top of additional demand and soaring fuel prices, delivery drivers were, at times, scarce. Imposed delivery protocols, COVID-19 tests and longer hours were just some of the changes that have challenged, and continue to affect, the business.



KEY IDEAS

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

4.2 Exercises

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4.2 Quick quiz

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4.2 Exercise

4.2 Exam questions

4.2 Exercise

TEST your understanding

1. **Outline** the meaning of the term 'business change'.
2. **Explain** the difference between proactive and reactive approaches to change.
3. **Explain** why a business should adopt a proactive approach when dealing with change.
4. 'It doesn't matter about the size of the change or the size of the business. What's important is the effect of the change.' **Analyse** this statement.

APPLY your understanding

5. Read the case study 'Commonwealth Serum Laboratories (CSL)' in section 4.1.1. **Discuss** whether CSL is likely to approach change in a proactive or reactive way.
6. Access recent news articles about a contemporary business with which you are familiar. **Outline** the following:
 - the business and its product or service
 - a change that the business has faced
 - the approach that the business took towards the change.

4.2 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.2; © VCAA

Managers can take either a proactive or a reactive approach to change.

Describe how each of these approaches can be used to manage change.

▶ Question 2 (2 marks)

Describe the concept of business change.

▶ Question 3 (3 marks)

Explain why it is important for a business to manage change effectively.

More exam questions are available online.

4.3 Key performance indicators — analysis of business performance

KEY KNOWLEDGE

- Key performance indicators as sources of data to analyse the performance of businesses, 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 website hits and number of workplace accidents

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

4.3.1 Efficiency and effectiveness

Telstra describes its purpose as being committed to staying close to its customers and providing them with the best experience. Telstra is also committed to delivering the ‘best tech’, ‘on the best network’, ‘to build a connected future so everyone can thrive’. A large business, like Telstra, also has an obligation to its shareholders and this can also be expressed as an objective. In particular, the Telstra Chief Executive Officer outlined that for the financial year of 2022 Telstra would focus on improving customer experience, regional connectivity and new opportunities in health and energy. This would allow Telstra to deliver on its financial ambitions.

Of course, Telstra must continually ask whether or not its desired objectives have been achieved. This kind of evaluation can be done through measuring key performance data. A business like Telstra would have large amounts of data that it can analyse, such as customer feedback, sales and profit figures. The business would need to consider whether:

- it is performing as planned
- performance has improved over time
- performance compares to similar businesses in same industry.

Following an evaluation, businesses such as Telstra can identify and investigate any discrepancies in comparison with the 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 Telstra 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, is the business ‘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 Telstra 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.

4.3.2 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 can act as a driving force for change for a business.

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

efficiency how well a business uses resources to achieve objectives

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

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.

4.3.3 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.

Equally, having the largest market share also suggests that the business is outperforming its competitors. In the mobile phone network market in Australia, Telstra has held over 40 per cent of the market share for a ten-year period. This means that out of all the customers who buy mobile data in Australia, over 40 per cent buy from Telstra. Its closest rival Optus has held a market share of between 20 and 30 per cent. The rest of the market is served by Vodafone and other smaller providers.

EXAM TIP

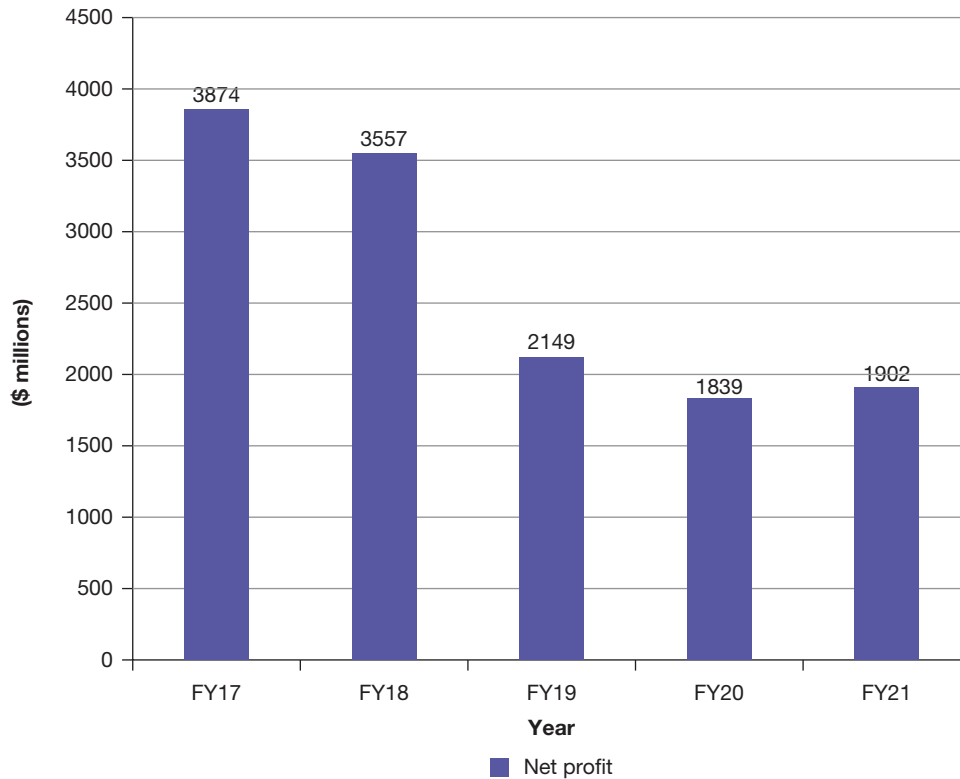
Unit 4, Area of Study 1 identifies ten KPIs and, while there are other possible indicators, you should focus on these ten KPIs. You should be able to define them, understand what a change in them means and what areas of business performance are being assessed by each KPI. Linking KPIs to the right area 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 what is left following the further deductions of expenses and taxes. 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 significant profit is considered to have performed successfully. Conversely, a low net profit or a negative net 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.

Net profit figures are a very important key performance indicator for Telstra. Telstra's net profit figures over a five-year period are summarised in the following graph. These figures have been sourced from Telstra's 2021, 2020, 2019 and 2018 Annual Reports. Note that 'FY' stands for financial year, so each net profit figure is for the period between 1 July and 30 June.

percentage of market share the business's share of the total industry sales for a particular good or service, expressed as a percentage
net profit figures the measurement of a company's profit once operating costs, taxes, interest and depreciation have all been subtracted from its total revenues



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.

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. Following a marketing campaign, it is expected that the number of sales will increase.

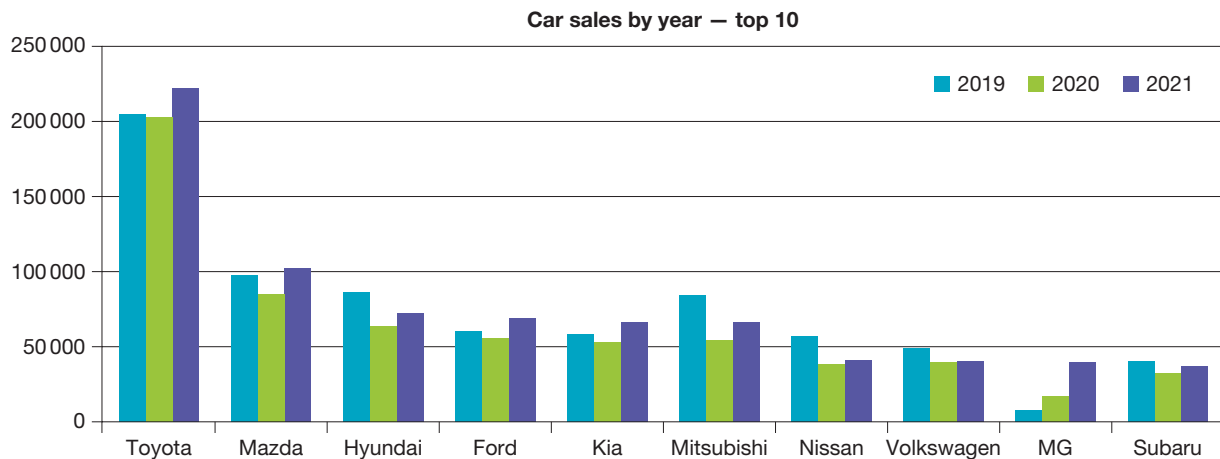
Usually, a business will be satisfied with its performance when the number of sales increases over a period of time, even if it means lower profits in the short term due to higher marketing costs. The assumption is that such a strategy will lead to higher profits in the long term.

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

number of sales a measure of the amount of goods or services (products) sold

In 2021, Toyota sold 223 642 new cars in Australia. This eclipsed the combined total of Mazda (second, 101 119) and Hyundai (third, 72 872), while Ford (71 380) was fourth. While Toyota may be happy to continue to lead the way with the most car sales in Australia, and MG might be happy with their significant growth, other companies, such as Hyundai, Nissan and Subaru, which were higher in the ranking in 2019, may be concerned that their share of the market and number of sales have declined.



One of the ways Toyota (and other companies) is able to maintain strong sales is by producing concept cars that show a strong future direction in design development.



In November 2019, Toyota Auto Body unveiled the shapely and innovative PMCV (or Personal Multi-Compact Vehicle), a Level 4-autonomous electric minivan.



DID YOU KNOW?

Small businesses are able to track sales reasonably easily — some businesses record them manually, through raising an invoice, or rely on basic software to record each transaction. Larger businesses such as supermarkets rely on complex sales management systems that record all checkout transactions. These systems identify trends and buying patterns. They will also automatically reorder stock based on this information.

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 — if done openly and honestly, it shows that support and trust exist. However, sometimes employees may be absent from work because they are dissatisfied or demotivated. The **rate of staff absenteeism** measures the number of workers who do not turn up for work when they are scheduled to do so. A rising rate of absenteeism may indicate problems at work between the employer and the employees.

rate of staff absenteeism the number of workers who do not turn up for work when they are scheduled to do so

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. Some staff turnover is always to be expected as employees move on to new businesses for a variety of reasons including promotion, or relocation. However, high or increasing levels of staff turnover are problematic and suggest that employees are not satisfied with their working conditions. Staff turnover means that staff will need to be replaced, resulting in recruiting and training costs, and the loss of productivity and knowledge. According to the Australian Bureau of Statistics, the rate of staff turnover for the year ending February 2022 was 9.5 per cent.

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**. The level of wastage can consider the volume of resources consumed by inefficient or non-essential activities, the amount of unwanted material left over from a production process, output that has no marketable value, material that from a consumer's viewpoint doesn't add value to a good or service or any material discharged to, deposited in or emitted to an environment in such a quantity that it causes harm or damage. 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.

There has been a lot of talk about sustainability in the fashion industry. With the increase in online shopping, this conversation has shifted to include concern about the amount of packaging used and the waste that is generated when customers have to return items that they have bought online. When posting an item, the waste can include postal bags, gift cards, printed order sheets, layers of wrapping and embossed boxes. If a customer decides to return unwanted online items, usually clothing, there is also the use of a new postage bag, and new packaging that the clothes eventually need once they are sold again. Clothes manufacturer Nobody Denim is trying to solve this issue by salvaging returned postal bags, improving its clothing sizing information on its website, getting the customer to pay for returns and switching its packaging to compostable bags.

Number of customer complaints

The **number of customer complaints** refers to the number of customers who contact the business to express their disappointment with the business — the goods or service purchased, the quality, price or the customer service received.

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

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

level of wastage the amount of unwanted or unusable material created by the production process of a business

number of customer complaints the number of customers expressing their dissatisfaction with the business, in either spoken or written form

Nobody Denim salvages returned postal bags and has switched its own packaging to compostable bags.



Customer complaints can lead to a loss of customers (sales) and profits and can impact business performance.



who don't. Telstra has a well-developed system for recording customer complaints. Complaints can be made through the Telstra app, website, chat or call centre. In 2022, Telstra announced that all of its call centres had been returned to Australia, after ongoing customer demand and complaints about how calls had been answered and dealt with in the past.

Number of website hits

A 'hit' on website is a request to a webserver for a file such as a web page or image. Servers can monitor website activity and register whenever a web page receives a visitor (or a 'hit'). In technical terms, there may be many 'hits' once a potential customer visits a web page, since a web page can contain multiple files, such as images and texts, which are 'downloaded'. What is important for a business is to record how many potential customers visit its site or engage with the site following an advert or a link from a social media platform. Furthermore, a business can track how many of these 'hits' result in a purchase.



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. The **number of workplace accidents** refers to any unplanned event that results in personal injury or property damage at the workplace that is reported to management. 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.

WorkSafe and workplace health and safety legislation require that workplace injuries are recorded. At the last count, there were over 120 000 serious injury claims per year, which was down 23 per cent on results from the previous decade. Despite rates of worker fatalities and serious injury rates falling overall, certain industries have higher levels of workplace accidents than others. The agriculture, forestry and fishing industry ranks as the industry with the highest number of workplace deaths.

number of workplace accidents
indicates how safe the workplace
is for employees

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.

on Resources

 **Video eLessons** Workplace accidents — Australia Post (eles-1047)
Key performance indicators (eles-4292)

KEY IDEAS

- 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 website hits
 - number of workplace accidents.

4.3 Exercises

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4.3 Quick quiz

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4.3 Exercise

4.3 Exam questions

4.3 Exercise

TEST your understanding

1. **Outline** what is meant by the term 'key performance indicator'.
2. **Explain** why net profit is an important performance indicator.
3. **Outline** why productivity is an important key performance indicator.
4. **Define** 'staff turnover'.
5. **Outline** how reducing waste can cut costs.

APPLY your understanding

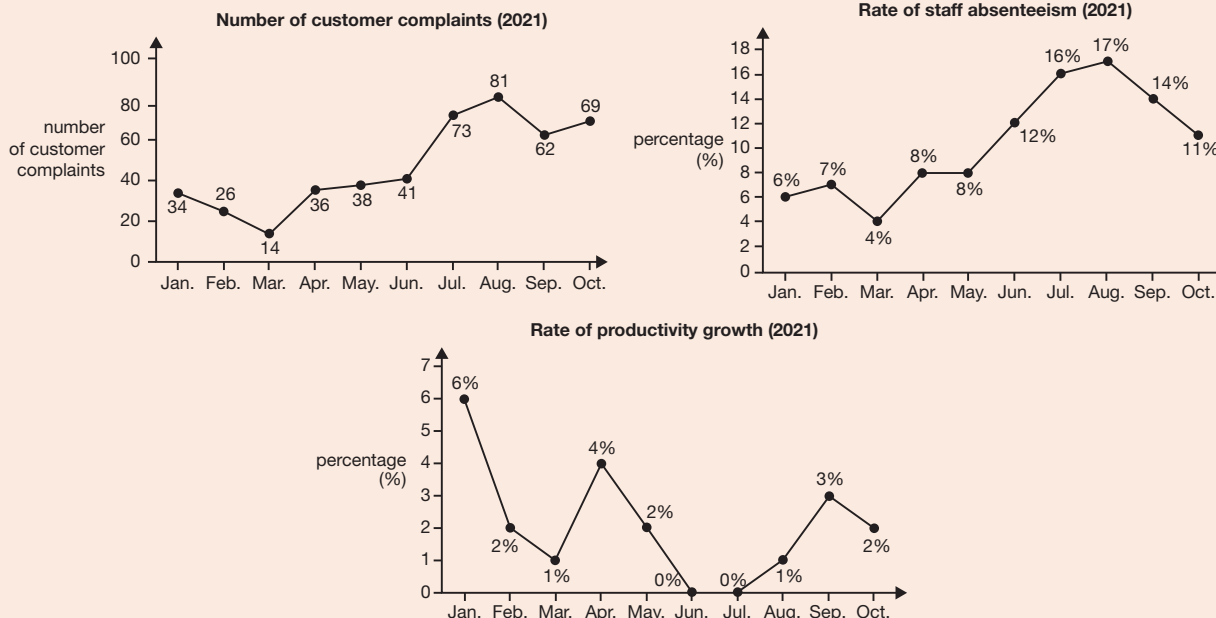
6. In groups of three or four, **discuss** what is likely to happen when a business's performance:
 - a. does not meet customer expectations
 - b. meets customer expectations
 - c. exceeds customer expectations.
 Choose a spokesperson to share your group's comments with the rest of the class.
7. Key performance indicators are used to measure whether or not an objective has been achieved. Using the table below, **outline** how the key performance indicators in section 4.3.3 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
a. Maximise profit	Net profit	An improvement in net profit means a business has improved its productivity, either by earning more revenue or by reducing expenses and costs.
b. Increase sales		
c. Improve productivity		
d. Increase market share		
e. Meet safety standards		
f. Improve retention of employees		
g. Reduce workplace waste		

4.3 Exam questions

Question 1 (3 marks)

Source: VCE 2021, Business Management Exam, Section B, Q.2; © VCAA



Using the data provided in the graphs, **explain** the relationship between the rate of staff absenteeism and the number of customer complaints.

Question 2 (8 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.3a&b; © VCAA

The manager of Wilkinson's Window Tinting was disappointed with the performance of the business after one year of trading. As a result, she decided to purchase new machinery and automate the tinting process. At the end of the second year of trading, the manager examined a range of key performance indicators in order to assess the extent to which this change had been successful.

Key performance indicator	Year 1	Year 2
net profit figure	\$47 000	\$23 000
rate of productivity growth	2%	8%
number of customer complaints	112	28
rate of staff absenteeism	average of four days per year per staff member	average of 12 days per year per staff member

- Define** the term 'key performance indicator'. **2 marks**
- With reference to the data above, **analyse** the extent to which the purchase of the new machinery has assisted Wilkinson's Window Tinting in improving the performance of the business. **6 marks**

Question 3 (3 marks)

Describe the key performance indicator 'number of customer complaints'. **Outline** how an increase in this indicator may impact the achievement of one business objective.

Question 4 (3 marks)

Describe the key performance indicator 'number of website hits'. **Outline** how a decrease in this indicator may impact the achievement of one business objective.

Question 5 (3 marks)

Explain the link between a rising rate of staff absenteeism and the level of staff turnover.

More exam questions are available online.

4.4 Key principles of the Force Field Analysis theory (Lewin)

KEY KNOWLEDGE

- Key principles of the Force Field Analysis theory (Lewin) including weighting, ranking, implementing a response and evaluating the response

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

4.4.1 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 a business can determine which forces drive and which forces 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 4.5. **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 4.6.

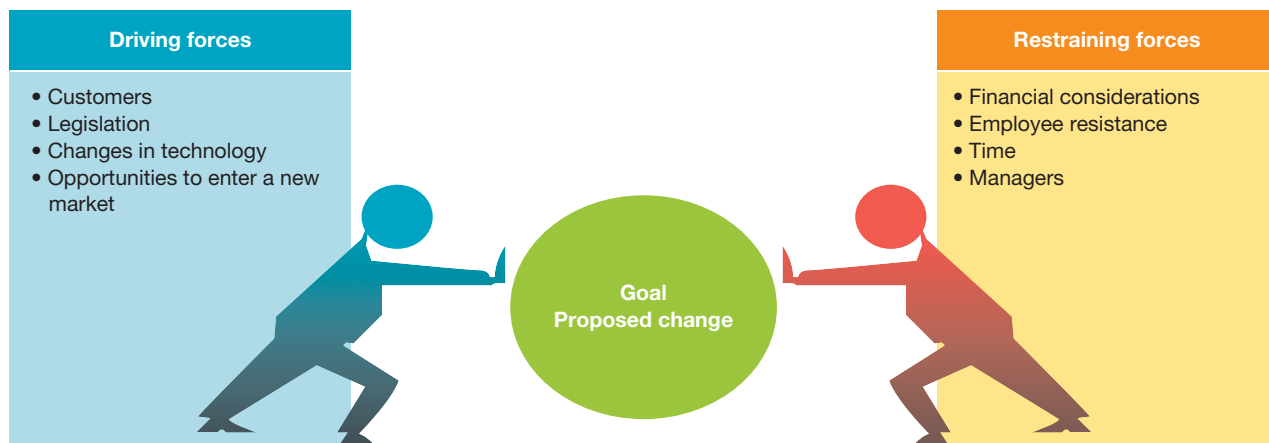
Managers who are trying to implement a change must conduct a Force Field Analysis to identify these forces and ensure that the driving forces exceed the restraining forces.

Force Field Analysis outlines the process of determining which forces drive and which forces resist a proposed change

driving forces those forces that support a change

restraining forces those forces that work against a change

Driving and restraining forces work against each other, making it difficult for a business to change.

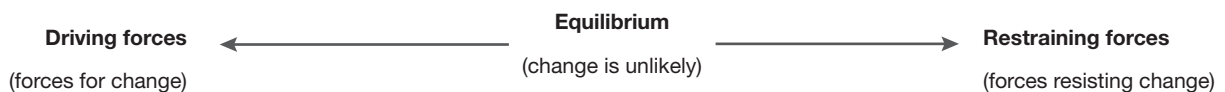


4.4.2 Key principles of a Force Field Analysis

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.

As is discussed further below, the driving and restraining forces impacting a business need to be identified. Once identified, they are given a 'score' reflecting their importance to the change process. This process then leads into the development of an action plan.

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 the weight of driving forces overwhelm restraining forces. If the forces remain in equilibrium or if the weight of 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

 **Video eLesson** Key principles of the Force Field Analysis theory (eles-2933)

4.4.3 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 shown in section 4.4.4, 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.

4.4.4 How to complete 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? The following is a simple process for completing a Force Field Analysis. With a peer, or on your own, can you complete the process of conducting a Force Field Analysis on the scenario of a new school

uniform? Think through the driving and restraining forces. What action is likely and who will need to carry it out?

1. 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. This score can be referred to as a 'weighting'. A low score (1) suggests the force is weak while a high score (5) suggests a strong force.
2. Prioritise, or rank, the top 3 to 5 most restraining forces and the top 3 to 5 most driving forces. These are the forces the business and the guiding group need to either eliminate or strengthen to allow the change to occur.
3. 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. This is known as implementing a response.

For example, the guiding group might attempt to strengthen driving forces by finding or encouraging support for the implementation of a change. Strategies for dealing with resistance to the implementation of a change can also be determined, with the objective of eliminating restraining forces.

4. It is important to remember that implementation of a response is not the final step. As with all models and changes, there must be a process of review and evaluation.

A process for conducting a Force Field Analysis

1. Give a weighting to current driving and restraining forces.

2. Rank the top restraining and driving forces to eliminate or strengthen them.

3. List actions required and implement a response.

4. Evaluate the response.

Template for a Force Field Analysis diagram

Driving forces		Restraining forces	
Action	By whom	By when	
1	Design new uniform	Students	
2			
3			
4			
5			
Successful	Unsuccessful	No change	
1			
2			
3			
4			
5			

4.4.5 Benefits and limitations 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. In general, a business will benefit from the preparation of a Force Field Analysis. However, businesses that do so should recognise that there are a number of limitations of such an analysis. Benefits and limitations of a Force Field Analysis include the following:

Benefits of a Force Field Analysis	Limitations of a Force Field Analysis
• Businesses are able to weigh up the factors 'for 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.	• The identification of the driving and restraining forces may omit some forces. They may not be clearly identifiable at the time and may emerge during the change or the person completing the analysis may not have identified the force. • The weightings of the forces are subjective. Biases can emerge when determining the importance of a particular force. • Timelines can also be subjective and may not consider unexpected events. • Assigning responsibility to people to manage aspects of the change may result in a need for training as the skills of people may be lacking or overestimated.

KEY IDEAS

- 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.

4.4 Exercises

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4.4 Quick quiz

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4.4 Exercise

4.4 Exam questions

4.4 Exercise

TEST your understanding

1. **Explain** what is meant by Force Field Analysis.
2. **Define** 'driving forces' and 'restraining forces', providing an example of each.
3. **Outline** the steps involved in developing a Force Field Analysis.

APPLY your understanding

4. Using the action plan template, complete a Force Field Analysis on a contemporary business with which you are familiar.
5. **Evaluate** the importance of adopting a theory to help a business undertake change.
6. **Discuss** how a Force Field Analysis could be used by the owner of a small shop, who is considering opening a second store.

4.4 Exam questions

▶ Question 1 (6 marks)

The growth of audio books has led to a decline in hard copy books at bookstores. **Describe** how Lewin's Force Field Analysis could be used by a bookstore business in this situation.

▶ Question 2 (5 marks)

Describe how Lewin's Force Field Analysis could be used during the change process and outline one benefit of performing a Force Field Analysis.

▶ Question 3 (5 marks)

If restraining forces outweigh the driving forces then a business shouldn't change. **Discuss** this statement.

▶ Question 4 (4 marks)

Describe two benefits of conducting a Force Field Analysis.

More exam questions are available online.

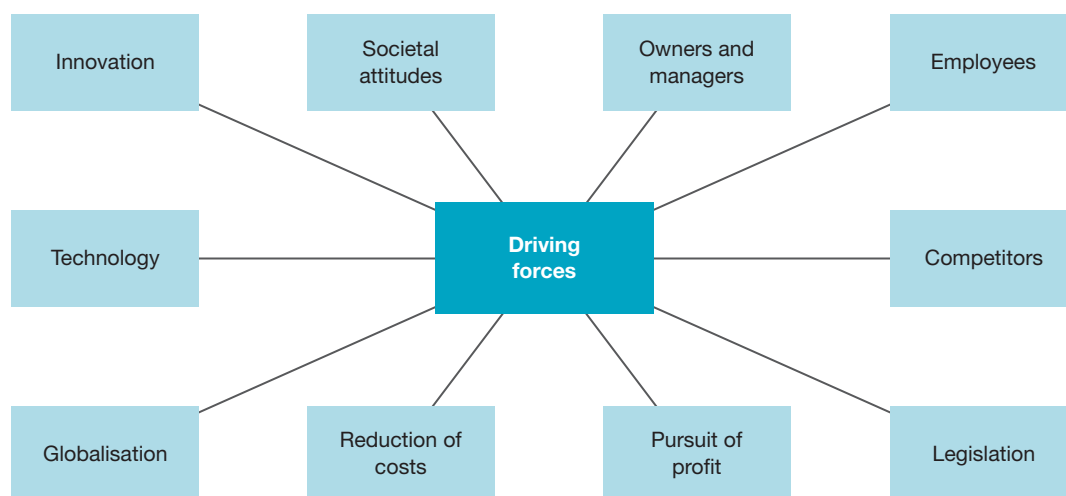
4.5 Driving forces for change in business

KEY KNOWLEDGE

- Driving forces for change in business including owners, managers, employees, competitors, legislation, pursuit of profit, reduction of costs, globalisation, technology, innovation and societal attitudes

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

As we have seen, driving forces work to encourage, foster and initiate change. The following diagram shows a number of factors that will encourage change in a business.



EXAM TIP

The **Unit 4, Area of Study 1** outcome states that you need to ‘explain 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.

4.5.1 Owners and managers

A business owner is someone who establishes and operates a business. Small businesses may have one owner, whereas larger businesses may be owned by multiple partners or shareholders. Some owners are very active in running their businesses. In larger organisations, managers often have the responsibility of operating a very profitable or successful business.

The role that owners and managers play in the operations of a business makes them 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 that dividends are paid to shareholders and so a healthy profit is needed. Managers will be under pressure to push for changes that will lead to a better outcome and more efficient achievement of business objectives.

4.5.2 Employees

Employees working for a business expect to be paid fairly, trained properly and treated ethically in return for their vital contribution to production. Many employees are also stimulated and motivated by an environment that fosters innovation and creativity. 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, Apple and Google 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.

Employees working outdoors at Googleplex headquarters main office in Mountain View, California



4.5.3 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. Electric vehicle sales are increasing in Australia. As electric vehicle technology becomes cheaper, there are now over a dozen car manufacturers producing them, including Toyota, Audi, BMW, Mazda and Volvo. However, the market leader, with over 65 per cent of the sales in the electric vehicle market, is Tesla. Tesla established itself early on and its competitors are having to deal with its strong hold on the market.
- Advertising campaigns, sales and the development of an online presence are other examples of how competitors can drive change within a business.

Established brands are trying to catch up to Tesla with the introduction of new models.



4.5.4 Legislation

Laws can be passed that require a business to stop doing something or to start doing something. It is a legal requirement for businesses to comply with the law or they may face substantial fines or even imprisonment of individuals.

As of 2022, all Australian states had banned the use of single-use plastic bags. However, many retailers adopted this stance before the legislations had been passed. For example, ALDI has never offered free single-use plastic bags to customers and customers have always been charged 15 cents for a thick reusable plastic one. In Victoria, the banning of single-use plastic items such as straws, cutlery, plates and drink stirrers, as well as polystyrene food and drink containers, is effective from February 2023. Businesses will need to adapt to these changes accordingly. Businesses who produce these items will face an uncertain future.

During the pandemic, CSL (our contemporary business case study) faced pressure to manufacture approximately 50 million doses of AstraZeneca COVID-19 vaccine. The vaccines were needed to meet demand from the public, government and health authorities.

Legislation is a force for change — e.g. banning single-use plastics such as straws



4.5.5 Pursuit of profit

All businesses, regardless of size, need to earn a profit, of which they return a portion to owners/shareholders. Because profit is essential to the survival of a business (a business cannot continue to operate if expenses are greater than revenue for long periods of time), the fact that businesses will pursue profit can be considered to be a driving force for change.

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.

4.5.6 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, profit will be negatively impacted and consequently 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.

4.5.7 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. We have already seen examples of this when we examined global sourcing of inputs, overseas manufacture and global outsourcing when we investigated operations management (see subtopic 3.14).

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.

4.5.8 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.

globalisation the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers

All businesses, regardless of size, are able to take advantage of technology and so all businesses are driven to change by technology. Telstra launched the T25 strategy in 2021. T25 is a strategy for growth that focuses on leading technology. As new technologies continue to evolve — including 5G and 6G, satellite and cloud services — Telstra are pioneering these services and working with businesses to ensure that they are able to transition to the technologies effectively. Indeed, all businesses are having to incorporate new technologies into their ways of doing things. For example, businesses have readily adopted technology to allow payments using smartphones and checking in using QR codes. Some businesses such as IKEA are using augmented reality to see how furnishing will look in your house and others, such as Tesla, are pioneering driverless vehicles.

IKEA are using augmented reality to allow customers to see how products will look in their own home.



4.5.9 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.

We have all already lived through significant innovations in communication — smartphone advancement, wifi and communications applications such as Facebook, Instagram and Twitter — all of which have also impacted businesses. The creation of Facebook and Twitter (among other apps) has 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 food delivery applications.

For many businesses, innovation is essential for their survival. Being able to innovate and develop new ways of thinking and doing business will give many businesses a competitive edge.

The introduction of contactless payment by debit and credit cards (e.g. payWave), and through mobile phones, has led to a significant increase in the total spent using these methods.



innovation a process that occurs when something already established is improved upon

niche market a narrowly selected market segment within a larger market

4.5.10 Societal attitudes

Businesses are constantly confronted by changes in society's attitudes and values. Society's attitudes about what is socially acceptable 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. The decision described in section 4.5.4 by Australian supermarkets to phase out the use of single-use plastic bags is one such example. Society's attitudes had shifted, and customers were concerned about their impact on the environment and so, before legislation was passed, these businesses responded to what society believed was appropriate.

There is growing pressure for businesses to implement procedures to preserve and protect the natural environment. Australian supermarket chains phased out the use of single-use plastic bags before legislation, as a result of societal attitudes.



Society requires that 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.

CONTEMPORARY CASE STUDY

CSL: Bushfire support

CSL was actively involved in supporting those impacted by the bushfire crisis in Australia in early 2020. In recognition of the emergency, and in keeping with its commitment to support communities, CSL donated \$500 000 for urgent aid and pledged to match, dollar for dollar, all employee donations that were made. This type of action is becoming more common and is increasingly expected by society. CSL understands this and, as part of its corporate social responsibility, takes humanitarian programs and relief efforts seriously.

CSL was actively involved in supporting those impacted by the 2020 bushfire crisis in Australia.



KEY IDEAS

- Driving forces are those forces that initiate, encourage and support the change.
- The main driving forces for change include:
 - owners and 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).

4.5 Exercises

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4.5 Quick quiz

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4.5 Exercise

4.5 Exam questions

4.5 Exercise

TEST your understanding

1. **Explain** what is meant by a driving force.
2. **Outline** three driving forces for change.
3. **Outline** how technology is a driving force for change.
4. **Explain** how innovation is a driving force for change.

APPLY your understanding

5. Copy and complete the following table.

Example of driving force	How it may impact a business
a. New laws passed to protect young workers	
b. Computerisation of sales data	
c. Employees	
d. New export market identified	
e. Protection of the natural environment	
f. Globalisation	

6. **Discuss** the advantages and disadvantages of accelerating technology on a business's operations.

7. 'A business must always be aware of the changing nature of competitors.' **Discuss** the meaning of this statement.
8. With reference to a contemporary business with which you are familiar, make a list of advantages and disadvantages that the driving force of globalisation presents.

4.5 Exam questions

▶ Question 1 (6 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.6; © VCAA

Analyse how societal attitudes have been a driving force for change in a contemporary business that you have studied this year.

▶ Question 2 (3 marks)

One of the objectives of Telstra is to create sustained growth and value for shareholders. **Describe** one driving force that could have an impact on the success of this objective.

▶ Question 3 (3 marks)

Describe how employees may drive change.

▶ Question 4 (6 marks)

Competitors are perhaps the most important driving force for change. **Analyse** this statement.

More exam questions are available online.

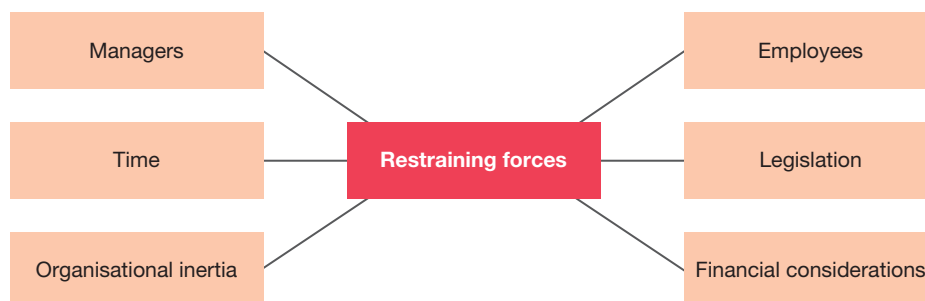
4.6 Restraining forces in business

KEY KNOWLEDGE

- Restraining forces in businesses including managers, employees, time, organisational inertia, legislation and financial considerations

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

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?

According to John Kotter (award-winning business and management thought leader), some managers see change as a threat, causing fear, stress and anxiety. These feelings can then lead them to direct all their attention towards eliminating the threat, to the exclusion of all else.

4.6.1 Managers

In some cases, a manager may be the factor restraining or stopping change occurring. 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. Managers may also act as restraining forces if they lack the capacity to deal with change. A manager may lack the experience and skills to oversee a transformation or may not be able to deal with resistance from the various stakeholders in the business. Any 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.

4.6.2 Employees

It has already been identified that employees can act as a driving force. However, they can also act as a restraining force for businesses seeking to undergo a change. Any type of change to a business will eventually impact on the level and type of staffing. There is always the fear of job losses during any change and this can lead to staff resisting the change.

Further to this, 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.

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.

Following the global pandemic, with its isolation rules and reliance on virtual meetings, one might have expected employees to welcome a return to the office. Instead, many employers found that there was employee resistance to giving up working from home. This resistance stemmed from employees enjoying the new flexibility over their work–life balance, with many becoming distant from their employers over the duration of the pandemic. It was reported that in the period after restrictions lifted, many employees resigned and sought work that would offer them the flexibility that they had become used to.

on Resources

 **Video eLesson** Overcoming employee resistance (eles-2934)

4.6.3 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.



4.6.4 Organisational inertia

Organisational inertia is the organisation's inability to make internal changes, or lack of response, when faced with significant external 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.

Organisational inertia can also be the result of the success of a business. Managers may be reluctant to invest in new projects, particularly when things are going well. They may feel that a new direction is too risky, or they may be too attached to what they have always done.

4.6.5 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.

More recently, privacy legislation has become an issue as businesses have access to, and are handling and storing, increasing amounts of personal data. In 2021, the Federal Court found that Google LLC and Google Australia Pty Ltd (together, Google) misled consumers about personal location data collected through Android mobile devices between January 2017 and December 2018, in a world-first enforcement action brought by the ACCC. Businesses need to be fully aware of all legislation affecting them and how they conduct their activities.

4.6.6 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 associated with implementing the change and compare with the 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***. Change often requires a business to change its operations system, which leads to the purchase of new technology/equipment. The purchase cost of new technology, buildings or equipment can be considerable and it may take time for the improved efficiency to have revenue benefits that cover these costs.
- ***retraining the workforce***. As new technology is introduced, employees must be retrained. In the 2020 financial year, Telstra allocated \$25 million for staff training. This has been followed in more recent years with commitments to train thousands of employees.
- ***reorganising plant layout***. When new technology/equipment is installed, the layout of the plant may require reorganisation to improve efficiency and productivity.
- ***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.

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 whether the costs of the change outweigh the benefit to the business.

organisational inertia an unenthusiastic response from a business to proposed change

KEY IDEAS

- 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).

4.6 Exercises

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4.6 Quick quiz

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4.6 Exercise

4.6 Exam questions

4.6 Exercise

TEST your understanding

1. **Outline** how time can be a restraining force.
2. **Define** what is meant by 'organisational inertia' and provide an example.
3. **Explain** why management might resist a proposed change to a business.

APPLY your understanding

4. **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.
5. **Propose** and **justify** which restraining force for change you think is:
 - a. the most common for a business
 - b. the most difficult for managers to deal with.
6. Based on the theory of restraining forces, **explain** the possible sources of resistance for an organisation wishing to implement new technology.

4.6 Exam questions

Question 1 (6 marks)

Source: VCE 2021, Business Management Exam, Q.2b; © VCAA

Using a contemporary business case study, **analyse** the driving and restraining forces that have had an impact on business change.

▶ Question 2 (4 marks)

Source: VCE 2020, Business Management Exam, Q.6; © VCAA

Case study

Below is an extract of a speech delivered to the shareholders of Manitta Mining by its Chief Executive Officer at its annual general meeting on 7 August 2020.

Our business faces significant challenges. Staff turnover has increased significantly over a five-year period. The business's share price on the Australian Securities Exchange (ASX) has decreased by 15% over the same five-year period. Sales are also down and the company has struggled to reduce the number of workplace accidents in our mines.

As Chief Executive Officer of Manitta Mining for more than 15 years, I am pleased to tell you the long-term outlook for the company remains strong.

Since the appointment of a new operations manager, Dr Margaret Sherckle, in February 2020, the number of workplace accidents has decreased by 25%. The number of workplace accidents is a very important key performance indicator (KPI) for the business and a key business objective is to improve workplace safety.

Manitta Mining currently has more than 20 000 employees, each of whom I consider to be part of the 'Manitta family'. While business efficiency and effectiveness are important, the goal of ensuring that our employees return home safely each day is our priority.

A safe workplace will reduce staff turnover. It will also reduce staff absenteeism. We aim to keep staff turnover below 5% in the year ahead. This will reduce associated costs. For example, reduced staff turnover will reduce staff training costs. WorkCover premiums will also fall. Manitta Mining expects that increased employee retention will lead to significant increases in the rate of productivity growth during the next 12 months.

Finally, I would like to thank you, the shareholders. Loyalty deserves to be rewarded. The implementation of strategies that improve business performance through increased productivity growth will ensure that your investment grows in turn.

Thank you.



Outline how two of the restraining forces in business listed below might influence Manitta Mining's ability to successfully introduce change to business operations in the future:

- organisational inertia
- legislation
- financial considerations
- employees.

▶ Question 3 (4 marks)

Source: VCE 2017, Business Management Exam, Q.6; © VCAA

One of the objectives of Shandra's Dairy Ltd is to become a truly global brand.

Explain one driving force and one restraining force that could have an impact on the success of this objective.

▶ Question 4 (3 marks)

Source: VCE 2016, Business Management Exam, Q.4a; © VCAA

Distinguish between driving forces and restraining forces for change.

▶ Question 5 (4 marks)

Explain how employees can be both a driving and a restraining force for change.

More exam questions are available online.

4.7 APPLY YOUR SKILLS Forces affecting change

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

CONTEMPORARY CASE STUDY

CSL's response to change

The global pandemic has had a profound effect on most businesses in one way or another, changing the way or speed at which they operate. As an organisation that develops vaccines as part of its product portfolio, CSL has been at the forefront of responding to this situation.

Throughout 2020, CSL was in negotiations with AstraZeneca (a British–Swedish multinational pharmaceutical and biotechnology company) to have the rights to manufacture a vaccine. This meant that CSL would need to ready its facilities to cope with producing this new product, including ensuring there were sufficient employees with the necessary capabilities for the research, testing, manufacture and storage of the vaccine.

CSL CEO and Managing Director Paul Perreault said, 'The social and economic impact of the COVID-19 pandemic has brought a high level of urgency to the task of developing a vaccine, and to manufacture a successful vaccine at high quality and in sufficient quantities'. Mr Perreault added that 'CSL is the only company in Australia with manufacturing facilities capable of producing this vaccine', but also acknowledged that 'facilities will require modifications in order to fulfil the compliance requirements as well as the addition of skilled personnel and further capital investment'.

In April 2020, CSL and AstraZeneca agreed for CSL to manufacture 50 million doses of the AstraZeneca vaccine for supply in Australia.

Then Prime Minister Scott Morrison visits a CSL vaccine facility in Melbourne



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4.7 Exercise

TEST your skills

1. **Define** the term 'driving forces'.
2. With reference to the CSL case study, **identify** and **outline** the driving force for change.
3. **Describe** what the key restraining forces would have been for CSL in adapting to the change.

APPLY your skills

4. a. Select three driving forces for change.
- b. For each of the driving forces you have selected, find an example of a business that has been affected by that driving force. You should have three separate business examples.
- c. For each of the businesses, complete the following.
 - i. **Describe** the driving force affecting the business.
 - ii. **Discuss** the impact of the driving force on the business.
 - iii. **Outline** the business response to the driving force.
 - iv. **Outline** any resistance to the driving force.

You may wish to collate your information in a table like the one below.

Business name	Change	Driving force	Response	Restraining force

4.7 Exam questions

▶ Question 1 (2 marks)

Referring to a contemporary business case study, **explain** what is meant by 'business change'.

▶ Question 2 (5 marks)

Referring to a contemporary business case study with which you are familiar, **identify** a change issue and **describe** two restraining forces that this business would face.

▶ Question 3 (4 marks)

Referring to a contemporary business case study, **explain** how a Force Field Analysis could be used during a period of change.

▶ Question 4 (4 marks)

Explain how employees can act as both a driving and a restraining force.

▶ Question 5 (4 marks)

If restraining forces outweigh driving forces then a change shouldn't be undertaken. **Discuss** this statement.

More exam questions are available online.

4.8 APPLY YOUR SKILLS Driving and restraining forces

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

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CONTEMPORARY CASE STUDY

NAB rebounds with \$5.3 billion profit, announces 6000 job losses

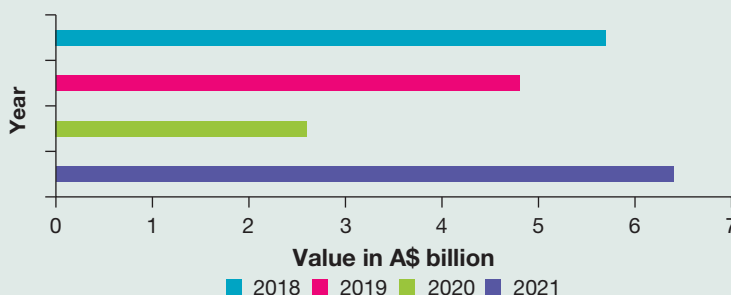
After poor financial results in 2016, National Australia Bank (NAB) have turned their attention to considering exactly how customers are banking. According to a NAB report in 2021, over 93 per cent of customer interactions take place over the phone, by video or online. NAB report that they have seen a 30 per cent reduction in over-the-counter transactions in the last year alone. NAB acknowledge that their physical branch presence will no longer be viable in some areas.

Since 2017, NAB have been on a trajectory of change. The bank acknowledges that the changes 'have been driven by customers' and were also the impact of an 'increasingly digital and automated world'. The company has forecast redundancies of 6000 staff in total across several years, and the recruitment of 2000 staff with digital skills. Some of these recruitments are to support digital banking and NAB are keen to recruit people from regional areas who can work from anywhere.

Ross McEwan was appointed Chief Executive Officer at NAB in 2019 after a five-month recruitment search. Mr McEwan is part of the strategy to transform the operations and culture at NAB and has a strong background in delivering important and practical improvements. NAB's net profit results have fluctuated during its period of change. In 2018, NAB reported a net profit of \$5.7 billion. By 2020, this had fallen to \$2.6 billion. However, by 2021, results had improved to \$6.4 billion.



NAB's net profit results 2018–21



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4.8 Exercise

4.8 Exercise

TEST your skills

1. **Outline** the key driving forces that have led to NAB's decision to cut jobs and branches.
2. **Identify** the key performance indicator referred to in the case study. Using this key performance indicator, **analyse** NAB's performance.
3. Businesses have a number of objectives. **Explain** two key objectives that NAB is attempting to meet by its decision to cut jobs and branches.

APPLY your skills

4. Change is often resisted by employees. With reference to NAB, **explain** why employees can act as a restraining force to change.
5. Change always brings uncertainty to employees. Referring to a contemporary business case study, **analyse** how employees may react to the proposed changes.

4.8 Exam questions

▶ Question 1 (2 marks)

Explain how the performance revealed by net profit figures may impact on one other key performance indicator.

▶ Question 2 (8 marks)

In 2018, NAB announced a restructure of the bank that would result in 6000 jobs being lost, with 2000 new roles created.

- a. **Describe** how the principles of the Force Field Analysis theory may assist NAB in managing the change at the business. **4 marks**
- b. Referring to the change at NAB, **explain** how managers can be considered a driving force. **4 marks**

More exam questions are available online.

4.9 Strategic management by Porter's Generic Strategies (1985)

KEY KNOWLEDGE

- The two key approaches (lower cost and differentiation) to strategic management according to Porter's Generic Strategies

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

Michael E. Porter is a US-born professor at the prestigious Harvard School of Business. In the 1980s he developed a theory that is still used today. The theory 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 4.3). According to Porter, a business chooses to pursue one of two types of competitive advantage, either a lower cost strategy or a differentiation strategy.

Michael E. Porter is an American-born economist, researcher, author, adviser, speaker and teacher known for his theories on competition and competitive advantage.



on Resources

 **Video eLesson** Porter's Generic Strategies (1985) (eles-2935)

4.9.1 The Generic Strategies approach

In response to competition, a business may wish to gain its own competitive advantage. Porter identified two categories of competitive advantage:

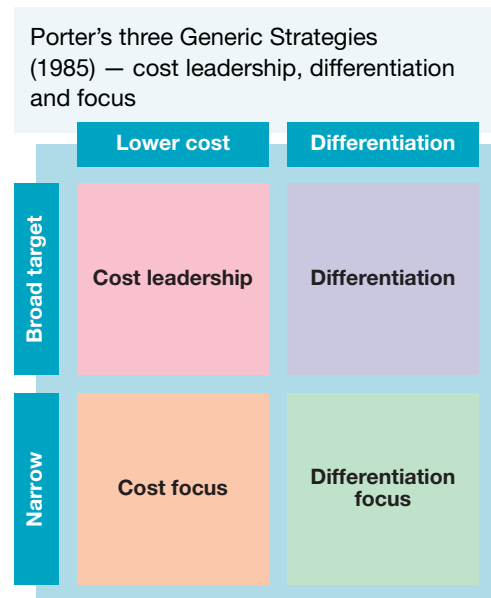
1. **cost advantage.** A competitive advantage is gained through reducing the costs of the business, allowing it to operate with larger profit margins compared to its market rivals.
2. **differentiation advantage.** Businesses gain a competitive advantage through differentiating their good or service from others in the market.

These result from the business's ability to respond to the five forces better than competitors.

In his best-selling book *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 improve business performance'. 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.

4.9.2 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.

The main advantages and disadvantages of lower cost strategies

Advantages of low-cost strategies	Disadvantages of low-cost strategies
• A business may become more profitable, as profit per unit can increase. • A business may be able to prevent competitors from increasing their market share if they can't match costs or prices. • A business may save money on some costs to allow expansion or development of new lines. • Savings can be put towards differentiation at a later date.	• Sales may fall as customers may perceive a product as being of poor quality. • A business may lose its market share if other businesses copy the low-cost approach. • Lowering costs now means there is little room to make changes in the future. • Lowering costs may make it difficult to differentiate in the future if the cost advantage disappears.

Aldi is rapidly gaining market share in Australia due to competitive pricing and quality. 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 or 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).



EXAM TIP

The **Unit 4, Area of Study 1** key skills state that you should be able to 'compare . . . business information, theories and ideas'. This suggests that you should know the similarities and differences between a differentiation strategy and a lower cost strategy.

4.9.3 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.

product differentiation the use of factors such as brand names, delivery methods and advertising to establish differences between substitutable products

Businesses, including Tesla, Google and Uber, are trialling self-driving cars. It could be a lucrative market for the business that can develop a successful model. Driverless vehicles are used in some industries, such as construction, as well as in bomb detonation. However, self-driving cars for everyday use will require vehicles that are capable of operating in unpredictable road networks with many complex variables.

Unilever, a multinational company, produces a range of cleaning products including two well-known brands of laundry detergent, Surf and Omo. Both products have a market share, their own advertising and compete with each other. This allows Unilever to have an overall higher market share and profit because it is marketing two products in the one market. This is an example of multiple branding.

Supermarkets are also 'in' on the differentiation game. Over the past decade, supermarkets such as Coles have introduced and started to benefit significantly from 'phantom' or 'private' brands. Private brands are produced by the supermarket themselves and are hard to distinguish from other brands due to sleek marketing. They also avoid the cheaper 'own label' feel, making consumers more likely to buy them. Examples from Coles include Daley St Coffee, KOi soaps and lotions, and Wild Tides tuna. Coles aims to have up to 40 per cent of its product range made up of its own private brands by the end of 2023.

Private label brands in supermarkets such as Coles now account for over one-third of products on the shelves. This differentiation strategy focuses on multiple branding and perceptions of quality.



The main advantages and disadvantages of differentiation strategies

Advantages of differentiation strategies	Disadvantages of differentiation strategies
- Differentiation is a way to improve the way a business connects with customers, and can develop customer loyalty. - If able to charge a premium price, the business can make revenue gains. - By developing customer loyalty, market share can be increased.	- Rival businesses can copy the differentiated approach, negating any gains. - Differentiation has an initial cost that must not outweigh the benefits. - Differentiation can be a time-consuming process, and, during that time, consumer tastes or preferences may change.

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.

KEY IDEAS

- Michael Porter developed a Generic Strategies approach to strategic management.
- Change can be managed utilising lower cost or differentiation approaches from the two generic strategies:
 - lower cost
 - differentiation.

4.9 Exercises

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4.9 Quick quiz

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4.9 Exercise

4.9 Exam questions

4.9 Exercise

TEST your understanding

- Identify** strategies that a business could use to achieve lower cost.
- Explain** what is meant by product differentiation.
- Distinguish** between a cost strategy and a differentiation strategy.

APPLY your understanding

- Identify** five 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.
- Porter developed two key approaches to strategic management that a business could adopt. **Describe** each approach and propose a suitable approach for a business wishing to enter a highly competitive market.
- 'A business must choose *one* of Porter's Generic Strategies, not both.' **Analyse** this statement.

4.9 Exam questions

Question 1 (4 marks)

Source: VCE 2020, Business Management Exam, Section A, Q.2; © VCAA

Compare the two key approaches to strategic management identified by Porter's Generic Strategies (1985).

Question 2 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5b; © VCAA

Dennis Greeves is the manager of a highly successful, Melbourne-based burger chain. In response to a decline in sales and a change in customer tastes, Dennis has made the decision to implement a policy of using only ethically sourced, high-quality local ingredients. Dennis is aware that a new pricing strategy will be required as a result and that the Executive Chef will require support to implement the changes.

Analyse how Dennis has used Porter's Generic Strategies to respond to the issues of declining sales and changing customer tastes.

Question 3 (5 marks)

Source: Adapted from VCE 2017, Business Management Exam, Section A, Q.5; © VCAA

'... Another objective is to become a truly global brand — to do this, we need to diversify. Our aim is to launch into the snack food market, concentrating on potato chips. These can be produced at our present manufacturing plant and with the use of our existing suppliers. We believe that this could commence by 2020 and we could export to markets in over 20 countries.'

Identify one of the key approaches to strategic management from Porter's Generic Strategies. **Discuss** how this approach could be applied in relation to Shandra's Dairy Ltd.

Question 4 (4 marks)

With reference to a contemporary business case study with which you are familiar, **describe** what is meant by Porter's Generic Strategy of lower cost.

More exam questions are available online.

4.10 APPLY YOUR SKILLS Lower cost and differentiation

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

CONTEMPORARY CASE STUDY

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 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 price of an airline ticket. Jetstar will provide customers with an aircraft seat; however, additional services, such as seat selection, checked baggage and in-flight products, have to be purchased separately. 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.

In the past, Jetstar has been heavily criticised.

Despite being 'low cost', it also comes in low on perceptions of customer service. In a study where more than 11 000 passengers were surveyed globally by groups including Australian consumer watchdog CHOICE, Jetstar came last out of 73 carriers. Furthermore, Jetstar received 40 per cent of all complaints made to CHOICE on its flight delay and cancellations tool.

Overall, the approach taken by Jetstar has resulted in positive financial performance. The airline reported a \$370 million profit in 2019. Despite the global pandemic, Jetstar Australia and Jetstar New Zealand were profitable in 2020 and 2021. However, the pandemic put a huge strain on the business and Jetstar Asia fell into significant losses. To encourage interstate travel post lockdown, Jetstar embarked on a huge sale on travel, with over half a million discounted fares — some as low as \$22 per seat.

Jetstar has achieved a competitive advantage through its low-cost model.



CONTEMPORARY CASE STUDY

Differentiation at Apple

US-based Apple Inc. is the largest information technology company by revenue (totalling \$365.8 billion in 2021). In 2021, it reported a net profit of \$94.68 billion. Apple is well known for its differentiated and unique products, and for the premium price that it charges. In January 2021, Apple was declared the world's most valuable company.

Apple was founded in 1975, and in its early years was known for desktop and educational computers. After losing substantial market share in the 1990s to Microsoft, Apple became profitable once again by launching the iMac and, in 2001, the iPod.

Visit Apple Inc.'s website, or one of its stores, and you will see for yourself the commitment to user experience and innovation. With a long-term strategy to provide the best technology and superior ease of use, Apple's CEO Tim Cook declared 2021 as the year of the 'most powerful products ever'.

This product line-up would include the M1-powered Macs and the iPhone 13. Apple products continually evolve, with the latest iPhone line having tougher screens, the 'most advanced dual camera systems', and processors and chips that make it the most powerful phone you can buy. Apple has a portfolio that includes laptops, tablets, watches, phones, AirPods, Apple TV, HomePods and Home apps. Apple charges a premium price across its product portfolio.

Apple's unique products, including smartphones and tablet devices, are in high demand.



In a statement in Apple's Annual Report, the company strategy remains clearly focused on 'setting new standards for performance' and 'empowering customers to create and connect in new ways'. Apple's pipeline products include Apple Glasses and Apple Car.

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 **Weblinks** Jetstar
Apple

4.10 Exercises

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4.10 Exercise

4.10 Exam questions

4.10 Exercise

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. **Discuss** how well a lower cost approach would work for Apple.
8. **Discuss** how well a differentiation approach would work for Jetstar.

4.10 Exam questions

Question 1 (2 marks)

Define the term 'differentiation'.

Question 2 (5 marks)

Evaluate how adopting a lower cost approach can improve performance in terms of net profit figures.

Question 3 (5 marks)

Evaluate how adopting a differentiation approach can improve performance in terms of percentage of market share.

Question 4 (5 marks)

Identify one of the key approaches to strategic management from Porter's Generic Strategies. **Discuss** how this approach is applied in relation to a contemporary business with which you are familiar.

More exam questions are available online.

4.11 EXTEND YOUR KNOWLEDGE Data-driven change

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- The concept of business change
- 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.

CONTEMPORARY CASE STUDY

Data-driven change

In 2021, Telstra announced T25, a plan for growth and enhanced customer experience. This includes commitment to simplifying product offerings and implementing more 'digital experiences'. With an implementation date in mid-2022, this three-year plan will see Telstra focus on change and improvement in four areas:

- providing exceptional customer feedback
- providing leading network and technology solutions
- sustained growth and value for shareholders
- being the place that employees want to work.

It is likely that the T25 strategy for change has been announced to address the performance indicator data below, and to ensure that the business is well positioned for the future. In the past, and with the roll-out of the National Broadband Network, Telstra has cut up to a third of its workforce. However, Telstra Chief Executive Andy Penn announced that the T25 strategy would not feature job cuts.



Telstra net profit for FY2017–FY2021 (in \$ millions)

FY17	FY18	FY19	FY20	FY21
3874	3557	2149	1839	1902

Number of customer complaints

2015–16	2016–17	2017–18	2018–19	2020–21
53 425	76 650	82 528	66 402	74 135 (+11%)

According to the Telecommunications Industry Ombudsman annual report, while the overall trend in the Australian telecommunications industry is falling complaints, Telstra's number of complaints has risen by 11.3 per cent to 74 135 for 2020–21. This number makes up 62 per cent of all complaints across ten telecommunications service providers. In 2018–19 Telstra received 66 402 Ombudsman complaints, over 50 per cent of all complaints across all providers.

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4.11 Exercise

4.11 Exercise

TEST your understanding

- 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 in the case study 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.

4.11 Exam questions

▶ Question 1 (2 marks)

Define the term 'net profit'.

▶ Question 2 (3 marks)

Define the term 'number of customer complaints', providing an example from the case study.

▶ Question 3 (5 marks)

Telstra has announced that the T25 strategy will not include redundancies. **Analyse** how employees may react to the introduction of the new strategy, indicating if they would be a driving or restraining force.

▶ Question 4 (4 marks)

Discuss how time may be an important factor for Telstra when considering change.

▶ Question 5 (4 marks)

Analyse how Telstra uses Porter's Generic Strategies approach to management.

More exam questions are available online.

4.12 Review

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4.12.1 Summary

The concept of business change and approaches to change

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

Key performance indicators — analysis of business performance

- All businesses measure their performance.
- Businesses seek to improve their efficiency and effectiveness.
- Key performance indicators (KPIs) 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 KPIs 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 website hits
 - number of customer complaints
 - number of workplace accidents.

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:
 - owners and 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.
- Change can be managed utilising lower cost or differentiation approaches from the two generic strategies: lower cost and differentiation.

4.12.2 Key terms

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 a change

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

efficiency how well a business uses resources to achieve objectives

Force Field Analysis outlines the process of determining which forces drive and which forces 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/or effectiveness of a 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 measurement of a company's profit once operating costs, taxes, interest and depreciation have all been subtracted from its total revenues

niche market a narrowly selected market segment within a larger market

number of customer complaints the number of customers expressing their dissatisfaction with the business, in either spoken or 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 initiating change rather than simply reacting 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 do not turn up for work when they are scheduled to do so

reactive waiting for a change to occur and then responding to it

restraining forces those forces that work against a 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 documents**
- Key terms glossary (doc-37936)
 - Missing word glossary quiz (doc-29453)
 - Crossword (doc-29454)

4.12.3 Practice school-assessed coursework

OUTCOME 1

Explain the way business change may come about, analyse why managers may take a proactive or reactive approach to change, use key performance indicators to analyse the performance of a business, explain the driving and restraining forces for change, and evaluate management strategies to position a business for the future.

ASSESSMENT task — structured questions

Time allowed: 60 minutes
Marks allocated: 43 marks (The marks for each question are indicated at the end of the question.)
Conditions: Closed book (No notes or textbooks may be used when completing this task.)

Section A (18 marks)

Question 1 (2 marks)

Define the term 'key performance indicator'.

Question 2 (3 marks)

Distinguish between a proactive and a reactive approach to change.

Question 3 (4 marks)

With reference to a contemporary business case study, **explain** the importance of key performance indicators in achieving business objectives.

Question 4 (5 marks)

With reference to a contemporary business case study, **describe** two driving forces, other than employees, that will have an impact on this business.

Question 5 (4 marks)

Describe how a business may use Lewin's Force Field Analysis when considering updating their technology.

Section B (25 marks)

Diversity in pharmaceuticals

CSL is a world leader in developing and delivering medicines that treat people with rare and serious diseases.

The CSL group reports its net profit in US dollars. Over a five-year period, it reported a net profit of \$1337 million in 2016–17, \$1729 million in 2017–18, \$1919 million in 2018–19, \$2103 million in 2019–20 and \$2375 million in 2020–21.

The business has huge research and development costs. As a manufacturer and innovator of life-saving medicines, treatments and vaccines, it is crucial for CSL to undertake research and development to stay ahead of its competitors. CSL focuses its business in three distinct areas — rare and serious diseases, influenza vaccines and iron deficiency. CSL operates in 35 countries. In 2020–21, the CSL group spent US \$1001 million on research and development. This was up from \$922 million in 2019–20.

One of CSL's competitors is GlaxoSmithKline (GSK), a British multinational pharmaceutical and biotechnology company. In 2021, GSK spent over US\$6435 million on research and development. GSK has a far larger share of the pharmaceutical market and made over US\$7529 million in profit in 2021. GSK operates in over 100 markets around the world. It develops an extremely diverse range of products for most major diseases such as asthma, cancer, diabetes and HIV, alongside vaccines, antibiotics and treatments for depression.

Question 1 (4 marks)

Select two key performance indicators mentioned in the 'Diversity in pharmaceuticals' case study and **describe** the trend in each indicator.

Question 2 (4 marks)

Describe two benefits to a business such as CSL in completing a Force Field Analysis.

Question 3 (4 marks)

GSK is a competitor to CSL. **Explain** how GSK have applied one of Porter's Generic Strategies.

Question 4 (3 marks)

Describe how CSL might adopt the alternative Generic Strategy of Porter.

Question 5 (4 marks)

Describe two driving forces that might benefit both businesses.

Question 6 (6 marks)

Large organisations use key performance indicators to measure efficiency and effectiveness. **Discuss** which two key performance indicators might be most useful for the businesses in this case study.

on Resources

 **Digital document** School-assessed coursework (doc-37971)

4.12 Exercises

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4.12 Multiple choice quiz **on**

4.12 Exercise

4.12 Exam questions

4.12 Exercise

TEST your understanding

1. **Distinguish** between a proactive and a reactive manager when dealing with change.
2. **Define** the term 'key performance indicators'.
3. **Distinguish**, using an example, the difference between driving and restraining forces.
4. **Outline** why resistance to change in management and employees is common.
5. **Explain** why setting achievable goals can help managers implement change more successfully.
6. **Describe** what is meant by a Force Field Analysis.
7. **Outline** the benefits of preparing an action plan as part of a Force Field Analysis.
8. **Identify** the five steps in a Force Field Analysis.
9. Using examples, **explain** the difference between low-cost strategies and differentiation strategies.

APPLY your understanding

10. '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. **Analyse** why it is important for managers to communicate effectively when introducing changes in the workplace.
- 11 'In response to data collected through key performance indicators, businesses are constantly changing.'
- a. **Compare** two sources of data that can be used to analyse the performance of businesses.
 - b. With reference to a contemporary business case study, describe the response of the business to one key performance indicator.

4.12 Exam questions

▶ Question 1 (4 marks)

Describe the two key approaches (lower cost and differentiation) to strategic management according to Porter's Generic Strategies.

▶ Question 2 (6 marks)

Evaluate Lewin's Force Field Analysis theory.

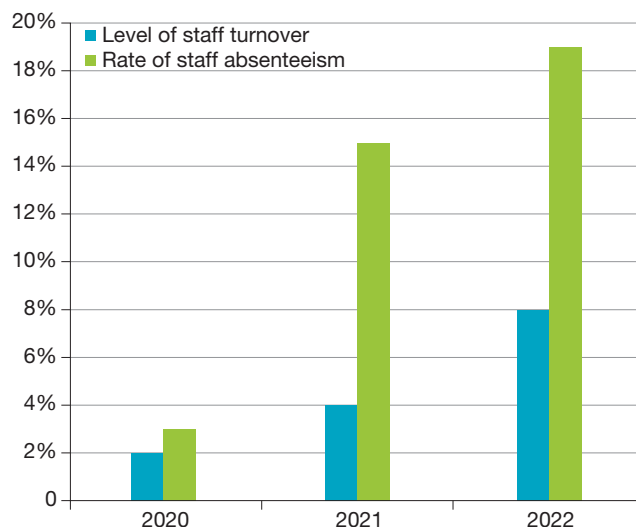
▶ Question 3 (6 marks)

With reference to a contemporary business case study, **identify** and **explain** two restraining forces for change.

▶ Question 4 (6 marks)

The information in the graph was provided for a business in the healthcare industry.

- a. **Define** 'level of staff turnover'. **2 marks**
- b. Using the key performance indicators provided, **evaluate** the ability of the business to meet shareholder expectations. **4 marks**



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5 Implementing change

UNIT 4 AREA OF STUDY 2

OUTCOME 2

On completion of this topic you should be able to discuss the importance of effective management strategies and leadership in relation to 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 a business.

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5.1 Overview

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5.1.1 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. Business change is visible all around us. More than ever, companies are offering more customer-focused operations such as click and collect, 24-hour deliveries and drone delivery to get products to people in the most convenient way. The change does not come solely from new innovators; existing businesses are changing the way they do things at the same rate. The Westpac Little Ripper performed the world’s first drone surf rescue in 2018. In 2020, the drone was flying over Port Macquarie-Hastings, alerting beachgoers of nearby sharks. The drone has an accuracy rate of 90 per cent, while staffed aircraft have accuracy rates of approximately 20 per cent. 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.

The red and yellow Westpac Little Ripper surf lifesaving drone is tailored for search, rescue and lifesaving operations.



CONTEMPORARY CASE STUDY

Manufacturing Business: Commonwealth Serum Laboratories (CSL)

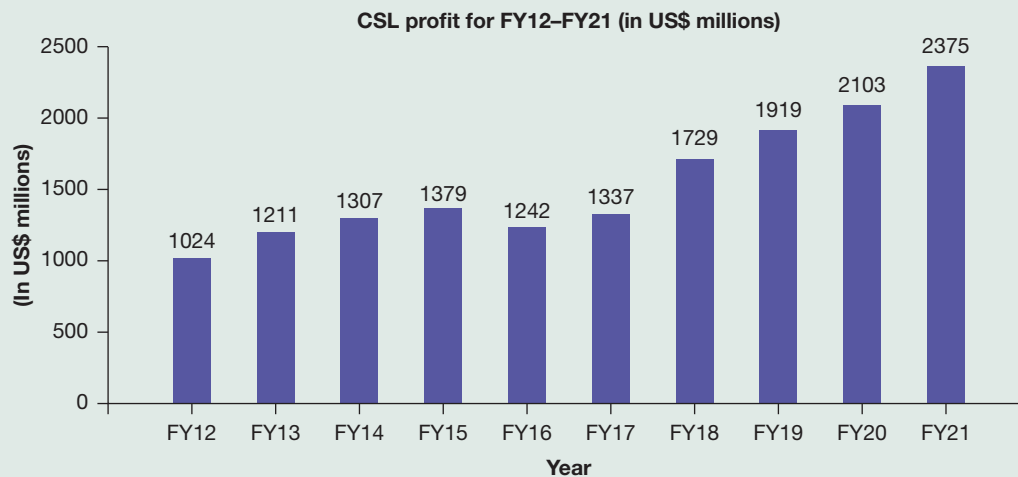
Number of employees	25 000 globally
Net profit	US\$2.37 billion
Revenue	US\$10.31 billion
CEO	Paul Perreault
Flagship products	Antivenom, therapeutics from human plasma, development and production of a wide range of vaccines including collaboration on development of the world’s first human papillomavirus vaccine and licence to manufacture AZD1222 in response to COVID-19
Founded	1916

CSL implements change

With a history spanning 106 years, CSL is a good example of an Australian business that has had to constantly implement change. In 1916, the Commonwealth Serum Laboratories was established as a government body to protect the health of the nation. It was listed as CSL Ltd on the Australian Securities Exchange in 1994. The company expanded globally, buying an affiliate of the Swiss Red Cross and a global plasma company. Today, CSL is considered to be the world’s second-biggest maker of ‘blood products’, and is one of Australia’s top 10

companies. It operates in more than 35 countries, with its headquarters in Melbourne, and employs a workforce of more than 25 000 people.

CSL's key performance indicators, including its net profit figures, suggest that the business has been very successful over the last ten years. However, this does not prevent the company from seeking new business opportunities. In 2021, CSL announced that it had secured funding to join forces with the Walter and Eliza Hall Institute (WEHI) and The University of Melbourne to create an incubator and commercial wet lab space for biotech start-up companies. It would be Australia's first and only incubator that is co-located with a leading biopharmaceutical company. The incubator would support start-up companies to translate promising medical research into commercial outcomes. This project is an example of innovation. Dr Andrew Nash, CSL's Chief Scientific Officer, said, 'We hope to see significant long-term health, social and R&D benefits from this initiative.' The incubator is scheduled to open to start-ups in 2023.



CONTEMPORARY CASE STUDY

SERVICE BUSINESS: Telstra

Number of employees	26 000
Net profit	\$1.9 billion
Revenue	In excess of \$26 billion
CEO	Vicki Brady
Flagship products	Fixed line, mobile phone, internet, data and network services, and pay TV
Founded	Australia's telecommunications were established in 1901 by the federal government. After much reorganisation over time, the Telstra name was introduced in 1995. Telstra was privatised between 1997 and 2011.
Head office	Melbourne, Victoria

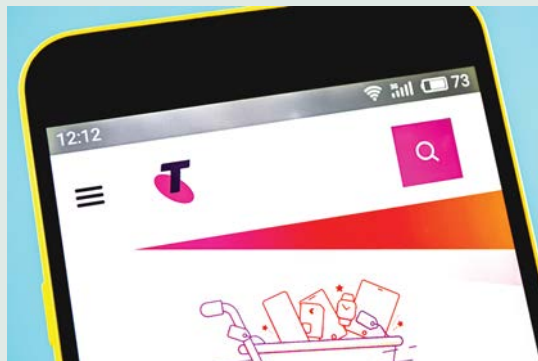
Telstra implements change

In 2018, former-CEO of Telstra Andy Penn said, 'We are creating a new Telstra that is able to continue to lead the market.' At the time, he was announcing a transformation plan named Telstra2022. The new strategy was implemented after the telecommunications company reviewed its performance — in the years preceding 2018, Telstra's profit had steadily fallen from a high of \$4.55 billion in 2014. Telstra2022 involved the simplification of its operations and product offerings, an improvement in customer service and reduction in costs. However, since then, despite some successes, Telstra's profit continued to fall. The company again reviewed its key performance indicators and unveiled a new strategy in 2021, named T25. Mr Penn explained that Telstra would be using the same disciplines and governance that the business used for Telstra2022.

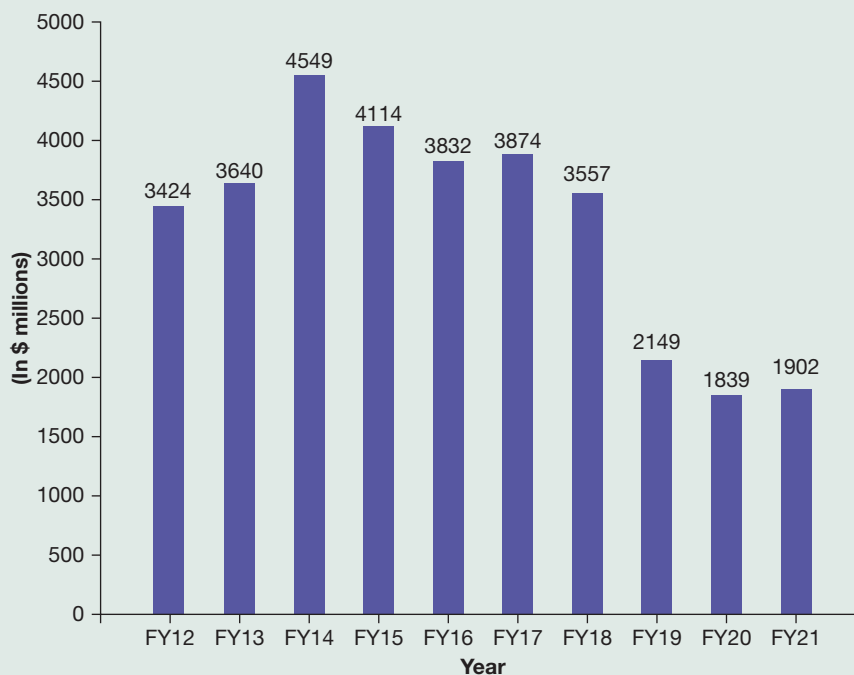
T25 has four key pillars:

- providing exceptional customer experiences
- providing leading network and technology solutions
- creating sustained growth and value for shareholders
- being a place where employees want to work.

Under T25, Telstra will continue to invest in technology (investing in 5G, and planning for 6G). The new strategy also aims to deliver \$500 million of net cost reductions and will offer greater flexibility to employees.



Telstra profit for FY12–FY21 (in A\$ millions)



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	Subtopic
☐ The importance of leadership in change management	5.2
☐ Management strategies to respond to key performance indicators and/or seek new business opportunities, including staff training, staff motivation, change in management styles or management skills, increased investment in technology, improving quality in production, cost cutting, initiating lean production techniques, redeployment of resources (natural, labour and capital), innovation, global sourcing of inputs, overseas manufacture and global outsourcing	5.3
☐ Corporate culture and strategies for its development	5.5
☐ An overview of the principles of the Learning Organisation (Senge) and the need to create a positive culture for change	5.6
☐ Low-risk strategies to overcome employee resistance including communication, empowerment, support and incentives	5.7
☐ High-risk strategies to overcome employee resistance including manipulation and threat	5.8
☐ Key principles of the Three-step Change Model (Lewin)	5.9
☐ The effect of change on stakeholder groups including owners, managers, employees, customers, suppliers and the general community	5.10
☐ Corporate social responsibility considerations when implementing change	5.11
☐ The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation	5.13

Key skills

These are the skills you need to demonstrate.

Key skills
☐ Identify, define, describe and apply business management concepts and terms
☐ Interpret, discuss, compare and evaluate business information, theories and ideas
☐ Analyse case studies and contemporary examples of business management
☐ Apply business management knowledge to practical and/or simulated business situations
☐ Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.



Resources



Digital document Key terms glossary (doc-37937)



Weblinks CSL Limited
Telstra

5.2 The importance of leadership in change management

KEY KNOWLEDGE

- The importance of leadership in change management

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.2.1 Leadership in change management

To successfully implement a change process a manager needs to exercise leading; that is, to show **leadership**. In the context of change management, leadership refers to the action of positively influencing and motivating individuals to set and achieve objectives during the transformation of the business. An effective leader will reduce resistance to change by acting as the bridge while stakeholders, including employees, cross from the current familiar state to the new desired position.

The implementation of successful change can be a challenging task, and being an effective leader is certainly not easy. There may be temporary setbacks and conflict. However, there are a number of things that a successful leader is likely to do during a period of transformation, including:

- **Preparation and planning.** An effective leader will prepare themselves, and the business, for change. Developing a ‘plan of action’ or a ‘business case’ describing the change, and the strategies that will be implemented to deal with it, will allow the leader to more easily explain the need for change to stakeholders. This plan should outline what the change is, as well as timelines for implementing the strategies, helping to keep the change process on track. The leader will need to be clear on what the vision for change looks like. Preparing for change and carrying out planning will involve decision-making — selecting the best course of action from a range of options. Some of these decisions will be difficult as change can often have negative consequences, such as job losses. Inadequate preparation is a common reason for a change not succeeding.
- **Communication.** Effective leaders understand the importance of communication. The vision for change will need to be clearly communicated to the business. All stakeholders will need to be informed about the various challenges or problems facing the business that are acting as forces of change, as well as the progress of the change. Gaining initial buy-in from stakeholders, including employees, can result in less resistance later on. A successful leader will make use of two-way communication, actively welcoming opinions from stakeholders. Empathy and good listening skills will assist a leader in discovering and appreciating any points of resistance to change. Without clear communication regarding the change there may be opposition or hesitancy, delaying the change and causing problems for management and other stakeholders.
- **Support.** An effective leader will ensure that employees are provided with assistance or services (such as counselling, training or mentoring) to help them cope with the change. Undoubtedly there will be stakeholders who find the

A leader can bridge the gap between the situation now and the future position by listening, showing empathy, setting high expectations, showing support and developing trust.



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

change process difficult. Employees who feel supported and believe that their manager is concerned about their welfare are generally more prepared to accept the risks involved with change.

- **Collaboration.** Ensuring that all stakeholders are on board with the change is critical. An effective leader will ensure that a team of people is formed to act as facilitators of change. Tasks should be delegated so that responsibility for the change is shared with employees who have the capacity to handle the tasks. Opportunities for other employees should be created to make sure they can also be involved in the change. People are more likely to accept change when they feel a sense of ownership.
- **Accountability.** During change, a leader will need to be held responsible for when the change is working and when it is not. Accountability reflects a level of integrity, which should lead to employees trusting management, and vice versa. On the other hand, a lack of accountability can lead to mistrust and confusion, as stakeholders struggle to understand what the truth is. Accountability can also drive a commitment and a desire to solve problems so that the business will achieve the best results.

Ultimately, during a time of change, an effective leader should establish high expectations of employees and their abilities to initiate and implement a change process. A successful leader will promote the change in a manner that achieves cooperation and acceptance from all stakeholders, resolve conflict where necessary, keep an open mind, and cultivate a sense of stability, while driving the business forward. There may possibly still be some points of resistance, but any resistance can be productively dealt with, because the business's stakeholders, including employees, believe they have the support and trust of the leader.

A leader who can 'sell' the need for change overcomes one main resistance point — that of 'why do we need to change?'



CONTEMPORARY CASE STUDY

Leadership in change management at Telstra

Andy Penn took over as CEO at Telstra in 2015, after joining the company in 2012 as chief financial officer. Following poor financial performance, in 2018 Mr Penn announced the Telstra2022 strategy designed to transform Telstra to be positioned for the future. This was a difficult strategy to execute as it involved making employees redundant, cutting costs and simplifying the business. Telstra chairman John Mullen told shareholders at the company's 2021 annual general meeting that the board appreciated the way he had led the company across the six years from 2015. 'I would say that he continues to do a fantastic job and enjoys not just the 100 per cent support of the Board, but also the Board's appreciation and thanks for the way that he has managed Telstra through some of the most difficult times of its existence,' Mr Mullen said.

Andy Penn — former CEO of Telstra



Mr Penn announced a new strategy for Telstra in 2021 named T25. As a leader, Mr Penn clearly communicated the necessity for change at the company. He spoke to investors and to the media, explaining that tough choices had been made throughout T22, but now was a time for implementing a strategy for growth. He emphasised

the need to be disciplined in the execution of the strategy and the importance of holding the performance of the business and employees to account. Mr Penn clearly communicated his vision for Telstra. He told Sky News Australia that, 'We had to transform Telstra, and it wasn't just about getting the cost down, it was also about radically simplifying the company, re-digitising all of our technology, establishing our leadership position in 5G, and of course setting up our infrastructure business as a standalone business unit. And now we're 95 per cent of the way through all of that, so we're in a great position to leverage those capabilities for growth in the future.' Mr Penn was very confident in his abilities to make Telstra a different company.

When, in March 2022, Telstra announced that Mr Penn was retiring, and that chief financial officer Vicki Brady would become the new CEO of the company, chairman John Mullen noted that Mr Penn had developed a strong team to ensure successful ongoing leadership at the company. He said, 'In recent years, not only has Andy ensured the successful delivery of our T22 commitments, he has provided leadership at what has truly been an extraordinary time as we have navigated both as a company and a nation through the challenges of the pandemic.'

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.

KEY IDEAS

- 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.

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5.2 Quick quiz

on

5.2 Exercise

5.2 Exam questions

5.2 Exercise

TEST your understanding

1. **Define** the term 'leadership'.
2. **Identify** three things that a successful leader should do during a period of change.
3. **Outline** what could happen in a business if there was no leadership during a change.

APPLY your understanding

4. Read the 'Leadership in change management at Telstra' case study and **explain** how Andy Penn demonstrated leadership during the transformation at Telstra.
5. Read the 'Mind of a manager, soul of a leader' case study and answer the following questions.
 - a. **Identify** the main features of:
 - i. a manager
 - ii. a leader.
 - b. Do you agree or disagree with Craig Hickman's belief that businesses need both managers and leaders? **Justify** your answer.
6. Think of someone you regard as a leader. **Outline** the characteristics that they demonstrate to give them this leader status.
7. 'Motivating, inspiring and empowering employees to embrace change is the mark of a good leader.' Do you agree with this statement? **Explain** the reasons for your response.

5.2 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.2a; © VCAA

Explain the importance of leadership in successful business change management.

▶ Question 2 (3 marks)

Describe one management skill an effective leader should utilise during a period of change.

▶ Question 3 (3 marks)

Propose and **justify** an appropriate management style an effective leader should adopt during a period of change.

▶ Question 4 (3 marks)

During the implementation of any change strategies, it would be important for management to demonstrate leadership. **Explain** why this is important.

▶ Question 5 (5 marks)

'Ineffective leadership leads to ineffective change.' **Analyse** this statement.

More exam questions are available online.

5.3 Management strategies to respond to key performance indicators and seek new business opportunities

KEY KNOWLEDGE

- Management strategies to respond to key performance indicators and/or seek new business opportunities, including staff training, staff motivation, change in management styles or management skills, increased investment in technology, improving quality in production, cost cutting, initiating lean production techniques, redeployment of resources (natural, labour and capital), innovation, global sourcing of inputs, overseas manufacture and global outsourcing

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.3.1 Key performance indicators

In topic 4 we identified ten key performance indicators (KPIs) 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 and position the business for the future. The VCE Business Management Study Design suggests a range of strategies that you must know that can be used to respond to evaluation data. Many of these strategies can also be used to seek new business opportunities domestically and/or globally. The term ‘new business opportunities’ refers to the new activities that a business could become involved in as a means of responding to the data from key performance indicators. A business may implement any one or more of these strategies to achieve continued growth by finding new markets within this country or overseas. The strategies implemented can be measured in terms of their successful application by reviewing the key performance indicators.

5.3.2 Management strategies

These are the strategies that management can use to take action in response to the data sourced from key performance indicators, and/or seek new business opportunities.

on Resources

 **Video eLesson** Strategies to respond to KPIs (eles-4294)

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

Staff training can be used to improve customer service, thereby affecting customer satisfaction and sales.



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 the number of sales. By strengthening the skills of employees, training can be used to seek opportunities by fostering acceptance of innovation and risk. The reputation of the business may also improve as employee skills are developed, resulting in more talented or experienced workers wanting to join the business. They will want to be employed by a business that supports them in learning, as well as utilising their abilities to maximise the success of the business.

Staff motivation

Motivation is what drives employees to apply effort over a sustained period of time. In topic 2 we explored motivation strategies such as performance-related pay, career advancement, investment in training, support, teamwork and goal setting. 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, number of customer complaints, rates of staff absenteeism and level of staff turnover. These are indicators that are typically used to measure the motivation of employees.

To respond to data that suggests that staff commitment is falling or morale is low, a business could, for example, offer employees job security, recognition or opportunities for advancement. Jobs could be redesigned to make work more interesting, or policies could be introduced to support employee motivation. Improving motivation could increase productivity as employees become more efficient, reduce the number of customer complaints as quality improves, improve rates of staff absenteeism as staff are more willing to attend work, and reduce staff turnover as employees want to remain at the business. In this way, staff motivation might be considered to provide opportunities for a business. Committed staff who are enthusiastic and hard-working may support a business in moving into new markets and growing market share.

Low staff motivation can negatively affect a business.



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 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 skills.

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.

A change to a management style or management skill that involves greater employee participation might provide opportunities for a business through improved staff engagement and employee morale. Employees who feel valued and confident in their abilities may support a business in moving into new markets and growing market share.

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 a business can use strategies such as, for example, 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.

Technology can be used to create opportunities for a business. For example, a business might expand globally through the creation of an online shop and platform. This offers 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. As a result, the whole world can be a potential market for the business, encouraging the expansion of the customer base, sales and potentially increasing their market share. Many other technologies, such as social media, manufacturing technology, customer databases and research technology, can be used to seek opportunities.

Businesses such as Telstra are at the forefront of digital technology. Telstra's digital products are promoted to specifically improve business productivity, wherever you are working. Their Smarter Business web platform has many examples of how businesses can improve their productivity with technology.



DID YOU KNOW?

According to KPMG's Australian Retail Outlook 2022 survey, 68.15 per cent of businesses invested more in their digital business due to the pandemic.

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. Because the quality of its good or service is vital to the success and viability of a business, if evaluation data suggests that quality has fallen, a business might implement quality control, quality assurance or Total Quality Management to improve it. 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 are related to poor quality, then improving the standard of the product should alleviate these complaints.

CONTEMPORARY CASE STUDY

Quality at CSL

CSL is committed to the development, manufacture and supply of high-quality and safe products. CSL places its employees at the core of the company's quality system and quality culture, and it takes a product life cycle approach to the establishment of its quality systems. This means that quality considerations never stop. For a business that operates in the health industry, this is crucial.

CSL employs a 'quality function that strives to maintain the highest standards through the use of global policies, local procedures and global electronic systems to support management of quality processes'. The company's facilities are frequently audited by regulatory agencies, and CSL also routinely carries out self-inspection audits to identify, measure, control and react to potential quality issues.

Improving quality in production may be used to create opportunities for a business by helping to differentiate a business from its competitors. 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. High quality can allow a product to stand out, appearing to be different from existing products on the market. This may help a business increase sales and market share.

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 on to 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. Our contemporary case study company Telstra aims to cut costs by \$500 million by 2025.

Businesses can take advantage of using sustainable energy resources to reduce costs and improve net profit.



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.

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 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.** These are the resources occurring in nature, including land, water, minerals, forests, fruit and vegetables.
- **Labour.** These are 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.** These are 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 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.

Innovation

Innovation is a way that a business can seek new opportunities. It involves the business either creating a new good, service or process, or significantly improving an existing one. It is worth noting that innovation is not always about new products. It can also be about new systems or methods, or modifications to these. For example, a new production technique may be used that allows a business to produce its good or service at lower cost. Alternatively, a new marketing technique could allow a business to promote its good or service in a different way that reaches a wider customer base. Ultimately, innovation will allow a business to adapt to the way the market is changing, find new opportunities for growing revenue, and boost productivity and growth, giving the business an advantage over competitors. Accordingly, innovation can also be a management strategy to respond to key performance indicators, including percentage of market share, net profit figures, rate of productivity growth, number of sales, level of wastage, number of customer complaints and number of workplace accidents.

There are many ways in which innovation could be used to respond to evaluation data. For example, developing new products or improving a business's products is likely to result in customers noticing that the business is investing in innovation and appreciating the extra value, resulting in fewer complaints and an increase in sales. Besides creating new products or improving products, there are many ways in which businesses can implement innovation, including:

- eliminating waste by streamlining order processing, eliminating bottlenecks in production and reducing machinery and employee idle time
- developing an innovative workplace by creating a culture where employees initiate new ideas
- analysing market trends, listening to customers and suppliers, and studying what competitors are doing so that the business can quickly seize opportunities
- developing more sophisticated information technology systems to improve forecasting, inventory control and rostering
- creating an online platform that allows customers to purchase products via the internet.

redeployment the assignment of resources, including natural, labour and capital resources, to another area of the business

CONTEMPORARY CASE STUDY

CSL makes use of innovation

Biotechnology company CSL announced in 2021 that it was launching an incubator program designed to commercialise promising Australian medical research. Business incubators are specially designed programs to help young business start-ups innovate and grow. The \$95 million incubator and lab space for biotech start-up companies was funded together with University of Melbourne and Walter and Eliza Hall Institute. In a statement, CSL said that it would be Australia's first and only incubator that is co-located with a leading biopharmaceutical company.

The project is an example of a business seeking new opportunities through innovation. Scheduled to open in 2023, the incubator will occupy two floors of CSL's new headquarters at Parkville, which is currently under construction. One of the floors will be for purpose-built wet lab space and the other for office space. The incubator will be able to accommodate up to 40 early-stage companies. Seven other floors will house laboratory and clinical manufacturing space supporting CSL's own R&D program, which invested over US\$1 billion last year.

CSL CEO, Paul Perreault, said the project would help researchers learn how to bring new products to market. 'We are well positioned to support incubator residents, whose experience often lies purely within the lab, better understand commercial aspects of medicines development that may be foreign or new to them,' he said.

CSL is investing in innovation by participating in the launch of an incubator program designed to help local start-up businesses turn their ideas into commercial outcomes.



Global sourcing of inputs

Global sourcing refers to the practice of seeking the most cost-efficient materials and other inputs, including from countries overseas. This strategy can present businesses with a number of opportunities. Many businesses today source inputs from other countries to access resources that are not available domestically. Global sourcing may allow the business to learn how to do business in a potentially new market.

Ultimately though, global sourcing of inputs can reduce the costs of raw materials and skilled labour for a business. Other financial benefits include lower taxes and low trade tariffs due to free trade agreements. Therefore, global sourcing of inputs could also be seen as a management strategy for responding to net profit figures. If a business is able to locate higher quality components or raw materials from other countries, then global sourcing could be a strategy that is used to respond to other key performance indicators such as percentage of market share, number of sales and number of customer complaints.

While some businesses may choose to continue sourcing domestically, to avoid problems such as distance, less control, language barriers, currency exchange and fluctuations, political risk and financial risks, many businesses will see the cost advantages of sourcing from other countries as outweighing these limitations.

Overseas manufacture

Overseas manufacture is a strategy that only manufacturing businesses will employ to seek new opportunities. It refers to a good being produced in a country that is different to the location of the business's headquarters. Manufacturing in an overseas country should enable a business to get its product to overseas markets more quickly, reduce the cost of production and reduce delivery costs.

While there are risks to manufacturing overseas, many businesses will choose to use this strategy to reduce the costs of labour, overheads and components, while keeping research and development, design and short-run manufacturing in their countries of origin. In this way the business can maintain control over its operations to ensure quality is maintained. Opening a manufacturing facility overseas may help a business to reach new markets where demand for its products is growing and competition is at a minimum. The strategy may also help a business increase its brand recognition.

As well as presenting a business with opportunities, overseas manufacture could also be seen as a management strategy for responding to a number of key performance indicators. For example, by reducing costs the strategy can be used to respond to net profit figures. If a business is able to use the strategy to manufacture higher quality products in higher quantities, then overseas manufacture could be a strategy that is used to respond to percentage of market share, number of sales and number of customer complaints.



CONTEMPORARY CASE STUDY

CSL makes use of overseas manufacture

As well as its manufacturing facilities in Australia, CSL has manufacturing plants in the United States, Germany, Switzerland and China. Despite the country having high labour costs and a strong currency, CSL built a plant in Switzerland a few years ago because it believed that the country's workers were more productive, tax rates lower and governments more supportive than in Australia. Before deciding the new plant's location, CSL spent 18 months considering factors including tax, labour and sovereign risk for 23 countries.

Global outsourcing

Global outsourcing means that some part of a business's operations is transferred to an external person or business in another country. For example, tasks that are not part of a business's core activities, such as accounting or customer service, may be contracted to another business, in another country. Alternatively, a business might outsource the production of its goods to an external manufacturing business or the production of its services to another business. The notion underlying outsourcing is that when an activity is performed by the external provider specialising in a particular business task, it will be completed at a lower cost and with a greater effectiveness than if the same task was carried out within the business.

Consequently, global outsourcing creates opportunities for the business such as cost savings, improvements to quality and access to operational expertise (an external person or business may have expertise in managing a task or activity that the business does not have). In reducing costs, this strategy can also be used to respond to net profit figures. If a business is able to use the strategy to improve productivity and quality, then global

outsourcing could be a strategy that is used to respond to rate of productivity growth, as well as percentage of market share, number of sales and number of customer complaints.

There is a wide range of business processes that can be outsourced globally including:

- operations such as manufacturing, design, sourcing, distribution and logistics
- human resources including employee remuneration, counselling, training and development
- administrative work and information technology (IT) including data entry and 'back office' work
- finance and accounting including preparation of financial accounts and reports, analytics and taxation compliance
- sales and marketing such as marketing strategy and public relations
- legal processes including legal support (such as drafting, research and counsel) and other legal services (such as patents and trademarks).

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 the advantages/strengths and disadvantages/limitations of each management strategy to respond to key performance indicators.

5.3.3 Key performance indicators and 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. For example, global sourcing of inputs, overseas manufacture and global outsourcing can all result in an improvement in quality, which should have a positive effect on percentage of market share.
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. A decline in net profit may require urgent action, with a manager making use of an autocratic or persuasive management style in an attempt to quickly rectify the situation, as well as using clear communication and decision-making. 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 (such as cutting electricity, phone and gas expenses). Investment in technology can be used to reduce costs, increase revenue, and thereby improve profit. Global sourcing of inputs, overseas manufacture and global outsourcing can all be used to reduce costs, so should have a positive effect on net profit. Additionally, lean production techniques can be used to increase efficiency and reduce other costs, improving profit. Innovation is a strategy that may also be used to increase net profit.

(continued)

(continued)

Key performance indicator	Relevant management strategies
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. Many of the strategies that a business may introduce to improve productivity may also involve the use of innovation. A business may improve its productivity by: • <i>improving production methods</i>. 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. • <i>minimising wastage</i>. Improving the quality of inputs so less waste occurs during production reduces costs, as well as increasing the output of a business. • <i>staff training</i>. 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. • <i>improving staff motivation</i>. Employees are more likely to work harder when motivated. • <i>redeploying resources</i>. This can allow for improved 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: • <i>price</i>. 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. • <i>quality</i>. This 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. Quality can be achieved through the introduction of a quality management system; for example, quality control, quality assurance or Total Quality Management. Global sourcing of inputs, overseas manufacture and global outsourcing can also result in improvements in quality. • <i>customer service</i>. This can often be improved through staff training. Better product knowledge, better customer service and improved warranties and guarantees can increase sales.
Level of wastage	Many of the strategies that a business can introduce to reduce wastage may also involve some degree of innovation. To respond to this key performance indicator, a business could: • <i>introduce a quality management system such as quality control</i>. 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. • <i>implement lean production</i>. This is a business-wide integrated series of systems that is designed to eliminate waste and inefficiencies in all aspects of production. • <i>increase investment in technology</i>. New technology can improve efficiencies and reduce waste. • <i>redeploy resources</i>. This can allow for improved efficiency.

Key performance indicator	Relevant management strategies
Rates of staff absenteeism	Determining why staff take days off can help managers 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 used could lead to staff becoming more creative or responsible, so that employees become less disillusioned with the workplace. In such situations, management skills such as open communication, delegation and interpersonal skills may be used to improve morale and motivation. Management could also 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.
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: • <i>enrol staff in training programs.</i> These programs can better equip them for their role and/or improve their skills in dealing with customers. • <i>improve the quality of the products produced or provided.</i> 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. Global sourcing of inputs, overseas manufacture and global outsourcing can also result in an improvement in quality. • <i>reduce the price of the product.</i> This can be done by reducing costs in the production of a good or service provision and passing these savings on to 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.
Number of website hits	A business could increase traffic to its website through increased investment in technology; e.g. a social media campaign could raise awareness of the business's products. Improving quality in production could also raise interest in the business's products, prompting consumers to seek out the business's website.

KEY IDEAS

- 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, redeployment of resources (natural, labour and capital), innovation, global sourcing of inputs, overseas manufacture and global outsourcing can all be used to respond to key performance indicators. Many of these strategies can also be used by a business to seek opportunities.
- Investment in new technology, improving quality in production, cost cutting and lean production can all be used to increase market share, sales and profit. Global sourcing of inputs, overseas manufacture and global outsourcing can also be used to reduce costs and improve quality, which should have a positive effect on market share, sales and profit.
- Introducing training programs can improve productivity and staff satisfaction, and reduce staff turnover and the number of workplace accidents.
- 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.
- Lean production and redeployment of resources can reduce waste and improve productivity.
- Innovation can be used to respond to key performance indicators, including percentage of market share, net profit figures, rate of productivity growth, number of sales, level of wastage, number of customer complaints and number of workplace accidents.

5.3 Exercises

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5.3 Quick quiz

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5.3 Exercise

5.3 Exam questions

5.3 Exercise

TEST your understanding

1. **Identify** three strategies for responding to falling net profit figures.
2. **Outline** two strategies for responding to an increasing number of customer complaints.
3. **Define** the term 'redeployment'.
4. **Explain** how introducing a quality management system is a strategy that can address a range of key performance indicators.
5. **Identify** a strategy for responding to percentage of market share and a strategy for responding to the level of waste.

APPLY your understanding

6. 'Training is a key strategy in improving key performance indicators relating to staff morale.' **Analyse** this statement, stating whether you agree or disagree.
7. **Explain** what is meant by a 'strategy' and, working in pairs, **outline** two strategies a manager could implement to reduce the levels of waste created by a business and two strategies to respond to increasing rates of staff absenteeism.

5.3 Exam questions

▶ Question 1 (14 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.3 b & c; © VCAA

The manager of Wilkinson's Window Tinting was disappointed with the performance of the business after one year of trading. As a result, she decided to purchase new machinery and automate the tinting process. At the end of the second year of trading, the manager examined a range of key performance indicators in order to assess the extent to which this change had been successful.

Key performance indicator	Year 1	Year 2
net profit figure	\$47 000	\$23 000
rate of productivity growth	2%	8%
number of customer complaints	112	28
rate of staff absenteeism	average of four days per year per staff member	average of 12 days per year per staff member

- a. With reference to the data above, **analyse** the extent to which the purchase of the new machinery has assisted Wilkinson's Window Tinting in improving the performance of the business. **6 marks**
- b. **Explain** how each of the following management strategies could be used to respond to the key performance indicators in the table and position the business for the future. **8 marks**
- Redeployment of resources
 - A change in management style

▶ Question 2 (4 marks)

Source: VCE 2017, Business Management Sample Exam, Section A, Q.5; © VCAA

Read the information in the table below relating to Dazzle Painting and Decorating, a Victorian business specialising in both interior and exterior house painting.

Key performance indicator	2015	2016
level of wastage	↑ 2%	↑ 3%
net profit	\$520 000	\$145 000

Explain how the principles of lean management could assist Dazzle Painting and Decorating with improving its performance. In your response, refer to the data provided.

▶ Question 3 (4 marks)

A business has reported a second consecutive period of declining profits. **Propose** and **justify** an appropriate management strategy to respond to this key performance indicator.

▶ Question 4 (6 marks)

Analyse a management strategy that could be used to seek new business opportunities, referring to a contemporary business that you have studied this year.

▶ Question 5 (4 marks)

Elana Hickling has become concerned with the rise in the level of staff turnover. Feedback from exit interviews has indicated that staff feel unsupported and not heard by management. **Propose** and **justify** an appropriate management style Elana should adopt to respond to this key performance indicator.

More exam questions are available online.

5.4 APPLY YOUR SKILLS Seeking new business opportunities

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

CONTEMPORARY CASE STUDY

New opportunities at Ego

Ego Pharmaceuticals is a family-owned Australian business that manufactures dermatological skincare products, including well-known brands such as QV Skincare, SunSense, Aquium hand sanitiser and Pinetarsol. The private company was established in 1953, and now produces 120 products.

A key to Ego's success has been its expansion into overseas markets. Currently, Ego Pharmaceuticals exports to 27 countries in the Asia-Pacific region, Europe and the Middle East. Ego's Managing Director and son of founder Gerald, Alan Oppenheim, has said that exports are now a huge focus for the company, with international sales making up 50 per cent of the business's revenue, and that this will continue to be a focus for years to come. Although expanding with large exports internationally, the brand remains true to its Australian heritage and continues to manufacture all of its products in Melbourne.



Ego operates on a pharmacy-only distribution model, which supports pharmacies all over the country. The business invests heavily in innovation, has automated its manufacturing process, and pursues e-commerce and digital marketing strategies. A recent example of innovation at Ego is its new range of natural, ethical and sustainable skincare products called 'etch&ethos'. Partnering with Pact Group, an Australian packaging manufacturer, the business developed packaging made with 50 per cent recycled milk bottle plastic. Ego is also in the final stages of a \$25 million 'Green Core' upgrade at its manufacturing plant in Braeside, which should be completed in 2022. The project includes the installation of additional solar panels on factory roofing, an upgrade to a more efficient air handling system, the setting up of energy saving LED lighting throughout the facility, as well as an expansion to the plant area.

These strategies have allowed Ego Pharmaceuticals to climb the rungs of the Top 500 Private Companies list, released by the Australian Financial Review. As a result of their impressive growth, in 2021 the business sat at number 311 on the list. The list, published annually, considers company revenue over the latest 12-month accounting period and number of staff. In 2021 Ego had 631 staff globally and posted revenue of \$220.5 million for the 2021 financial year.

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5.4 Exercise

5.4 Exercise

TEST your skills

1. **Identify** two strategies that Ego Pharmaceuticals has implemented to seek new business opportunities.
2. **Identify** two key performance indicators that Ego Pharmaceuticals may respond to when implementing strategies for seeking new business opportunities.

APPLY your skills

3. Ego Pharmaceuticals is always looking for new business opportunities. **Explain** why it is important for a business to do this.

5.4 Exam questions

▶ Question 1 (2 marks)

Explain what is meant by a 'new business opportunity'.

▶ Question 2 (3 marks)

Describe a strategy for seeking new business opportunities that Ego Pharmaceuticals took advantage of.

▶ Question 3 (3 marks)

Describe a key performance indicator that Ego Pharmaceuticals may have responded to when it implemented strategies for seeking new business opportunities.

▶ Question 4 (4 marks)

Propose and **justify** one new business opportunity that Ego Pharmaceuticals could consider.

▶ Question 5 (6 marks)

'Small businesses need to continually seek new business opportunities or risk going out of business.' **Discuss** this statement.

More exam questions are available online.

5.5 Corporate culture and strategies for its development

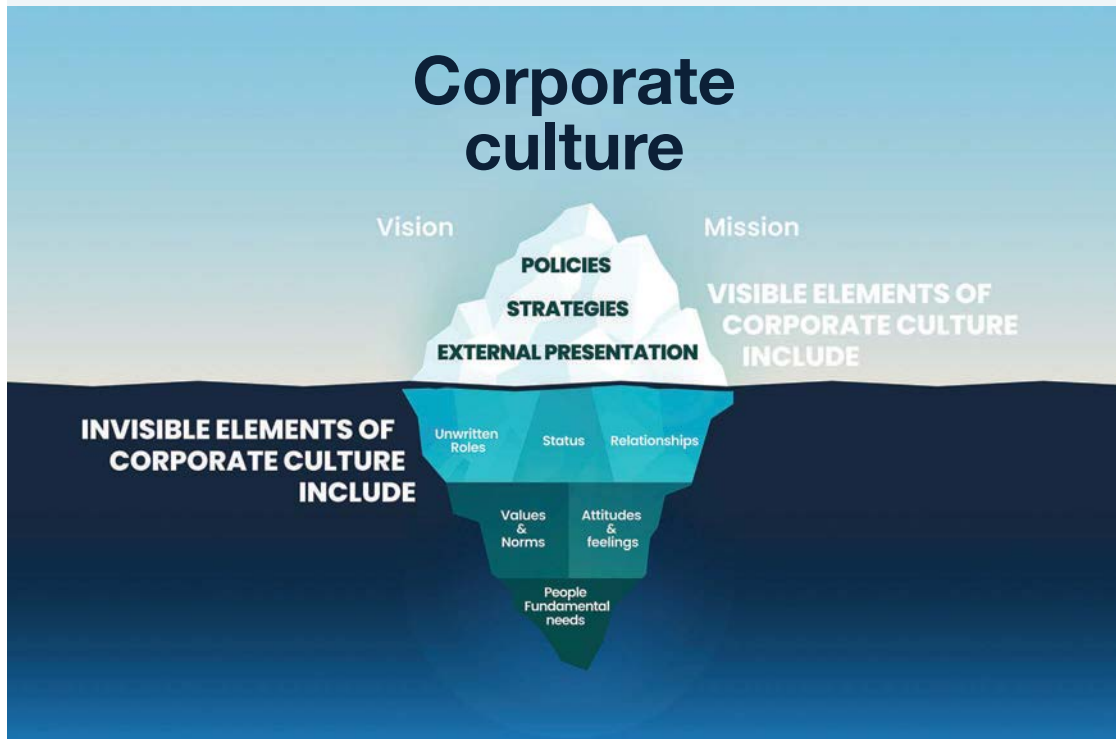
KEY KNOWLEDGE

- Corporate culture and strategies for its development

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

Corporate culture refers to the shared values and beliefs that characterise a business. The prevailing culture of a business will encourage the business's management and employees to act and behave in certain ways. Some of the values and beliefs will be guided by the policies and formal rules of the business, while others will be influenced by the unwritten or informal rules that guide how people in the business behave. We explored corporate culture, both official and real, in detail in topic 1.

Corporate culture includes the values and beliefs that are visible (official corporate culture) and those that are invisible (real corporate culture). It can be compared to an iceberg, where you can see what is on the surface; however, what is under the surface is often invisible and hard to qualify.



5.5.1 Corporate culture and change management

When implementing change, the corporate culture of a business will often be the first thing to be considered, to determine if the change will be possible. Generally, transformation will require a positive corporate culture to support it. A business will struggle to realise the full potential of a transformation without changes in the behaviour of its management and employees, so a positive culture will guide the business's people in acting appropriately and making decisions that support the attainment of business objectives. Alternatively, a business may be focused on developing its corporate culture as the specific change being implemented. For example, a business may hope to position itself as more adaptable and innovative in the future by transforming to a more positive corporate culture.

For management, knowing and appreciating a business's culture makes it easier to get things done, as well as initiate changes to routines or procedures. 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 employees to be more positive and personalised. A positive corporate culture has a number of other benefits, including:

- employees experiencing high morale and a positive attitude toward the business. Improved morale should increase employee productivity.
- employees becoming more loyal to the business. This should reduce the level of staff turnover.
- a business gaining a positive reputation, allowing it to attract talented and skilled employees.

5.5.2 Strategies for developing corporate culture

There are many strategies that management can implement if the real corporate culture does not reflect the desired culture. The following figure outlines several of these strategies. Any strategies chosen will depend on the current position of the business and the requirements of people in leadership.

A range of strategies for developing corporate culture



A number of these strategies are outlined in further detail as follows:

- ***Establishing appropriate rituals, rites and celebrations.*** This might involve management introducing routine patterns of behaviour to the business's everyday life such as observing safety procedures and working in teams, as well as participating in social events and gatherings. For example, management could implement regular social gatherings that will allow employees to feel valued, as they will have a sense

of belonging to the business and should be able to connect with its expected behaviours. More positive relationships between management and staff are likely to also contribute to a more positive corporate culture.

- ***Changing the prevailing management style.*** A business with a less than desirable corporate culture may find that making use of a different prevailing management style could result in the development of a more positive corporate culture. 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.
- ***Ensuring that staff members are given sufficient training to reflect the values of the business.*** Training relates to employees learning new skills and knowledge. By gaining skills and knowledge, employees are more developed, both professionally and personally, and are likely to feel valued by the business and empowered to do their best. In doing so, training is likely to have a positive influence on corporate culture. Furthermore, investment in training could involve teaching the values that the business expects to see in the workplace — this would also influence the development of a more positive corporate culture. For example, if treating customers respectfully is important in a business, it should be part of its customer service training program. Alternatively, management might provide training to employees that focuses on respect for all employees and managers or what it means to work with integrity.
- ***Senior managers, and the ‘heroes’ of the business, acting as role models.*** By constantly reflecting the values, ideas, expectations and beliefs that they believe are important, management and the heroes of the business can act as an example for employees. By influencing employees, positively encouraging them and motivating staff to share in these values and beliefs, management will be able to develop a desired culture at a business. Employees who are motivated with a clear sense of direction about what the expected values and beliefs are will tend to work towards implementing that culture.
- ***Communicating desired values to staff.*** Employees may not have a full understanding of the desired corporate culture that the business is trying to achieve. In this case, management should explain what the culture is and why it is important. The communication used should reflect the corporate culture of the business. If the business has a culture that is more formal and structured, the communications should reflect that (using memos, reports, meetings or other formal methods of communication). If the corporate culture is more casual and relaxed, the tone of the communication should be more informal too (for example, making use of networking).
- ***Hiring staff who fit in with the values of the business.*** Culture fit is often considered to be the glue that binds a business together. Screening potential candidates to ensure that they will fit in with the business’s shared values and beliefs is important — employees who don’t conform or adapt to the culture of a business can easily become disengaged, and either quit or create problems for the business. On the other hand, research suggests that staff who fit well into the prevailing corporate culture tend to enjoy greater job satisfaction, engagement and productivity, and will be more likely to remain with the business for a longer period. To ensure that it employs staff who have values and beliefs that align with the corporate culture of the business, managers should clearly express the desired culture in all communication and recruitment methods used, including the website, job postings and job descriptions, as well as in selection interviews.
- ***Rewarding employees who exemplify appropriate values.*** The recognition or appreciation of employees should elevate a business’s corporate culture. The act of recognition will develop relationships between staff and management, help employees feel connected to the business and create positive moments for staff. Every time a business rewards or recognises an employee, management is showing the rest of the staff the values and behaviours they are expected to embrace. For example, if innovation was important to the business, they would recognise staff members for it. Other rewards might include bonuses, salary increases or promotions.

CONTEMPORARY CASE STUDY

Corporate culture at CSL and Telstra

Biotech manufacturer CSL and telecommunications company Telstra are both guided in their values and beliefs by their purposes. Telstra's purpose is to 'build a connected future so everyone can thrive', while CSL's purpose states that 'the people and science of CSL save lives. We develop and deliver innovative medicines that help people with serious and life-threatening conditions live full lives and protect the health of communities around the world'. CSL's official corporate culture is also reflected in its values, which include 'patient focus', 'innovation', 'integrity', 'collaboration', and 'superior performance'. Likewise, Telstra has four values which reflect its official corporate culture. These values are: 'we are changemakers', 'we are better together', 'we care' and 'we make it simple'. Both businesses have policies and processes in place to ensure that their values underlie how things are done and to deal with any behaviour not consistent with the values.

CSL and Telstra are equally keen to develop innovative and agile corporate cultures. Both businesses are also committed to building diverse and inclusive workplaces. For example, during the COVID-19 pandemic, both companies implemented strategies to allow employees to stay connected despite restrictions on travel and office closures. CSL held a week-long 'Development Days' event in 2021 where employees were invited to join 'Speed Networking' sessions, randomly pairing participants for five-minute conversations with colleagues across 15 countries. A few employees were lucky enough to be paired with CEO and managing director Paul Perreault. Both CSL and Telstra continue to offer flexible working conditions, including working from home, and both focus on attracting, developing and retaining skilled and talented employees. Both businesses invest heavily in reskilling and upskilling their staff.

The logos of CSL and Telstra also reflect their official corporate cultures.



KEY IDEAS

- Corporate culture refers to the shared values and beliefs that characterise a business.
- Corporate culture can be developed in a number of ways including: establishing appropriate rituals, rites and celebrations; changing the prevailing management style; ensuring that staff members are given sufficient training to reflect the values of the business; senior employees and managers acting as role models; communicating desired values to staff; hiring staff who fit in with the values of the business; and rewarding employees who exemplify appropriate values.

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5.5 Quick quiz



5.5 Exercise

5.5 Exam questions

5.5 Exercise

TEST your understanding

1. **Identify** two reasons why a business might change or develop its corporate culture.
2. **Outline** one benefit of a positive corporate culture.
3. **Define** the term 'culture fit'.
4. **Describe** two strategies that management can use to develop a business's corporate culture.

APPLY your understanding

5. **Explain** why, when hiring new staff, a business should clearly express its desired corporate culture in the recruitment and selection process.
6. **Outline** the impact that each of the following is likely to have on the corporate culture of a business.
 - Changing the prevailing management style from autocratic to participative
 - Introducing a rewards program for employees who demonstrate creativity
 - Providing employees with new uniforms displaying the name and logo of the business
 - Requiring that staff are constantly supervised
 - Providing employees with training on the values of the business
 - Encouraging staff to take calculated risks
7. Read the 'Corporate culture at CSL and Telstra' case study. **Outline** two strategies used by CSL or Telstra for developing corporate culture.

5.5 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2017, Business Management Sample Exam, Section A, Q.4; © VCAA

The best-performing businesses are those that have a positive corporate culture.

Explain two strategies that a business can implement to develop a positive corporate culture.

▶ Question 2 (2 marks)

Source: VCE 2011, Business Management Exam, Q.1b; © VCAA

Describe one way management can develop a business's corporate culture.

▶ Question 3 (4 marks)

Outline two strategies a manager could use to improve and develop corporate culture within a business.

▶ Question 4 (4 marks)

Then Data Ltd is a business with a poor corporate culture. **Propose** and **justify** two management strategies for developing corporate culture at the business.

▶ Question 5 (6 marks)

Referring to a contemporary business case study, **describe** two strategies for the development of corporate culture.

More exam questions are available online.

5.6 The principles of the Learning Organisation (Senge)

KEY KNOWLEDGE

- An overview of the principles of the Learning Organisation (Senge) and the need to create a positive culture for change

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.6.1 The learning organisation

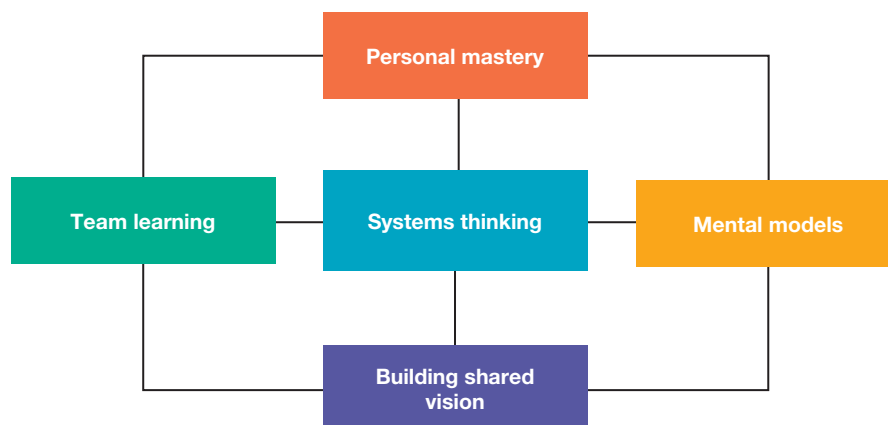
Peter Senge is an American systems scientist and a senior lecturer at the MIT Sloan School of Management who developed the concept in the 1990s that businesses should aim to become 'learning organisations' to excel in the future. He suggested that businesses must be dynamic entities, as they constantly 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. Through his book *The Fifth Discipline*, 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 disciplines are:

- systems thinking
- personal mastery
- mental models
- building shared vision
- team learning.



The five disciplines (or principles) of a learning organisation



Senge believed that all five principles needed to be present in a business in order to experience success. Ultimately, a business that is considered to be a learning organisation will be one where all managers and employees are learning and working as a team, creating a positive culture that is welcoming of change.

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 do 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.

Personal mastery

Personal mastery refers to the practice of individuals undertaking personal growth and learning. Senge noted that ‘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 it, 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 aligns 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 and positive 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 and 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.

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 counterproductive. 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.

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.



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.

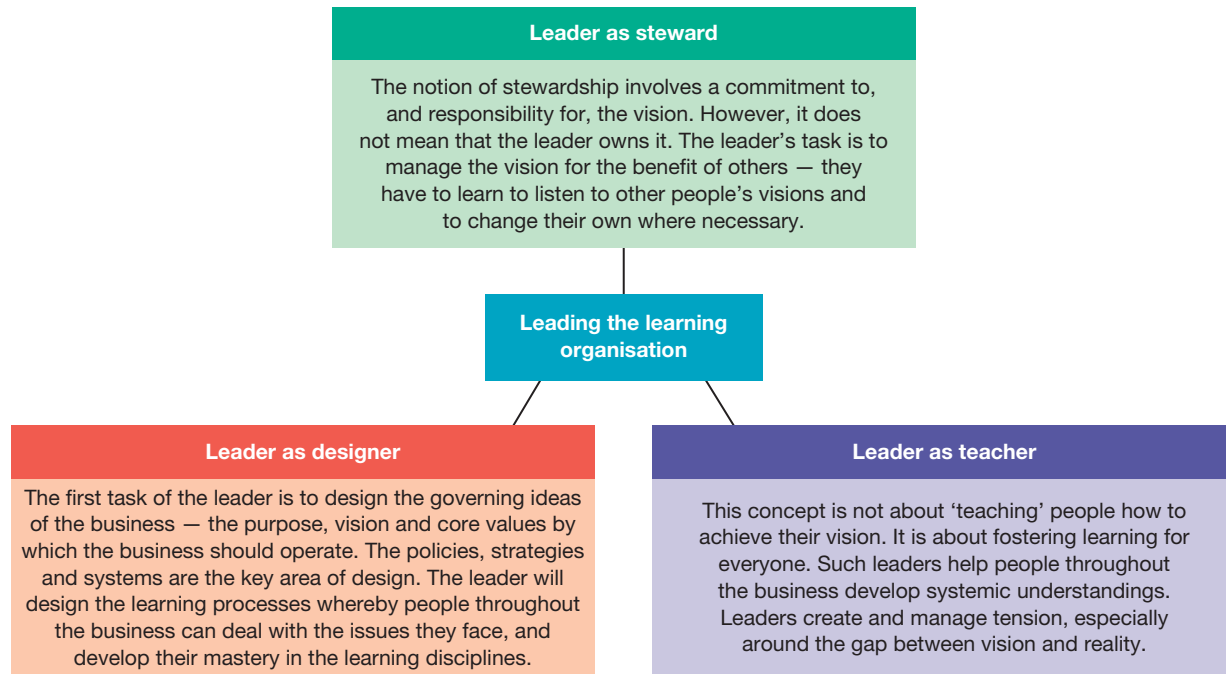
The discipline of team learning starts with what Senge referred to as ‘dialogue’. Dialogue is the concept of communicating openly, through the capacity of members of a team to suspend assumptions and enter into a genuine ‘thinking together’.

If teams or groups within a business are able to have a dialogue together, free from bias and preconceptions, 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 contribute to a positive and supportive culture that leads to support for change.

5.6.2 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 ability 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 following diagram.



on Resources

 **Video eLesson** Principles of the Learning Organisation (Senge) (eles-2936)

KEY IDEAS

- Peter Senge developed a theory that successful businesses were 'learning organisations'.
- A learning organisation is one that continually seeks to change to improve itself.
- The five disciplines in the learning organisation are:
 - systems thinking
 - personal mastery
 - mental models
 - building shared vision
 - team learning.

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5.6 Quick quiz



5.6 Exercise

5.6 Exam questions

5.6 Exercise

TEST your understanding

1. **Define** the term 'learning organisation'.
2. **Identify** the five disciplines of Senge's Learning Organisation.
3. **Outline** the importance of building a shared vision for a business.
4. **Explain** what is meant by 'team learning'.

APPLY your understanding

5. **Explain** the link between the five disciplines as explained by Senge. In your response, **describe** why systems thinking is considered the cornerstone of the five disciplines.
6. **Outline** how managers may use the principles of Senge's Learning Organisation in order to create a positive corporate culture for change.
7. **Describe** the role of a leader in a learning organisation.

5.6 Exam questions

▶ Question 1 (2 marks)

Senge's Learning Organisation theory has systems thinking as the overarching principle. **Explain** this concept.

▶ Question 2 (8 marks)

To assist businesses to 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.

▶ Question 3 (3 marks)

Explain what is meant by 'mental models' as part of Senge's Learning Organisation approach.

▶ Question 4 (4 marks)

Analyse how becoming a 'learning organisation' can assist a business to create a positive culture for change.

▶ Question 5 (6 marks)

'Becoming a learning organisation sets up a business to effectively manage change both now and in the future.'
Discuss this statement.

More exam questions are available online.

5.7 Low-risk strategies to overcome employee resistance

KEY KNOWLEDGE

- Low-risk strategies to overcome employee resistance including communication, empowerment, support and incentives

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.7.1 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. Also, 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 following figure outlines several strategies for creating a positive, low-risk environment for change.

Low-risk strategies for reducing resistance to change

Strategies for reducing resistance to change	Provide constant feedback
	Offer support — this reduces fear and anxiety
	Build trust among employees
	Make sure the changes are reasonable
	Specify the nature of the change
	Allow employees to participate in the change process
	Support change with new learning
	Discuss any upcoming change — this reduces fear of the unknown
	Clearly articulate the purpose of the change
	Follow a sensible timeframe; do not rush through changes
	Avoid threats if possible
	Outline the positive and negative aspects of the change
	Make sure communication is two-way, not just from the top down

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. Low-risk strategies tend to seek small and incremental changes, and involve employees more in the process of change.

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.

low-risk strategies actions taken that are likely to generate positive outcomes in the short term and longer term

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 the advantages/strengths and disadvantages/limitations of each low-risk strategy to overcome employee resistance. Furthermore, outcome 2 also states that you should be able to 'discuss the importance of effective management strategies... in relation to change'. This also suggests that you should be able to write about 'both sides' for each high-risk strategy.

Communication

As a low-risk strategy for overcoming employee resistance, communication refers to management transferring information about the change to employees. This information would concern the reasons for change and its impact, as well as timelines. 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

In the context of a low-risk strategy for overcoming employee resistance, empowerment refers to involving employees in the change process, providing them with greater responsibility and decision-making power. 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. These are people or groups of people who act as catalysts, assuming responsibility for managing the change process. They can 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

As a low-risk strategy for overcoming employee resistance, support refers to management providing employees with assistance in moving from the current state to the new. Support for those going through a change would include counselling, training (supporting a change with new learning) and time. By doing this, management may be able to reduce fear and anxiety. For example, 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. In the context of low-risk strategies, incentives refers to any financial or non-financial rewards provided to employees to encourage them to embrace a change. 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 used 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'.

The advantages and disadvantages of low-risk strategies

Advantages

- Employee involvement and two-way communication provide opportunities for employees to put forward ideas.
- Fears and anxieties are likely to be reduced as the situation is clearly explained so that there are no misunderstandings.
- Employer/employee relations are positive, there is a higher level of trust and cohesion, and there is reduced likelihood of industrial disputes. Employees are more likely to accept change, particularly in the longer-term.



- The change process can become very time consuming as it takes time to involve all employees.
- Low-risk strategies such as support and incentives can be expensive, especially in the cases of counselling, training and bonuses.

Disadvantages

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.



KEY IDEAS

- 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.

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5.7 Quick quiz

on

5.7 Exercise

5.7 Exam questions

5.7 Exercise

TEST your understanding

1. **Define** the term 'low-risk strategy'.
2. **Identify** three low-risk strategies.
3. **Distinguish** between 'communication' and 'empowerment' as low-risk strategies.

APPLY your understanding

4. Read the 'What is a team?' case study.
 - a. **Outline** what causes teams to form, according to the author.
 - b. **Explain** why the author believes it is important to clearly communicate to employees the goals of a change.
 - c. 'The whole becomes clearly more than the sum of the parts.' **Explain** what this statement means.
5. Southern Airlines provides flights to a number of regional cities across Australia. The CEO of the company has recently called a meeting of senior executives to review Southern Airlines' current policies in order to develop a new policy that will result in better customer relations in the future.

Describe one low-risk strategy that Southern Airlines could consider using to overcome employee resistance when introducing the new policy.

5.7 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2021, Business Management Exam, Section A, Q.5a; © VCAA

Alex is the manager of a large gaming store. The business sells games for gaming consoles. Alex has recently been informed that the store has been sold to a multinational chain. As changes are implemented, approximately 20% of all staff will need to be retrenched. Alex is concerned that some stakeholder groups will resist the changes. He has noticed that employees seem to be lacking motivation since the announcement of the sale of the business.

Identify one stakeholder group that might resist these changes at the gaming store. **Describe** one low-risk strategy that could be used to overcome resistance to the changes from this stakeholder group.

▶ Question 2 (3 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5c; © VCAA

Dennis Greeves is the manager of a highly successful, Melbourne-based burger chain. In response to a decline in sales and a change in customer tastes, Dennis has made the decision to implement a policy of using only ethically sourced, high-quality local ingredients. Dennis is aware that a new pricing strategy will be required as a result and that the Executive Chef will require support to implement the changes.

Explain how Dennis could use the low-risk strategy of support to overcome possible employee resistance to the changes.

▶ Question 3 (4 marks)

Analyse how empowerment can be used to overcome employee resistance.

▶ Question 4 (4 marks)

Explain how communication can be used to overcome employee resistance and why it is considered a low-risk strategy.

▶ Question 5 (6 marks)

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.

Evaluate two low-risk strategies the managers of this business could use to overcome employee resistance in the circumstances described.

More exam questions are available online.

5.8 High-risk strategies to overcome employee resistance

KEY KNOWLEDGE

- High-risk strategies to overcome employee resistance including manipulation and threat

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.8.1 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 **high-risk strategies**. Unlike low-risk strategies, high-risk strategies are associated with an autocratic approach to change. 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 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.

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 the advantages/strengths and disadvantages/limitations of each high-risk strategy to overcome employee resistance. Furthermore, outcome 2 also states that you should be able to ‘discuss the importance of effective management strategies... in relation to change’. This also suggests that you should be able to write about ‘both sides’ for each high-risk strategy.

Manipulation

Manipulation occurs when a manager selectively leaves out relevant information about a change so that it appears to be more favourable or necessary, or makes a change seem more beneficial than it actually is. If, for example, 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. 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. This strategy can backfire if employees discover the truth behind whatever a manager has been saying or not saying. Manipulation is often used in situations where other strategies will not work or are too expensive. It can be a relatively quick and inexpensive way to overcome resistance.

high-risk strategies actions taken that may succeed in the short term but run the risk of generating negative outcomes in the longer term

manipulation the skilful or devious exertion of influence over someone to get them to do what you want, often by providing incomplete or selective information

CASE STUDY

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 issues, 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 issues, not least of which is the abuse of power and authority.

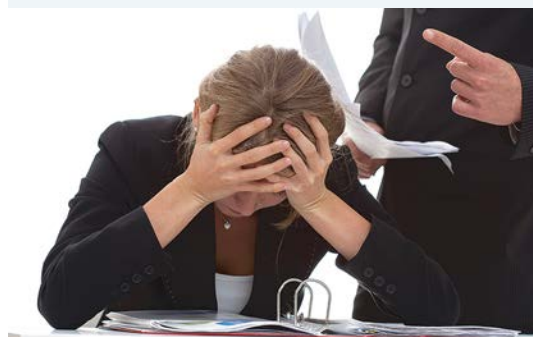


Threat

A manager who will not or cannot invest the time and effort required for the other strategies may resort to the use of power to force change resisters to conform. This tactic usually involves some type of direct or indirect **threat**. Threats may involve loss of promotion, transfer or 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. In early 2022, Qantas employees were offered an ultimatum to either lose the conditions of their enterprise bargaining agreement or lose their jobs.

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. This in turn can escalate the resistance.



threat the suggestion that some sort of negative consequence will occur if employees fail to follow a requested change

The advantages and disadvantages of high-risk strategies



KEY IDEAS

- 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.

5.8 Exercises

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5.8 Quick quiz

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5.8 Exercise

5.8 Exam questions

5.8 Exercise

TEST your understanding

1. **Define** the term 'high-risk strategy'.
2. **Identify** two high-risk strategies.
3. **Distinguish** between 'manipulation' and 'threat' as high-risk strategies.

APPLY your understanding

4. Read the 'Manipulate at your own peril!' case study. In small groups, **outline** 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.
5. Do you regard (i) manipulation and (ii) threats as unethical business practices? **Explain** your response and share it with the rest of the class.

6. Southern Airlines provides flights to a number of regional cities across Australia. The CEO of the company has recently called a meeting of senior executives to review Southern Airlines' current policies in order to develop a new policy that will result in better customer relations in the future.
Describe one high-risk strategy that Southern Airlines could consider using to overcome employee resistance when introducing the new policy.
7. Would an autocratic manager tend to use low- or high-risk strategies to reduce resistance to change? **Outline** reasons for your answer.

5.8 Exam questions

Question 1 (4 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.5b; © VCAA

Phu wants to announce his plans to expand globally, but he is concerned about the possibility of employee resistance.

Describe one high-risk strategy and one low-risk strategy that Phu could use to overcome employee resistance during a period of change.

Question 2 (4 marks)

Source: VCE 2015, Business Management Exam, Q.1d; © VCAA

Swanston Airlines is a large business providing flights to all capital cities in Australia. Swanston Airlines recently suffered a technology breakdown in its computerised ticketing system that led to customers not being able to book tickets, get seat allocations or board flights for 24 hours. This resulted in very unhappy customers who missed flights, were angry and argued with staff, and demanded refunds. The CEO of Swanston Airlines has called a meeting of senior management to review current policies and procedures in order to develop a new policy to better deal with customer relations in the future.

Describe one low-risk strategy and one high-risk strategy that Swanston Airlines could consider using when introducing the new policy.

Question 3 (5 marks)

Source: VCE 2014, Business Management Exam, Q.2d; © VCAA

In response to an increased customer demand for air conditioners, AusClean Air's CEO, Hilary Lopez, has announced that 'environmentally friendly and noiseless units' will be produced in the company's manufacturing plant to gain a substantial competitive advantage and increase AusClean Air's market share. Employees have heard rumours that AusClean Air will be introducing new technologies and many of them do not welcome the change. The Human Resource Manager has been called in to help the employees cope with the transition. The Operations Manager welcomes the change.

The Human Resource Manager is expecting some employee resistance to the change, which involves the implementation of new technologies.

Identify one low-risk strategy and one high-risk strategy for dealing with resistance to change. **Discuss** both strategies and suggest which one would be more effective when AusClean Air introduces the planned new technologies.

Question 4 (3 marks)

Employee resistance can be overcome by the use of low-risk and high-risk strategies. **Distinguish** between these two types of strategies.

Question 5 (4 marks)

A business is acquiring the shares of another company and the employees are displaying some resistance.

Analyse the use of the high-risk strategy of threat in this situation.

Question 6 (4 marks)

Explain how manipulation can be used to overcome employee resistance and why it is considered a high-risk strategy.

▶ Question 7 (6 marks)

A business has been operating for a number of years and in recent times several key performance indicators (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.

Evaluate two high-risk strategies that could be used to overcome this resistance.

More exam questions are available online.

5.9 The principles of the Three-step Change Model (Lewin)

KEY KNOWLEDGE

- Key principles of the Three-step Change Model (Lewin)

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.9.1 The Three-step Change Model (Lewin)

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 the three levels of change and incorporated them into a change management theory. He described his theory as the Three-step Change Model.

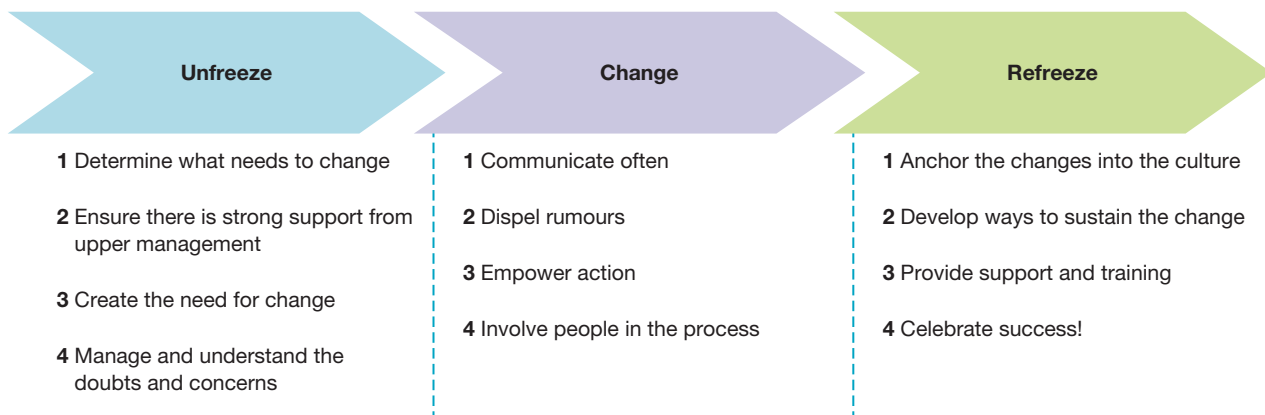
Kurt Lewin was one of the founders of social psychology.



Resources

- ▶ **Video eLesson** Key principles of the Three-step Change Model (eles-2937)

Lewin's Three-step Change process — practical steps



Step 1 — Unfreeze

The unfreeze step involves preparing the business for change. 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 first identify what needs to change; then 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 communicated to stakeholders, along with what will change, the steps that will be taken, and the benefits of implementing the change. 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.

Step 2 — Change

The change step involves moving the business from the current situation to the new situation. With the business in this unfrozen state — with all processes, policies and 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. Training programs may also need to be provided to deal with resistance to change.

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.

Step 3 — Refreeze

The refreeze step involves putting strategies in place to make sure that the change is stabilised and institutionalised, or made sustainable. The fear with undertaking change is that if it is not implemented correctly, 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.

5.9.2 Benefits of adopting Lewin's Three-step Change Model

Adopting Lewin's model allows a business to take a structured approach to any change. The model provides clear steps for proceeding with a change and this can be communicated to all stakeholders. These steps also form a type of checklist so the business will only move on once each step is completed.

A structure for change can also assist in removing or minimising any residual resistance to the change. Stakeholders will be able to see the change unfolding and monitor the impact of the change. They may also see their role within the change process and in the business once the change has been made.

CONTEMPORARY CASE STUDY

The Three-step Change Model at Telstra

While it is unlikely that management at Telstra would have purposefully considered Lewin's Three-step Change Model when announcing its new strategy in 2021 (T25), there is evidence that the company could follow a process that resembles Lewin's model. The first step in Lewin's Three-step Change Model is to unfreeze the status quo — preparing the business for change. Telstra's management clearly understood that there was a necessity for ongoing change. CEO Andy Penn prepared the business for change by explaining the reasons for continuing Telstra's transformation. At Telstra's Investor Day 2021, Mr Penn said, 'T22 was very much about being changemakers as we knew we needed to take a radically different and ambitious approach to achieve the scale of transformation that we have. T25 will take this to the next level.'

The second step in Lewin's change model involves moving from the current situation to the new situation. With Telstra in an unfrozen state, with practices ready to be changed and the necessary support in place, management would be in a position to actually make the change. Telstra would be expected to continue providing support and maintaining open lines of communication so that all employees are able to seek guidance and feedback on what is taking place. In this way, resistance to the change will be minimised.

The final step in Lewin's change model is to refreeze. This involves putting strategies in place to make sure that the change is institutionalised. Telstra will need to ensure that change is implemented correctly so that the impetus for change does not fade and so that things do not revert to the way they were before. Policies and procedures will need to be rewritten, achievements celebrated, and support and encouragement maintained. It is important that Telstra consolidates the changes that they have made into the culture of the business.

KEY IDEAS

- Kurt Lewin developed the Three-step Change 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.

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5.9 Quick quiz

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5.9 Exercise

5.9 Exam questions

5.9 Exercise

TEST your understanding

1. **Identify** the three levels of change according to Kurt Lewin's Three-step Change Model.
2. **Describe** Lewin's theory of change management.
3. **Explain** why it is important for a business to 'refreeze' once change has been implemented.

APPLY your understanding

4. **Explain** why adopting a change model can make the implementation of change more effective.
5. Using your school as an example, **describe** a recent change in policy. In your response, **explain** why the change was introduced and how stakeholders were informed. **Outline** why the change was successful or unsuccessful.
6. Read 'The Three-step Change Model at Telstra'. **Outline** how Telstra might make use of Lewin's Three-step Change Model.

5.9 Exam questions

▶ Question 1 (6 marks)

Source: Adapted from VCE 2020, Business Management Exam, Section B, Q.3; © VCAA

Explain how Manitta Mining could apply each of the steps of the Three-step Change Model (Lewin) to reduce the number of workplace accidents.

▶ Question 2 (4 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.5d; © VCAA

Dennis Greeves is the manager of a highly successful, Melbourne-based burger chain. In response to a decline in sales and a change in customer tastes, Dennis has made the decision to implement a policy of using only ethically sourced, high-quality local ingredients. Dennis is aware that a new pricing strategy will be required as a result and that the Executive Chef will require support to implement the changes.

Apply the principles of two steps from the Three-step Change Model (Lewin) to Dennis's decision to implement a new pricing strategy to address the decline in sales.

▶ Question 3 (3 marks)

Source: VCE 2017, Business Management Sample Exam, Section A, Q.2; © VCAA

Explain how following a change model can assist a business with implementing a change successfully.

▶ Question 4 (6 marks)

Source: Adapted from VCE 2017, Business Management Exam, Section B, Q.4; © VCAA

Shandra's Dairy Ltd wants to diversify into the snack food market within the next three years.

Apply Lewin's Three-step Change Model to assist Shandra's Dairy Ltd with this future goal.

▶ Question 5 (2 marks)

Describe one of the key principles in Lewin's Three-step Change Model.

Question 6 (6 marks)

When implementing change, it is often useful for management to adopt a change management theory.

Explain Lewin's Three-step Change model. Illustrate your answer with an example from a business that you have studied this year.

More exam questions are available online.

5.10 The effect of change on stakeholder groups

KEY KNOWLEDGE

- The effect of change on stakeholder groups including owners, managers, employees, customers, suppliers and the general community

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.10.1 The effect on stakeholders

Stakeholders are the individuals or groups that have a vested interest in the activities of a business. Regardless of the form that change takes, it will affect stakeholders. As the strategies of a business change, then the interest of those stakeholders will also change. The effect of change will differ according to the nature of the change, and may be positive or negative, depending upon the change that has occurred. A major (transformational) change may result in the business experiencing far-reaching effects through, for example, a merger with another business, a change in its organisational structure, new production methods, new uses of technology or an altered corporate culture. However, change may occur in a smaller way, involving only a few stakeholders at a time (incremental change). For example, an employee may switch from using post to using email when sending information to customers. A business will need to consider these effects to ensure the best outcomes for the business as well as the stakeholders.

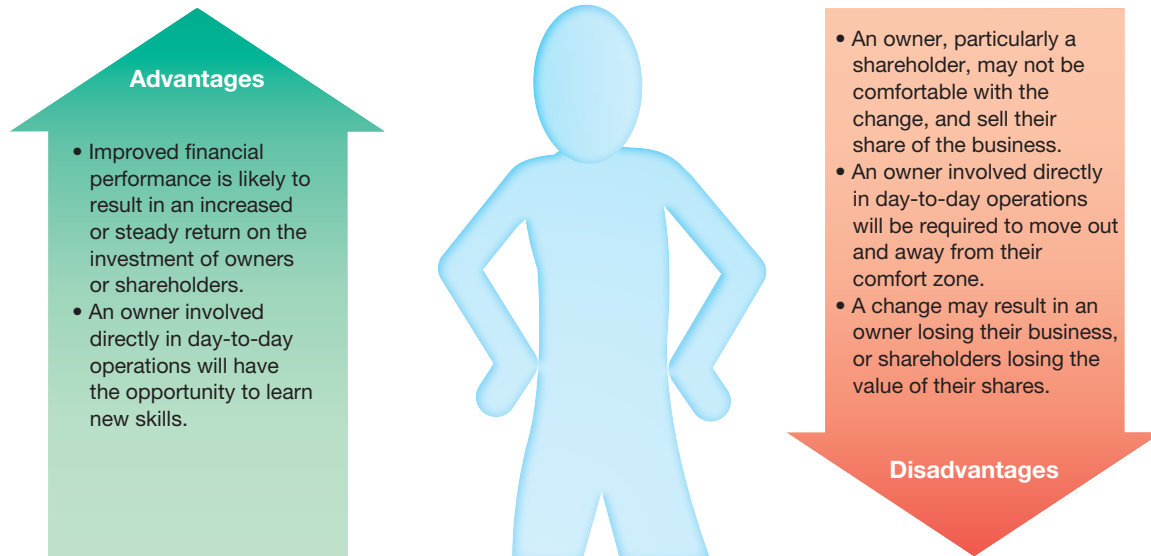
Change will affect a range of stakeholder groups.



5.10.2 Owners

Businesses may be owned by sole traders, by partners or by shareholders. The extent to which an owner is affected by change will depend on their involvement in the management or daily operations of the business. Accordingly, a sole trader or a partner is likely to be directly impacted by change, while shareholders are less likely to be directly affected.

The positive and negative effects of change on owners

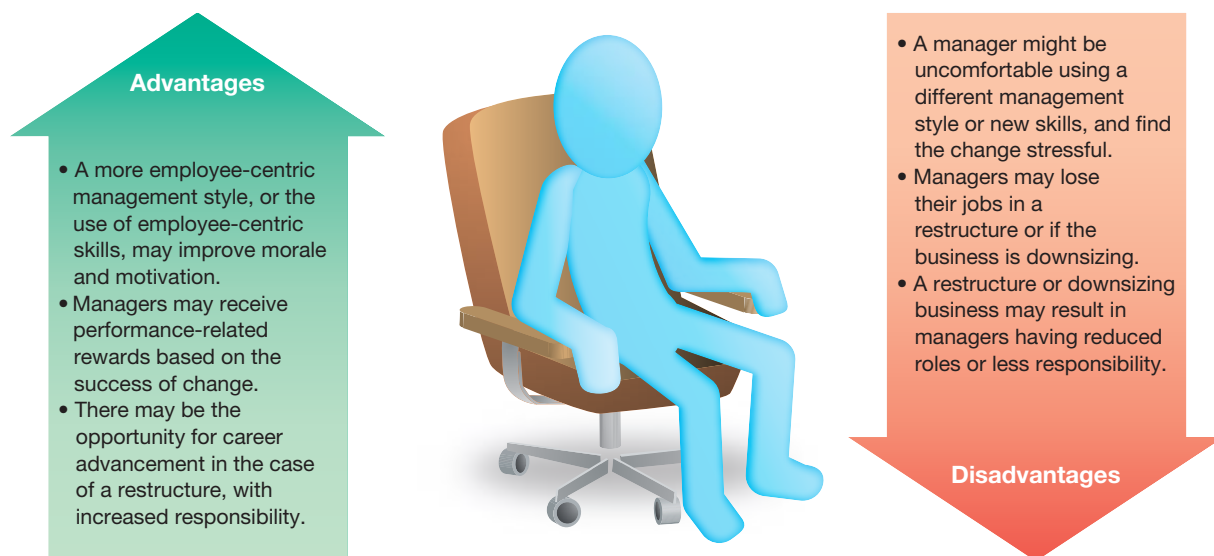


5.10.3 Managers

As the people who have the responsibility for successfully achieving the objectives of the business, managers are also going to be affected in different ways by change. Frontline and middle managers are very likely to be directly affected by change at the same time as implementing change. There are many sources of change, and when a change is undertaken, numerous possible effects on the manager of a business (as summarised in the diagram below). Some changes impacting on managers may include:

- changes in management styles in response to key performance data, or making use of different skills
- the introduction of new technology, changing processes at the business
- the business downsizing or expanding, merging with another business, or acquiring another business, resulting in a change of business structure or employment.

The positive and negative effects of change on managers



5.10.4 Employees

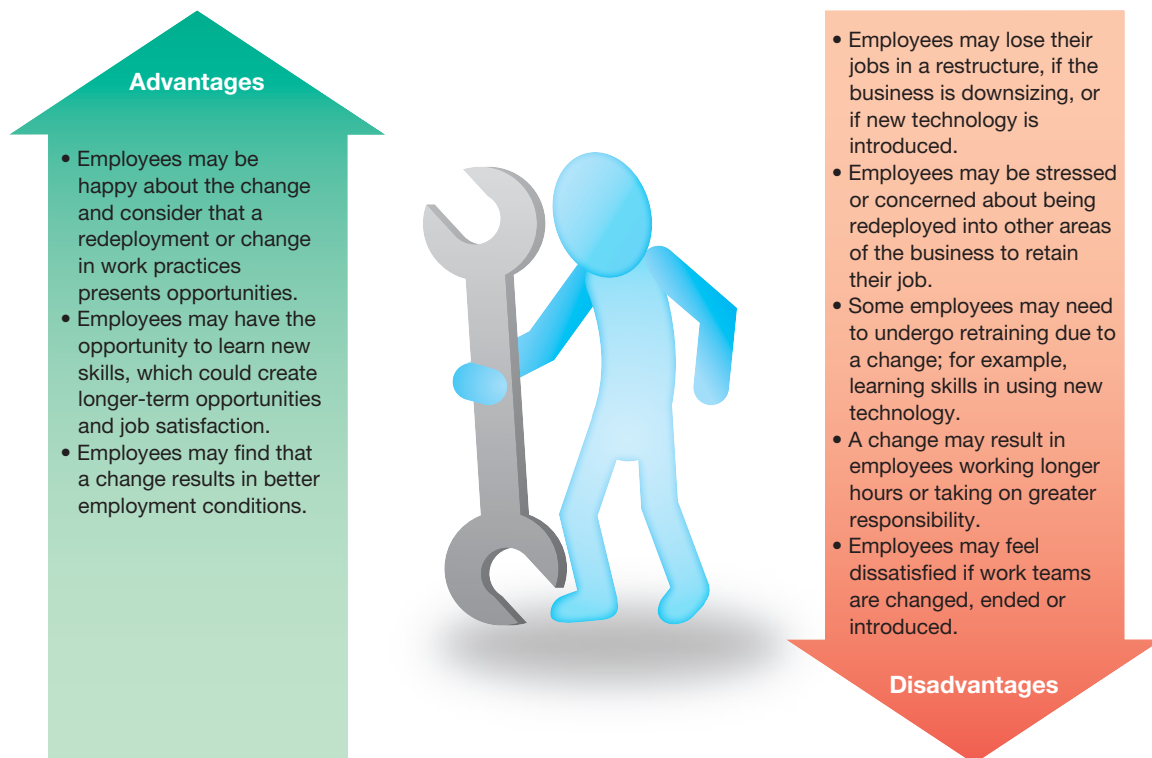
Employees are often the ones most affected by any change. We often think of change as leading to redundancy through downsizing or outsourcing. However, this is only one example of a possible effect of change to employees. There are many sources of change, and when a change is undertaken, numerous possible effects on the employees of a business (as summarised in the following diagram). A change may affect only individual employees, the area they work in, or employees across the business. Some changes impacting on employees may include:

- the introduction of new technology, changing processes and the work environment at the business
- the business downsizing or expanding, merging with another business, or acquiring another business, resulting in a change of business structure or employment
- new competitors entering the market, causing a change of focus for the business or new strategies being introduced.

Skilled workers are a valuable asset. It is important to manage any transformational changes, such as automation of work, sensitively and professionally.



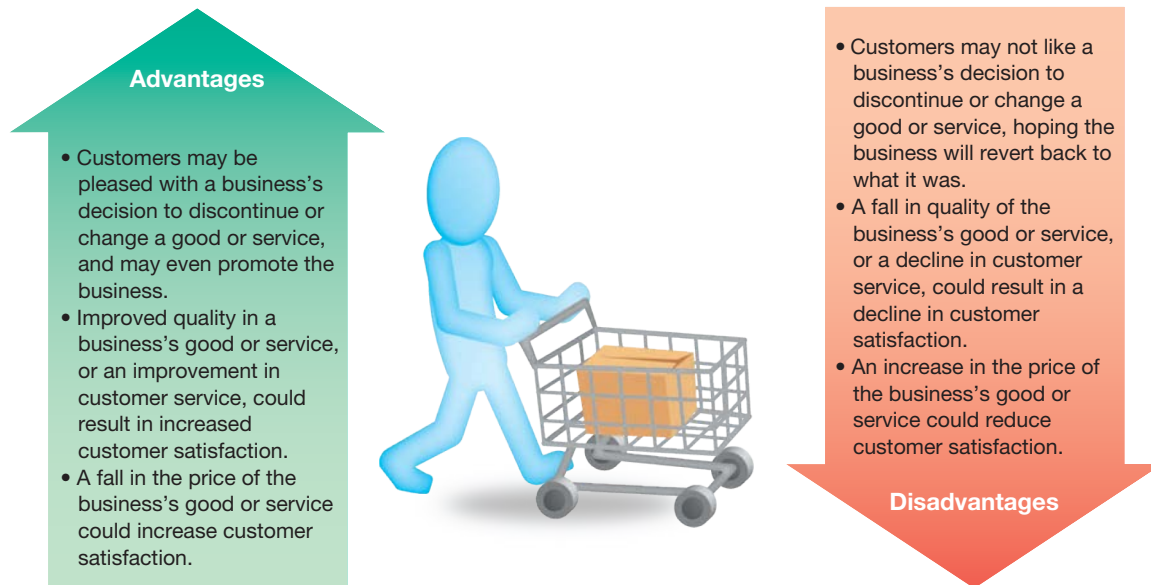
The positive and negative effects of change on employees



5.10.5 Customers

As the people who purchase goods and services from the business, customers expect high quality at competitive prices. When a business implements a change, there are a number of possible effects on customers, as summarised below.

The positive and negative effects of change on customers



WILL CHANGE ALWAYS BE ACCEPTED BY CUSTOMERS?

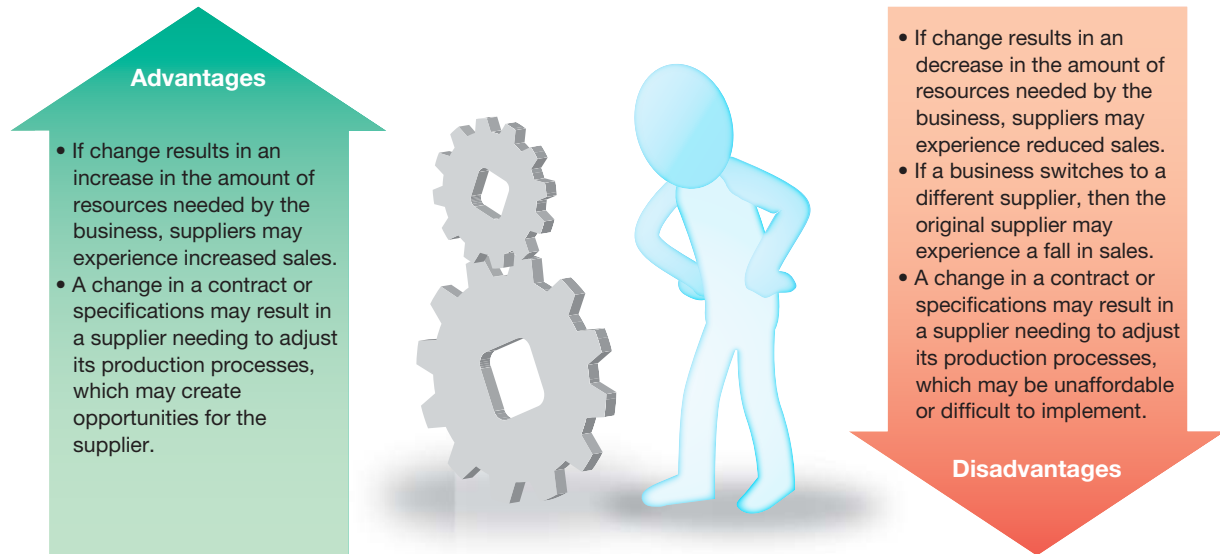
Sometimes customers will immediately embrace a change that a business introduces and will even promote it to other people. An example of this could be seen in the advertising campaign adopted by Aldi in 2015–16. During their campaign, Aldi used regular customers as spokespeople for the business who encouraged friends to try the business. The result was that new customers were gained and pre-conceived ideas were put to rest.

However, there are many businesses that have introduced changes over time and have 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.

5.10.6 Suppliers

Suppliers are the businesses or individuals who supply materials and other resources to a business so that it can conduct its operations. Change can bring new methods of production, new training programs for employees and hence new suppliers for a business. A change in the resource needs of a business may result in adjustments to contracts with suppliers. For some suppliers these changes will create opportunities as they gain additional customers for their goods or services, or make adjustments to their operations. There are a number of possible effects on suppliers of change, as summarised in the figure below.

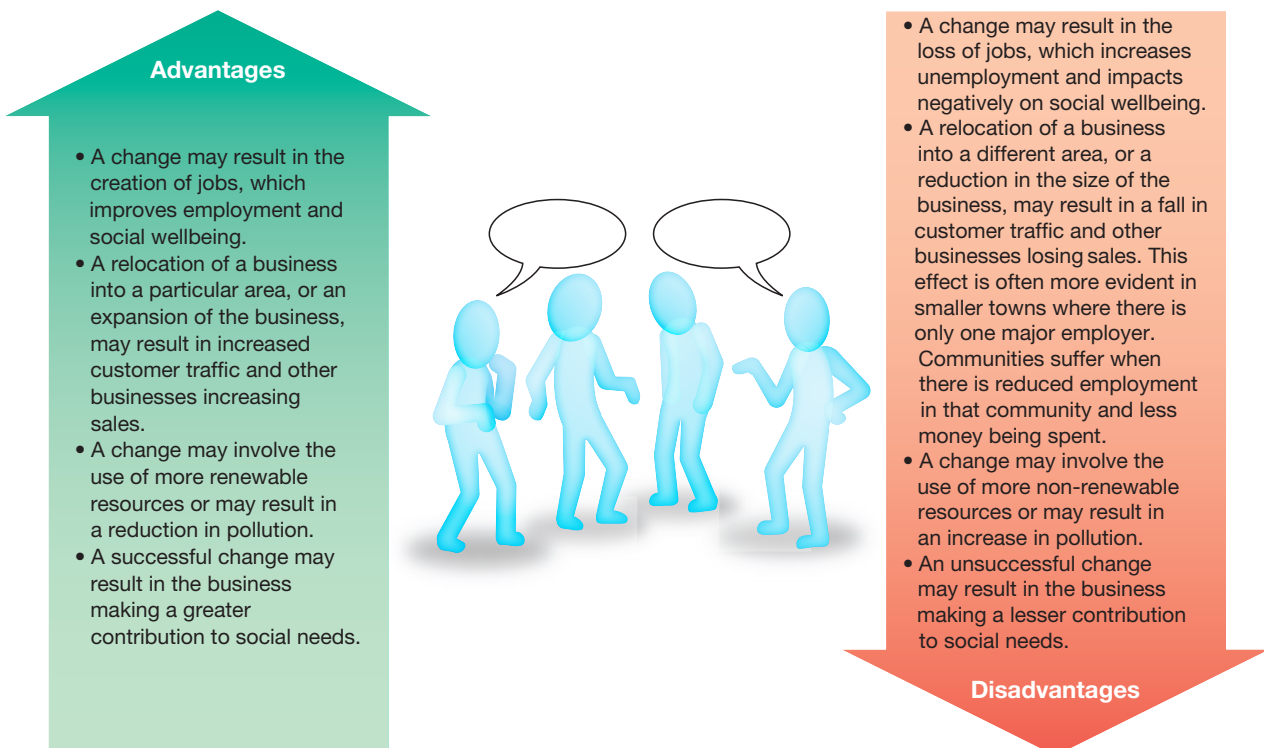
The positive and negative effects of change on suppliers



5.10.7 General community

The general community consists of the individuals who live in the same area (such as a city or town) as other groups of individuals. A change implemented by a business can affect the general community both directly and indirectly. Changes typically affecting the general community include a business relocating, or deciding to downsize or expand, merge with another business or acquire another business. The introduction of new technology or a change in the goods or services produced by a business can also impact on the general community.

The positive and negative effects of change on general community



CONTEMPORARY CASE STUDY

Effect of changes to the car industry on the general 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 car industry employees were losing income and, in turn, were reducing their spending, causing local businesses to lose sales. The closures had a 'spin-off' effect on other businesses.

Car industry plant closures may have a negative impact on local and general communities.



When Toyota closed its local production facilities in 2017, Australia lost its vehicle mass manufacturing. However, a 2022 report by the Australia Institute's Carmichael Centre, titled 'Rebuilding Vehicle Manufacturing in Australia', said that Australia is in a position to establish a high-tech electric vehicle manufacturing industry. The report highlighted that approximately 35 000 people are still employed in vehicle and automotive parts manufacturing in Australia, which continues to generate innovation and exports. An Australian electric vehicle industry could make use of those facilities still intact following the departures of manufacturers such as Ford, Holden and Toyota, as well as Australia's rich mineral reserves, highly skilled workforce, advanced industrial base and consumer interest, the report says. However, the report concludes that Australia needs 'an overarching, coordinating and strategic national industry policy'.

CONTEMPORARY CASE STUDY

The effect of change on stakeholders at Telstra

Telstra announced in 2021 that it would be implementing a new strategy named T25. As change was introduced at Telstra, it is quite possible that managers at the company would have found themselves working towards the implementation of the change, at the same time as supporting employees. This could be stressful for managers as they come to terms with the change themselves. Change can also be stressful for employees. For example, despite CEO Andy Penn stating that T25 would not come with significant job reductions, employees at Telstra may still be concerned that they could lose their jobs. As part of the changes occurring at the company, many employees may also need to undergo retraining or redeployment into other areas of the business.

As Telstra undergoes change the customers of the business will also be affected. The company's T25 strategy is focused on improving the experience for customers. After the transformation, Telstra should be more efficient, have more reliable networks and would be expected to provide a better experience for customers.

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.

KEY IDEAS

- Key stakeholders can be affected by the business undergoing change.
- The effect of change may be positive or negative.
- An owner may find that their investment in the business improves due to change, but they may lose their business or lose part of the value of their investment in the business due to a change.
- 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.

5.10 Exercises

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5.10 Quick quiz

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5.10 Exercise

5.10 Exam questions

5.10 Exercise

TEST your understanding

1. **Identify** one negative and one positive effect of change on managers.
2. **Outline** one negative effect of change on employees.
3. **Identify** two benefits of change to customers.
4. **Explain** how a business deciding to outsource to other countries may affect suppliers.

APPLY your understanding

5. Read the 'Will change always be accepted by customers?' case study. **Identify** one positive effect of change on customers and one negative effect.
6. Read the case study 'The effect of change on stakeholders at Telstra'. **Outline** one positive effect of change and one negative effect of change on stakeholders at Telstra.
7. Change can improve the skills of the workforce. **Discuss** how this may occur.
8. Use the internet to investigate an example of a rural area that has suffered a decline in business numbers and/or population due to the closure of a significant business. **Describe** the impact on the local community and suppliers.
9. **Discuss** how a change in a business may have a different effect on the managers and employees of that business.

5.10 Exam questions

▶ Question 1 (4 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4c; © VCAA

Small Goods Pty Ltd is a manufacturer of various types of processed meats, including ham, salami and sausages. The Operations Manager, Heidi, is concerned about the increasing level of wastage. She has set an objective to reduce wastage from the production process by 90% over the next two years.

Analyse the impact that the reduction of the level of wastage may have on Small Goods Pty Ltd's suppliers and one other stakeholder.

▶ Question 2 (2 marks)

Explain how change may impact owners.

▶ Question 3 (5 marks)

All change has consequences. **Analyse** how a change may both negatively and positively impact employees.

▶ Question 4 (4 marks)

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 key performance indicator.

Analyse the possible effect of these strategies on customers and employees.

▶ Question 5 (4 marks)

Online food ordering and delivering businesses such as 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 this change on two stakeholders.

More exam questions are available online.

5.11 Corporate social responsibility considerations when implementing change

KEY KNOWLEDGE

- Corporate social responsibility considerations when implementing change

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5.11.1 Corporate social responsibility in change management

Over the past few decades there has increasingly been pressure on businesses to improve their **corporate social responsibility**. This refers to a business's initiatives in assessing and taking responsibility for its 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. In the context of change management, whatever change is implemented, it is necessary for a business to consider its commitment to corporate social responsibility.

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

In 2020, Woolworths announced its Sustainability Plan 2025, which included a commitment to sourcing 100 per cent of its electricity from wind and solar by 2025, a commitment to zero food waste to landfill by 2025, and a new target to reduce carbon emissions to 63 per cent below 2015 levels by 2030. While this change was clearly environmentally friendly, Woolworths will need to ensure that all employees are given appropriate support to cope with the changes and kept informed of all changes, and suppliers will also need to be managed appropriately. Woolworths will need to ensure that any new technology it introduces is environmentally friendly, so that the new technology does not add to pollution or create additional waste.

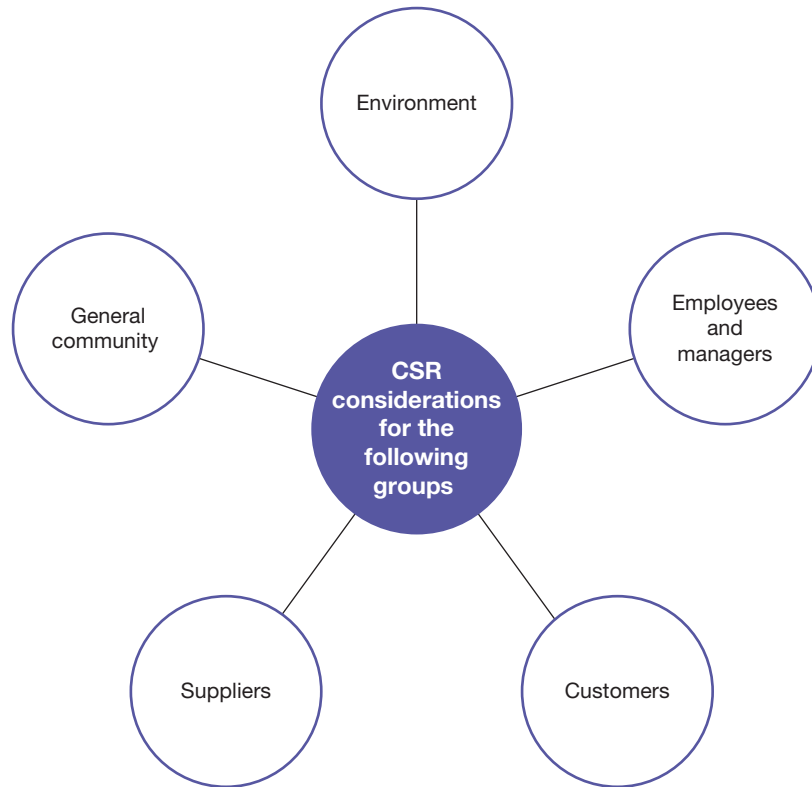


There are a number of benefits for a business in considering corporate social responsibility. Customers are likely to reward socially responsible businesses by purchasing more of their products. In addition, they are likely to recommend the business to other customers, resulting in a positive reputation for the business. A socially responsible business is also able to more easily attract high-performing employees and potential investors. However, there may be costs associated with corporate social responsibility. For example, labour costs, materials costs and other costs of production may increase when a business gives consideration to socially responsible behaviours.

As a business implements change it will need to consider its corporate social responsibilities in regards to the environment, employees and managers, customers, suppliers and the general community.

Corporate social responsibility considers social and environmental wellbeing.





5.11.2 The environment

A business will need to consider the environment when implementing a change, ensuring that it goes above and beyond in reducing its impact on pollution, wildlife and the world's resources. The health of the natural environment has a direct impact on society's quality of life; consequently, all businesses need to balance economic and environmental concerns. For example, if a change involves the introduction of new technology, the business will need to make certain that the technology is environmentally friendly, and that it does not add to pollution or create additional waste.

Businesses should also attempt to use other inputs that do not have a serious impact on the environment. If the change involves using different resources or materials, or new facilities, then the business will need to make sure that the new inputs are not creating waste or damaging the environment in any way. Alternatively, if a change involves new suppliers, a business should make sure that the suppliers are environmentally friendly and/or make use of local suppliers to reduce the emissions produced in transportation.

The social conscience of responsible businesses has led many to adopt policies of conservation, recycling and restoration. For example, supply-chain logistics company Brambles has developed its own environmental policy. Brambles will conduct business only with partners who share its commitment to the environment. The business has also committed to net-zero emissions by 2040.

Brambles operates primarily through the CHEP brand and is one of the most sustainable logistics companies in the world.



5.11.3 Employees and managers

A business will need to make sure that any change introduced does not negatively impact on the health and wellbeing of staff. For example, any new technology or production processes should be regularly and completely maintained to ensure the health of managers and employees. Staff may need to be provided with training and support to adapt to the new technology or processes.

The introduction of new technology or new processes, a change in the workplace, downsizing or a change of business structure may result in jobs being lost at a business. A socially responsible approach is to inform staff of the situation and provide a timeline for the coming period, identifying if and when redundancies might occur and the process that would take place in this situation, as well as what the outcome would be. This would allow managers or employees losing their jobs to consider their options. Outplacement services should be offered to staff to assist them with finding new jobs, and to reduce stress and anxiety. Offering assistance to staff in preparing resumes and practising for interviews can be useful for staff who have not had to participate in these activities for some time. Providing a reference for those staff who are leaving can also assist managers or employees to find further employment. Alternatively, a business may be able to redeploy staff to another area in the business so that they can maintain their employment and have job security.

5.11.4 Customers

During a time of change, a business will need to make sure that the goods or services it produces remain at the required quality, and that they continue to be safe and reliable. A change should not result in dangerously defective or harmful products. The delivery of the product should occur in a way that treats customers fairly and equitably. Customers who believe that a business has a reputation for being socially responsible are more likely to purchase that business's products and even recommend the business to other customers.

Communication is a vital aspect in terms of the socially responsible management of change. Not only are customers today increasingly demanding that businesses be authentic in their social responsibilities and their involvement in the community, modern-day consumers also want to be involved with brands that care about improving the world. For this reason, businesses should communicate their corporate social responsibility strategies, including through sustainability reports and supplier information, and how these will be impacted by any relevant change. Some businesses have invited customers to become involved in their sustainable practices. For example, H&M recently introduced a product range called the 'Conscious Collection' which features clothing made from recycled materials and organic cotton, available on its website and in stores. This option allows customers to make environmentally friendly shopping choices.

The H&M store in Melbourne. H&M's 'Conscious Collection' demonstrates the brand's commitment to be more sustainable.



5.11.5 Suppliers

A business will also need to consider suppliers when implementing a change. This may come about as a business changes its suppliers, or as a business changes the way it operates, impacting on suppliers. In the case of a business changing suppliers, it would be considered socially responsible to source resources and materials from local suppliers. This would ensure that job opportunities are created in the local community and supports the local economy. A business should make sure that suppliers uphold the same corporate social responsibility standards as the business. If this is not the case, the business should assist the supplier in helping them to

improve so that they do meet the requirements of the business. A supplier may need to establish or improve their own code of ethics or sustainability policy in order to be consistent with the business's standards.

If a change has led to inputs being sourced from overseas, the business will need to ensure that employees in other countries are not exploited, are paid fairly and have decent working conditions. The business will need to work with new suppliers to ensure that they follow guidelines on socially responsible behaviour. A business will also need to make sure that it does not provide preferential treatment to suppliers that offer gifts such as free meals, trips or entertainment, or to select suppliers based on personal friendships.

5.11.6 General community

To be socially responsible, a business should be mindful of the negative impacts of change on the general community. Today, society demands that businesses be held accountable and responsible for their actions. The general community expects that a business, when implementing change, will carefully consider the natural environment. If a business is changing suppliers, the local community would prefer that the business make use of local suppliers, demonstrating support for the community by providing it with employment and a boost to its economy. In the case of a business introducing new technology, implementing new processes, or changing its business structure, the general community would expect that the business would make use of redeployment where possible rather than make staff redundant. If jobs must be lost, then the business would be expected to communicate redundancy processes to staff and consider transition issues.

CONTEMPORARY CASE STUDY

Corporate social responsibility considerations at CSL

Australian biotechnology manufacturer CSL has developed a Global Environment, Health, Safety and Sustainability policy. The business is committed to fostering a positive, safe and healthy work culture. The policy states that CSL will do its best to conserve natural resources, reduce emissions and prevent pollution. The business has the goal of reducing, reusing and recycling waste, as well as identifying substitute materials or alternative materials that are environmentally safer for all of its operations.

CSL also has an active program of supplier selection and management. New and existing suppliers are required to demonstrate a shared commitment to environmental management as well as product safety and quality; a safe, fair and rewarding workplace; and community involvement.

KEY IDEAS

- Businesses need to consider the impact of change on society.
 - Change should not mean ignoring the obligations of the business to corporate social responsibility issues.
-

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5.11 Quick quiz

on

5.11 Exercise

5.11 Exam questions

5.11 Exercise

TEST your understanding

1. **Define** the term 'corporate social responsibility'.
2. **Outline** one reason why it is important for a business to consider corporate social responsibility when undergoing change.
3. **Identify** one corporate social responsibility consideration that needs to be taken into account in each of the following change circumstances:
 - a. a merger of two businesses
 - b. the introduction of new technology
 - c. a change in suppliers.

APPLY your understanding

4. **Describe** strategies that a business could adopt to meet its social responsibility obligations during:
 - a. negotiations with employees over wage rises
 - b. the introduction of self-serve checkouts at its stores.
5. Read the 'Corporate social responsibility considerations at CSL' case study. **Identify** two corporate social responsibility considerations that CSL has addressed.

5.11 Exam questions

▶ Question 1 (3 marks)

Source: VCE 2017, Business Management Exam, Section A, Q.4d; © VCAA

Small Goods Pty Ltd is a manufacturer of various types of processed meats, including ham, salami and sausages. The Operations Manager, Heidi, is concerned about the increasing level of wastage. She has set an objective to reduce wastage from the production process by 90% over the next two years.

Justify one corporate social responsibility consideration that a business, such as Small Goods Pty Ltd, needs to address when implementing change.

▶ Question 2 (3 marks)

Explain the importance for a business in considering corporate social responsibility when making changes.

▶ Question 3 (3 marks)

Describe a social responsibility consideration that managers must take into account when a proposed change will result in employee redundancies.

▶ Question 4 (4 marks)

Oz Foods Direct has suffered falling sales in recent years and registered a loss in 2022 forcing it to suspend operations. **Describe** two corporate socially responsible considerations a business in this situation must address.

▶ Question 5 (2 marks)

One strategy businesses may implement to improve sales and profits is to source materials from overseas.

Explain one corporate social responsibility issue this may create.

More exam questions are available online.

5.12 EXTEND YOUR KNOWLEDGE The impact of change on stakeholders and social responsibility

EXTEND YOUR UNDERSTANDING OF THIS 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.

CONTEMPORARY CASE STUDY

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 once boasted at least one of these successful franchises in their food court or elsewhere on the premises. However, since 2018 the number of these well-known shops has significantly decreased.

A half-yearly loss of \$87.8 million in 2018 by the owner of these franchises — Retail Food Group (RFG) — resulted in the announcement of up to 200 store closures between March 2018 and mid-2019.

The news was disappointing but did not come as a surprise to investors or franchisees. The company had issued two warnings about reduced profits and poor financial performance since December 2017, and figures indicating shopping centre rents and the declining performance of some major shopping centres had been well publicised. Former 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 the store closures were part of this renewal of the business.

By early 2018, 66 outlets had already been closed. Trading on shares in RFG was suspended in February 2018, but auditors approved the company's plan and signed off on the accounts of the business; trading recommenced on 5 March 2018.

In recent updates, RFG has indicated that the changes have had some success. While 2019 saw an additional 74 store closures, significant gains were made in revenue earnings and cost reduction. In 2020 the business reported a loss of \$4 million — a 97 per cent improvement on the \$142.5 million loss reported for the 2018–19 financial year. However, in 2021, RFG achieved a \$1.5 million profit, and for the first half of the 2021–22 financial year, RFG announced a \$5.1 million profit. RFG executive chairman Peter George noted that there were several positive indicators observed across RFG's business that provided confidence regarding improved future outcomes.

Franchises selling coffee and doughnuts are two of the staple groups under the Retail Food Group banner.



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5.12 Exercise

5.12 Exercise

TEST your understanding

1. Read the 'Poor performance leads to store closures and job losses' case study.
 - a. **Identify** and **describe** the key performance indicator linked to the situation faced by Retail Food Group (RFG).
 - b. One key stakeholder of RFG is the franchisees. **Outline** how the financial performance of RFG will impact them.
 - c. A reason given for the fall in profit of RFG has been poor performance in shopping centres. **Explain** what this means.

EXTEND your understanding

2. **Explain** what is meant by the term 'corporate social responsibility' and how RFG can deal with their departing employees in a socially responsible manner.
3. **Describe** the effect of RFG's store closures on suppliers and the community in general.

5.12 Exam questions

▶ Question 1 (5 marks)

'The closing of a number of stores may negatively impact some stakeholders and positively impact others.' With the use of specific examples, **explain** this statement.

▶ Question 2 (4 marks)

Some employees have lost their jobs as a result of the store closures. **Explain** how managers should deal with this situation in a socially responsible manner.

▶ Question 3 (6 marks)

Analyse the effect of change at Retail Food Group on employees, suppliers and the general community.

▶ Question 4 (5 marks)

'All change will have an effect on someone. The job of a manager is to minimise any negative impacts and manage them in a socially responsible manner.' **Analyse** this statement.

▶ Question 5 (4 marks)

The move to become more socially responsible can positively impact one stakeholder, while negatively impacting one other. **Explain** how this can occur.

More exam questions are available online.

5.13 Reviewing key performance indicators to evaluate transformation

KEY KNOWLEDGE

- The importance of reviewing key performance indicators to evaluate the effectiveness of business transformation

Source: VCE Business Management Study Design (2023–2027) extracts © VCAA; reproduced by permission.

5.13.1 Evaluating transformation

How does management know if a change has been successful? It is necessary to review key performance indicators (KPIs) following a **business transformation** as part of the business's process of evaluation and review of the changes 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.

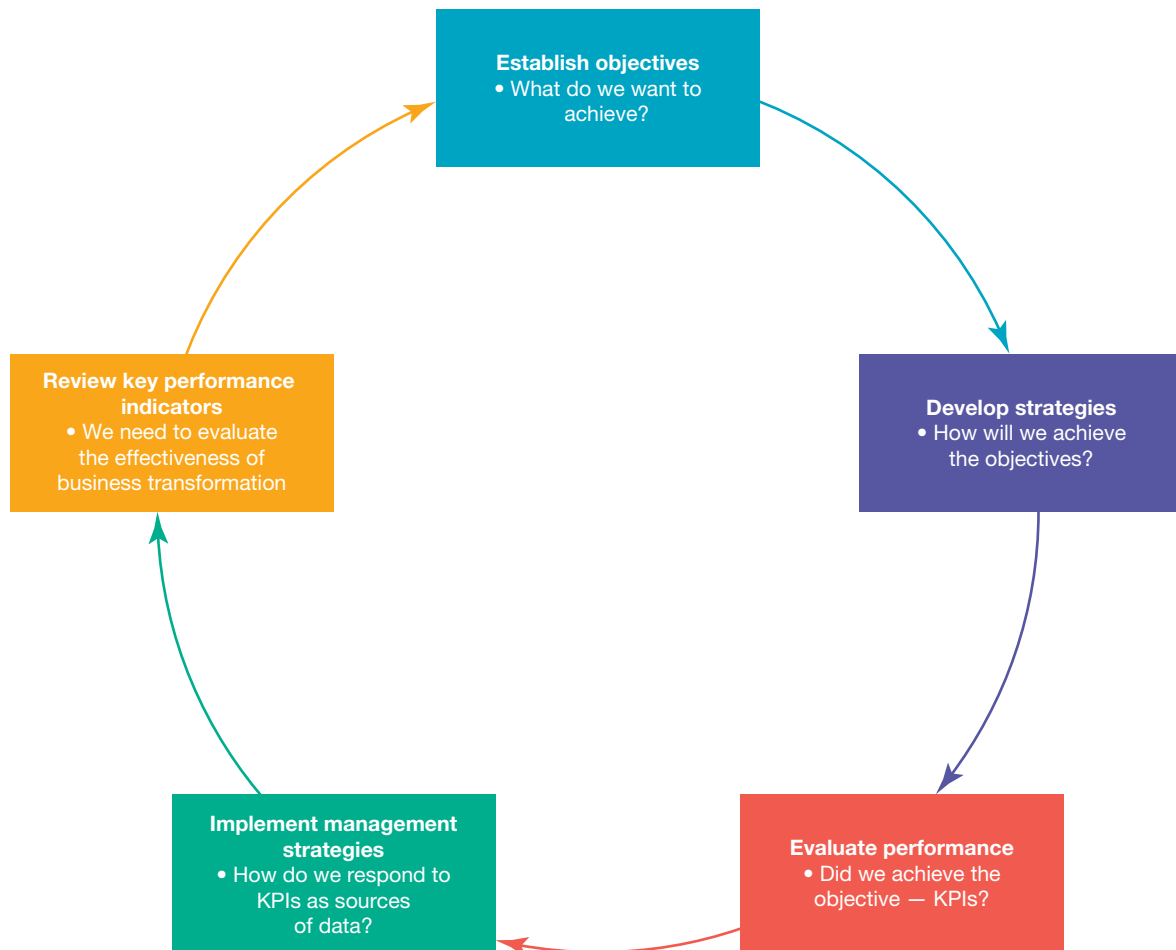
The objectives of the business should be reflected in the key performance indicators that it uses as sources of data to analyse its performance. It follows then, that when a business reviews key performance indicators to evaluate how effective a transformation was, it should consider how the change or 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 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 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.



business transformation the new form or structure of a business after a change has been introduced



CONTEMPORARY CASE STUDY

Reviewing key performance indicators at Myer

Myer is a business that has been caught up in the local bricks and mortar retail slump as a result of poor consumer sentiment and increasing competition from online businesses. Myer implemented change in 2015 following a fall in net profit after tax from \$162.7 million in the 2011 financial year to \$77.5 million in 2015 (as can be seen in the table below).

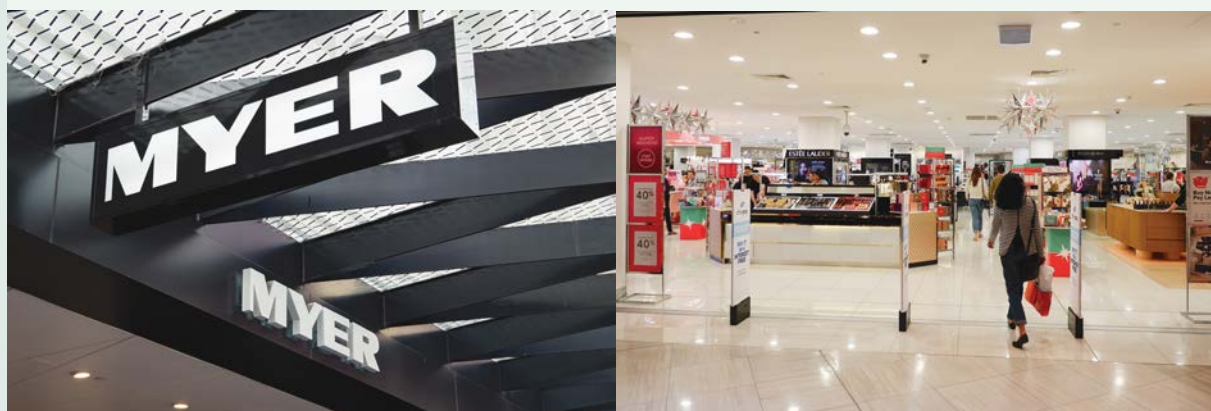
Myer sales and net profit from 2011 to 2015 (\$ millions)

	2011	2012	2013	2014	2015
Sales	3158.8	3119.1	3144.9	3143.0	3195.6
Net Profit/(Loss) after tax	162.7	139.3	127.2	98.5	77.5

The department store chain's turnaround plan, known as 'New Myer', was a five-year plan focused on pulling back from aggressive discounting and investing in 'experiential' retailing. Myer introduced online ordering and 'click-and-collect' hubs in its stores, cut many of its own brands to make way for new labels, and invested in popular concession brands such as Topshop. Myer began to focus more on 'high value' customers wanting to stay up to date with fashion. There were job cuts through a voluntary redundancy program and a reduction in the hours of casual and part-time staff. Myer also improved customer service, particularly in its flagship and premium stores.

For a retail business such as Myer, improving quality very much relates to improving customer service. Improving the quality of its service was a response to key performance indicators such as number of sales and net profit figures. Myer also introduced new technology (the online ordering and 'click-and-collect' hubs) as a response to these key performance indicators. The benefits of such technology would be expected to include increased accessibility, improved productivity, reduction in costs and improved sales. In addition, Myer provided staff training anticipating that an improvement in the skills of its employees would lead to improvements in productivity as staff become more efficient at their jobs, also improving customer service. Employees who feel that they have ongoing access to training are more likely to be motivated and satisfied at work.

Myer implemented change in response to key performance indicator data.



Following the implementation of Myer's turnaround plan, there was some improvement in its financial performance. For example, as can be seen in the following table, total sales grew 2.9 per cent for the full year in 2016. However, the transformation plan was not the roaring success that Myer was hoping for. Net profit after tax continued to fall between 2015 and 2018, declining 57 per cent to \$32.5 million for the 2018 financial year. After failing to turn Myer's fortunes around, then-CEO and managing director Richard Umbers stepped down in February 2018. Following a three-month international search, Myer in April 2018 recruited former boss of UK department store House of Fraser John King to be its next CEO.

In his first 100 days at the company, Mr King personally visited Myer stores, spending time listening to and speaking with stakeholders including team members, customers, suppliers and landlords. In September 2018 he implemented a new turnaround strategy called the 'Customer First Plan'.

Myer sales and net profit from 2015 to 2021 (\$ millions)

	2015	2016	2017	2018	2019	2020	2021
Sales	3195.6	3289.6	3201.9	3100.6	2991.8	2519.4	2658.3
Net Profit/(Loss) after tax	77.5	69.3	67.9	32.5	33.2	(13.4)	51.7

The Customer First Plan has seen Myer investing in online sales and store refurbishments as part of improving its online offering and transforming the customer experience in-store. Myer has expanded its 'Only at Myer' brands and categories, aiming to offer value for money. Business processes have been simplified, the company is ensuring that products are delivered to customers in the quickest and most efficient way, and costs have been reduced.

As can be seen in Myer's financial results from 2018 to 2019, there was some improvement in profit. However, the plan needed to be adjusted following the COVID-19 pandemic of 2020/21. Unfortunately, Myer made a net loss of \$13.4 million in 2020, compared to the \$33.2 million profit of 2019. This was largely due to the lockdowns throughout 2020, with stores being closed for some time and customers avoiding in-person shopping. Myer has adapted to this environment, and now the Customer First Plan has the following focus areas:

- accelerate online — for example, enhancing and improving myer.com.au
- accelerate factory to customer — for example, in July 2021 Myer secured a lease on a new National Distribution Centre in Victoria, which will improve efficiency and reduce delivery times
- adapt in-store experience — for example, offering a broad range of merchandise and multiple services in one place
- refocus merchandise — for example, improving the range of products offered, and focusing on supplier relationships
- rationalise property — for example, reviewing, optimising and reducing store space with a view to achieving an appropriate balance between physical stores and online
- reduce overheads — for example, scrutinising costs across all areas
- engaging the customer — for example, improving customer satisfaction through MYER one (Myer's loyalty program) by improving rewards.

Myer's Customer First Plan appears to have driven the company back to profitability. In 2021, as can be seen in the 'Myer sales and net profit from 2015 to 2021' table, the business revealed that sales had lifted 5.5 per cent to \$2658.3 million, despite lockdowns, store closures and travel restrictions. Myer also achieved a net profit of \$51.7 million for 2021, a great improvement on the loss of the previous year. When reporting the results, Mr King said, 'Our significantly improved FY21 results, including growth in profitability for both the first and second half, demonstrated the Customer First Plan is getting real traction.'

In March 2022, Myer announced its half-year results, reporting solid sales and profit growth. Total sales grew 8.5 per cent to \$1517.4 million and net profit after tax increased 55 per cent to \$32.3 million. Myer elected to pay its first dividend since the 2017 financial year, which is encouraging, and a positive for shareholders. This positive data suggests that Myer's Customer First Plan may have positioned the business for the future. Indeed, commenting on the results, Mr King said, 'The half year results we have announced today demonstrate the strength and resilience of the business providing continued momentum for future growth.'

Myer CEO John King with Myer Style Ambassador Asher Keddie in 2019



Resources



Weblink Myer

KEY IDEAS

- 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.

5.13 Quick quiz



5.13 Exercise

5.13 Exam questions

5.13 Exercise

TEST your understanding

1. **Explain** why it is important for a business to review or evaluate the effectiveness of a transformation.
2. Using an example, **outline** how a business could use key performance indicators to evaluate the effectiveness of a transformation.

APPLY your understanding

3. Two years ago, Yvette Brown decided to invest in new technology at her small business, Non Sense Designs. Now that Yvette's business has been using the technology for some time, **explain** to her the importance of reviewing key performance indicators to evaluate the effectiveness of the transformation of her business.
4. Read the 'Reviewing key performance indicators at Myer' case study.
 - a. **Outline** the changes that Myer introduced in 2015.
 - b. **Identify** the key performance indicators that Myer was using to evaluate the effectiveness of its changes.
 - c. **Describe** the changes that Myer introduced to position itself for the future in 2018.

5.13 Exam questions

Question 1 (2 marks)

Key performance indicators should be reviewed to evaluate the effectiveness of business transformation. **Define** the term 'business transformation'.

Question 2 (4 marks)

'Change often occurs as a result of the data provided by key performance indicators. Once change has been undertaken, it is important to review and monitor those same key performance indicators.' To what extent do you agree with this statement? **Justify** your response.

Question 3 (2 marks)

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.

Question 4 (4 marks)

To deal with data showing that a business had a high level of staff turnover, the manager of the business decided to change her management style from autocratic to persuasive. **Explain** why the business should review this key performance indicator data and suggest a strategy if there is no substantial change.

Question 5 (5 marks)

'If a change is not successful and key performance indicator data shows no improvement, the business should go back to its original position. Another change would not be appropriate as it may worsen the situation.'

Analyse this statement.

More exam questions are available online.

5.14 EXTEND YOUR KNOWLEDGE Dealing with multiple changes

EXTEND YOUR UNDERSTANDING OF THIS CONCEPT

- Businesses may need to deal with multiple changes at the same time, using information drawn from their evaluation data.

CONTEMPORARY CASE STUDY

Woolworths is constantly changing

Businesses that are proactive in dealing with change are often successful in managing that change. Woolworths is a good example.

In July 2017, Woolworths Group Ltd announced a nationwide ban of single-use plastic bags in its supermarkets, Big W and BWS stores, responding to public pressure to reduce plastic bag use. A gradual phase-out of these bags led to a complete ban in 2018, with fabric or reusable plastic bags offered for purchase instead.

The change would be expected to cut costs at Woolworths, thereby improving its net profit figures (the company 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 bag use in Australia. The social media campaign and petition '#BanTheBag' was signed by more than 170 000 people nationwide, and called on the premiers of New South Wales, Victoria and Western Australia to implement state-wide bans of single-use, non-biodegradable plastic bags.

Woolworths was demonstrating its commitment to listening to customers and doing the right thing for the environment. Distributing more than 3.2 billion lightweight plastic bags a year, the ban on these plastic bags would play a significant role in reducing overall plastic bag usage. Woolworth's decision was seen as a demonstration of their commitment to taking environmental and community responsibilities seriously.

The ban of single-use plastic bags 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.



Clear screens were introduced at checkouts in Woolworths stores during the COVID-19 pandemic.



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. In 2018 the company reported a profit of \$1.72 billion, with sales for all of its operations increasing over the financial year. In 2019 Woolworths' profit increased again to \$2.69 billion, with sales for all of its operations also increasing over the same period. These financial results suggest that the removal of single-use plastic bags was successful.

However, by early 2020, Woolworths was also dealing with the COVID-19 pandemic and its impact on shopping. Over the first six months of 2020, Woolworths introduced a range of measures:

- clear screens between checkouts
- every second checkout shut to ensure 1.5-metre social distancing
- hand sanitiser stations
- Health and Safety ambassadors.

Unfortunately, the response to COVID-19 resulted in Woolworths reporting a profit of only \$1.6 billion for the full 2020 financial year. This was a decline of 1.2 per cent from its 2019 profit. Sales for all of its operations (except for hotels) increased over the same period. Woolworths' earnings were clearly impacted by the increased costs of operating in a COVID-safe manner; for example, all the company's hotel venues were shut in March due to a government directive. However, profits improved; in 2021 the company reported a profit of \$1.92 billion for the full financial year, an increase on the 2020 result, and sales for most of its operations increased over the same period.

Following its ban on single-use plastic shopping bags, Woolworths has continued in its efforts to remove single-use plastics with the following initiatives:

- removal of plastic straws from sale
- replacement of plastic cotton tips with paper and sugarcane alternatives
- removing plastic from 'own brand' product packaging, e.g. meat trays, milk bottles, produce packaging
- removal of single-use plastic cutlery, cups, bowls and plates.

This was expected to eliminate approximately 2.1 million kilograms of plastic annually. Customers can now choose from a range of more sustainable picnicware including bowls and plates made from sugarcane pulp, wooden cutlery and a range of paper cups and plates.

Given the company's commitment to change, Woolworths would be expected to continue to work on additional ways to keep its customers safe, as well as be satisfied that it is contributing to a sustainable future. The company says that it will continue to work across its entire operations to reduce plastic and improve sustainability. It has committed to make 100 per cent of its own brand packaging recyclable, compostable or reusable by the end of 2023.

Limits were imposed on the number of people in Woolworths stores at any given time to allow for social distancing.



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5.14 Exercise

5.14 Exercise

TEST your understanding

1. Read the 'Woolworths is constantly changing' case study.
 - a. **Describe** the changes at Woolworths.
 - b. **Identify** the stakeholders at Woolworths.
 - c. **Outline** the key performance indicators that have impacted Woolworths.
 - d. **Explain** why the phasing out of single-use plastic bags in Woolworths stores might result in each of the following:
 - lower costs
 - increased sales
 - increased profit.
 - e. **Outline** the corporate social responsibility considerations related to the changes at Woolworths.

EXTEND your understanding

2. **Explain** how Woolworths could have applied Lewin's Three-step Change Model to its change process.
3. **Analyse** the effect of the changes on Woolworths' stakeholders, including managers, employees, suppliers, customers and the general community.
4. **Explain** how Woolworths should use data from its key performance indicators to evaluate its changes. In your response refer to at least three specific key performance indicators.
5. **Identify** whether high-risk or low-risk strategies for overcoming resistance would be more appropriate at Woolworths. **Explain** how you would apply low-risk strategies to introduce transformation at Woolworths if you were a manager.

5.14 Exam questions

▶ Question 1 (4 marks)

Identify and **define** two key performance indicators that contributed to Woolworths undertaking change.

▶ Question 2 (4 marks)

With reference to a contemporary business case study, **explain** why it would be important to review key performance indicators once a transformation has been implemented.

▶ Question 3 (5 marks)

'If a review of key performance indicators after a business has undergone change shows no improvement, the business should abandon the change.' **Analyse** this statement.

▶ Question 4 (4 marks)

Business transformation can worsen performance in a number of key performance indicators, despite correcting performance in other key performance indicators. **Explain** how this might occur, using examples.

▶ Question 5 (5 marks)

'Change is constant and so evaluation of change should also be constant.' **Analyse** this statement.

More exam questions are available online.

5.15 APPLY YOUR SKILLS Sources of change

PRACTISE YOUR SKILLS

- Identify, define, describe and apply business management concepts and terms
- Interpret, discuss, compare and evaluate business information, theories and ideas
- Analyse case studies and contemporary examples of business management
- Apply business management knowledge to practical and/or simulated business situations
- Propose, justify and evaluate management strategies to improve business performance

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5.15.1 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 access 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.



Resources



Digital document Accessing VCAA data (doc-35331)



Weblinks ASX
Victorian Curriculum and Assessment Authority

5.15 Exercises

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5.15 Exercise

5.15 Exam questions

5.15 Exercise

TEST your skills

- Write a report of approximately 500 words outlining the key performance indicators identified in the data collected. In your report, **define** 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.
 - Write a review for the business selected in part **a**. In this review, **outline** possible causes of the trend(s) identified in the key performance indicators used in part **a**. Conclude your review by evaluating at least two strategies the business could implement to improve its performance in the key performance indicators identified.

APPLY your skills

2. Your study of Units 3&4 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 Units 3&4 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 Victorian Curriculum and Assessment Authority (VCAA) each year on SAC and examination performance. This data is available on the VCAA website (via the **Victorian Curriculum and Assessment Authority** weblink in the Resources tab). Follow the instructions in the **Accessing VCAA data** digital document in the Resources tab.

5.15 Exam questions

Question 1 (2 marks)

Referring to a contemporary business case study, **describe** a management strategy that the business has used to respond to its key performance indicators.

Question 2 (2 marks)

Referring to a contemporary business case study, **explain** how staff training can improve performance in one key performance indicator.

Question 3 (6 marks)

Analyse how the management of a business could use staff motivation, redeployment of resources (staff) and quality strategies to effectively respond to a rise in customer complaints.

Question 4 (2 marks)

Staff training may not always improve a business's key performance indicators. **Explain** why this may be the case.

Question 5 (6 marks)

Discuss the use of cost cutting and initiating lean production techniques for responding to declining net profit figures.

More exam questions are available online.

5.16 Review

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results



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5.16.1 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 and seek new business opportunities

- 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, redeployment of resources (natural, labour and capital), innovation, global sourcing of inputs, overseas manufacture and global outsourcing can all be used to respond to key performance indicators. Many of these strategies can also be used by a business to seek opportunities.
- Investment in new technology, improving quality in production, cost cutting and lean production can all be used to increase market share, sales and profit. Global sourcing of inputs, overseas manufacture and global outsourcing can also be used to reduce costs and improve quality, which should have a positive effect on market share, sales and profit.
- Introducing training programs can improve productivity and staff satisfaction, and reduce staff turnover and the number of workplace accidents.
- 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.
- Lean production and redeployment of resources can reduce waste and improve productivity.
- Innovation can be used to respond to key performance indicators, including percentage of market share, net profit figures, rate of productivity growth, number of sales, level of wastage, number of customer complaints and number of workplace accidents.

Corporate culture and strategies for its development

- Corporate culture refers to the shared values and beliefs that characterise a business.
- Corporate culture can be developed in a number of ways including: establishing appropriate rituals, rites and celebrations; changing the prevailing management style; ensuring that staff members are given sufficient training to reflect the values of the business; senior employees and managers acting as role models; communicating desired values to staff; hiring staff who fit in with the values of the business; and rewarding employees who exemplify appropriate values.

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.
- The five disciplines in the learning organisation are:
 - systems thinking
 - personal mastery
 - mental models
 - building shared vision
 - team learning.

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 lower chance of 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.

The principles of the Three-step Change Model (Lewin)

- Kurt Lewin developed the Three-step Change 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 stakeholder groups

- Key stakeholders can be affected by the business undergoing change.
- The effect of change may be positive or negative.
- An owner may find that their investment in the business improves due to change, but they may lose their business or lose part of the value of their investment in the business due to a change.
- 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 corporate 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.

5.16.2 Key terms

business transformation the new form or structure of a business after a change has been introduced
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
high-risk strategies actions taken that may succeed in the short term but run the risk of generating negative outcomes in the longer term
leadership the ability to influence or motivate people to work towards the achievement of business objectives
low-risk strategies actions taken that are likely to generate positive outcomes in the short term and longer term
manipulation the skilful or devious exertion of influence over someone to get them to do what you want, often by providing incomplete or selective information
redeployment the assignment of resources, including natural, labour and capital resources, to another area of the business
threat the suggestion that some sort of negative consequence will occur if employees fail to follow a requested change

Resources

 **Digital documents** Key terms glossary (doc-37937)
Missing word glossary quiz (doc-29457)
Crossword (doc-29458)

5.16.3 Practice school-assessed coursework

OUTCOME 2

Discuss the importance of effective management strategies and leadership in relation to 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 a 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.)

Section A (33 marks)

Question 1 (4 marks)

Define the following terms and provide an example for each.

- a. High-risk strategies **2 marks**
- b. Corporate social responsibility **2 marks**

Question 2 (3 marks)

2. **Outline** three disciplines of Senge's Learning Organisation.

Question 3 (10 marks)

Soba Manufacturing is changing its production methods from a predominantly labour-intensive system to a capital-intensive system

Describe the key features of Lewin's Three-step Change Model. **Explain** how this model could be used by Soba Manufacturing as it introduces change.

Question 4 (16 marks)

Superior Wine Growers is a medium-sized business sourcing grapes from local and overseas vineyards. The grapes are then sold to wineries who produce a variety of wines for the retail market in Australia. The business's values statement says that it values customers, teamwork and employees. CEO Jessica Day recently addressed senior management, as the past two years have seen disappointing results, as shown in the following table.

Key performance indicator	2022 (12 months to June 30)	2023 (12 months to June 30)
Number of sales (units)	6.7 million	2.5 million
Number of customer complaints	1100	4300
Rate of staff absenteeism (industry average 5.3%)	11%	17.2%

Ms Day noted that the business would need to examine all elements of the business and that change would need to occur. She said that a positive corporate culture, quality, pricing and new opportunities would be at the forefront of the Superior Wine Growers' new strategies.

- Propose** and **justify** two strategies that management can introduce to develop the corporate culture at Superior Wine Growers. **6 marks**
- Explain** how improving quality in production may be used by Superior Wine Growers to respond to its key performance indicators or to seek new business opportunities. **4 marks**
- Discuss** the possible effects on each of the following stakeholders as change is implemented at Superior Wine Growers. **6 marks**
 - Customers
 - Employees
 - Suppliers

Section B (17 marks)

Telstra implements transformation

Telstra announced a new transformation plan in 2018 named Telstra2022. The strategy was implemented in response to poor financial performance — Telstra's profit declined steadily from a high of \$4.55 billion in 2014 to \$3.55 billion in 2018. At the time, former-CEO Andy Penn noted that Telstra was implementing change to position the business for the future. He said that Telstra would need to be bold if it wanted to continue to be Australia's leading telecommunications company. While Telstra's profit continued to fall throughout the implementation of this strategy, it did appear to correct in the 2021 financial year.

After reviewing its KPIs again, Telstra unveiled a new strategy in 2021, named T25. Clearly communicating the necessity for continued change at the company, Mr Penn said, 'If T22 was a strategy of necessity, T25 is a strategy for growth'. He explained that Telstra would be using the same strategies that the business used for Telstra2022. Under T25, Telstra will continue to simplify operations and product offerings, improve customer service and reduce costs. The company will continue to invest in technology (investing in 5G, and planning for 6G), achieve \$500 million of net cost reductions, and offer greater flexibility to employees.

In a statement, Telstra said that the new strategy would commence in July 2022. In March 2022, Telstra announced that chief financial officer Vicki Brady would become the new CEO of Telstra in September 2022, replacing Andy Penn who announced his retirement. Telstra Chairman, John Mullen noted that Mr Penn would leave a positive legacy for the transformation he had led. He said, 'Andy has led Telstra during a period of significant change and will be known for his courage in setting a bold ambition through the T22 strategy to deliver a transformed experience for customers, shareholders and employees. There is no doubt the strategy has delivered beyond expectations and has laid the foundations for Telstra's recently announced T25 strategy and a renewed focus on growth and innovation.'



Read the 'Telstra implements transformation' case study, then answer the following questions.

Question 1 (4 marks)

Explain the importance of leadership at Telstra during its transformation.

Question 2 (5 marks)

Evaluate one strategy that Telstra has implemented to respond to information provided by its key performance indicators.

Question 3 (4 marks)

Describe and **justify** one low-risk strategy used by Telstra to overcome employee resistance to change.

Question 4 (4 marks)

Explain why it is important for Telstra to review its key performance indicators once its transformation has been implemented.

on Resources

 **Digital document** School-assessed coursework (doc-37972)

5.16 Exercises

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5.16 Multiple choice quiz **on**

5.16 Exercise

5.16 Exam questions

5.16 Exercise

TEST your understanding

1. **Explain** why leadership is important during a period of change.
2. Referring to specific key performance indicators, **explain** how:
 - a. changing management styles may improve performance
 - b. increased investment in technology may improve performance
 - c. improving quality in production may improve performance.
3. **Identify** three strategies that management can use to develop a business's corporate culture and **describe** one in more detail.
4. **Identify** and briefly **outline** the five disciplines of a learning organisation.
5. **Distinguish** between a low-risk and a high-risk strategy for overcoming change.
6. **Explain** why communication is considered a low-risk strategy, while threats are considered a high-risk strategy.
7. **Identify** and **outline** Lewin's Three-step Change Model of change management.
8. **Explain** how change can both positively and negatively affect:
 - a. the general community
 - b. employees
 - c. customers.
9. **Outline** why businesses should consider their corporate social responsibility obligations when implementing change.
10. **Describe** the importance of reviewing key performance indicators to evaluate business transformation.

APPLY your understanding

11. 'In order to accelerate change, a leader is needed.' **Analyse** this statement using a current example from a business to support your response.
12. 'Inevitable resistance to change must be overcome if a business is to succeed.' **Analyse** the use of low-risk strategies and high-risk strategies to overcome resistance to change.
13. **Discuss** how a change in a business that leads to new production methods may impact suppliers and employees.

5.16 Exam questions

Question 1 (6 marks)

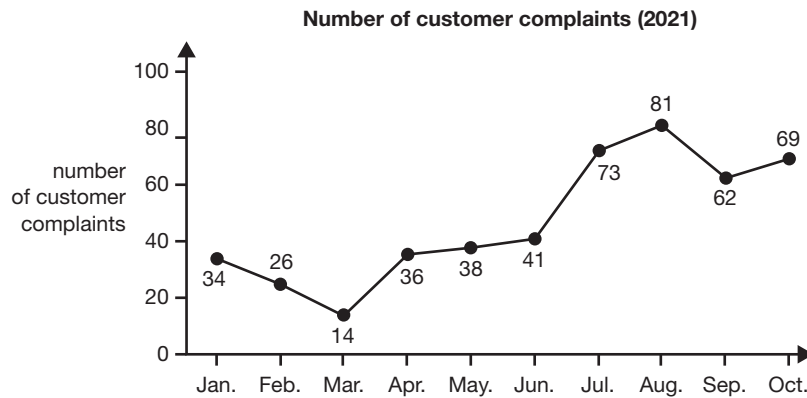
Source: Adapted from VCE 2021, Business Management Exam, Section B, Q.5; © VCAA

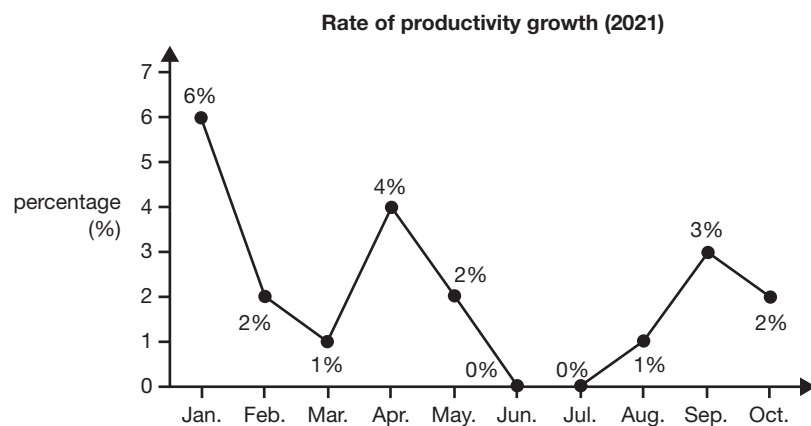
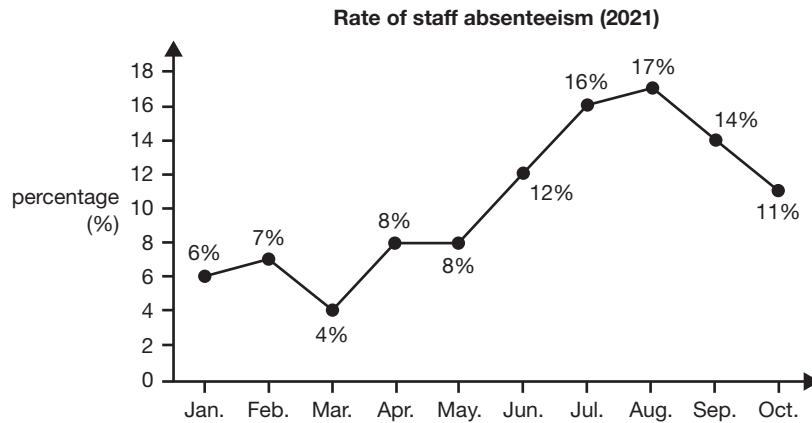
Rabwood Mutual is a financial services firm that was established as a partnership 10 years ago. The head office is in Geelong. The business also has three smaller branches in Ballarat, Bendigo and Warrnambool.

During 2020, the business went through a period of restructure. As part of this restructure, the human resource department was expanded and a data analyst was recruited. The data analyst is responsible for monitoring the key performance indicators (KPIs) of the business.

Early in 2021, the business implemented a new program that required all employees to complete five days of on-the-job training each year. The business is also using redeployment in all its Victorian locations whenever staff shortages are experienced. Employees are expected to move between the four branches in regional Victoria. For example, several employees from the Warrnambool branch have been redeployed to Geelong following the unexpected resignation of three members of staff.

In late 2021, the human resource manager presented the following three graphs to the partners of the business. The partners have expressed some concern about the data shown in the graphs.





Explain how two of the following management strategies might be used to respond to the data that is shown in the case study:

- increased investment in technology
- cost cutting
- change in management skills
- redeployment of capital resources.

▶ Question 2 (10 marks)

Source: VCE 2019, Business Management Exam, Section A, Q.4; © VCAA

Leaders can inspire change within a business.

Analyse how managers can apply the principles of Senge's Learning Organisation, during a period of change, in order to:

- effectively manage employees
- positively influence corporate culture
- ensure the change is implemented successfully.

▶ Question 3 (6 marks)

Source: VCE 2018, Business Management Exam, Section A, Q.2; © VCAA

Explain the importance of leadership in change management. In your response, refer to a contemporary business case study.

Question 4 (5 marks)

A management strategy to improve performance may be to change management style. **Evaluate** an appropriate management style to adopt during a time of change.

Question 5 (6 marks)

Describe two management strategies a business could implement to deal with an increase in the level of wastage.

Question 6 (6 marks)

A local gardening business is struggling due to the increase in competitors in the local area. Rising costs and lower profits have seen the owner consider a range of options and the future of the three employees of the business. **Describe** the following strategies the business could adopt to improve performance:

- staff training
- investment in technology
- cost cutting.

Question 7 (6 marks)

Evaluate how management at a business could use staff motivation, redeployment of resources (staff) or quality strategies to effectively respond to a rise in customer complaints.

Question 8 (10 marks)

Using a contemporary business you have studied this year, **analyse** how corporate social responsibility considerations can influence the decisions taken by management in relation to an operations system, and discuss the possible effects of these decisions on one stakeholder of the business.

Question 9 (2 marks)

Explain why businesses should review performance in key performance indicators.

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APPENDIX

Task words used in VCE Business Management assessable tasks and examinations

It is important to understand the meaning of the terms used in assessed tasks and the short- and extended-response questions of the examination. The terms listed below are the most frequently used.

Term	Explanation
analyse	Identify the main features of a concept, theory, case study or contemporary example of business management. An analysis provides detail and breaks a larger concept into smaller parts. You should show how these parts relate or connect to each other.
apply	Use the relevant business management knowledge of key concepts and terms, and link or relate it to the particular business situation, prompt or case study that you are given
compare	Bring together firstly the similarities and then the differences between business information, theories and ideas
define	Accurately and clearly state the meaning of a business management concept or term
describe	Provide a detailed account of a business management concept or term. This can include facts about a concept or term, or stating the key features and characteristics. If the question refers to a process, you may provide features in a certain order.
discuss	Consider both sides of an issue relating to business information, theories and ideas. This might mean writing about the advantages and disadvantages, the strengths and weaknesses, or the benefits and costs
distinguish	Show the main points of difference between business management concepts or terms
evaluate	Consider both sides (e.g. strengths and weaknesses) of a theory or management strategy, then provide an overall concluding judgement related to the overall suitability or value of the theory or strategy
examine	To look at, and write about, a business management concept or idea, noting the important details
explain	Make the meaning of business management concepts or terms clear and understandable. You may refer to the main idea or principles.
identify	Recognise/name a business management concept or idea
interpret	Understand and get meaning from information and show how it relates to other business information, theories and ideas
justify	Show how a suggestion that you have made in relation to management strategies to improve business performance is correct. Provide evidence to show why your suggestion will work.
outline	Write the main points, principles or features that relate to a business management concept, term or strategy
propose	Put forward an idea, argument or suggestion in relation to management strategies to improve business performance. You will need to outline the details.

Source: Adapted from VCAA, *Glossary of command terms*, <https://www.vcaa.vic.edu.au/assessment/vce-assessment/Pages/GlossaryofCommandTerms.aspx>

Glossary

- appraisal** the formal assessment of how efficiently and effectively an employee is performing their role in the business
- arbitration** a means of dispute resolution involving an independent third party (such as a commissioner of the Fair Work Commission) hearing both arguments in a dispute and determining 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 document determined by the Fair Work Commission that sets out minimum wages and conditions for whole industries or occupations
- 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 transformation** the new form or structure of a business after a change has been introduced
- 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
- 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
- communication** 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 (CAD)** a computerised design tool that allows a business to create product possibilities from a series of input parameters
- computer-aided manufacturing (CAM)** the use of software to direct and control manufacturing processes
- 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

delegation 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, and 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

dispute a result of disagreements or dissatisfaction between individuals and/or groups

driving forces those forces that support a change

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 considerations 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 2009*

Force Field Analysis outlines the process of determining which forces drive and which forces 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

global outsourcing the contracting of a specific business operation to an external person or business in another country

global sourcing the practice of seeking the most cost-efficient materials and other inputs, including from countries overseas

globalisation the movement across nations of trade, investment, technology, finance and labour brought about by the removal of trade barriers

government business enterprise (GBE) a type of business that is government owned and operated

Hierarchy of Needs Maslow's sequence of human needs in the order of their importance

high-risk strategies actions taken that may succeed in the short term but run the risk of generating negative outcomes in the longer term

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

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, or resources such as time, 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 (KPIs) specific criteria used to measure the efficiency and/or effectiveness of a business's performance

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

leadership 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 refers to when the shareholders in a company will not be held personally responsible for the debts of that business

liquidation the process of selling off the assets of a business in order to repay creditors, with any assets remaining to be distributed among shareholders

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.

low-risk strategies actions taken that are likely to generate positive outcomes in the short term and longer term

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, when directing and motivating staff, and when implementing plans to achieve business objectives

manager the person who has the responsibility for successfully achieving the objectives of the business

manipulation the skilful or devious exertion of influence over someone to get them to do what you want, often by providing incomplete or selective information

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, who helps the parties in dispute to work towards an agreement, but does not offer suggestions or solutions

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 measurement of a company's profit once operating costs, taxes, interest and depreciation have all been subtracted from its total revenues

niche market a narrowly selected market segment within a larger market

number of customer complaints the number of customers expressing their dissatisfaction with the business, in either spoken or 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

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 (generally a maximum of 20)

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 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 initiating change rather than simply reacting 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 one shareholder (and no maximum), 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 do not turn up for work when they are scheduled to do so

reactive waiting for a change to occur and then responding 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 a 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 self-assessment, based on a set of agreed criteria

shareholders (or members) the owners of a company

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

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

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

threat the suggestion that some sort of negative consequence will occur if employees fail to follow a requested change

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 process the conversion of inputs (resources) into outputs (goods or services)

transition considerations issues relating to the process 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

unlimited liability refers to when the business owner is personally responsible for all the debts of their 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

workplace relations the interactions 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 objectives

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